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REVISED AS OF JANUARY 21, 1994
COMMITMENT TO ISSUE A
FINANCIAL GUARANTY INSURANCE POLICY

Application No.: 93-12-3670

Sale Date: January 20, 1994

Program Type: Negotiated DP

Re: \$59,875,000 City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Fifteenth Series 1993 (Insured Maturities Due August 1, 1996 through August 1, 2005) (the "Obligations")

This commitment to issue a financial guaranty insurance policy (the "Commitment") dated January 21, 1994, constitutes an agreement between PHILADELPHIA GAS WORKS the ("Applicant") and MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION (the "Insurer"), a stock insurance company incorporated under the laws of the State of New York.

Based on an approved application dated December 22, 1993, the Insurer agrees, upon satisfaction of the conditions herein, to issue on the earlier of (i) 120 days of said approval date or (ii) on the date of delivery of an payment for the Obligations, a financial guaranty insurance policy (the "Policy") for the Obligations, insuring the payment of principal of and interest on the Obligations when due. The issuance of the Policy shall be subject to the following terms and conditions:

1. Payment by the Applicant, or by the Trustee on behalf of the Applicant, on the date of delivery of and payment for the Obligations, the following payments:
 - a. a nonrefundable premium in the amount of \$539,000 [.700% (premium rate) of \$77,023,732.53 (total debt service less accrued interest), premium rounded to the nearest thousand]. The premium set out in this paragraph shall be the total premium required to be paid on the Policy issued pursuant to this Commitment;
 - b. Standard & Poor's Ratings Group rating agency fees in an amount to be billed directly by Standard & Poor's Ratings Group, based on the final par and other factors as determined by Standard & Poor's Ratings Group; and
 - c. Moody's Investors Service rating agency fees in an amount to be billed directly by Moody's Investors Service, based on the final par and other factors as determined by Moody's Investors Service.
2. The Obligations shall have received the unqualified opinion of bond counsel with respect to the tax-exempt status of interest on the Obligations.
3. There shall have been no material adverse change in the Obligations or the Resolution, Bond Ordinance, Trust Indenture or other official document authorizing the issuance of the Obligations or in the final official statement or other similar document, including the financial statements included therein.
4. There shall have been no material adverse change in any information submitted to the Insurer as a part of the application or subsequently submitted to be a part of the application to the Insurer.

5. No event shall have occurred which would allow any underwriter or any other purchaser of the Obligations not to be required to purchase the Obligations at closing.

6. All documents executed in connection with the issuance of the Obligations shall contain a provision which requires copies of any amendments to such documents consented to by the Insurer to be sent to Standard & Poor's.

7. A Statement of Insurance satisfactory to the Insurer shall be printed on the Obligations.

8. Prior to the delivery of and payment for the Obligations, none of the information or documents submitted as a part of the application to the Insurer shall be determined to contain any untrue or misleading statement of a material fact or fail to state a material fact required to be stated therein or necessary in order to make the statements contained therein not misleading.

9. No material adverse change affecting any security for the Obligations shall have occurred prior to the delivery of and payment for the Obligations.

10. This Commitment may be signed in counterpart by the parties hereto.

11. Compliance with Insurer's Standard Refunding Conditions - see attached.

12. No Extension of MBIA's insured par past 2005.

13. No increase in MBIA's total debt service exposure.

Dated this 21st day of January, 1994.

MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

By: *Paul M. Cole*
Assistant Secretary

PHILADELPHIA GAS WORKS

By: _____

Title: _____

SPECIAL CONDITIONS FOR REFUNDINGS

A. Receipt by the Insurer of the final debt service schedule on the issue within three business days from the sale date.

B. Receipt, satisfactory review and subsequent oral approval by the Insurer at least ten days in advance of closing of draft copies of:

1. a verification by an independent CPA firm of ~~the~~ sufficiency of the escrow to timely retire the refunded bonds;

2. the escrow securities purchase contracts of SLG subscription forms or open market confirmations; and,

3. the escrow agreement

Final and signed copies of all the above documents to be sent via overnight mail from closing.

An independent CPA firm is defined as a licensed CPA firm acting at arms length of the transaction on behalf of the bondholders. It may not be the underwriter, bond counsel or financial adviser for the refunding issue. The firm must carry errors and omissions insurance. The Insurer reserves the right to review the provider of the verification on a deal by deal basis.

C. Receipt by the Insurer at least five business days prior to closing of a draft opinion from Bond Counsel (or Special Tax Counsel) to the effect that the refunding bonds are being issued in compliance with state law and that the interest on the refunding bonds is tax-exempt.

D. Receipt by the Insurer at least five business days prior to closing of a draft opinion from Bond Counsel stating that the refunded bonds have been legally defeased. (This condition is only applicable in those situations where the refunding issue is legally defeasing the refunded issue.) Final executed copies of items C and D to be sent via overnight mail.

E. If the escrow agreement allows for the substitution of securities in the escrow account, then it should be provided in the escrow agreement that no such substitution may occur unless there has first been delivered to the escrow agent/trustee, (1) a CPA verification that the escrow investments, as substituted, are sufficient to pay debt service, as it becomes due, on the refunded bonds and (2) an opinion of nationally recognized bond counsel to the effect that the substitution is permitted under the documents and the substitution has no adverse effect on the tax-exempt nature of the refunding bonds. See 2 above for the definition of an independent CPA.

F. Escrow investments must be limited to:

1. Cash

2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS").

3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

4. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

- a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- c. Federal Financing Bank
- d. General Services Administration
Participation certificates
- e. U.S. Maritime Administration
Guaranteed Title XI financing
- f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

G. If a forward supply contract is being executed in conjunction with the refunding (or subsequent to the closing of the refunding transaction), the following conditions must also be met:

1 The Insurer must review and approve the forward supply contract at least five business days prior to closing (or after closing, at least five business days prior to execution if not contemplated at the time of closing).

2 The forward supply contract must provide by its terms that the securities delivered under the forward supply are sufficient (when taken with other funds remaining in the escrow) as to amount and timeliness to retire the refunded bonds.

3 The Insurer requires an opinion from a nationally recognized bankruptcy counsel that the securities in escrow and payments to owners of refunded bonds will not constitute assets of the fsc supplier and will not be subject to automatic stay in the event of bankruptcy and/or insolvency of the supplier.

4. The supplier of the securities delivered under the forward supply contract must affirm in the contract that it has no rights to or interest in the monies or securities held in the escrow.

5. The escrow agent must be acceptable to the Insurer. The Insurer reserves the right to replace the escrow agent for cause.

6. See 6 above for investments permitted under the forward supply contract.

7. The supplier should have no right to substitute the original escrow securities. The supplier may substitute securities previously delivered by the supplier under the forward supply contract only if:

a. The substituted securities mature on a date that is later than the previously delivered securities would have matured; and

b. The substituted securities mature prior to the date needed to pay principal and/or interest on the bonds.

8. Two days before each delivery date for the forward supply securities, the escrow agent must notify the Insurer in writing of the securities to be delivered, the maturity amount of the securities and the maturity date.

9. The forward supply contract cannot be amended or modified without the Insurer's written consent.

5/6/93

THE MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by Municipal Bond Investors Assurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix ___ for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is a limited liability corporation rather than a several liability association. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1992, the Insurer had admitted assets of \$2.6 billion (audited), total liabilities of \$1.7 billion (audited), and total capital and surplus of \$896 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1993 the Insurer had admitted assets of \$3.0 billion (unaudited), total liabilities of \$2.0 billion (unaudited), and total capital and surplus of \$951 million (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates all bond issues insured by the Insurer "Aaa" and short term loans "MIG 1," both designated to be of the highest quality.

Standard & Poor's Ratings Group, a division of McGraw Hill ("Standard & Poor's"), rates all new issues insured by the Insurer "AAA" Prime Grade.

The Moody's Investors Service rating of the Insurer should be evaluated independently of the Standard & Poor's rating of the Insurer. No application has been made to any other rating agency in order to obtain additional ratings on the Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

STATEMENT OF INSURANCE

The Municipal Bond Investors Assurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at [INSERT NAME OF TRUSTEE OR PAYING AGENT, INCLUDING CITY, STATE].

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF TRUSTEE OR PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean: [INSERT LEGAL TITLE OF BONDS, CENTERED AS FOLLOWS:]

[\$ PAR AMOUNT]
[ISSUER]
[DESCRIPTION OF BONDS]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

PAYMENTS UNDER THE POLICY

- A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Obligations, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the Obligations due on the second following or following, as the case may be, Business Day, the Paying Agent shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.
- B. If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify the Insurer or its designee.
- C. In addition, if the Paying Agent has notice that any Bondholder has been required to disgorge payments of principal or interest on the Obligation to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.
- D. The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Obligations as follows:
1. If and to the extent there is a deficiency in amounts required to pay interest on the Obligations, the Paying Agent shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and
 2. If and to the extent of a deficiency in amounts required to pay principal of the Obligations, the Paying Agent shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Obligation surrendered to the Insurance Paying agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.
- E. Payments with respect to claims for interest on and principal of Obligations disbursed by the Paying Agent from proceeds of the Policy shall not be considered to discharge the obligation of the Issuer with respect to such Obligations, and the Insurer shall become the owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.
- F. Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent hereby agree for the benefit of the Insurer that:
1. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the Obligations, the Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in this Indenture and the Obligations; and
 2. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Indenture and the Obligation, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Obligations to Holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.
- G. In connection with the issuance of additional Obligations, the Issuer shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such additional Obligations.
- H. Copies of any amendments made to the documents executed in connection with the issuance of the Obligations which are consented to by the Insurer shall be sent to Standard & Poor's Corporation.
1. The Insurer shall receive notice of the resignation or removal of the Paying Agent and the appointment of a successor thereto.
 2. The Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Issuer's audited financial statements and Annual Budget.

Notices: Any notice that is required to be given to a holder of the Obligation or to the Paying Agent pursuant to the Indenture shall also be provided to the Insurer. All notices required to be given to the Insurer under the Indenture shall be in writing and shall be sent by registered or certified mail addressed to Municipal Bond Investors Assurance Corporation, 113 King Street, Armonk, New York 10504 Attention: Surveillance.

FINANCIAL GUARANTY INSURANCE POLICY

Municipal Bond Investors Assurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

Municipal Bond Investors Assurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR], but this policy shall not be valid unless countersigned by an authorized resident licensed agent of the Insurer.

**MUNICIPAL BOND INVESTORS
ASSURANCE CORPORATION**

COUNTERSIGNED:

Resident Licensed Agent

President

City, State

Attest:

Assistant Secretary

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FINANCIAL GUARANTY INSURANCE POLICY

Municipal Bond Investors Assurance Corporation
Armonk, New York 10504

Policy No. 15240

Municipal Bond Investors Assurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to the corporate trust department of First Fidelity Bank, National Association, Philadelphia, Pennsylvania or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

\$59,875,000

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 2)

(Insured Maturities due August 1, 1996 through August 1, 2005)

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this 27th day of January, 1994, but this policy shall not be valid unless countersigned by an authorized resident licensed agent of the Insurer.

MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

COUNTERSIGNED:

Resident Licensed Agent

LANCASTER, PA
City, State

President

Attest:
Assistant Secretary

**Municipal Bond Investors
Assurance Corporation**

113 King Street
Armonk, NY 10504
914 273 4545

January 27, 1994

the corporate trust department of First Fidelity Bank, National Association
Philadelphia, Pennsylvania

MBIA

\$59,875,000

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 2)

(Insured Maturities due August 1, 1996 through August 1, 2005)

Gentlemen:

In connection with the above-described obligations (the "Obligations") of which you are acting as paying agent (the "Paying Agent"), please be advised that the payment to you of principal of and interest on the Obligations has been guaranteed by a policy of financial guaranty insurance (the "Policy") issued by the Municipal Bond Investors Assurance Corporation (the "Insurer"). State Street Bank and Trust Company, N.A., New York, New York, (the "Fiscal Agent") is acting as the fiscal agent for the Insurer.

The Policy unconditionally and irrevocably guarantees to any owner or holder of the Obligations or, if applicable, of the coupons appertaining thereto (the "Owner"), the full and complete payment required to be made by or on behalf of the issuer of the Obligations (the "Issuer") to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference (a "Preference") to the Owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence are referred to collectively in this letter as the "Insured Amounts."

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligations. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Obligations upon tender by an Owner thereof; or (iv) any Preference relating to (i) through (iii) above.

In the event that the Issuer does not make full and complete payment when due of the principal of and interest on the Obligations, please immediately notify, by telephone or telegraph, the Insurer, 113 King Street, Armonk, New York, 10504, (914) 273-4545. On the due date or within one business day after receipt of such notice, whichever is later, the Insurer will deposit funds with the Fiscal Agent sufficient to pay the Obligations (or, if applicable, coupons appertaining thereto) then due. Upon presentment and surrender of such Obligations (or, if applicable, coupons) or presentment of such other proof of ownership of Obligations together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for the Owners in any legal proceeding related to payment of Insured Amounts on the Obligations (or, if applicable, coupons), such instruments being in a form satisfactory to the Fiscal Agent, shall disburse to you payment of the Insured Amounts due on such Obligations (and, if applicable, coupons), less any amount held by you for the payment of such Insured Amounts and legally available therefor.

Forms of such instruments of assignment and instruments to effect the appointment of the Insurer as such agent for the Owners (collectively, the "Claim Documents"), which are currently acceptable to the Fiscal Agent and the Insurer, are on file with the Fiscal Agent. The Insurer may, from time to time, file revised forms of Claim Documents with the Fiscal Agent in substitution for the forms previously filed with the Fiscal Agent, and upon such filing, the revised forms shall supersede all forms of Claim Documents previously filed with the Fiscal Agent, except as otherwise directed by the Insurer in writing.

In the event that you shall have prior knowledge of an impending failure by the Issuer to make payment on the Obligations (or, if applicable, coupons) when due, please immediately notify the Insurer so that it will be possible to have funds available for you on the due date to make payments against surrendered Obligations (and, if applicable, coupons).

Your cooperation in this matter will be most appreciated and will make it possible for the Owners of Obligations guaranteed by the Insurer to be assured of all payments when due.

Very truly yours,

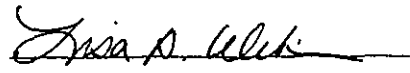
David H. Elliott

David H. Elliott
President

OFFICIAL STATEMENT CERTIFICATE OF
MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

I, Lisa A. Wilson, Assistant Secretary of Municipal Bond Investors Assurance Corporation, do hereby certify that the information concerning Municipal Bond Investors Assurance Corporation and its policies as set forth in the Official Statement dated January 20, 1994 under the caption "Bond Insurance" regarding the \$183,880,000 City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Fifteenth Series, is accurate.

IN WITNESS WHEREOF, I hereunto set my hand and deliver this Certificate on this 27th day of January, 1994.



Assistant Secretary

Assurance Corporation
113 King Street
Armonk, NY 10504
914 273 4545

January 27, 1994

City of Philadelphia, Pennsylvania
1650 Arch Street, Room 1760
Philadelphia, Pennsylvania

PaineWebber Incorporated
1285 Avenue of the Americas, 10th Floor
New York, New York 10019

\$59,875,000 —

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 2)

(Insured Maturities due August 1, 1996 through August 1, 2005)

Ladies and Gentlemen:

I am Assistant General Counsel of the Municipal Bond Investors Assurance Corporation, a New York corporation (the "Corporation"), and have acted as counsel to the Corporation in connection with the issuance of Financial Guaranty Insurance Policy No. 15240 (the "Policy") relating to \$59,875,000 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series, (Subseries 2), (Insured Maturities due August 1, 1996 through August 1, 2005).

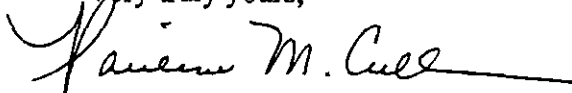
In so acting, I have examined a copy of the Policy and such other relevant documents as I have deemed necessary.

Based upon the foregoing, I am of the following opinion:

1. The Corporation is a stock insurance corporation, duly incorporated and validly existing under the laws of the State of New York and is licensed and authorized to issue the Policy under the laws of the State of New York and the State of Pennsylvania.

2. The Policy has been duly executed and is a valid and binding obligation of the Corporation enforceable in accordance with its terms except that the enforcement of the Policy may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,



Pauline M. Cullen
Assistant General Counsel

MBIA

In the opinion of Co-Bond Counsel, assuming continuing compliance with covenants pertaining to provisions of the Internal Revenue Code of 1986, as amended (the "Code") and subject to certain provisions of the Code which are described herein, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the Fifteenth Series Bonds, interest received by a holder of the Fifteenth Series Bonds will be excludable from gross income for federal income tax purposes, and will not be treated as a preference item for purposes of the alternative minimum tax imposed by Section 55 of the Code. However, interest on the Fifteenth Series Bonds may become taxable retroactively if certain requirements relating to arbitrage and arbitrage rebate under Section 148 of the Code are not complied with. For certain corporate holders, interest on the Fifteenth Series Bonds will be taken into account in the calculation of such holders' alternative minimum tax liability and may be subject to the Environmental Tax imposed by Section 59A of the Code. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date of original delivery of the Fifteenth Series Bonds, the Fifteenth Series Bonds and income thereon (including any profits made on the sale thereof, if the Fifteenth Series Bonds are issued prior to February 1, 1994) are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax. See "TAX MATTERS" for a description of certain other provisions of the Code that may affect the federal tax treatment of interest on the Fifteenth Series Bonds.

NEW ISSUE/BOOK-ENTRY ONLY

Ratings: (See "Ratings", herein)

\$183,880,000 —

City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Fifteenth Series

Dated: January 1, 1994

Due: August 1, as shown on inside front cover

The Fifteenth Series Bonds are issuable as fully registered bonds maturing in the aggregate principal amounts and bearing interest at the rates set forth herein. The Fifteenth Series Bonds, when issued, will be registered in the name of Philadep & Co., as registered owner and nominee of the Philadelphia Depository Trust Company, Philadelphia, Pennsylvania ("PHILADEP"). PHILADEP will act as securities depository for the Fifteenth Series Bonds. Purchases of the beneficial ownership interests in the Fifteenth Series Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing their ownership interests in Fifteenth Series Bonds purchased. So long as Philadep & Co. is the owner of the Fifteenth Series Bonds, as nominee of PHILADEP, references herein to the registered owners shall mean Philadep & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "DESCRIPTION OF THE FIFTEENTH SERIES BONDS — Book-Entry Only System."

The principal and redemption price of the Fifteenth Series Bonds are payable at the principal corporate trust office of First Fidelity Bank, N.A., Pennsylvania, Philadelphia, Pennsylvania, Fiscal Agent and Sinking Fund Depository, at the times and in the amounts set forth herein. Interest is payable initially on August 1, 1994 and thereafter semiannually on each February 1 and August 1 by check mailed by the Fiscal Agent to the persons in whose names the Fifteenth Series Bonds are registered on the 15th day preceding each interest payment date. So long as PHILADEP or its nominee, Philadep & Co., is the registered owner of the Fifteenth Series Bonds, such payments will be made directly to such bondholder. Disbursements of such payments to the PHILADEP Participants (as defined herein) is the responsibility of PHILADEP, and disbursements of such payments to the actual purchasers is the responsibility of the PHILADEP Participants, as more fully described herein. The Fifteenth Series Bonds are subject to redemption prior to maturity as described herein under the heading "DESCRIPTION OF THE FIFTEENTH SERIES BONDS."

THE FIFTEENTH SERIES BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA 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 REFERRED TO HEREIN.

Payment of principal of and interest on certain of the Fifteenth Series Bonds will be insured. See inside front cover.

Proceeds of the Fifteenth Series Bonds are being used to (i) finance a portion of the Philadelphia Gas Works' capital improvements program which includes additions and improvements to gas supply plants and the distribution system, (ii) refund certain of the City's outstanding Gas Works Revenue Bonds and (iii) pay costs of issuing the Fifteenth Series Bonds.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Fifteenth Series Bonds are being offered when, as and if issued and accepted by the Underwriters, subject to prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the Fifteenth Series Bonds by Cohen, Shapiro, Polisher, Shiekman and Cohen and Andre C. Dasent, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Drinker Biddle & Reath and Frank Canty, Esquire, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor. Certain legal matters will be passed upon for the Philadelphia Gas Works by Obermeyer, Rebmann, Maxwell & Hippel, Philadelphia, Pennsylvania. It is anticipated that the Fifteenth Series Bonds will be available for delivery through the facilities of the Philadelphia Depository Trust Company in Philadelphia, Pennsylvania on or about January 27, 1994.

PaineWebber Incorporated

Donaldson, Lufkin & Jenrette
Securities Corporation

Lazard Frères & Co.

Chemical Securities, Inc.

INNOVA Securities, Inc.

W.R. Lazard, Laidlaw & Mead, Inc.

Legg Mason Wood Walker Inc.

William E. Simon & Sons

Municipal Securities

The date of this Official Statement is January 20, 1994

\$41,135,000
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 1)

Payment of the principal of and interest on the Fifteenth Series Bonds (Subseries 1) when due, will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the Fifteenth Series Bonds, Subseries 1.

AMBAC

<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
1995	\$ 885,000	3.00%	3.00%	2003	\$ 375,000	4.60 %	4.65%
1996	440,000	3.40	3.40	2004	415,000	4.625	4.75
1997	1,395,000	3.70	3.75	2005	365,000	4.75	4.85
1998	3,070,000	3.90	4.00	2006	705,000	4.875	4.95
1999	4,170,000	4.10	4.20	2007	670,000	4.875	5.05
2000	4,490,000	4.25	4.35	2008	885,000	4.875	5.10
2001	4,425,000	4.40	4.50	2009	905,000	4.875	5.15
2002	3,005,000	4.50	4.60	2010	9,725,000	4.875	5.25

\$5,210,000 5.00% Term Bonds due August 1, 2015, Priced to Yield 5.40%

\$59,875,000
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 2)

Payment of the principal of and interest on the Fifteenth Series Bonds (Subseries 2) when due, will be insured by a financial guaranty insurance policy to be issued by MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION simultaneously with the delivery of the Fifteenth Series Bonds, Subseries 2.

MBIA

<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
1996	\$ 475,000	3.40%	3.40%	2001	\$12,665,000	4.40 %	4.50%
1997	3,555,000	3.70	3.75	2002	2,905,000	4.50	4.60
1998	9,975,000	3.90	4.00	2003	2,775,000	4.60	4.65
1999	10,845,000	4.10	4.20	2004	2,755,000	4.625	4.75
2000	11,200,000	4.25	4.35	2005	2,725,000	4.75	4.85

\$82,870,000
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series
(Subseries 3)

<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2002	\$4,550,000	4.90 %	4.95%	2007	\$2,275,000	5.375%	5.45%
2003	4,880,000	5.00	5.05	2008	2,400,000	5.40	5.50
2004	5,250,000	5.10	5.15	2009	2,525,000	5.50	5.55
2005	5,745,000	5.125	5.25	2010	2,665,000	5.50	5.60
2006	2,160,000	5.25	5.35				

\$15,620,000 5.25% Term Bonds due August 1, 2015, Priced to Yield 5.70%

\$20,000,000 5.25% Term Bonds due August 1, 2021*, Priced to Yield 5.50%

\$14,800,000 5.25% Term Bonds due August 1, 2024*, Priced to Yield 5.55%

*The scheduled payment of principal of and interest on the Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 and August 1, 2024 will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



CITY OF PHILADELPHIA

MAYOR

HONORABLE EDWARD G. RENDELL

MAYOR'S CABINET

Ben Hayllar Finance Director
Joseph A. Dworetzky Acting City Solicitor
Raymond Eugene Shipman Managing Director
Stephen P. Mullin City Representative and
Director of Commerce

City Treasurer Designate
Clarence D. Armbrister

City Controller
Jonathan A. Sidel

President of City Council
Honorable John F. Street

PHILADELPHIA GAS WORKS

Sydney M. Avent, Senior Vice President-Administration and General Counsel
Clifford Brenner, Vice President-Public Affairs
Manuel M. Cabrera, Vice President-Internal Auditing
Harry A. Connelly, Vice President-Rates and Regulatory Affairs
Alfred P. Degen, Executive Vice President
Robert J. Dunnigan, Vice President-Administration
A. Jack Egan, Vice President-Support Services
Lynn M. Fields, Vice President - Government and Community Relations
Thomas J. Hanna, Vice President-Technical Services
Joseph G. Horan, Senior Vice President and Acting Chief Operating Officer
Terri M. Maloney, Vice President-Customer Activities
Edward H. Morris, Jr., Senior Vice President and Chief Financial Officer
Richard J. Ney, Vice President-Marketing
Dennis E. Stinson, Vice President-Operations

FINANCIAL ADVISOR

Public Financial Management, Inc.

FISCAL AGENT

First Fidelity Bank, National Association
(formerly First Fidelity Bank, N. A., Pennsylvania)

No dealer, broker, salesperson or other person has been authorized 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. 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 Fifteenth Series 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 sources which are believed to be reliable but is not guaranteed as to accuracy or completeness. 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. The order and placement of materials in this Official Statement, including the Appendices hereto, 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.

Other than with respect to the information concerning AMBAC Indemnity Corporation ("AMBAC") contained under the captions "AMBAC Bond Insurance Policy" and "AMBAC Indemnity Corporation" under the heading "BOND INSURANCE" herein, none of the information in this Official Statement has been supplied or verified by AMBAC and AMBAC makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Fifteenth Series Bonds; or (iii) the tax exempt status of the interest on the Fifteenth Series Bonds. Other than with respect to the information concerning Financial Security Assurance Inc. ("Financial Security") contained under the captions "FSA Bond Insurance Policy" and "Financial Security Assurance Inc." under the heading "BOND INSURANCE" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Fifteenth Series Bonds; or (iii) the tax exempt status of the interest on the Fifteenth Series Bonds. Other than with respect to the information concerning Municipal Bond Investors Assurance Corporation ("MBIA") contained under the captions "MBIA Bond Insurance Policy" and "Municipal Bond Investors Assurance Corporation" under the heading "BOND INSURANCE" herein, none of the information in this Official Statement has been supplied or verified by MBIA and MBIA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Fifteenth Series Bonds; or (iii) the tax exempt status of the interest on the Fifteenth Series Bonds.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PHILADELPHIA GAS WORKS, THE CITY OF PHILADELPHIA AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

IN CONNECTION WITH THE OFFERING OF THE FIFTEENTH SERIES BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

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APPENDICES:

- A. Audited Financial Statements of Philadelphia Gas Works For the Years Ended August 31, 1993 and 1992
- B. Engineering Report
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- D. Certain Financial Information Concerning the City of Philadelphia
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- F. Specimen Copy of AMBAC Municipal Bond Insurance Policy
- G. Specimen Copy of FSA Municipal Bond Insurance Policy
- H. Specimen Copy of MBIA Financial Guaranty Insurance Policy

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OFFICIAL STATEMENT

of the

CITY OF PHILADELPHIA, PENNSYLVANIA

respecting its

\$183,880,000

Gas Works Revenue Bonds, Fifteenth Series

INTRODUCTION

General

This Official Statement, including the 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 its \$183,880,000 aggregate principal amount Gas Works Revenue Bonds, Fifteenth Series (the "Fifteenth Series 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 1993" refers to the fiscal year ended June 30, 1993. 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 1993" refers to the fiscal year ended August 31, 1993.

This introduction is a brief description of certain matters described in this Official Statement and is qualified by reference to the entire Official Statement. Persons considering a purchase of any of the Fifteenth Series Bonds should read this Official Statement, including the cover page, table of contents, tables and appendices, in its entirety. The information contained herein is subject to change.

The City of Philadelphia Gas Works

The Gas Works consists of all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of 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".

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the sole supplier of gas in the City. PGW has no distribution mains and provides no service to customers outside the City limits. As of August 31, 1993, PGW served approximately 524,000 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission to be constituted and appointed and to exercise such power and perform such duties as may from time to time be provided in contracts between the City and the operator of PGW, 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 "THE GAS COMMISSION."

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").

Rates and charges of PGW, including the Gas Cost Rate, are fixed by the Gas Commission and not by the Public Utility Commission of the Commonwealth. The Court of Common Pleas of Philadelphia County has ruled that decisions of the Gas Commission regarding PGW rate increases are subject to court review. See "PGW BUDGET, RATES AND FINANCING PROGRAM" for a further discussion of PGW's budget process and recent rate proceedings.

The Financial Statements of PGW for the fiscal years ended August 31, 1993 and 1992 are presented in Appendix A. For information regarding the City's financial situation see APPENDIX D - "Certain Financial Information Concerning the City of Philadelphia" herein.

The offices of PGW are located at 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122. The telephone number is 215/236-0500.

Authorization to Issue the Fifteenth Series Bonds

The Fifteenth Series Bonds are being issued pursuant to The First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234, approved October 18, 1972, P.L. 955 (the "Act"), the General Gas Works Revenue Bond Ordinance of 1975, approved May 30, 1975, Bill No. 1871, as amended from time to time (the "General Ordinance"), the Fifteenth Supplemental Gas Works Revenue Bond Ordinance approved December 23, 1993, Bill No. 693 (the "Fifteenth Supplemental Ordinance") and a determination of the Bond Committee of the City, or a majority of them, dated January 20, 1994 (the "Bond Authorization"). Bonds of all series issued or to be issued under the General Ordinance (herein referred to as the "Bonds" or as "Gas Works Revenue Bonds") are issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the General Ordinance. As of October 31, 1993, approximately \$704,581,000 aggregate principal amount of Gas Works Revenue Bonds were outstanding under the General Ordinance and appropriate supplemental ordinances.

The Fifteenth Series Bonds

The Fifteenth Series Bonds will be issued pursuant to the Act, the General Ordinance and the Fifteenth Supplemental Ordinance. The Fifteenth Series Bonds will be dated January 1, 1994, and will bear interest from such date, payable commencing on August 1, 1994 and on each February 1 and August 1 thereafter. The Fifteenth Series Bonds will be issued as fully registered bonds in the subseries and in the aggregate principal amounts set forth on the inside front cover hereof in denominations of \$5,000 or any integral multiple thereof. The principal and redemption price of the Fifteenth Series Bonds will be payable at the principal corporate trust office of First Fidelity Bank, National Association, in Philadelphia, Pennsylvania (the "Fiscal Agent"). Interest on the Fifteenth Series Bonds will be paid by check mailed by the Fiscal Agent to the persons in whose names the Fifteenth Series Bonds are registered on the 15th day preceding each interest payment date; except in the case of any default by the City in payment of interest due which shall be payable to the persons in whose names the Fifteenth Series Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE FIFTEENTH SERIES BONDS." Registered Owners of at least \$1,000,000 principal amount of the Fifteenth Series Bonds may elect to receive interest payments by wire transfer.

The Fifteenth Series Bonds are subject to optional redemption and mandatory redemption as described herein. See "DESCRIPTION OF THE FIFTEENTH SERIES BONDS."

Security for the Fifteenth Series Bonds

The Fifteenth Series Bonds are secured solely by moneys derived, directly or indirectly, from PGW's Project Revenues as provided in the Act, the General Ordinance and the Fifteenth Supplemental 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 in all Project Revenues and the proceeds thereof for security and payment of all Bonds issued under the General Ordinance, including the Fifteenth Series Bonds. The City has covenanted in the Fifteenth Supplemental Ordinance (as hereinafter defined) to deposit into, hold in and disburse from one or more unsegregated accounts of PGW, which shall be separate and apart 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, approximately \$70,842,000 of proceeds of the Fifteenth Series Bonds which are available for the payment of the costs of the capital improvements. The City further covenants in the Fifteenth Supplemental Ordinance that, so long as any of the Fifteenth Series Bonds shall remain outstanding, all pledged Project Revenues shall be deposited and held 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. However, the effectiveness of the separation of Fifteenth Series Bond proceeds and Project Revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See "SECURITY" and "REMEDIES OF BONDHOLDERS" herein. Pursuant to the General Ordinance, all moneys deposited in PGW's Sinking Fund (including the Sinking Fund Reserve), are subject to a security interest in favor of all holders of PGW's revenue bonds until such moneys are properly disbursed. See "SECURITY - Pledge of Revenues and Funds" herein.

The General Ordinance requires PGW to comply with a rate covenant which requires the City to impose, charge and collect in each fiscal year, rates and charges which, together with all other Project Revenues to be received in such fiscal year, shall be sufficient to meet debt service coverage requirements as specified in the General Ordinance (the "Rate Covenant"). See "SECURITY - Rate Covenant and Rate Requirements" and APPENDIX C - "The General Ordinance - Rate Covenant" herein.

The General Ordinance permits the issuance of additional bonds which are on a parity basis with the Fifteenth Series Bonds. See "SECURITY - Additional Parity Bonds" herein.

The General Ordinance establishes a Sinking Fund Reserve which is established in the Sinking Fund as a separate account and is held for the benefit of owners of all Bonds issued under the General Ordinance. See "SECURITY - Sinking Fund Reserve" herein.

The outstanding Gas Works Revenue Bonds and all Gas Works Revenue Bonds which may be issued in the future under the Act and the General Ordinance are issued on a parity basis and are payable from Project Revenues. The City expects that the capital improvements program of PGW will require the issuance of additional Bonds in subsequent fiscal years.

The City is authorized to issue, from time to time, tax-exempt notes (the "Gas Works Notes") junior in priority of payment to the Gas Works Revenue Bonds. As of October 31, 1993, \$61,800,000 in aggregate principal amount of Gas Works Notes were outstanding. See "ADDITIONAL DEBT - Subordinated Short-Term Borrowings - Gas Works Notes."

The City entered into a lease with the Philadelphia Municipal Authority ("PMA") in connection with the issuance of the Philadelphia Gas Works Lease Revenue Bonds, Series of 1989, by the PMA (see "ADDITIONAL

DEBT - Subordinated Long-Term Borrowings - Lease Revenue Bonds"). As of October 31, 1993, the City's rental obligation to PMA aggregated \$23,285,000 in principal amount. These rental obligations are payable out of Project Revenues (as defined in the lease) and are junior in priority of payment to the Gas Works Revenue Bonds and the Gas Works Notes.

Bond Insurance

Payment of principal of and interest on the Fifteenth Series Bonds (Subseries 1) when due, will be insured by a municipal bond insurance policy (the "AMBAC Policy") to be issued by AMBAC Indemnity Corporation ("AMBAC") simultaneously with the delivery of the Fifteenth Series Bonds; see "BOND INSURANCE" herein and the specimen copy of the Policy in Appendix F hereto. The AMBAC Policy will not insure any of the Fifteenth Series Bonds (Subseries 2) or Fifteenth Series Bonds (Subseries 3).

The principal of and interest on the Fifteenth Series Bonds (Subseries 2) will be insured in accordance with the terms of a Financial Guaranty Insurance Policy (the "MBIA Policy") to be issued by Municipal Bond Investors Assurance Corporation ("MBIA") simultaneously with the delivery of the Fifteenth Series Bonds; see "BOND INSURANCE" herein and the specimen copy of the Policy in Appendix H hereto. The MBIA Policy will not insure any of the Fifteenth Series Bonds (Subseries 1) or Fifteenth Series Bonds (Subseries 3).

The scheduled payment of principal of and interest on the Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 and August 1, 2024, when due, will be guaranteed under an insurance policy (the "FSA Policy") to be issued concurrently with the delivery of the Fifteenth Series Bonds, by Financial Security Assurance Inc. ("FSA"); see "BOND INSURANCE" herein and the specimen copy of the Policy in Appendix G hereto. The FSA Policy will not insure any of the Fifteenth Series Bonds (Subseries 1) or Fifteenth Series Bonds (Subseries 2) nor will it insure any of the Fifteenth Series Bonds (Subseries 3) maturing before August 1, 2021.

Plan of Finance

The Fifteenth Series Bonds are being issued to (1) fund a portion of PGW's capital improvements program, which includes additions and improvements to gas supply plants and the distribution system, (2) advance refund certain currently outstanding Gas Works Revenue Bonds and (3) pay costs of issuance of the Fifteenth Series Bonds. See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF PROCEEDS."

Engineering Report

The report of Stone & Webster Management Consultants, Inc. ("Stone & Webster"), an independent consulting firm with respect to PGW and the Fifteenth Series Bonds, is appended hereto as APPENDIX B (the "Engineering Report"). In its report, Stone & Webster has concluded that, on the basis of actual and estimated future financial operations of the PGW system and certain assumptions with respect thereto over the amortization period of the Fifteenth Series Bonds, such system will yield sufficient Project Revenues to meet the requirements of the Rate Covenant contained in the General Ordinance. See "SECURITY." Stone & Webster is of the opinion that the capital improvement program as described in their report, along with continued good operation and maintenance practices, will enable PGW to maintain its system in good operating condition. Stone & Webster has also concluded in its report that contracted PGW gas supplies plus spot market purchases plus anticipated additional contracted supplies plus supplemental gas capacities as well as the pipeline transport capacity to move these supplies to PGW are adequate to meet PGW's forecast of demand on a day of maximum demand, or an hour of maximum demand, and during a year of maximum demand during the forecast period. The Engineering Report should be read in its entirety for an

understanding of the information, assumptions and rationale on which Stone & Webster's conclusions and findings are based.

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 Fifteenth Series Bonds are qualified in their entirety by reference to the definitive forms of the Fifteenth Series Bonds. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Act and the General Ordinance. See APPENDIX C. Copies of the Act, the General Ordinance and the Fifteenth Supplemental Ordinance are available from the Office of the Director of Finance, 13th Floor, 1600 Arch Street, Philadelphia, Pennsylvania 19103.

This Official Statement speaks only as of the date printed on the cover hereof. The information contained herein is subject to change. The Official Statement will be made available through one or more of the Nationally Recognized Municipal Securities Information Repositories.

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF PROCEEDS

Plan of Finance

The proceeds from the sale of the Fifteenth Series Bonds will be used to (1) finance a portion of PGW's Capital Program, (2) advance refund the outstanding Gas Works Revenue Bonds listed below and (3) pay the costs of issuance of the Fifteenth Series Bonds. Outstanding Gas Works Revenue Bonds to be refunded:

<u>Series of Bonds Refunded</u>	<u>Maturity Date</u>	<u>Par Amount To Be Refunded</u>
Eighth Series	May 15, 1995	\$1,530,000
	May 15, 1996	1,650,000
	May 15, 1997	1,785,000
	May 15, 1998	1,930,000
	May 15, 1999	2,090,000
	May 15, 2000	2,270,000
	May 15, 2005	5,145,000
Tenth Series	July 1, 1998	8,650,000
	July 1, 1999	9,255,000
	July 1, 2000	9,915,000
	July 1, 2001	10,630,000
Eleventh Series A	July 1, 1998	2,000,000
	July 1, 1999	2,095,000

<u>Series of Bonds Refunded</u>	<u>Maturity Date</u>	<u>Par Amount To Be Refunded</u>
Eleventh Series C	January 1, 2010	10,700,000
	January 1, 2015	4,630,000
Twelfth Series B	May 15, 1995	1,055,000
	May 15, 1996	1,125,000
	May 15, 1997	1,195,000
	May 15, 1998	1,275,000
	May 15, 1999	1,360,000
	May 15, 2000	1,455,000
	May 15, 2005	7,390,000
Thirteenth Series	June 15, 2011	6,590,000

A portion of the proceeds of the Fifteenth Series Bonds, together with other moneys available to PGW for such purposes, will be deposited in a refunding escrow account (the "Escrow Account") to purchase Defeasance Obligations to defease those maturities (or portion thereof) chosen to be advance refunded. Defeasance Obligations purchased in the open market, if any, may be purchased from one of the underwriters. The Defeasance Obligations will bear interest and mature in such amounts and at such times so that, together with other moneys in the Escrow Account, sufficient moneys will be available therefrom to pay when due (at maturity or by optional redemption) the principal of and redemption premium and interest on the Refunded Bonds. First Fidelity Bank, National Association, as Escrow Agent, will hold and administer the Escrow Account and will apply the interest earned on and the maturing principal of the Defeasance Obligations to the payment when due (at maturity or optional redemption) of the principal of and redemption premium, if any, and interest on the Refunded Bonds. The Escrow Account is pledged solely for the benefit of the Refunded Bonds.

Pursuant to certain provisions of the Ordinance and to certain provisions of the Escrow Agreement, and as a result of the deposit and application of moneys and securities as provided in the Escrow Agreement, the Refunded Bonds will be deemed no longer outstanding under the Ordinance.

Estimated Sources and Uses of Proceeds

The sources and uses of proceeds of the Fifteenth Series Bonds are estimated to be as follows:

Estimated Sources of Proceeds

Principal Amount	\$ 183,880,000
Less Original Issue Discount	(3,607,425)
Released Sinking Fund Reserve (1)	27,711
Accrued Interest	<u>628,622</u>
Total	\$ 180,928,908

Estimated Use of Proceeds

Capital Improvement Program	\$ 70,842,467
Accrued Interest Deposited to Sinking Fund	628,622
Escrow Account	105,512,401
Costs of Issuance (2)	<u>3,945,418</u>
Total	\$ 180,928,908

- (1) This amount equals the difference between the amount required to be maintained in the Sinking Fund Reserve immediately before the issuance of the Fifteenth Series Bonds and the amount required to be maintained therein following the issuance of the Fifteenth Series Bonds.
- (2) Includes, among other things, the bond insurance premiums, the fees and expenses of Counsel and the Fiscal Agent, and the Underwriters' Discount.

DESCRIPTION OF THE FIFTEENTH SERIES BONDS

General

The Fifteenth Series Bonds are being issued pursuant to the Act, the General Ordinance and the Fifteenth Supplemental Ordinance. The General Ordinance is the governing ordinance under which all Gas Works Revenue Bonds are issued. The Fifteenth Supplemental Ordinance has been enacted by City Council and approved by the Mayor on December 23, 1993.

The Fifteenth Series Bonds will be dated as of January 1, 1994 and will bear interest from such date, payable initially on August 1, 1994 and on each February 1 and August 1 thereafter. The Fifteenth Series Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the cover page hereof in denominations of \$5,000 or any integral multiple thereof. The Fifteenth Series Bonds, when issued, will be registered in the name of Philadep & Co., as nominee of the Philadelphia Depository Trust Company ("PHILADEP"), one bond for each maturity. Purchases of beneficial interests in the Fifteenth Series 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 Fifteenth Series Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Fifteenth Series Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Fifteenth Series Bonds are registered on the 15th day preceding each interest payment date, except that if any such interest payment date is not a Business Day, then such interest check shall be mailed on the next succeeding Business Day. Business Day shall mean any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed. So long as the Fifteenth Series Bonds shall be in book-entry form, the principal of and interest on the Fifteenth Series Bonds are payable by check or draft mailed to or by wire transfer of funds to Philadep & Co., as nominee for PHILADEP and registered owner thereof for redistribution by PHILADEP to the PHILADEP Participants (as defined herein) and in turn to Beneficial Owners as described under "Book-Entry Only System" below. Registered owners of at least \$1,000,000 principal amount of the Fifteenth Series Bonds may elect to receive interest payments by wire transfer. 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 the Fifteenth Series Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by or on behalf of the City to the registered owners of the Fifteenth Series Bonds not less than ten (10) days preceding such special record date, such notice to be mailed to the persons in whose names the Fifteenth Series Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

Book-Entry Only System

The Fifteenth Series Bonds initially will be issued as fully registered bond certificates in the name of Philadep & Co., as nominee for the Philadelphia Depository Trust Company, Philadelphia, Pennsylvania, which will act as securities depository for the Fifteenth Series Bonds. Purchasers of the Fifteenth Series Bonds will not receive physical delivery of certificates. Beneficial ownership interests in the Fifteenth Series Bonds will be available in the principal amount of \$5,000 or any integral multiple thereof.

The information in this section concerning PHILADEP and PHILADEP's book-entry only system has been provided by PHILADEP, and the City takes no responsibility for the accuracy or completeness thereof. PHILADEP has advised the City that it is a limited-purpose trust company organized under the laws of the Commonwealth of Pennsylvania, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

PHILADEP holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "PHILADEP Participants"), thereby eliminating the need for physical movement of securities certificates. PHILADEP Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the PHILADEP system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a PHILADEP Participant, either directly or indirectly.

Beneficial ownership interests in the Fifteenth Series Bonds may be purchased by or through PHILADEP Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive certificated Fifteenth Series Bonds. The ownership interest of each Beneficial Owner will be recorded through the records of the PHILADEP Participant from which the Fifteenth Series Bonds were purchased, each such PHILADEP

Participant being credited on the records of PHILADEP with the amount of such PHILADEP Participant's interest in the Fifteenth Series Bonds. Transfers of ownership interests in the Fifteenth Series Bonds will be accomplished by book entries made by PHILADEP and, in turn, by PHILADEP Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive from a PHILADEP Participant a written confirmation of the ownership interest acquired by such Beneficial Owner in the Fifteenth Series Bonds.

So long as Philadep & Co. is the registered owner of the Fifteenth Series Bonds as nominee of PHILADEP, references herein to the owners of the Fifteenth Series Bonds shall mean PHILADEP and shall not mean the Beneficial Owners of the Fifteenth Series Bonds. Beneficial Owners may desire to make arrangements with a PHILADEP Participant to have all notices of redemption or other communications to PHILADEP, which may affect such Beneficial Owners, forwarded in writing by such PHILADEP Participant and have notification made of all interest payments.

Payments of principal, redemption premium, if any, and interest on the Fifteenth Series Bonds will be paid by the Fiscal Agent directly to PHILADEP or its nominee, Philadep & Co. PHILADEP or its nominee will remit such payments to PHILADEP Participants and such payments will thereafter be paid by PHILADEP Participants to the Beneficial Owners. Receipt by the Beneficial Owners (through any PHILADEP Participant) of timely payment of principal, premium, if any, and interest on the Fifteenth Series Bonds is subject to the continuing ability of PHILADEP or Philadep & Co., as its nominee, to receive timely payment thereof from the Fiscal Agent for the Fifteenth Series Bonds. NEITHER THE CITY NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PHILADEP PARTICIPANTS OR THE BENEFICIAL OWNERS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE FIFTEENTH SERIES BONDS.

When notices are given to the holders of Fifteenth Series Bonds, such notices shall be sent by the Fiscal Agent to PHILADEP with a request that PHILADEP forward (or cause to be forwarded) the notice to the PHILADEP Participants so that such PHILADEP Participants may forward (or cause to be forwarded) the notices to the Beneficial Owners. As PHILADEP is the exclusive holder of the pertinent records, neither the City nor the Fiscal Agent will have the means to verify nor will they undertake to verify any such action represented by PHILADEP to be that of the Beneficial Owners.

For every transfer and exchange of the Fifteenth Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation thereto.

PHILADEP may discontinue providing its services as securities depository with respect to the Fifteenth Series Bonds at any time by giving reasonable notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry only transfer through PHILADEP at any time by giving reasonable notice to PHILADEP. Upon termination of book-entry only transfer through PHILADEP with respect to the Fifteenth Series Bonds, the City may, at its discretion, select a replacement securities depository for the Fifteenth Series Bonds or discontinue the system of book-entry only transfers for the Fifteenth Series Bonds. In the event that the City does not continue its participation in a system of book-entry only transfers, it will direct the Fiscal Agent to authenticate and make available for delivery replacement Fifteenth Series Bonds in the form of fully registered bond certificates.

In the event that the book-entry system is discontinued and fully registered bond certificates are issued, principal of and premium, if any, and interest on the Fifteenth Series Bonds will be payable when due as described above under the heading "THE FIFTEENTH SERIES BONDS - General" and the Fifteenth Series Bonds may be transferred or exchanged as described below under the heading "THE FIFTEENTH SERIES BONDS - Transfer of Fifteenth Series Bonds."

Optional Redemption

The Fifteenth Series Bonds maturing on or before August 1, 2004 are not subject to redemption prior to maturity. The Fifteenth Series Bonds maturing on or after August 1, 2005 will be subject to redemption at the direction of the City in whole or in part at any time on or after August 1, 2004 at the option of the City, at the redemption prices, expressed as percentages of the principal amount of Fifteenth Series Bonds to be redeemed, set forth below, plus accrued interest to the redemption date:

<u>Redemption Period (both dates inclusive)</u>	<u>Redemption Price</u>
August 1, 2004 through July 31, 2005	102%
August 1, 2005 through July 31, 2006	101%
August 1, 2006 and thereafter	100%

In the case of any optional redemption of less than all of the Fifteenth Series Bonds, such Fifteenth Series Bonds shall be selected for redemption from such subseries and in such order of maturity as may be designated by the City, and within each subseries and maturity by lot, in denominations of \$5,000 or whole multiples thereof.

Mandatory Redemption

The Fifteenth Series Bonds (Subseries 1) maturing on August 1, 2015 are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Fifteenth Series Bonds (Subseries 1) being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
2011	\$ 165,000	2014	\$ 170,000
2012	170,000	2015*	4,530,000
2013	175,000		

* Final Maturity

The Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2015 are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Fifteenth Series Bonds (Subseries 3) being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
2011	\$2,815,000	2014	\$3,280,000
2012	2,960,000	2015*	3,450,000
2013	3,115,000		

* Final Maturity

The Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Fifteenth Series Bonds (Subseries 3) being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
2016	\$2,855,000	2019	\$3,420,000
2017	3,035,000	2020	3,625,000
2018	3,220,000	2021*	3,845,000

* Final Maturity

The Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2024 are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Fifteenth Series Bonds (Subseries 3) being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>
2022	\$4,685,000	2024*	\$5,185,000
2023	4,930,000		

* Final Maturity

The City may purchase Fifteenth Series Bonds in the open market and apply the principal amount of such purchases to the mandatory redemption requirements in accordance with the provisions of the Fifteenth Supplemental Ordinance. The principal amount of Fifteenth Series Bonds of any Subseries required to be redeemed by mandatory redemption in any year shall be subject to a credit at the election of the City for the principal amount of Fifteenth Series Bonds of the same Subseries and maturity which have been provided for other than by mandatory redemption.

Notice of Redemption of Fifteenth Series Bonds

Notice of redemption of Fifteenth Series Bonds shall be made not less than thirty nor more than sixty days before the date fixed for redemption, by first class mail, postage prepaid, to the registered owners appearing on the bond register of the Fifteenth Series Bonds to be redeemed. Failure to mail such notice, or any defect therein, shall not affect the validity of the proceedings for redemption of Fifteenth Series Bonds for which such notice has been properly given. 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 Fifteenth Series Bonds called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the Fifteenth Series Bonds called for redemption shall have no security, benefit or lien under the General Ordinance or any rights thereunder, except to receive payment of the redemption price.

Transfer of Fifteenth Series Bonds

The Fifteenth Series Bonds are transferable and exchangeable by the registered owners thereof at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania in the manner and subject to the limitations contained in the General Ordinance. The City and the Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Fifteenth Series Bonds (a) during the period fifteen Business Days next preceding any interest payment date for such Fifteenth Series Bonds, or (b) during the period twenty Business Days next preceding the first publication or mailing of any notice of redemption of such Fifteenth Series Bonds.

SECURITY

The Fifteenth Series Bonds are secured solely by moneys derived, directly or indirectly, from PGW's Project Revenues as provided in the Act, the General Ordinance and the Fifteenth Supplemental Ordinance. Such Project Revenues include principally the rents, rates and charges imposed on or charged by the City to the users of gas distributed by PGW. Reference is made to Appendix C for summaries of the Act, the General Ordinance and the Fifteenth Supplemental Ordinance, including definitions of certain terms used herein.

Pledge of Revenues and Funds

In the General Ordinance, the City has pledged and granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues and, in each case, the proceeds of the foregoing, for the security and payment of all Bonds issued under the General Ordinance.

The Act subjects all moneys deposited in the Sinking Fund, including the Sinking Fund Reserve, to a security interest for the Bonds until such moneys 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 Project Revenues and moneys deposited in the Sinking Fund.

Covenant Against Commingling with Other City Funds

The City has covenanted in the Fifteenth Supplemental Ordinance that so long as any of the *Fifteenth Series Bonds remain outstanding*, all Project 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 moneys or accounts of the City not held exclusively for PGW purposes. See "REMEDIES OF BONDHOLDERS."

Priority In Application of Project Revenues

The General Ordinance creates a lien on and ~~pledge~~ of all Project Revenues of PGW for the benefit of the holders of Gas Works Revenue Bonds and, together with the ordinance under which Gas Works Notes are issued, creates a priority in application of Project Revenues in each fiscal year as follows:

First, to Net Operating Expenses of PGW;

Second, to required payments into the Sinking Fund to pay the principal of and interest then due on all Bonds issued and outstanding under the General Ordinance and to accumulate funds in the Sinking Fund Reserve to the extent required by any Supplemental Ordinance or to restore any deficiency in the Sinking Fund Reserve;

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

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

Fifth, to the payment of the principal of and interest on the Gas Works Notes, to the payment of any amounts owed to the issuer of the credit facility established with respect to the Gas Works Notes and to the payment of any other temporary loans or indebtedness of the City secured by a pledge of the Project Revenues; and

Sixth, to the payment of the City Charges, including the Base Payment (currently \$18,000,000**), and the payment of rentals under the Lease (defined under the heading "ADDITIONAL DEBT - Subordinated Long-Term Borrowings - Lease Revenue Bonds") on a parity basis after the payments listed in items First through Fifth above.

* The last general obligation debt of the City related to PGW was paid in full in Fiscal Year 1987. No general obligation debt of the City described in items Third and Fourth above is currently outstanding.

** See "PGW BUDGET, RATES AND FINANCING PROGRAM - Fiscal Year 1992 Operating Budget and Rate Proceeding" herein for a discussion of a recent judicial decision addressing the validity of the Base Payment.

City Charges include charges for services performed for PGW by various City departments including the expenses of the Gas Commission which also includes the cost of rate hearings. During PGW's Fiscal Years 1989-1993, City Charges exclusive of the \$18,000,000 Base Payment and of rate hearing charges have averaged approximately \$337,000 per year.

The 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 General Ordinance relating to the Sinking Fund Reserve, be transferred to the operating funds of PGW to be applied as Project Revenues in accordance with the terms of the 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 of PGW during the same fiscal year.

Rate Covenant and Rate Requirements

The General Ordinance contains the Rate Covenant requiring that, so long as Gas Works Revenue Bonds are outstanding, 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, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding City general obligation bonds issued for improvements to PGW. For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCING PROGRAM" and "HISTORICAL REVENUES AND DEBT SERVICE COVERAGE."

Additional Parity Bonds

The General Ordinance permits the issuance of additional Bonds on a parity with the Fifteenth Series Bonds and all other currently outstanding Gas Works Revenue Bonds, provided, among other requirements, that an independent engineer determines that estimated Project Revenues will be sufficient to meet the Rate Covenant. The Fifteenth Series Bonds are being issued pursuant to the Fifteenth Supplemental Ordinance, which authorizes the issuance of up to \$300,000,000 aggregate principal amount of Gas Works Revenue Bonds in one or more series, provided that such maximum principal amount may be increased to reflect sales of such Bonds at discounts which are in lieu of periodic interest. See APPENDIX C for a discussion of the provisions relating to the issuance of additional Bonds.

Sinking Fund

Pursuant to the Act, the General Ordinance establishes a Sinking Fund for the benefit and security of the holders of all Gas Works Revenue 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 Project 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 Gas Works Revenue Bonds, the amounts required to pay the principal of and interest on the Gas Works Revenue Bonds then

coming 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 moneys are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such moneys shall be invested at the direction and under the management of the Director of Finance. Interest and profit from any such investment shall be added to the Sinking Fund and credited in reduction of or to satisfy required deposits into the Sinking Fund.

Sinking Fund Reserve

The General Ordinance establishes a Sinking Fund Reserve as part of the Sinking Fund. The City is required to deposit in the Sinking Fund Reserve from the proceeds of sale of each series of Bonds issued under the General Ordinance an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the Bonds of such series coming due and payable in that Fiscal Year unless the Supplemental Ordinance authorizing the series of 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 Bonds. Although the Fifteenth Supplemental Ordinance has authorized an accumulation from Project Revenues, the Sinking Fund Reserve requirement will be funded on the date of issuance of the Fifteenth Series Bonds from moneys currently on deposit in the Sinking Fund Reserve. The money and investments (valued at market) in the Sinking Fund Reserve must be held and maintained, at all times, in an amount equal to the maximum of the principal and interest requirements of all outstanding Bonds in any subsequent Fiscal Year. The City verifies the value of amounts in the Sinking Fund Reserve on a periodic basis. As of October 31, 1993, the value of the funds and investments on deposit in the Sinking Fund Reserve was required to be at least \$74,550,594, and the amount in the Sinking Fund Reserve met this requirement. If, at any time, the moneys in the Sinking Fund (other than the Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any Bond or Bonds, the Sinking Fund Depository is required to pay over to the Fiscal Agent, from the Sinking Fund Reserve, the amount of the deficiency. The Sinking Fund and Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The General Ordinance provides that interest and income earned on moneys held in the 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 "SECURITY - Priority in Application of Project Revenues."

Required Deposit to Sinking Fund From Project Revenues

The City has covenanted in the General Ordinance that, if the City shall fail to make required deposits into the Sinking Fund, including the Sinking Fund Reserve, or if, for any reason, there shall be a deficiency in the Sinking Fund Reserve, it will immediately upon such failure or deficiency and without notice thereof from any Bondholder, fiscal agent, paying agent or sinking fund depository, and so long as such failure or deficiency shall continue, deposit in the Sinking Fund, including the Sinking Fund Reserve, on a daily basis, 50% of all Project Revenues or such greater percentage thereof as the Director of Finance shall determine. This obligation is specifically enforceable by the trustee for Bondholders appointed in accordance with the Act or, if none is appointed, by any Bondholder. However, the application of the Federal Bankruptcy laws could result in a reduction in the amount of Project Revenues deposited in the Sinking Fund. See "REMEDIES OF BONDHOLDERS."

BOND INSURANCE

Payment of principal of and interest on the Fifteenth Series Bonds (Subseries 1) when due, will be insured by a municipal bond insurance policy (the "AMBAC Policy") to be issued by AMBAC Indemnity Corporation ("AMBAC") simultaneously with the delivery of the Fifteenth Series Bonds; see the specimen copy of the Policy in Appendix F hereto. The AMBAC Policy will not insure any of the Fifteenth Series Bonds (Subseries 2) or Fifteenth Series Bonds (Subseries 3).

The principal of and interest on the Fifteenth Series Bonds (Subseries 2) will be insured in accordance with the terms of a Financial Guaranty Insurance Policy (the "MBIA Policy") to be issued by Municipal Bond Investors Assurance Corporation ("MBIA") simultaneously with the delivery of the Fifteenth Series Bonds; see the specimen copy of the Policy in Appendix H hereto. The MBIA Policy will not insure any of the Fifteenth Series Bonds (Subseries 1) or Fifteenth Series Bonds (Subseries 3).

The scheduled payment of principal of and interest on the Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 and August 1, 2024, when due, will be guaranteed under an insurance policy (the "FSA Policy") to be issued concurrently with the delivery of the Fifteenth Series Bonds, by Financial Security Assurance Inc. ("FSA"); see the specimen copy of the Policy in Appendix G hereto. The FSA Policy will not insure any of the Fifteenth Series Bonds (Subseries 1) or Fifteenth Series Bonds (Subseries 2) nor will it insure any of the Fifteenth Series Bonds (Subseries 3) maturing before August 1, 2021.

The information relating to the bond insurers and to payments under the bond insurance policies contained in this section were supplied by the bond insurers for use in this Official Statement and the City, PGW and the Underwriters take no responsibility for the accuracy or completeness thereof.

Payment Pursuant to AMBAC Bond Insurance Policy

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "AMBAC Policy") relating to the Fifteenth Series Bonds (Subseries 1) (the "AMBAC Insured Bonds") effective as of the date of issuance of the Fifteenth Series Bonds. Under the terms of the AMBAC Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the AMBAC Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the AMBAC Policy). AMBAC Indemnity will make such principal and interest becomes Due for Payment or within one business day following the dates on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the AMBAC Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding AMBAC Insured Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding AMBAC Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the AMBAC Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The AMBAC Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the AMBAC Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the AMBAC Policy, payment of principal requires surrender of AMBAC Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the AMBAC Policy. Payment of interest pursuant to the AMBAC Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the AMBAC Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such AMBAC Insured Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

AMBAC Indemnity Corporation

AMBAC Indemnity Corporation ("AMBAC Indemnity") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, and the Commonwealth of Puerto Rico, with admitted assets of approximately \$1,936,000,000 (unaudited) and statutory capital of approximately \$1,096,000,000 (unaudited) as of September 30, 1993. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc. and Standard & Poor's Corporation have both assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

AMBAC Indemnity makes no representation regarding the AMBAC Insured Bonds or the advisability of investing in the AMBAC Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the captions "Payment Pursuant to AMBAC Policy" and "AMBAC Indemnity Corporation" under the heading "BOND INSURANCE."

FSA Bond Insurance Policy

Concurrently with the issuance of the Fifteenth Series Bonds, Financial Security-Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "FSA Policy") for the Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 and August 1, 2024 (the "FSA Insured Bonds"). The FSA Policy unconditionally guarantees the payment of that portion of the principal of and interest on the FSA Insured Bonds that has become due for payment, but shall be unpaid by reason of nonpayment by the City. On the later of the day on which such principal and interest is due or on the business day next following the business day on which Financial Security shall have received notice by telephone or telecopy, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner of FSA Insured Bonds, the Trustee or Paying Agent (as defined in the FSA Policy), of the nonpayment of such amount by the City, Financial Security will disburse such amount due on any FSA Insured Bonds to the Trustee or the Paying Agent, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, in either case upon receipt by Financial Security in form reasonably satisfactory to it of (a) evidence of the Owner's right to receive payment of the principal and interest that is due for payment and (b) evidence, including any appropriate instruments of assignment, that all of such Owner's rights to payment of such principal and interest shall be vested in Financial Security. The term "nonpayment" in respect of an FSA Insured Bond includes any payment of principal or interest that is insured by Financial Security made to an Owner of an FSA Insured Bond that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The FSA Policy is non-cancelable and the premium will be fully paid at the time of delivery of the FSA Insured Bonds. The FSA Policy covers failure to pay principal of the FSA Insured Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the FSA Insured Bonds may have been called for redemption, acceleration or other advancement of maturity, unless Financial Security shall elect, in its sole discretion, to pay such principal due upon acceleration together with any interest accrued to the date of acceleration, and covers the failure to pay an installment of interest on the stated date for its payment. Payment by Financial Security of principal due upon acceleration and interest accrued to the accelerated maturity date (to the extent unpaid by the City) shall fully discharge Financial Security's obligations under the FSA Policy.

Financial Security may appoint a fiscal agent ("Financial Security's Fiscal Agent") for purposes of the FSA Policy by giving written notice to the Trustee and the Paying Agent specifying the name

and notice address of Financial Security's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (i) copies of all notices required to be delivered to Financial Security pursuant to the FSA Policy shall be simultaneously delivered to Financial Security's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (ii) all payments required to be made by Financial Security under the FSA Policy may be made directly by Financial Security or by Financial Security's Fiscal Agent on behalf of Financial Security.

Financial Security's Fiscal Agent is the agent of Financial Security only and Financial Security's Fiscal Agent shall in no event be liable to Owners of the FSA Insured Bonds for any acts of Financial Security's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under the FSA Policy.

Under the FSA Policy, Financial Security will, to the extent permitted by applicable law, waive, only for the benefit of the Owners of FSA Insured Bonds, all rights and defenses that might otherwise have been available to Financial Security to avoid payment of its obligations under the FSA Policy in accordance with its terms.

THE FSA POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Financial Security Assurance Inc.

Financial Security is a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"), which in turn is approximately 92.5% owned by U S WEST Capital Corporation ("U S WEST") and 7.5% owned by The Tokio Marine and Fire Insurance Co., Ltd. ("Tokio Marine"). U S WEST is a subsidiary of U S WEST, Inc., which operates businesses involved in communications, data solutions, marketing services and capital assets, including the provision of telephone services in 14 states in the Western and midWestern United States. Tokio Marine is a major Japanese property and casualty insurance company. No shareholder of Holdings is obligated to pay any debt of Financial Security or any claim under any insurance policy issued by Financial Security or to make any additional contribution to the capital of Financial Security. U S WEST has announced its intention to dispose of its interest in Holdings as part of its strategic plan to withdraw from businesses not directly involved in telecommunications. U S WEST has stated that it intends to accomplish such disposition in a manner that will maximize the value of its investment in Holdings. Holdings has filed with the Securities and Exchange Commission a registration statement on Form S-1 contemplating an initial public offering of Holdings' common shares by U S WEST, reducing U S WEST's ownership interest in Holdings below 50%. Affirmation of the triple-A ratings of the claims-paying ability of Financial Security is a condition to the closing of the public offering. In anticipation of such public offering, in December 1993, Financial Security completed a restructuring transaction which significantly reduced Financial Security's risk of loss from certain commercial real estate transactions insured by Financial Security.

Financial Security is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of September 30, 1993, the total FSA Policyholders' surplus and contingency reserves and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in accordance with statutory accounting principles, approximately \$510,262,000 and \$239,639,000 (\$438,651,000 and \$221,939,000, respectively, giving effect to the restructuring of Financial Security completed on December 23, 1993) and the total qualified capital and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in

accordance with generally accepted accounting principles, approximately \$585,935,000 and \$216,434,000 (\$505,087,000 and \$198,734,000, respectively, giving effect to such restructuring). Copies of Financial Security's financial statements may be obtained by writing to Financial Security at 350 Park Avenue, New York, New York 10022, Attention: Communications Department. Financial Security's telephone number is (212) 826-0100.

Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Corporation. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The FSA Policy does not protect investors against changes in market value of the FSA Insured Bonds. The market value of the FSA Insured Bonds may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes.

Financial Security makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under the captions "FSA Bond Insurance Policy" and "Financial Security Assurance Inc." for inclusion in this Official Statement.

MBIA Insurance Policy

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the MBIA Insured Bonds (references herein to the MBIA Insured Bonds mean the Fifteenth Series Bonds (Subseries 2)) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA Insured Bond. MBIA's policy does not, under any circumstance, insure against loss relating to : (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the MBIA Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the MBIA Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by

MBIA from the Fiscal Agent or any owner of an MBIA Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or *within one business day after receipt of notice of such nonpayment, whichever is later*, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

Municipal Bond Investors Assurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against MBIA. MBIA is a limited liability corporation rather than a several liability association. MBIA is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1992, MBIA had admitted assets of \$2.6 billion (audited), total liabilities of \$1.7 billion (audited), and total capital and surplus of \$896 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1993 MBIA had admitted assets of \$3.0 billion (unaudited), total liabilities of \$2.0 billion (unaudited), and total capital and surplus of \$951 million (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of MBIA's year end financial statements prepared in accordance with statutory accounting practices are available from MBIA. The address of MBIA is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates all bond issues insured by MBIA "Aaa" and short term loans MIG 1", both designated to be of the highest quality. Standard & Poor's Ratings Group, a division of McGraw Hill ("Standard & Poor's"), rates all new issues insured by MBIA "AAA" Prime Grade.

The Moody's Investors Service rating of MBIA should be evaluated independently of the Standard and Poor's rating of MBIA. No application has been made to any other rating agency in order to obtain additional ratings on the MBIA Insured Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revisions or withdrawal of either or both ratings may have an adverse effect on the market price of the MBIA Insured Bonds.

ADDITIONAL DEBT

Subordinated Short-Term Borrowings - Gas Works Notes

The City is authorized to issue, from time to time, 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 1993, Bill No. 523, approved June 8, 1993 (the "Note Ordinance") in amounts, as approved by the Mayor, the City Controller and the City Solicitor or any two of them (the "Committee"), not to exceed \$100,000,000 aggregate principal amount at any one time outstanding. 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 Gas Works Revenue 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 the date of issuance or June 8, 1998. The Committee has approved a series of Gas Works Notes (the "Series A Notes") the principal amount of which, together with interest payable thereon, will not exceed \$85,000,000 at any one time. As of October 31, 1993, \$61,800,000 in aggregate principal amount of Gas Works Notes were outstanding.

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 in the sinking fund for the Gas Works Notes from PGW's 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.

Subordinated Long-Term Borrowings - Lease Revenue Bonds

The Philadelphia Gas Works Lease Revenue Bonds, Series of 1989 (the "Lease Revenue Bonds") were issued in August, 1989 by The Philadelphia Municipal Authority ("PMA"). The proceeds of the Lease Revenue Bonds were used by PMA to acquire the headquarters and administrative office building of PGW (the "Facility") at 800 West Montgomery Avenue, Philadelphia, Pennsylvania, from the City. The amount paid to the City by PMA has been used in PGW's ongoing capital program. PMA and the City entered into a Lease dated as of August 1, 1989 (the "Lease") whereby the City leased the Facility back from PMA and agreed to maintain the Facility and pay, out of Project Revenues of PGW (after payment of certain other expenses of PGW including the payment of debt service on Bonds outstanding under the General Ordinance and Gas Works Notes outstanding under the Note Ordinance), rentals sufficient to pay all debt service on the Lease Revenue Bonds and other obligations of PMA incurred in connection with the issuance of the Lease Revenue Bonds, the Lease and the transactions contemplated therein.

Rental payments by the City under the Lease are made solely from any available Project Revenues. The payment of rentals by the City under the Lease is subject and subordinate to payment of the City's Gas Works Revenue Bonds, the City's Gas Works Notes and certain other debt obligations relating to PGW. The City has covenanted in the Lease that during the existence of any default under the Lease, it will not pay out of Project Revenues any portion of the Base Payment due to the City for a PGW Fiscal Year

unless and until all rentals due under the Lease for such fiscal year shall have been paid. As of October 31, 1993, the City's rental obligation to PMA aggregated \$23,285,000 in principal amount.

REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders, including the holders of the Fifteenth Series 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 C hereof. 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 and the funds on deposit in the Sinking Fund, including the Sinking Fund Reserve.

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 Fifteenth Supplemental Ordinance, the General Ordinance, and the Fifteenth Series Bonds will depend upon the application of remedies provided in the Act, the Fifteenth Supplemental Ordinance, the General 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 court.

The following references to the Federal Bankruptcy Code, the Distressed Municipalities Act and the Intergovernmental Cooperation Act 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, if required, would be obtained. Further, such references are not intended to imply that even if the City were to file for protection under the Federal Bankruptcy Code, any proposed restructuring would include a dilution of the sources of payment of and security for the Fifteenth Series Bonds. The foregoing statutory provisions 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 may make.

Enforcement of Bondholders' rights may be limited by and is subject to the provisions of the Federal 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 (Act No. 6, P.L. 9) (the "Intergovernmental Cooperation Act") adopted in 1992 prevents the City from filing a petition for relief under Chapter 9 of the Federal Bankruptcy Code as long as the Authority created thereunder has outstanding any bonds issued pursuant to the Intergovernmental Cooperation Act, or if no such bonds are outstanding, requires approval, in writing, by the Governor, 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 June 15, 2023, subject to redemption prior to maturity. If the City were to obtain authorization from the Governor to file a petition under Chapter 9 of the Federal Bankruptcy Code and in fact filed such a petition, the enforcement of Bondholders' rights and remedies might be limited. See "BACKGROUND - The Pennsylvania Intergovernmental Cooperation Authority" in APPENDIX D.

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 borrowing to finance such systems and would include the pledged Project Revenues. The Federal 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, Project Revenues acquired by the City after the filing of a Chapter 9 petition will remain subject to the lien of the General Ordinance and the Fifteenth Supplemental Ordinance in favor of Bondholders, but will be subject to the payment of PGW's necessary operating expenses as determined by the City. These required payments could be inconsistent with the requirement in the General Ordinance that, under certain circumstances, at least 50% of the Project Revenues be deposited in the Sinking Fund on a daily basis. If the pledged Project Revenues cannot support both the debt service requirements and operating expenses of PGW, it is possible that payments to Bondholders may be reduced. The Federal 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 the 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 Fifteenth Series Bonds or the Project Revenues pledged for the benefit of the Bondholders other than to benefit the Philadelphia 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 Fifteenth Series Bonds and the Project Revenues to pay Bondholders, could permit a subordination of the Gas Works Revenue Bonds liens to new bonds if the former were found more than "adequately protected" or could avail itself of a broad range of equitable remedies. The Bankruptcy Code gives a bankruptcy court wide power to effectively administer the bankruptcy estate.

Under the Federal Bankruptcy Code, the 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 which had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interest 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 tests are met. Thus, under the above-described "cramdown" provisions of the Federal 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 all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. Included in such assets, in addition to an extensive distribution system, are facilities for the production of gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include a liquefied natural gas ("LNG") plant and a liquid propane gas ("LPG") plant.

Of total gas revenues for the twelve month period ended August 31, 1993, 70% was derived from residential customers, 25% was derived from commercial and industrial customers and approximately 5% was derived from Municipal and Housing Authority sources.

Recent operating results for PGW and debt service coverage are shown below under the heading "HISTORICAL REVENUES AND DEBT SERVICE COVERAGE." For a further explanation of revenues and expenses, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME" and APPENDIX B. See also the table entitled "Debt Service Requirements" below for future debt service payments.

PGW Service Area

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 a predominantly urbanized area of 129 square miles in southeastern Pennsylvania along the Delaware River. Within these boundaries PGW maintains a distribution system with approximately 6,000 miles of gas mains and service pipes serving slightly more than a half million customers. The mix of sales to PGW's customers, net of transportation sales, during the last five years is shown in the following table:

	Percent of Gas Sales Years Ended August 31				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Residential	67.2	66.8	63.0	66.0	65.3
Industrial and Commercial	28.1	28.5	32.5	29.3	30.1
Municipal and Housing Authority	<u>4.7</u>	<u>4.7</u>	<u>4.5</u>	<u>4.7</u>	<u>4.6</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For a discussion of PGW's sales, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME" and "PGW BUDGET, RATES AND FINANCING PROGRAM - Sales."

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 or the Gas Commission or, as appropriate, both. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the Director of Finance oversees certain financial practices of PGW and the operations of its pension plan; and the City's Law Department is designated as the legal advisor to the Gas Commission and PGW. See "THE GAS COMMISSION" and "PGW BUDGET, RATES AND FINANCING PROGRAM" for a discussion of the Gas Commission and rate proceedings.

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

PFMC is responsible for providing executive management of PGW under the Management Agreement. 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. All PFMC personnel are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

The following brief resumes provide pertinent information on the major management qualifications of the PFMC and PGW senior managers:

Alfred P. Degen, Executive Vice President

Mr. Degen joined PGW in 1968 and has held management positions in the Finance, Customer Activities and Administrative areas of PGW, including the positions of Assistant Vice President-Customer Activities, Vice President-Administration and Senior Vice President and Chief Financial Officer. On January 12, 1988, Mr. Degen was appointed to the position of Executive Vice President. Since August 1, 1989, Mr. Degen has served as the senior PGW executive with responsibility for all PGW activities. He is a member of the Managing Committee of the American Gas Association's Finance and Administrative Section, immediate past chairman of the American Gas Association's Consumer and Community Affairs Committee and a current member of the Society of Gas Lighting.

Sydney M. Avent, Esq., Senior Vice President Administration and General Counsel

Ms. Avent joined PGW in January, 1984 as a Staff Attorney, was named Senior Attorney in December, 1984, Corporate Counsel in October, 1985, Senior Vice President and General Counsel in January, 1988 and Senior Vice President Administration and General Counsel in September, 1990. Ms. Avent is a member of the Managing Committee of the American Gas Association Legal Forum; the past president of the Women Lawyers Division of the National Bar Association; President of the Philadelphia Bar Foundation; and

a member of the American, Pennsylvania and Philadelphia Bar Associations and the Barristers Association of Philadelphia. She also is a member of the American Association of Blacks in Energy.

Joseph G. Horan, Senior Vice President and Acting Chief Operating Officer

Mr. Horan joined PGW in 1956 and has held management positions in the Operations, Customer Activities and the Corporate Planning and Development areas, including the positions of Vice President-Operations and Vice President-Customer Activities. He was named Senior Vice President-Corporate Planning and Development on March 1, 1986, Senior Vice President in January, 1988 and Senior Vice President and Acting Chief Operating Officer on September 11, 1990. He is a member of the American Gas Association and serves on the Managing Committee of the Operating Section, as well as a member of the Government Relations Committee. He is also a member of the Executive Committee of the Associated Gas Distributors and the Society of Gas Operators.

Edward H. Morris, Jr., Senior Vice President and Chief Financial Officer

Mr. Morris joined PGW as Assistant Vice President of Finance in 1984, was named Vice President of Finance in 1986, appointed Vice President and Chief Financial Officer in 1988 and Senior Vice President and Chief Financial Officer in December, 1990. He has overall responsibility for PGW's Operating Budget, and the administration and overview of the Accounting and Budget, Treasury and Claims and Insurance Departments. In addition, Mr. Morris directs the functions of the Customer Activities, through the Vice President of Customer Activities. He is a member of the American Gas Association, Financial Executives Institute and Board of Trustees of the American Gas Foundation. Mr. Morris is also a member of the Board of Directors and Chairman of the Audit Committee of Independence Blue Cross.

Employee Relations

At November 26, 1993, PGW employed 2,388 people. Presently, approximately 74% of PGW's employees are represented by the Gas Works Employees' Union Local 686, approximately 1% are represented by the United Plant Guard Workers of America, Local 506 and 25% are unaffiliated management.

The current agreement with the Gas Works Employees' Union Local 686 expires on May 15, 1998.

The previous agreement with the Gas Works Employees' Union expired without the parties reaching an agreement. On August 6, 1993, there was a work stoppage by the Union over a number of issues, including salary issues, in the contract proposed by PGW. This work stoppage lasted 85 days until it was settled in October, 1993 with the current agreement. It was the third work stoppage in the history of PGW, the previous two of which occurred in 1971 and 1989 and were of shorter duration.

Facilities

Production Facilities - The principal PGW natural gas facilities include eight city gate stations and two major gas production plants, Richmond and Passyunk. Located at these plants are two LNG facilities, a gas control center, a de-activated propane/air facility and two gas holders.

Natural gas is received through eight City gate stations from two pipeline transmission companies, Texas Eastern Transmission Corporation (TETCO) and Transcontinental Gas Pipe Line Corporation (TRANSCO). 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.

The gas control dispatchers, located at the Richmond Plant, monitor and control gas flow and pressure from the eight city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the production plant operators concerning startup, shutdown and gas flow output from the supplemental facilities. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

The LNG storage and vaporization facility at the Passyunk plant receives its liquefied gas supply from the Richmond plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons (i.e., the equivalent of 253,300 thousand cubic feet (Mcf) of natural gas) and three LNG vaporizers, each having a capacity of 45,000 Mcf per day.

The Richmond LNG plant has facilities for liquefaction in addition to storage and vaporization. During the non-heating season, PGW uses the Richmond LNG plant to liquefy and store natural gas from the pipelines. The LNG plant has the capacity to liquefy and store approximately 23,500 Mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid is accomplished with six vaporizers having a total output of 480,000 Mcf per day.

The Passyunk LPG plant has the air compression and propane vaporization capacity to produce 60,000 dekatherms (Dth) of LPG mix per day and has a liquid propane storage capacity of approximately 662,250 gallons. This facility is idle since its use is not anticipated in the current gas supply forecast before 1998, and then only in design winter conditions.

Both the Richmond and Passyunk plants have a low pressure gas holder. Holders are used for keeping daily pipeline purchases within contract limitations and for hourly peak shaving requirements. These holders have operating capacities of 1,000 Mcf and 6,000 Mcf for the Richmond and Passyunk plants, respectively.

Distribution Facilities - The principal gas distribution facilities consist of approximately 3,021 miles of main, 507,319 service pipes, 205 regulator stations, 525,963 active meters, miscellaneous valves, instruments and other appurtenances. There are 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 of gas (psig); the intermediate pressure system operates at 5 psig; the low pressure system operates between 6 and 9 inches of water column (approximately .25 psig). The majority of customers are served from the low pressure system.

Approximately 61 percent of the gas mains are cast iron pipe, 33 percent steel pipe, 5 percent ductile iron pipe and 1 percent plastic pipe. Approximately 62 percent of the service laterals are steel and 38 percent plastic. The part of the system subject to corrosion is cathodically protected.

Other Facilities - PGW's executive and operating offices are located at 800 West Montgomery Avenue which is a 150,000 square foot office building completed in 1988. The old office building houses distribution and customer service dispatch centers, operating stations and warehousing, as well as management information systems, a metal fabrication shop and a meter repair shop. Additional facilities include eight district offices and four operating stations for customer service and distribution crews. In addition, there is a warehousing facility and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of over 1,000 vehicles and equipment. PGW also maintains minor automotive repair facilities at three of its operating stations.

THE GAS COMMISSION

The Management Agreement provides for a five member Gas Commission consisting of the City Controller (or his representative), 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 current members of the Gas Commission are listed below:

Marian B. Tasco, Chairwoman - Mrs. Tasco currently represents the Ninth District in Philadelphia City Council. Her current term as a member of City Council expires January 1, 1996. Mrs. Tasco was appointed to the Gas Commission by City Council.

Jonathan A. Saidel - Mr. Saidel is the City Controller of the City. Mr. Saidel's term of office as Controller and his position on the Gas Commission expire on January 1, 1998.

Robert J. F. Brobyn, Esq. - Mr. Brobyn serves as a mayoral appointee to the Gas Commission with a term expiring January 1, 1996. Mr. Brobyn's law firm is Robert J.F. Brobyn & Associates located in Plymouth Meeting, Pennsylvania.

Happy Fernandez - Mrs. Fernandez serves as Councilwoman-At-Large in Philadelphia City Council. Her current term as a member of City Council expires January 1, 1996. Mrs. Fernandez was appointed to the Gas Commission by City Council.

Tarleton D. Williams - Mr. Williams serves as a mayoral appointee to the Gas Commission with a term expiring January 1, 1996. Mr. Williams recently retired as an executive with Unisys Corporation.

The Management Agreement grants to the Gas Commission certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include fixing of PGW rates and charges, 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 the annual operating budget, review of the capital budget and recommendations thereon to City Council, approval of certain loans, 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.

PGW BUDGET, RATES AND FINANCING PROGRAM

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

PGW Budget Process and Rate Charges

The Management Agreement, in its current form, requires PGW to prepare an annual operating budget and an operating forecast for four years comprising the ensuing year and 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 six years comprising the budget year and the five years following the budget year. The capital budget and forecast are reviewed by the Director of Finance of the City and the Gas Commission and are forwarded to City Council for approval. These budgets and forecasts are estimates and are subject to future events and the passage of time.

Whenever a rate change is sought by PGW or other parties, the Gas Commission holds public hearings on the proposed change at which PGW and other interested parties are permitted to present evidence supporting their position with respect to the rates. Community Legal Services, Inc. was appointed by the Gas Commission in 1988 to serve as Public Advocate in rate hearings to represent residential customers. The Gas Commission issues orders based upon its findings. These orders may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. The Gas Commission considers a number of factors before determining whether to accept, modify or reject the rate increases proposed by PGW. The Gas Commission orders regarding rates may be appealed by PGW and other interested parties to the Court of Common Pleas of Philadelphia County with further right of appeal to the Commonwealth Court.

Rates and Charges

The rates determined by the Gas Commission to be charged by PGW for providing gas and related services, are subject to various statutory provisions. The General Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contain a rate covenant. See APPENDIX C for a further description of the General Ordinance.

The Management Agreement directs the Gas Commission, without further authorization of City Council, to fix rates and charges (other than charges to the City and the Philadelphia Board of Education, which are subject to approval of City Council) which, together with other 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 not exceeding \$300,000 annually; 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;

(b) to make annual payments to the City in the aggregate principal amount of \$18 million;

(c) to provide appropriations for 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 reasonable additions to working capital as may be determined by PFMC and approved by the Gas Commission.

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.

The Management Agreement also requires the rate schedules to be nondiscriminatory and based on a suitable and reasonable classification of the services provided, taking into consideration the nature and purpose of the use, the quantity used, the time when used, the available supply of gas and other competing fuels, the maximum demand and State and Federal laws, regulations and guidelines. The Gas Commission has granted a 20% discount to persons 65 years of age and over for residential use.

The Philadelphia Home Rule Charter contains provisions which authorize the Department of Public Property of the City, pursuant to standards ordained by City Council, to fix rates and impose charges in the amount necessary to yield the City at least an amount equal to PGW's operating expenses and debt service payments (including sinking fund requirements), but only in the event PGW is not managed and operated pursuant to a lease with an entity other than the City. Since PGW currently is, and since January 1, 1973 has been, managed by PFMC pursuant to the Management Agreement, the Department of Public Property of the City currently does not fix rates and impose charges as provided in the Philadelphia Home Rule Charter.

Capital Improvement Program

The rates proposed by PGW and approved by the Gas Commission also take into account the needs of PGW's capital improvement program (the "Capital Improvement Program") which generally is funded by the sale of revenue bonds and internally generated funds ("IGF"). Net proceeds of revenue bond sales 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 Gas Works Revenue Bonds. For use of the proceeds of the Fifteenth Series Bonds, see "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF PROCEEDS." 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 "1993 Capital Budget and Forecast" below and APPENDIX B - "Engineering Report."

The following table presents information regarding actual net capital expenditures for Fiscal Years 1989-1993:

**FISCAL YEAR
NET CAPITAL EXPENDITURES ⁽¹⁾
(Dollar Amounts in Thousands)**

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Gas Supply	\$ 6,320	\$ 6,763	\$ 6,457	\$ 4,310	\$ 7,047
Distribution	39,419	39,164	36,497	37,073	33,044
Customer Service	3,004	4,155	4,638	3,971	6,870
Other	<u>8,380</u>	<u>8,116</u>	<u>6,301</u>	<u>8,048</u>	<u>3,930</u>
Total	<u>\$57,123</u>	<u>\$58,198</u>	<u>\$53,893</u>	<u>\$53,402</u>	<u>\$50,891</u>
Internally Generated Funds to Fund Capital Improve- ments	<u>\$ 8,200</u>	<u>\$17,300</u>	<u>-0-</u>	<u>\$11,400</u>	<u>\$12,100</u>

(1) Net of reimbursements, contributions and salvage.

Internally Generated Funds

PGW provides for a portion of capital costs to be funded through the use of IGF. IGF consist of funds generated by PGW net revenues after payment of City Charges which are available in part because of the level of debt service coverage established by the Gas Commission and achieved by PGW's operations. See "Debt Service Coverage Ratio" below. A decline in net revenues reduces IGF and requires that the shortfall be funded from the sale of additional revenue bonds. In Fiscal Year 1991, due to the warmer than normal winter season, which adversely impacted revenues, PGW did not generate any IGF. In Fiscal Years 1989-93, IGF funded from a low of zero to a high of 30% of the capital expenditures and averaged 18% over the fiscal periods.

Gas Cost Rate

PGW's greatest expense is the cost of natural gas and raw materials. These costs are recovered through the operation of the Gas Cost Rate ("GCR") as authorized by the Gas Commission. The base rate established from time to time by the Gas Commission in its rate proceedings includes a fuel component cost. The GCR is designed to permit PGW, on a quarterly basis, to adjust its charge to residential customers to approximate its actual cost of fuel materials. PGW calculates its anticipated annual cost for fuel and allocates that cost to its customers on a levelized 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 quarterly, if necessary, to credit or charge consumers in the upcoming period for overpayment or underpayment for fuel costs to date. For Fiscal Year 1992, the base cost of fuel raw materials included in the rates was \$3.18 per Mcf, and the GCR effective as of December 19, 1991 was 35.65 cents per Mcf, reflecting a charge on customers bills. On September 1, 1992, PGW filed with the Gas Commission a GCR charge of 40.75 cents

per Mcf to be effective on September 1, 1992. The Gas Commission approved the GCR charge of 40.75 cents per Mcf on December 8, 1992, effective retroactively for all applicable gas use on or after September 1, 1992. On August 2, 1993, PGW filed its GCR Tariff proposal for Fiscal Year 1994 as a charge of 69.41 cents per Mcf to be effective September 1, 1993. On November 9, 1993, the Gas Commission approved a GCR charge of 69.57 cents per Mcf to be effective retroactively for all applicable gas used on or after September 1, 1993.

Fiscal Year 1992 Operating Budget and Rate Proceeding

On July 16, 1991, PGW filed the Operating Budget for the 1992 Fiscal Year and a request for a rate increase designed to produce additional net revenues of \$28,000,000, as amended, for Fiscal Year 1992 with the Gas Commission. PGW believed this proposed ~~base~~ rate increase was necessary to produce additional revenues sufficient to meet the anticipated requirements of PGW's Capital Improvement Program, operating expenses and debt service coverage ratio.

On December 19, 1991, the Gas Commission approved a base rate increase of \$15,032,000. Certain aspects of this rate decision order have been appealed by the Public Advocate and cross appealed by PGW and PFMC to the Court of Common Pleas of Philadelphia County. The City has also intervened in this appeal.

The order issued by the Court of Common Pleas of Philadelphia County on October 16, 1992, rejected the issues raised by the Public Advocate, including its objections to the \$18 million payment to the City from PGW, accepted certain expense adjustment changes proposed by PGW and remanded certain items back to the Gas Commission for adjudication. The Public Advocate has appealed the decision to the Commonwealth Court of Pennsylvania. On January 14, 1994, the Commonwealth Court, en banc, affirmed in all respects except one the Orders issued by the Court of Common Pleas of Philadelphia County on September 22, 1992 and October 16, 1992 including certain expense adjustments proposed by PGW. The Commonwealth Court reversed the Court of Common Pleas and held that the City Ordinance requiring the fixed payment (currently \$18,000,000) each year from PGW to the City is arbitrary and invalid, and remanded to the Gas Commission the recalculation of PGW's rate increase request without the fixed payment. The City is expected to seek reconsideration from the Commonwealth Court or file a Petition for an Allowance of Appeal to the Supreme Court of Pennsylvania challenging this ruling of the Commonwealth Court. At this time, PGW cannot estimate what effect, if any, this decision will have on its operating budget.

Fiscal Year 1993 Operating Budget

On May 29, 1992, PGW filed with the Gas Commission its 1993 Operating Budget. This filing did not present a request for an increase in base rates. On March 16, 1993, the Gas Commission approved the 1993 Operating Budget.

Fiscal Year 1994 Operating Budget

On June 30, 1993, PGW filed with the Gas Commission its 1994 Operating Budget. This budget was based on base rate levels approved by the Gas Commission on December 19, 1991 and which continued in effect at the time of filing. The filing did not present a request for an increase in base rates. On November 9, 1993, the Gas Commission approved the 1994 Operating Budget and made no change to PGW's base rates. The Public Advocate has filed a notice of appeal with the Philadelphia Court of Common Pleas of certain aspects of the 1994 Operating Budget regarding the effect on the Operating Budget and

payment to the City of Philadelphia associated with PGW's work stoppage in the months of September and October, 1993. PGW cannot estimate what effect, if any, this appeal will have on the approved 1994 Operating Budget.

1994 Capital Budget and Forecast

PGW's proposed capital budget for Fiscal Year 1994 and its Five-Year Forecast were filed with the Gas Commission on March 1, 1993. On May 4, 1993, the Gas Commission adopted PGW's Proposed Capital Budget for Fiscal Year 1994 and Five-Year Forecast with several adjustments. On May 11, 1993, the City's Finance Director gave a favorable recommendation to the Gas Commission regarding PGW's Proposed Capital Budget. On June 11, 1993, PGW Petitioned the Gas Commission for reconsideration of its decision regarding the Capital Budget for Fiscal Year 1994 and Five-Year Forecast. On August 16, 1993, the Gas Commission granted PGW reconsideration and will take additional evidence. On January 11, 1994, the Gas Commission agreed to forward the proposed Capital Budget, with technical corrections, to the City Council with a favorable recommendation for approval.

The Fiscal Year 1994 Capital Budget and Forecast in the net amounts of \$61.0 million and \$318.8 million, respectively, provide funds for the customary maintenance, construction and replacement items necessary to continue service to PGW's customers. Over 78% of the gross Fiscal Year 1994 Capital Budget and over 74% of the five-year forecast expenditures are for replacement of facilities to ensure continuing safe, reliable and adequate service. The balance of the projected capital budget expenditures are included to provide new and expanded gas service to present and future customers. For a discussion of the Fiscal Year 1994 Capital Budget and Forecast, see APPENDIX B - "Engineering Report - Capital Improvement Program".

Debt Service Coverage Ratio

The annual operating budget approved by the Gas Commission estimates the level of revenues required to reach the debt service coverage ("DSC") ratio authorized by the Gas Commission. As shown below, during four of the last five fiscal years, PGW's actual operating results have produced a DSC ratio appreciably lower than the coverage estimated in the approved Operating Budget:

Fiscal Year	DSC Ratio	
	Budget	Actual
1989 1989	1.79	1.59
1990	1.73	1.51
1991	1.81	1.51
1992	1.79	1.55
1993	1.63	1.65

The difference between budgeted debt service coverage and actual coverage is attributable to a variety of factors, including (a) shortfalls in revenue, and (b) differences between PGW and the Gas Commission in the calculation of certain expense items such as reserve for bad debts. The major reasons for the shortfalls in revenue are weather conditions which result in differences between budgeted and actual degree days and levels of interruptible sales and associated profit margins which depend on fuel oil prices. In order to compensate for these changes over which PGW has no control, PGW recommends a DSC ratio of approximately 1.80 to provide a margin of comfort. Certain cost cutting programs, based on assumptions about PGW's operations made by the Gas Commission during rate proceedings, are sometimes difficult to

implement as planned, due to timing restraints and implementation costs and actual results of the implementation of Gas Commission orders may not have the effect on revenues and expenses anticipated by the Gas Commission. See also "HISTORICAL REVENUES AND DEBT SERVICE COVERAGE".

Other Regulatory Matters

During 1992, as part of the operating budget and GCR tariff hearings, the Gas Commission ordered PGW to perform the following actions: 1) to file by February 1, 1992 a proposal to secure limited Gas Commission authority for the recovery through PGW's fuel cost adjustment clause (GCR) of both gains and losses on financial hedging contracts for natural gas purchases on the futures market; and 2) to file with the Gas Commission by March 1, 1993 a proposal, either separately or jointly with the Public Advocate, to define procedures to maintain the appropriate level of confidentiality for the disclosure, and discussion, of proposed natural gas purchase contracts.

The required filing on hedging authority was made. A hearing was held and the matter currently awaits the presentation of the Hearing Examiner's Recommended Decision to the Commission for their decision.

The required filing to define procedures for maintaining appropriate levels of confidentiality for commercially sensitive data contained in natural gas purchasing contracts has been made and jointly stipulated to by PGW and the Public Advocate. It is currently awaiting Commission action.

GAS SUPPLY AND REGULATION

In 1992, the Federal Energy Regulatory Commission ("FERC") issued Order 636 which completed the restructuring to the natural gas market to provide open-access to all suppliers and transporters. Previously, pipelines provided a bundled sales service delivering the pipeline's gas at a utility's city gate. In the restructured, unbundled marketplace PGW must contract individually for its supply, storage and transportation needs. During the summer and fall of 1993, both Texas Eastern and Transcontinental Gas pipelines, which provide the only direct connections with PGW's city gates, made this transition.

PGW now has put into place firm contracts for natural gas supply with twelve producers, marketers and pipeline merchants, assuring virtually all of its supply requirements. Further, it has contracted for natural gas storage service with five different pipeline affiliates' operating storage facilities. This permits the injection of summer supply and its storage and later withdrawal to meet the higher winter demands of its heating customers. Finally, it has contracted for firm transportation service with the two directly connected pipelines, as well as with the necessary upstream pipelines feeding these lines, to deliver all volumes purchased, together with those volumes withdrawn from storage.

In addition, PGW owns and operates supplemental LNG and LPG facilities to meet incremental demand in excess of flowing pipeline and 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 through 1997. The use of the LPG facility is not anticipated until Fiscal Year 1998, and it is therefore, at present, temporarily out of service.

Under the Federal Clean Air Act Amendments of 1990, the gas compressors at PGW's LNG plant will require major changes in combustion controls to avoid exposure of PGW to severe penalties for non-

attainment. To date, the Pennsylvania Department of Environmental Resources (the "DER") has not set emission standards which are necessary for design of the controls. PGW is proceeding with control engineering in Fiscal Year 1994, but must, along with owners of about 400 other compressors in Pennsylvania, have final emission requirements specified to complete design and then attempt to order and install the controls prior to the May, 1995 mandated compliance date. PGW's actions are consistent with compliance requirements; however, unless the Pennsylvania DER issues emission standards in a timely manner, PGW and the other Pennsylvania compressor owners will not be able to comply. PGW has budgeted amounts believed necessary to comply.

SUMMARY STATEMENTS OF INCOME

Information for the Fiscal Years ended August 31, 1992 and 1993 should be read in conjunction with the audited financial statements and notes included in Appendix A hereto.

	(Dollars Amounts in Thousands) Fiscal Years Ended August 31,					Two Months Ended October 31, (2)	
	1989	1990	1991	1992	1993	1992	1993
Operating revenues	<u>\$472,706</u>	<u>\$472,172</u>	<u>\$461,572</u>	<u>\$490,214</u>	<u>\$526,977</u>	<u>\$57,752</u>	<u>61,341</u>
Operating Expenses:							
Natural gas	238,087	230,362	208,402	211,730	243,250	25,620	29,806
Gas processing	24,410	25,390	22,362	21,389	21,482	3,166	1,298
Customer service	20,382	19,229	17,835	21,387	20,100	3,798	3,037
Distribution	16,244	20,588	18,519	19,422	20,674	3,251	3,228
Customer activities	46,652	51,144	57,644	57,854	61,672	10,197	11,772
Administrative and general	27,185	26,989	28,687	35,357	39,960	5,540	4,319
Pensions	21,497	17,748	16,204	14,245	12,469	2,054	2,068
Taxes, other than income	5,831	6,153	6,340	6,683	8,127	1,205	4,391
Depreciation	<u>19,015</u>	<u>18,872</u>	<u>20,890</u>	<u>21,978</u>	<u>23,010</u>	<u>3,745</u>	<u>3,746</u>
Total operating expenses	<u>419,303</u>	<u>416,475</u>	<u>396,883</u>	<u>410,045</u>	<u>450,744</u>	<u>58,576</u>	<u>63,665</u>
Operating income (loss)	53,403	55,697	64,689	80,169	76,233	(824)	(2,324)
Interest and other income	<u>12,858</u>	<u>11,880</u>	<u>12,636</u>	<u>10,238</u>	<u>11,203</u>	<u>1,542</u>	<u>1,102</u>
Income (loss) before interest expense	66,261	67,577	77,325	90,407	87,436	718	(1,222)
Interest expense	<u>47,736</u>	<u>49,007</u>	<u>52,871</u>	<u>55,555</u>	<u>53,967</u>	<u>8,587</u>	<u>8,990</u>
Net income (loss) (1)	<u>\$ 18,525</u>	<u>\$ 18,570</u>	<u>\$ 24,454</u>	<u>\$ 34,852</u>	<u>\$ 33,469</u>	<u>\$ (7,869)</u>	<u>\$ (10,212)</u>

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

(2) Provided by PGW Management. Interim results are not necessarily indicative of year-end results as certain revenues and expenses are seasonal.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME

General Considerations

During the five fiscal years ended August 31, 1993 (presented in the foregoing Summary Statements of Income), PGW experienced slightly fluctuating natural gas sales caused, in part, by varying winter weather conditions, conservation efforts on the part of PGW's customers and variations in the number of customers PGW serves. PGW's annual sales of natural gas net of transportation sales varied from a high of 75.4 billion cubic feet (bcf) in 1993 to a low of 68.7 bcf in 1991.

Other major factors which influenced natural gas sales and overall financial results during this period include: (i) volatility of natural gas costs to PGW; and (ii) concurrent decreases in the cost of alternative fuels such as oil which resulted in volatility in demand and profit margins for interruptible sales (see "Five Year Summary of Gas Sales" below).

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 delivery of natural gas. Firm service is sold to residential, commercial and industrial customers depending on the type of service required and represented 84% of total gas sales by volume as of the end of Fiscal Year 1993. Interruptible service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible service is sold to high volume commercial and industrial customers and represented 16% of total gas sales in Fiscal Year 1993. (See "SELECTED OPERATING DATA" below for a five year summary of gas sales).

Gas sales in fiscal year 1989 totaled 72.5 bcf, a decrease of 2.9 bcf from the prior year. Temperatures during the 1989 heating season were slightly warmer than normal (a "normal year" is 4,600 degree days) resulting in 4,579 degree days, a decline of 21 degree days from normal and 97 degree days or 2.1% less than experienced in 1988. Sales to firm customers of 62.0 bcf were down .8 bcf from the previous year. Associated interruptible revenues decreased by 10.7% to \$36.7 million as competition from alternative fuels lowered demand for gas service.

In Fiscal Year 1990, gas sales totaled 71.7 bcf, a decrease of .8 bcf from the previous year. Temperatures during the 1990 heating season were warmer than normal resulting in 4,431 degree days, a decrease of 169 from the normal level and 148 degree days or 3% below the level experienced in 1989. Sales to firm customers were 61.5 bcf, down 0.5 bcf from the 1989 level reducing revenues by \$4.4 million. This decrease is mainly attributable to the impact of the warmer temperatures on residential heating customers. Sales to interruptible customers declined moderately from 10.5 to 10.3 bcf, reflecting both reduced customer demand and cold weather curtailments during the heating season. However, revenues for interruptible customers increased 9.5% to \$40.2 million on improved margins.

Gas Sales in Fiscal Year 1991 totaled 68.7 bcf, a decrease of 3.0 bcf from the previous year. Temperatures during the 1991 heating season were significantly warmer than normal resulting in 3900 degree days, a decline of 700 from normal and 531 degree days or 12.0% less than experienced in 1990. Sales to firm customers of 56.2 bcf were down 5.2 bcf from the previous year. This decrease is mainly attributable to the impact of the warmer temperatures on residential heating customers. Sales to interruptible customers increased 21% to 12.5 bcf and associated interruptible revenues increased 29.6% to \$52.1 million largely as

a result of increased customer demand and higher average prices. Gas transportation volumes were .6 bcf producing revenues of \$.5 million.

In Fiscal Year 1992, gas sales totaled 71.8 bcf, an increase of 3.1 bcf over the previous year. Temperatures during the 1992 heating season were significantly cooler than during the 1991 heating season totaling 4,542 degree days, a slight decline of 58 degree days from the normal level, but 642 degree days or 16% above the 1991 level. Sales to firm customers were 61.1 bcf, up 5.0 bcf or 8.8% from the 1991 level, increasing revenues by 10.6%. Sales to interruptible customers declined from 12.5 bcf in 1991 to 10.7 bcf in 1992 reflecting reduced customer demand. Associated interruptible revenues decreased 28.3% to \$37.3 million. Gas transportation volumes were 3.9 bcf producing revenues of \$2.4 million.

Gas Sales in Fiscal Year 1993 totaled 75.4 bcf, an increase of 3.6 bcf from the previous year. Temperatures during the 1993 heating season were cooler than normal resulting in 4,731 degree days, an increase of 189 over the 1992 heating season and 131 over the normal degree days level. Sales to firm customers were 63.0 bcf, up 2.0 bcf from the 1992 level, increasing revenues by 5.7%. Sales to interruptible customers increased from 10.7 bcf in 1992 to 12.3 bcf in 1993 largely as a result of increased customer demand. The related interruptible revenues increased 24.9% to \$46.7 million. Gas transportation volumes were 2.8 bcf producing revenues of \$.5 million.

Natural Gas

In fiscal year 1989, natural gas expenses rose by \$8.8 million or 4% from the previous year's level primarily due to higher pipeline supplier prices. The higher costs were offset, in part, by lower sendout requirements and the application of refunds deferred from the 1988 fiscal year.

Natural gas expense for the 1990 fiscal indicates a decrease of \$7.7 million or 3% from the 1989 fiscal year level. This decrease was attributable to lower pipeline prices and reduced sendout requirements stemming from warmer heating season needs.

In Fiscal Year 1991 natural gas expenses declined by \$22.0 million or 10% from the previous year's level. This decrease was primarily the result of reduced sendout requirements, stemming from a warmer than normal heating season and lower prices from pipeline suppliers.

Natural gas expenses for Fiscal Year 1992 increased by \$3.3 million or 2% from the 1991 Fiscal Year level. This was the result of higher sendout requirements due to the return of a normal winter and a decline in refunds received from pipeline suppliers' settlements. These additional costs were offset, in part, by continuing lower prices from pipeline suppliers.

In Fiscal Year 1993, natural gas expenses rose by \$31.5 million or 15% from the previous level. This increase was mainly the result of higher pipeline supplier prices and additional sendout requirements. These increases were offset, in part, by a rise in the refunds received from pipeline suppliers.

Accounts Receivable

High accounts receivable balances and a large number of delinquent accounts have troubled PGW for several years. The Gas Commission, through its regulatory review and orders, seeks to obtain a balance between the concerns of PGW, the City and the customers. Consequently, PGW has taken a progressive position in assisting customers in meeting energy costs. PGW has been active in various City

communities in promoting its Conservation Works Program. It has also actively promoted customer financial assistance in meeting energy costs through programs funded from both governmental and private sources.

As the result of these activities, the financial assistance programs provided a total of \$13.3 million and \$13.6 million in aid to customers in the 1992 and 1993 fiscal years.

In addition, PGW maintains the following programs to assist customers in meeting past obligations:

- Forgiveness Repayment Agreements - (5%-2% Agreements) permit customers meeting income eligibility tests to enter into an agreement initially paying 5% of account arrearages and monthly current gas usage plus 2% monthly of the initial arrears. This program offers a potential ~~for~~ a maximum forgiveness of 50% of initial arrears. This repayment program is now closed to new entrants and will be phased out over time as current members successfully complete or default their agreements.
- 20% Repayment Agreements - offered to customers whose household income is above 150% of the federal government poverty guidelines - provides for a 20% initial payment of past due amount with the remaining amount to be paid over a maximum of 24 months.

As of August, 1993, there were 54,736 delinquent customers who had 5%-2% Agreements, of which 18,831 were currently active with a total receivable balance of \$15.5 million. There were 91,566 delinquent customers which had 20% repayment agreements, 26,717 of which were active with a total receivable balance of \$13.1 million. The total amount of active outstanding accounts under these two repayment plans was 22% of total Gas Accounts Receivable at August, 1993. PGW has increased the reserve for uncollectible accounts to provide for account reinstatements under the two repayment plans.

In the summer of 1988, PGW petitioned the Gas Commission to modify the Customer Service Regulations. Rather than litigate the issues, PGW and Community Legal Services ("CLS"), acting as the Public Advocate, entered into settlement negotiations. As a result of this action, a joint proposal was developed which was submitted to and approved by the Gas Commission.

Included in the settlement agreement was a two year pilot program known as the Energy Assurance Program (EAP). This percentage of income plan is offered to customers whose household income is at or below 150% of the federal government poverty guidelines. Instead of paying the actual cost of the gas, the customers pay only a set percentage of the household's gross monthly income, toward their current usage. The percentage they are asked to pay depends on their level of poverty. Customers are also asked to pay \$4.00 a month toward their arrearages. The shortfall between current usage and the percentage of income payment reduces the reported billed revenues. After a three-month history of payment compliance is established, a proportional amount of the arrearages is written off monthly over a three year period. As of August, 1993, approximately 8,292 customers continue to meet the program requirements and are currently enrolled in the EAP Plan. The amount of current active outstanding EAP accounts receivable at August, 1993 was \$4.6 million.

The Conservation Works Program is the weatherization energy conservation segment of EAP. Estimated savings in gas energy usage of up to 20% per customer are anticipated.

After completion of the EAP pilot program and a subsequent expansion of the program from 5,000 customers to a total of 15,000, an evaluation of EAP was filed with the Gas Commission. This report provides an evaluation of the first year of operation of the EAP.

At its March 16, 1993 meeting, the Gas Commission asked that all interested parties file comments on the EAP year one report. After filed comments were received by the Gas Commission, it was determined by the Gas Commission that a formal tariff amendment process was required. Following evidentiary hearings, community input hearings and circulation of proposed tariff changes, the Gas Commission issued an order in November, 1993 that will change PGW's customer regulations.

As a result of this process a new payment program has been approved and the EAP has been eliminated. The new program, named the "Customer Responsibility Program" ("CRP"), is open to all customers whose household income is at or below 150% of the federal government poverty guidelines. Current EAP members will be automatically enrolled in the CRP. New entrants other than current EAP customers will be required to pay 5% of their arrearage upon entering the CRP. Customer payments are set at the customer's actual usage plus 2% of the participant's starting arrearage, 7.35% of household income or a \$30 minimum bill. The CRP has a maximum payment of 12% of the household's gross annual income.

To address the escalating accounts receivable balance of PGW, the new regulation calls for the assignment of CRISIS and/or LIHEAP grants to PGW, the limitation of one repayment agreement per year and a shortened moratorium period.

The financial impact of these changes is not yet quantified by PGW. The CRP is expected to be in place and accepting applications in February, 1994.

The status of Accounts Receivable during the 1989 to 1993 period is reflected in the following table:

**ACCOUNTS RECEIVABLE, ACCUMULATED PROVISIONS FOR UNCOLLECTIBLE
ACCOUNTS, WRITE-OFFS OF ACCOUNTS RECEIVABLE, DELINQUENT
CUSTOMERS, AND REVENUE STATISTICS**

(Dollar Amounts in Thousands)
Fiscal Years Ended August 31,

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Billed gas revenues during the year	\$469,569	\$470,110	\$443,124	\$492,742	\$526,723
Accounts receivable at August 31	\$87,994	\$91,215	\$93,361	\$116,688	\$132,574
Accumulated provisions for uncollectible accounts at August 31	\$39,181	\$41,053	\$48,027	\$53,051	\$54,565
Net accounts receivable at August 31	\$48,813	\$50,162	\$45,334	\$63,637	\$78,009
Accumulated provisions for uncollectible accounts as a percentage of accounts receivable (%)	44.5	45.0	51.4	45.5	41.2
Write-offs during the year*	\$20,920	\$22,137	\$23,361	\$22,474	\$28,355
Receivables as a percentage of billed gas revenues during the year (%)	18.7	19.4	21.1	23.7	25.2
Delinquent customers (annual average)	141,095	133,610	134,368	138,721	145,092
Delinquent customers at August 31	121,462	123,024	120,161	125,385	145,298

* Net write-offs.

The following table presents information regarding the aging of Gas Accounts Receivable of PGW at August, 1993 and August, 1992:

AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE

(Dollar Amounts in Thousands)
August 31, 1993

Customer Receivables	<u>Current*</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total 90 Days & Over</u>	<u>Gas Accounts Receivable</u>	<u>Delinquent Accounts</u>
Residential & small commercial	\$28,255	\$ 5,099	\$ 5,564	\$74,709	\$113,627	\$85,372
Industrial and large commercial	4,804	1,181	665	2,562	9,212	4,408
Final billing(a)	<u>780</u>	<u>3,490</u>	<u>3,011</u>	<u>2,318</u>	<u>9,599</u>	<u>8,819</u>
Total	<u>\$33,839</u>	<u>\$ 9,770</u>	<u>\$ 9,240</u>	<u>\$79,589</u>	<u>\$132,438(b)</u>	<u>\$98,599(b)</u>

(Dollar Amounts in Thousands)
August 31, 1992

Customer Receivables	<u>Current*</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total 90 Days & Over</u>	<u>Gas Accounts Receivable</u>	<u>Delinquent Accounts</u>
Residential & small commercial	\$33,935	\$ 4,254	\$ 4,832	\$44,712	\$ 87,733	\$53,798
Industrial and large commercial	4,014	1,195	883	2,467	8,559	4,545
Final billing (a)	<u>2,941</u>	<u>4,704</u>	<u>5,184</u>	<u>7,314</u>	<u>20,143</u>	<u>17,202</u>
Total	<u>\$40,890</u>	<u>\$10,153</u>	<u>\$10,899</u>	<u>\$54,493</u>	<u>\$116,435(b)</u>	<u>\$75,545(b)</u>

(a) Gas service on these accounts has been terminated. Amounts include voluntary and involuntary termination.

(b) This amount represents Gas Accounts Receivable and does not include other miscellaneous Accounts Receivable which would be included in the Accounts Receivable figures on the preceding chart.

* Current includes all amounts under repayment agreements, regardless of age.

Two Months Fiscal Period Ended October 31, 1993 Compared To Two Month Fiscal Period Ended October 31, 1992

Gas Sales for the two month fiscal period ended October 31, 1993 were 6.7 bcf, which is 0.1 bcf more than experienced in the similar period in 1992.

Sales to non-heating customers decreased by 0.5 bcf to a total of 2.1 bcf, as a significant decline in sales to interruptible customers, which sales are directly affected by lower posted oil prices, more than offset additional sales to firm non-heating customers. Gas sales to heating customers of 4.6 bcf were 0.5 bcf or 12% greater than sales in the similar period in 1992. This increase was due mainly to additional average usage per firm heating customer. Cycle degree days in Fiscal 1993 totaled 186, the same as in the comparable period of 1992.

Operating revenues for the two-month period ended October 31, 1993 were \$61.3 million, \$3.6 million or 6% more than those for the comparable period in the prior year. Non-heating revenues were \$1.0 million less than for the comparable period in 1992.

Heating revenues increased by \$5.3 million reflecting the additional usage by residential heating customers while unbilled gas revenues declined by \$1.6 million due mainly to the additional billed sales in 1993. Both the heating and non-heating categories benefitted in 1993 from the increase in the GCR, which was a positive 40.75 cents per Mcf.

Operating expenses for the two-month fiscal period ended October 31, 1993 were \$63.7 million, up 5.1 million or 9% from the expense level in the comparable period in 1992. Natural gas costs were \$4.2 million higher in the 1993 fiscal period. During the 1992 fiscal period natural gas costs were lowered by \$7.4 million in applicable natural gas refunds. The 1993 fiscal period reflects lower pipeline prices totaling approximately \$3.3 million compared to the prior fiscal period, however, no new natural gas refunds were applicable to the two-month period ended October 31, 1993.

The appropriation for uncollectible gas accounts increased by \$4.2 million reflecting a higher customer gas accounts receivable balance and a greater write-off of past due accounts. Taxes rose by \$3.2 million primarily due to additional state unemployment taxes due to employee benefits during the work stoppage. All other expenses in total were \$6.5 million lower than the comparable period in 1992 principally as a result of lower costs during the work stoppage which ended October 30, 1993. See "Summary Statements of Income" herein.

Interim results are not necessarily indicative of year-end results because certain revenues and expenses are seasonal.

SELECTED OPERATING DATA

The following data are based upon the records of PGW. For further information, see "Appendix A - Audited Financial Statements of PGW."

SELECTED OPERATING DATA

	Fiscal Years Ended August 31,				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
DEGREE DAYS	4,579	4,431	3,900	4,542	4,731
% of normal (4,600 degree days)	99	96	85	99	103
MAXIMUM 24-HOUR SENDOUT (mcf)	576,771	649,033	608,226	589,241	591,425
Peak-day avg. temperature (degrees)	17	12	17	20	20
GAS REVENUES & SALES BY CUSTOMER CLASSIFICATION					
Gas operating revenues (\$000 omitted)					
Residential:					
Heating	\$313,722	\$309,265	\$277,434	\$324,644	\$347,666
Non-heating	25,836	25,334	22,955	25,345	25,421
Industrial and commercial:					
Firm	70,134	72,619	69,440	78,954	81,321
Interruptible	36,715	40,198	52,126	37,349	46,663
Other gas revenues (municipal, Phila. Housing Authority ("PHA"), unbilled revenues and the GCR adjustment)					
	<u>20,573</u>	<u>18,685</u>	<u>33,052</u>	<u>16,592</u>	<u>16,564</u>
Total gas revenues	466,980	466,101	455,007	482,884	\$517,635
Other operating revenues	<u>5,726</u>	<u>6,071</u>	<u>6,565</u>	<u>7,330</u>	<u>9,342</u>
Total operating revenues	472,706	472,172	461,572	490,214	\$526,977
Other income	<u>12,858</u>	<u>11,880</u>	<u>12,636</u>	<u>10,238</u>	<u>11,203</u>
Total revenues and other income	<u>\$485,564</u>	<u>\$484,052</u>	<u>\$474,208</u>	<u>\$500,452</u>	<u>\$538,180</u>

SELECTED OPERATING DATA
(continued)

Fiscal Years Ended August 31,

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
SUMMARY OF CUSTOMERS AT END OF PERIOD					
Residential	497,596	494,253	497,696	495,176	499,189
Industrial and Commercial:					
Firm	20,242	24,630	24,786	24,258	23,898
Interruptible	302	321	350	388	416
Municipal and PHA	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Customers	<u>518,142</u>	<u>519,206</u>	<u>522,834</u>	<u>519,824</u>	<u>523,505</u>
GAS SALES BY CLASSIFICATION (MMcf)					
Residential:					
Heating:	45,376	44,612	40,332	44,470	46,327
Non-heating	3,354	3,285	2,993	2,961	2,883
Industrial and commercial:					
Firm	9,805	10,126	9,757	10,323	10,383
Interruptible	10,550	10,334	12,537	10,703	12,324
Other	<u>3,448</u>	<u>3,366</u>	<u>3,098</u>	<u>3,386</u>	<u>3,437</u>
Total gas sales	72,533	71,723	68,717	71,843	75,354
SUPPLY AND DISPOSITION OF GAS (MMcf)					
Natural gas purchased	73,769	73,782	72,294	74,364	79,363
Liquid petroleum	29	113	41	0	0
Liquefied natural gas	<u>1,626</u>	<u>3,108</u>	<u>1,714</u>	<u>2,388</u>	<u>3,330</u>
Total supply	<u>75,424</u>	<u>77,003</u>	<u>74,049</u>	<u>76,752</u>	<u>82,693</u>
Deduct:					
Additions to (withdrawals from) gas storage	(1,435)	1,426	2,044	(465)	1,974
PGW's use and other	<u>4,326</u>	<u>3,854</u>	<u>3,288</u>	<u>5,374</u>	<u>5,365</u>
Total gas sales	<u>72,533</u>	<u>71,723</u>	<u>68,717</u>	<u>71,843</u>	<u>75,354</u>
AVERAGE MONTHLY USAGE OF RESIDENTIAL CUSTOMER (Mcf)					
Heating	9.5	9.4	9.4	9.0	9.1
Non-heating	2.7	2.8	2.7	2.7	2.7
AVERAGE MONTHLY BILL OF RESIDENTIAL CUSTOMERS					
Heating	\$68.26	\$67.91	\$66.88	\$71.29	\$72.50
Non-heating	\$21.01	\$21.98	\$20.99	\$24.19	\$24.32

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

The financial operations for the years ended August 31, 1989 through 1993 and the revenues available for debt service are shown in the following table:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Operating revenues	\$472,706	\$472,172	\$461,572	\$490,214	\$526,977
Other income	<u>12,858</u>	<u>11,880</u>	<u>12,636</u>	<u>10,238</u>	<u>11,203</u>
Total revenues	485,564	484,052	474,208	500,452	538,180
Adjustments	<u>1,581</u>	<u>2,570</u>	<u>1,530</u>	<u>1,031</u>	<u>1,370</u>
Project revenues	<u>487,145</u>	<u>486,622</u>	<u>475,738</u>	<u>501,483</u>	<u>539,550</u>
Operating expenses	419,303	416,475	396,883	410,045	450,744
Less:					
Depreciation	21,887	22,155	24,625	25,728	27,185
Other adjustments	<u>1,662</u>	<u>489</u>	<u>(1,324)</u>	<u>(1,624)</u>	<u>(1,640)</u>
Net operating expenses	<u>395,754</u>	<u>393,831</u>	<u>373,582</u>	<u>385,941</u>	<u>425,199</u>
Net revenues	<u>91,391</u>	<u>92,791</u>	<u>102,156</u>	<u>115,542</u>	<u>114,351</u>
Debt service requirements:					
Revenue bonds	57,326	61,654	67,789	74,535	69,189
Commercial paper notes	<u>4,668</u>	<u>4,361</u>	<u>4,678</u>	<u>3,280</u>	<u>2,250</u>
Total debt service	<u>61,994</u>	<u>66,015</u>	<u>72,467</u>	<u>77,815</u>	<u>71,439</u>
Net project revenues available for other purposes	<u>\$ 29,397</u>	<u>\$ 26,776</u>	<u>\$ 29,689</u>	<u>\$37,727</u>	<u>\$42,912</u>
Debt service coverage:					
Revenue bonds	1.59x	1.51x	1.51x	1.55x	1.65x

INSURANCE

PGW is principally insured through insurance carriers. PGW's property is insured against the risk of loss or damage, without aggregate limits, in the amount of \$250 million per occurrence with a \$100,000 deductible; subject, however, to an annual aggregate limit of \$100 million for earthquake and an annual aggregate limit of \$50 million for flood, generally, and to lower flood limits as to the Richmond Plant. A deductible of \$250,000 applies to specific storage tanks at the Passyunk Plant. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance. With respect to incidents arising on or between October 1, 1986 and August 31, 1991, PGW maintained policies of liability insurance insuring against the risk of damage or injury to the public for \$25 million in excess of \$500,000 for any one incident, generally without aggregate amounts, and for incidents exceeding the foregoing coverage, there is aggregate coverage of \$175 million. Pursuant to a Gas Commission order, the retention level was raised to \$2.0 million for incidents arising on or after September 1, 1991. PGW also maintains \$25 million of workers' compensation insurance in excess of \$500,000 per incident for on duty injuries to employees. A reserve is also maintained to cover current estimated losses which are excluded from coverage under the deductible provisions of the liability insurance policies. Charges against the reserve are made as claims are settled.

LITIGATION

On January 16, 1988, an explosion and fire resulted from a broken gas main. Damage occurred to approximately 25 properties and alleged injuries to two persons. Seven complaints were filed in State Court representing claims for injuries and damages - two of which were dismissed based upon governmental immunity. All cases are consolidated for discovery and trial purposes and total exposure may exceed \$500,000.

On January 30, 1988, an explosion and fire occurred resulting from a crack in a gas main. Eleven alleged injuries were reported, plus damage to six properties in varying degrees. Four complaints in State Court were filed, only one of which is pending. All other claims are resolved. The outstanding action represents a combination injury and property damage claims. PGW exposure is not expected to exceed \$500,000.

On January 4, 1990, a fire and explosion occurred caused by a broken gas main. Extensive property damage to three commercial buildings in a mini mall plus surrounding properties and six alleged injuries resulted. Four complaints were filed in State Court - one of which has been settled. The others represent injuries to three occupants and two claims for damages. All other claims are resolved. PGW exposure may be in excess of \$500,000.

On February 13, 1990, a fire and explosion occurred caused by a broken gas service. Alleged injuries to three persons and damage to 11 properties resulted. Three civil actions were filed in State Court, one of which has been settled. The two remaining actions are subrogation claims by insurance carriers for insured property damage. Exposure to PGW will most likely be under \$500,000.

On May 13, 1990, an explosion and fire occurred caused by vandalism and theft of a gas appliance in an unoccupied property. Three deaths, three injuries and property damage to 27 residential buildings resulted from this incident. Two actions were filed in State Court. One action, which involved three death claims, was resolved without any payment by PGW. The other action alleges personal injuries to a passerby. Exposure is expected to be under \$500,000.

On February 25, 1993, an explosion and fire occurred resulting from a crack in a gas main. Two alleged injuries have been reported, plus damage to 14 properties in varying degrees. Two of the property damage claims have been settled. Total exposure to PGW is expected to be less than \$500,000.

PGW management does not believe that resolution of the above-described matters will have an adverse effect on PGW's financial position or on its results of operations.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain terms and conditions, to purchase the Fifteenth Series Bonds from the City at a purchase price of \$179,041,542.90 (including underwriter's discount of \$1,231,032.35 and an original issue discount of \$3,607,424.75) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Fifteenth Series Bonds if any are purchased. The Fifteenth Series Bonds may be offered and sold to certain dealers and others at prices lower than the offering price stated on the inside of the cover page hereof, and such public offering price may be changed, from time to time, by the Underwriters without prior notice.

RATINGS

Uninsured Bonds

The Fifteenth Series Bonds (Subseries 3) maturing on August 1 of the years 2002 through 2010 and on August 1, 2015 are rated Baa1 by Moody's Investors Service, BBB by Standard and Poor's Corporation and A- by Fitch Investors Service, Inc.

Any explanation concerning the significance of such ratings must be obtained from the rating agencies. Certain information and materials concerning the Fifteenth Series Bonds were furnished to the rating agencies by PGW, the City and others. If, in their judgment, circumstances so warrant, the rating agencies may lower or withdraw their respective ratings. There is no assurance that the ratings stated above will continue for any period of time or that they will not be revised or withdrawn. Should a downward change or withdrawal of either rating occur, it could have an adverse effect on the liquidity and the market price of the Fifteenth Series Bonds in the secondary market.

AMBAC Insured Bonds

Payment of the principal of and interest on the Fifteenth Series Bonds (Subseries 1) (the "AMBAC Insured Bonds"), when due, will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the AMBAC Insured Bonds. Standard & Poor's Corporation and Moody's Investors Service Inc. have assigned their municipal bond ratings of "AAA" and "Aaa," respectively, to the AMBAC Insured Bonds with the understanding that upon delivery of the AMBAC Insured Bonds, a policy insuring the payment when due of the principal of and interest on the AMBAC Insured Bonds will be issued by AMBAC Indemnity Corporation.

FSA Insured Bonds

The scheduled payment of principal of and interest on the Fifteenth Series Bonds (Subseries 3) maturing on August 1, 2021 and August 1, 2024 (the "FSA Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Fifteenth Series Bonds by

Financial Security Assurance Inc. ("Financial Security"). Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Corporation.

The Moody's Investors Service rating of Financial Security should be evaluated independently of the Standard and Poor's rating of Financial Security. No application has been made to any other rating agency in order to obtain additional ratings on the FSA Insured Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of Financial Security and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the FSA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revisions or withdrawal of either or both ratings may have an adverse effect on the market price of the FSA Insured Bonds.

MBIA Insured Bonds

Payment of the Fifteenth Series Bonds (Subseries 2) (the "MBIA Insured Bonds") will be insured by Municipal Bond Investors Assurance Corporation ("MBIA"). Moody's Investors Service rates all bond issues insured by MBIA "Aaa" and short term loans MIG 1", both designated to be of the highest quality. Standard & Poor's Ratings Group, a division of McGraw Hill ("Standard & Poor's"), rates all new issues insured by MBIA "AAA" Prime Grade.

The Moody's Investors Service rating of MBIA should be evaluated independently of the Standard and Poor's rating of MBIA. No application has been made to any other rating agency in order to obtain additional ratings on the MBIA Insured Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revisions or withdrawal of either or both ratings may have an adverse effect on the market price of the MBIA Insured Bonds.

TAX MATTERS

In the opinion of Co-Bond Counsel, assuming continuing compliance with covenants pertaining to provisions of the Internal Revenue Code of 1986, as amended (the "Code") and subject to certain provisions of the Code which are described below, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the Fifteenth Series Bonds interest received by a holder of the Fifteenth Series Bonds will be excludable from gross income for federal income tax purposes, and will not be treated as a preference item for purposes of the alternative minimum tax imposed by Section 55 of the Code. However, interest on the Fifteenth Series Bonds may become taxable retroactively if certain requirements relating to arbitrage and arbitrage rebate under Section 148 of the Code are not complied with. For certain corporate holders, interest on the Fifteenth Series Bonds will be taken into account in the calculation of such holders' alternative minimum tax liability and may subject such holder to the Environmental Tax imposed by Section 59A of the Code.

The Code contains a number of provisions that apply to the Fifteenth Series Bonds including restrictions relating to the use or investment of the proceeds of the Fifteenth Series Bonds and the payment of certain arbitrage earnings in excess of the "yield" on the Fifteenth Series Bonds to the Treasury of the United States. Non-compliance with such provisions may result in interest on the Fifteenth Series Bonds not being excludable from gross income for federal income tax purposes retroactive to the date of issuance of the Fifteenth Series Bonds. The City has covenanted to comply with these requirements.

The Code imposes an alternative minimum tax on individuals and corporations. Interest received with respect to certain types of private activity bonds issued after August 7, 1986 is considered a tax preference subject to the alternative minimum tax. As the Fifteenth Series Bonds are not private activity bonds, interest received by individual and corporate holders of the Fifteenth Series Bonds will not be considered a tax preference item for purposes of the alternative minimum tax for individuals and corporations. However, interest on the Fifteenth Series Bonds will be reflected in calculating a corporate holder's alternative minimum tax liability.

A corporation's alternative minimum taxable income will include seventy-five percent (75%) of the amount by which adjusted current earnings of the corporation exceeds alternative minimum taxable income. Interest on tax exempt bonds would generally be includable in the adjusted current earnings of a corporate holder, and thus the interest on Fifteenth Series Bonds held by corporations may be subject to the alternative minimum tax.

The alternative minimum tax is imposed on a corporation to the extent such tax exceeds its regular tax liability, and is calculated at a rate equal to twenty percent (20%) of the amount by which the corporation's alternative minimum taxable income exceeds its exemption amount. A \$40,000 exemption is provided, but such exemption phases out if the alternative minimum taxable income exceeds \$150,000.

Section 265(b) of the Code generally denies to banks, thrift institutions and other financial institutions any deduction for that portion of interest expense incurred or continued to purchase or carry tax-exempt obligations.

Fifteen percent (15%) of the interest earned on tax exempt obligations must be used to reduce deductions for losses incurred by property and casualty insurance companies.

Interest on the Fifteenth Series Bonds may also be subject to the Environmental Tax imposed by Section 59A of the Code while the Fifteenth Series Bonds are held by certain corporations. This tax is computed at a rate of .12 percent of a corporation's modified alternative minimum taxable income in excess of \$2,000,000.

Ownership of tax exempt obligations may also result in collateral federal income tax consequences to certain taxpayers, including, without limitation, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations.

Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date of original delivery of the Fifteenth Series Bonds, the Fifteenth Series Bonds, and income thereon (including any profits made on the sale thereof, if the Fifteenth Series Bonds are issued prior to February 1, 1994) are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax. As of February 1, 1994, Pennsylvania law will change with respect

to the taxation of profit made on the sale of obligations such as the Fifteenth Series Bonds. Profit made on the sale of obligations issued after such date is not exempt from taxation.

Original Issue Discount

The Fifteenth Series Bonds maturing on and after August 1, 1997 (the "Discount Bonds") will be issued at an initial public offering price which is less than the amount payable on the Discount Bonds at maturity. The difference between the initial public offering price of the Discount Bonds of the same maturity and the principal amount payable at maturity constitutes original issue discount which, in accordance with the accrual conventions described below, is treated as interest and is excludable from gross income for federal income tax purposes to the same extent described above. In the case of any holder of Discount Bonds, the amount of such original issue discount which is treated as having accrued with respect to the Discount Bonds is added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). For federal income tax purposes, any holder of a Discount Bond will recognize gain or loss upon disposition of such security (including sale, redemption or payment at maturity) in an amount equal to the difference between (i) the amount received upon such disposition and (ii) the sum of (a) the holder's cost basis in the Bond, and (b) the amount of original issue discount attributable to the period during which the holder held the Discount Bond.

Original issue discount on Discount Bonds will be attributed to semiannual compounding periods during the life of each Discount Bond in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Bonds is determined based on semiannual compounding. Such yield is then used to determine an amount of accrued interest for each semiannual compounding period. For this purpose, interest is treated as compounding semiannually on days which are determined by reference to the maturity date of the Discount Bonds. The amount of original issue discount which is treated as having accrued in respect of a Discount Bond for any particular semiannual compounding period is equal to the excess of (i) the product of (a) one-half of the yield for the Discount Bond (adjusted as necessary for an initial short period) multiplied by (b) the amount that would be the tax basis of the Discount Bond at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (ii) the amount actually payable as interest during such period. The tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial public offering price the sum of amounts that have been treated as accrued interest for such purposes during all prior periods.

If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then interest which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The foregoing summarizes certain federal income tax consequences of original issue discount with respect to the Discount Bonds, but does not purport to deal with all aspects of federal income taxation that may be relevant to particular investors or circumstances. Purchasers of the Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. In addition, corporate purchasers should consider the possible federal tax consequences arising from original issue discount on the Discount Bonds under the alternative minimum tax, the environmental tax or the branch profits tax, as described above. The amount of original issue discount considered to have accrued may be required to be included in the year of accrual in determining such purchaser's income for state or local tax purposes in the state or locality in which such purchaser resides or in determining a corporate purchaser's liability for the alternative minimum tax, the environmental tax or the branch profits tax. In such cases, the purchaser could be deemed to have accrued original issue discount reportable for state and local tax purposes or for purposes of the alternative minimum tax, the environmental tax or the branch profits tax without a corresponding receipt of cash with which to pay any tax liability

attributable to such discount. Purchasers with questions concerning the detailed tax consequences of transactions in the Discount Bonds should consult their tax advisors.

PROSPECTIVE PURCHASERS OF THE FIFTEENTH SERIES BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE OWNERSHIP OF THE FIFTEENTH SERIES BONDS.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Fifteenth Series Bonds are subject to the approval of the legality of the issuance of the Fifteenth Series Bonds by Cohen, Shapiro, Polisher, Shiekman and Cohen and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such opinion is included herein as Appendix E. Certain legal matters will be passed upon for the Underwriters by Drinker Biddle & Reath and Frank Canty, Esquire, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor. Certain legal matters will be passed on for PGW by Obermayer, Rebmann, Maxwell & Hippel, of Philadelphia, Pennsylvania.

FINANCIAL ADVISOR

Public Financial Management, Inc., of Philadelphia, Pennsylvania, served as financial advisor to the City in respect to the sale of the Fifteenth Series 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 Fifteenth Series Bonds and provided other advice. Public Financial Management Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments. Public Financial Management, Inc. is a wholly-owned subsidiary of Marine Midland Bank, N.A.

INDEPENDENT AUDITORS

The financial statements of PGW as of August 31, 1993 and 1992, and for the years then ended, have been audited by Deloitte & Touche, independent auditors, as stated in their report included in APPENDIX A to this Official Statement.

ENGINEERING REPORT

The Engineering Report prepared by Stone & Webster Management Consultants, Inc., 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.

NO LITIGATION CERTIFICATE

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Fifteenth Series Bonds, or in any way contesting or affecting the validity of the Fifteenth Series Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Fifteenth Series Bonds or the existence or powers of the City.

Upon delivery of the Fifteenth Series Bonds, the Office of the City Solicitor shall furnish a certificate, in form satisfactory to Co-Bond Counsel, to the effect, among other things, that, except for litigation which in the opinion of the Office of the City Solicitor is without merit, and except as disclosed in the Official Statement, no litigation or other legal proceedings are pending, or, to the best of its knowledge, threatened to restrain or enjoin the issuance or delivery of the Fifteenth Series Bonds or the collection or pledge of any moneys provided for the payment of the Fifteenth Series Bonds or contesting or affecting the validity of the Fifteenth Series Bonds or contesting the powers of the City or its authority for the issuance of such Bonds.

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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments held pursuant to the Escrow Deposit Agreement or the General Ordinance to pay (1) interest when due on all Refunded Bonds and (2) the principal amount and applicable redemption premium, if any, of the Refunded Bonds when due, and (b) the mathematical computations supporting the conclusion that the Fifteenth Series Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, will be verified solely as to mathematical accuracy by Drucker and Scaccetti.

CERTAIN REFERENCES

All summaries of the provisions of the Fifteenth Series Bonds and the security therefor, the Act, the General Ordinance and the Fifteenth Supplemental Ordinance set forth herein and in APPENDIX C 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.

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, 1993, and, when

available, the audited combined financial statements of the City for the Fiscal Year ended June 30, 1993, will be made available, as well as other pertinent information. Such a request should be addressed to: Office of the Director of Finance, 1600 Arch Street, Suite 1300, Philadelphia, Pennsylvania 19103. 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 the Philadelphia Gas Works from time to time to Standard & Poor's Corporation, Moody's Investors Service, Inc. and Fitch Investors Service, Inc. in connection with securities ratings issued by those rating agencies of obligations of the Philadelphia Gas Works. The City will continue these practices in future years on an annual basis on behalf of the Philadelphia Gas Works as well as all bonds issued for the Philadelphia Gas Works.

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

CITY OF PHILADELPHIA

By:

/s/ Edward G. Rendell
Mayor

/s/ Joseph A. Dworetzky
Acting City Solicitor

/s/ Jonathan A. Sidel
City Controller

Approved:

/s/ Ben Hayllar
Director of Finance

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APPENDIX A

**Audited Financial Statements
of Philadelphia Gas Works
For the Years Ended
August 31, 1993 and 1992**

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PHILADELPHIA GAS WORKS

Financial Statements for the Years
Ended August 31, 1993 and 1992,
Required Pension Supplementary
Information and Independent
Auditors' Report

**INDEPENDENT AUDITORS' REPORT**

To the Controller of the
City of Philadelphia and the
Chairwoman and Members of the
Philadelphia Gas Commission
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of the Philadelphia Gas Works (the "Company") as of August 31, 1993 and 1992 and the related statements of income, changes in City equity and cash flows 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 generally accepted auditing standards. 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 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, such financial statements present fairly, in all material respects, the financial position of the Philadelphia Gas Works as of August 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The supplementary information of pension funding progress on page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 supplementary information. However, we did not audit the supplementary information and, accordingly, express no opinion on it.

Deloitte + Touche

Philadelphia, Pennsylvania 19103-3984
November 9, 1993

**Deloitte Touche
Tohmatsu
International**

PHILADELPHIA GAS WORKS
BALANCE SHEETS
August 31, 1993 and 1992

ASSETS	Notes	(Thousands of Dollars)	
		1993	1992
Utility plant, at original cost:	1,8		
In service		\$ 1,014,279	\$ 969,543
Under construction		17,313	17,894
Total		1,031,592	987,437
Less accumulated depreciation		313,181	292,718
Utility plant, net		718,411	694,719
Restricted funds:			
Sinking fund, revenue bonds	3,8	77,374	78,511
Capital improvement fund	3,8	29,896	--
Current assets:			
Cash and cash equivalents:	3		
Cash		2,040	1,313
Temporary investments		--	29,000
Total cash and cash equivalents	1	2,040	30,313
Accounts receivable:			
Customers	1	132,574	116,888
Others	2	3,238	13,016
Accrued gas revenues	1	5,650	7,050
Accumulated provision for uncollectible accounts		(54,585)	(53,051)
Accounts receivable, net		86,895	83,703
Materials and supplies	1	52,566	41,529
Other current assets and deferred debits	1,7,12	22,342	11,874
Total current assets		183,843	167,419
Unamortized bond issuance costs	1	7,254	5,829
Unamortized losses on reacquired debt	1	39,400	18,400
Employees' deferred compensation plan	5	12,044	9,220
Other assets and deferred debits	1,4,11,12	14,572	7,716
Total assets		\$ 1,062,794	\$ 981,614

EQUITY AND LIABILITIES	Notes	(Thousands of Dollars)	
		1993	1992
City equity	2	\$ 240,726	\$ 225,257
Long-term debt:	8,9		
Revenue bonds		686,943	585,675
Subordinate lease obligation		22,178	22,829
Total long-term debt		689,121	608,304
Current liabilities:			
Notes payable	6	--	34,500
Current portion of long-term debt:	8,9		
Revenue bonds		21,789	31,228
Subordinate lease obligation		451	420
Accounts payable		32,466	25,822
Customer deposits		1,397	1,845
Other current liabilities and deferred credits	1,7,11,12	35,302	24,059
Accrued accounts:			
Interest, taxes and wages		13,368	12,039
Distribution to the City	2	3,000	3,000
Total current liabilities		107,795	132,913
Employees' deferred compensation plan	5	12,044	9,220
Other liabilities and deferred credits	1,11,12	13,108	5,920
Commitments and contingencies	12		
Total equity and liabilities		\$ 1,062,794	\$ 981,614

See accompanying notes to financial statements.

STATEMENTS OF INCOME
For the Years Ended August 31, 1993 and 1992

(Thousands of Dollars)

	Notes	1993	1992
Operating revenues:	1,6,7,8		
Nonheating		\$ 95,416	\$ 86,494
Gas transport service		621	2,354
Heating		422,998	393,336
Unbilled gas adjustment		(1,400)	700
Total gas revenues		<u>517,635</u>	<u>482,884</u>
Other operating revenues		9,342	7,330
Total operating revenues		<u>526,977</u>	<u>490,214</u>
Operating expenses:	1,4,12		
Natural gas		243,250	211,730
Other raw material		24	(105)
Gas processing		21,458	21,494
Customer service		20,100	21,387
Distribution		20,674	19,422
Collection		8,226	7,425
Meter reading		6,521	6,553
Provision for uncollectible accounts		29,866	27,520
Customer relations		9,625	9,156
Customer accounting		2,966	2,929
Marketing		4,468	4,271
Administrative and general		39,960	35,357
Pensions	10	12,469	14,245
Taxes		8,127	6,683
Total operating expenses except undistributed depreciation		<u>427,734</u>	<u>388,067</u>
Depreciation	1	27,185	25,728
Less depreciation distributed through clearing accounts	1	<u>4,175</u>	<u>3,750</u>
Total		<u>23,010</u>	<u>21,978</u>
Total operating expenses		<u>450,744</u>	<u>410,045</u>
Operating income		76,233	80,169
Interest and other income	1	<u>11,203</u>	<u>10,238</u>
Income before interest expense		<u>87,436</u>	<u>90,407</u>
Interest expense:			
Long-term debt	1	47,760	48,171
Other		6,815	7,488
Allowance for funds used during construction	1	(608)	(104)
Total interest expense		<u>53,967</u>	<u>55,555</u>
Net income		33,469	34,852
Distribution to the City of Philadelphia	2	<u>18,000</u>	<u>18,000</u>
Transferred to City equity		<u>\$ 15,469</u>	<u>\$ 16,852</u>

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
STATEMENTS OF CHANGES IN CITY EQUITY
For the Years Ended August 31, 1993 and 1992

(Thousands of Dollars)

	<u>1993</u>	<u>1992</u>
Balance, beginning	\$ 225,257	\$ 208,405
Transferred from statements of income	<u>15,469</u>	<u>16,852</u>
Balance, ending	<u>\$ 240,726</u>	<u>\$ 225,257</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended AUGUST 31, 1993 AND 1992

	(Thousands of Dollars)	
	1993	1992
Cash flows from operating activities:		
Operating income	\$ 76,233	\$ 80,169
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	27,199	25,742
Other income	3,989	1,385
Changes in assets and liabilities:		
(Increase) in accounts receivable	(3,222)	(28,798)
(Increase) in materials and supplies inventories	(11,037)	(798)
(Increase) Decrease in other current assets and deferred debits	(10,468)	3,912
(Increase) Decrease in other assets	(9,680)	400
Increase in accounts and construction contracts payable	6,666	2,423
Increase in other current liabilities	12,809	12,898
Increase in other liabilities & deferred credits	10,012	332
Net cash provided by operating activities	<u>102,501</u>	<u>97,665</u>
Cash flows from noncapital financing activities:		
Interest income on temporary investments	1,529	2,284
Interest payments on notes payable	(2,250)	(3,281)
(Decrease) Increase in notes payable	(34,500)	25,000
Decrease (Increase) in accounts receivable—interest	30	(28)
Distribution to the City of Philadelphia	(18,000)	(18,000)
Net cash (used in) provided by noncapital financing activities	<u>(53,191)</u>	<u>5,975</u>
Cash flows from capital & related financing activities:		
Capital spending activities:		
Net construction expenditures	(50,091)	(53,269)
Drawdowns on capital improvement fund	38,748	43,285
Net cash (used in) capital spending activities	<u>(11,343)</u>	<u>(9,984)</u>
Other capital financing activities:		
Proceeds from long-term debt	369,119	-
Advance refunding of long-term debt	(294,652)	-
Capital improvement fund deposits	(68,644)	(1,011)
Interest income on sinking fund	4,549	5,346
Interest income on capital improvement fund	754	987
Principal payments on long-term debt	(29,090)	(31,020)
Interest payments on long-term debt	(45,805)	(45,767)
Long-term debt issuance costs	(3,608)	-
Sinking fund deposits	(40,460)	(5,346)
Withdrawals from sinking fund	41,597	6,369
Net cash (used in) capital financing activities	<u>(66,240)</u>	<u>(70,442)</u>
Net cash (used in) capital & related financing activities	<u>(77,583)</u>	<u>(80,426)</u>
Net (Decrease) Increase in cash and cash equivalents	<u>(28,273)</u>	<u>23,214</u>
Cash and cash equivalents at beginning of the year	<u>30,313</u>	<u>7,099</u>
Cash and cash equivalents at end of the year	<u>\$ 2,040</u>	<u>\$ 30,313</u>

Supplemental Disclosure of Non-Cash Capital and Related Financing Activities

The company incurred non-cash interest expense as follows for the years ended August 31, 1993 and 1992:

	1993	1992
Accreted interest	\$ 2,553	\$ 2,381
Amortization of discount	1,386	1,419
Amortization of bond issuance costs	598	585
Amortization of losses on reacquired debt	2,478	1,918

In 1993, the company incurred a loss on reacquired debt of \$23,634 which included the write-off of unamortized bond issuance costs and unamortized losses on reacquired debt of \$1,385 and \$156, respectively (see note 8).

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS
for the years ended August 31, 1993 and 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods employed by the Philadelphia Gas Works (the "Company") are prescribed by the City of Philadelphia (the "City") and have been prepared, in all material respects, in conformity with generally accepted accounting principles. The principal accounting policies within this framework are described as follows:

Regulation

The Company is subject to the rules and regulations of the Philadelphia Gas Commission (the "PGC") and generally maintains its accounts in accordance with the prescribed Uniform System of Accounts.

On May 29, 1992, the Company filed with the PGC its 1993 Operating Budget, which did not present a request for an increase in base rates. On March 16, 1993, the PGC approved the 1993 Operating Budget.

On June 30, 1993, the Company filed with the PGC its 1994 Operating Budget, which is based upon base rate levels approved by the Commission on December 19, 1991. Due to the unresolved labor negotiations between the Company and the Gas Works Employees' Union of Philadelphia, the 1994 fiscal year budget did not include any costs or savings which may result from the contract settlement. On November 9, 1993, the PGC approved the 1994 Operating Budget with no change to the Company's base rates.

Utility Plant

Utility plant is stated at original cost. Utility plant in service includes a Synthetic Natural Gas Plant ("SNG Plant") that is being maintained primarily in a reserve status and a propane/air facility ("L.P. Plant") which is not currently in use. At August 31, 1993 and 1992, the net book value of the SNG Plant was \$36,855,000 and \$40,039,000, respectively and the net book value of the L.P. Plant was \$6,583,000 and \$6,894,000, respectively.

Effective November 1, 1991, the Company entered into an operating lease for two naphtha storage tanks of the SNG plant at an annual base rental of \$2,612,000 which expired on October 31, 1993. Negotiations have been completed to continue leasing a single naphtha storage tank beyond October, 1993 on a month to month basis for approximately \$111,000 per month.

Allowance for Funds Used During Construction

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 and that derived from internally generated funds, is reported as other income. The AFUDC rate applied to construction work in progress was 7.25% in 1993 and 7.20% in 1992.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Additions, Retirements, Sales and Maintenance

The cost of additions, replacements and betterments are capitalized and included in the utility plant accounts. The cost of property sold or retired is eliminated from the utility plant accounts and charged to accumulated depreciation. Gains and losses on sales of utility plant are included in other income. Normal repairs, maintenance and the cost of minor property items are charged to operating expenses as incurred.

Depreciation

Depreciation is provided on a straight-line method using rates applied to each asset category. A depreciation study undertaken in 1987 established rates depreciating utility plant over its revised remaining useful life and included a net salvage component. In a previous rate order, the PGC disallowed the accrual of the net salvage component in depreciation. Consequently, costs of removal are recorded as depreciation expense when incurred.

Accrued Gas Revenues

Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled are accrued and included in income.

Customers

The Company's service territory encompasses the City of Philadelphia. Of the Company's approximately 520,000 customers, over 95 percent are residential.

Customer Receivables

The Company's tariffs provide for various agreements under which residential and commercial customers may pay their bills. Certain of such agreements, if adhered to, provide for forgiveness of arrearages. At August 31, 1993 and 1992, the number of customers with agreements providing for forgiveness of arrearages approximated 63,000 and 56,700, respectively.

Gas Cost Rate

The Gas Cost Rate ("GCR") is designed to provide a mechanism to recover, on an annualized and level basis, the estimated difference between actual purchased gas, net of the full amount of pipeline refunds received and interest thereon, and raw material cost and the amount of gas cost included in base rates. This difference results in an underbilling or overbilling of costs at the end of a fiscal period. Overbillings are liabilities at the end of the fiscal year in which they occur while underbillings are deferred debits until billed. The GCR is adjusted in the subsequent fiscal year to reflect the underbillings or overbillings. Changes in the GCR impact the reported amounts of gas revenues and natural gas operating expenses but do not affect operating income or net income. (Also, see Note 7).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Gas Cost Rate (Continued)

On August 2, 1991, the Company filed its GCR Tariff proposal for the 1991-92 fiscal year which proposed a charge of \$.2515 per/Mcf to be effective September 1, 1991. The PGC did not act on this proposal and authorized the continuation of the GCR credit of \$.175 per/Mcf then in effect pending the outcome of hearings. On September 20, 1991, the Company revised its GCR filing reducing the GCR charge from the initial proposed rate of \$.2515 per/Mcf to \$.2265 per/Mcf to be effective September 1, 1991. On December 19, 1991, the PGC authorized a GCR charge rate of \$.3565 per/Mcf to be effective on the date of its order.

On September 1, 1992, the Company submitted its proposed GCR for the 1993 fiscal year as a charge of \$.4075 per/Mcf to be effective September 1, 1992. The PGC approved the GCR charge on December 8, 1992, effective retroactively for all applicable gas used on or after September 1, 1992.

On August 2, 1993, the Company filed its GCR Tariff proposal for the 1994 fiscal year as a charge of \$.6941 per/Mcf to be effective September 1, 1993. On November 9, 1993, the PGC approved a GCR charge of \$.6957 per/Mcf to be effective retroactively for all applicable gas used on or after September 1, 1993.

Materials and Supplies

Materials and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements and spare parts, are stated at the lower of average cost or market.

Bond Issuance Costs and Debt Discount

Discount and expenses arising from the issuance of revenue bonds are amortized using the interest method over the term of the particular bond issue.

Losses on Reacquired Debt

Losses on reacquired debt are deferred and amortized, using the interest method, to interest expense over the life of the refunding bond issue as required by the PGC.

Pensions

The Company has a noncontributory pension plan (the "Pension Plan") covering all employees and providing for retirement payments at age sixty-five or earlier under various options. 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. (Also, see Note 10).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Cash Flows

For the purpose of reporting cash flows, all non-restricted highly liquid investments (stated at cost) with original maturities of three months or less are considered cash equivalents.

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. A reserve has been established, in accordance with PGC regulations, in an amount which estimates settlements to be paid by the Company in the next fiscal year. 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. (Also, see Note 11).

Presentation

Certain 1992 amounts have been reclassified to conform with the 1993 presentation.

2. OWNERSHIP AND MANAGEMENT:

The Company is owned by the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless cancelled upon 90 days notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation ("PFMC"). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed \$300,000 annually. The agreement requires the Company to make annual payments of \$18,000,000 to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$6,898,000 in 1993 and \$7,155,000 in 1992 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$330,000 in 1993 and \$331,000 in 1992. Amounts receivable from the City were \$1,938,000 and \$2,284,000 at August 31, 1993 and 1992, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled \$1,059,000 in 1993 and \$1,047,000 in 1992.

Company employees are subject to payroll wage taxes imposed by the City. Such wage taxes paid to the City totaled \$4,938,000 in 1993 and \$4,780,000 in 1992.

3. CASH AND INVESTMENTS:

A. Cash

Cash consists primarily of bank deposits. Bank balances of such deposits at August 31, 1993 and 1992 were \$2,470,000 and \$3,483,000, respectively. Book balances of such deposits at August 31, 1993 and 1992 were \$2,040,000 and \$1,313,000, respectively. Deposited funds are either insured by a federal agency or collateralized in accordance with City and State statutes. Federal depository insurance on these balances at August 31, 1993 and 1992 was \$458,000 and \$471,000, respectively. The composition of the Company's deposits throughout the year ended August 31, 1993 was not significantly different from that at the balance sheet date.

B. Investments

Statutes authorize the Company to invest in obligations of the U.S. Treasury, U.S. Government Agencies and Instrumentalities, and repurchase agreements (collateralized by obligations of U.S. Government Agencies). For the years ended August 31, 1993 and 1992, the Company operated, in all material respects, within the provisions of such Statutes.

The Company's investments are categorized below to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Company or its agent in the Company's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Company's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Company's name. There were no Category 2 or Category 3 investments at August 31, 1993 and 1992.

REPURCHASE AGREEMENTS

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
August 31, 1993	\$ -	\$ -	\$ -	\$ -	\$ -
August 31, 1992	29,000,000	-	-	29,000,000	29,000,000

The Company's Sinking Fund and Capital Improvement Fund deposits are maintained by the City or in the Company's name by its agent and are considered Category 1 investments. The amount of the Company's investments in the various categories of credit risk during the year ended August 31, 1993 was not significantly different from the categorization at the balance sheet date.

4. DEFERRED EXPENSES:

In compliance with rate orders issued by the PGC, the cost of projects which produce benefits over an extended period are deferred. Such costs are being amortized to expense over a period matching their useful lives which range from two to ten years. The unamortized remaining amount of such expenses included in other assets and deferred debits as of August 31, 1993 and 1992 was \$2,280,000 and \$2,624,000, respectively.

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, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Effective October 1, 1993, the Company will match 10% of the employee's contribution to the Plan to a maximum of \$500 annually.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Company (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the Company's general creditors. Participants' rights under the Plan are equal to those of general creditors of the Company in an amount equal to the fair market value of the deferred account for each participant. The Company believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The Plan provides that in the absence of gross negligence, fraud or willful misconduct, neither the Company nor the Plan Administrator shall be accountable or liable for any investment loss.

The following is a summary of the increases and decreases of the fund for the year:

	<u>Thousands of Dollars</u>	
	<u>1993</u>	<u>1992</u>
Fund Assets, September 1	\$ 9,220	\$ 7,114
Contributions from Employees	1,935	1,615
Investment Income	1,123	722
Payments to Eligible Participants and Beneficiaries	<u>(234)</u>	<u>(231)</u>
Fund Assets (at estimated Market Value), August 31	<u>\$12,044</u>	<u>\$ 9,220</u>

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 which, together with interest, may not exceed \$85,000,000 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.

There were no notes outstanding at August 31, 1993. The notes outstanding at August 31, 1992 had an average weighted interest rate of approximately 3.05% and an average term to maturity of 59 days. The principal amount outstanding at August 31, 1992 was \$34,500,000.

7. GCR TARIFF RECONCILIATION:

During the years ended August 31, 1993 and 1992, the Company's billed gas costs exceeded its actual gas costs under the GCR Tariff by \$14,085,000 and \$6,401,000, respectively. Accordingly, the Company deferred this excess which is included in other current liabilities and deferred credits. The GCR Tariff mechanism amortizes the liability through a reduction in rates during the subsequent fiscal year.

8. LONG-TERM DEBT:

Revenue Bonds

The following summary of revenue bond debt consists primarily of term and serial 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:

	<u>August 31, 1993</u>			<u>August 31, 1992</u>		
	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
	(Thousands of Dollars)					
Revenue Bonds.....	\$ 23,090	\$681,050	\$704,140	\$ 32,535	\$600,977	\$633,512
Unamortized Debt Discount....	<u>(1,301)</u>	<u>(14,107)</u>	<u>(15,408)</u>	<u>(1,307)</u>	<u>(15,302)</u>	<u>(16,609)</u>
Total	<u>\$ 21,789</u>	<u>\$666,943</u>	<u>\$688,732</u>	<u>\$ 31,228</u>	<u>\$585,675</u>	<u>\$616,903</u>

8. LONG-TERM DEBT (Continued):

Principal maturities and scheduled interest payments related to outstanding revenue bond issues during the next five fiscal years are as follows:

Year Ending <u>August 31</u>	(Thousands of Dollars)	
	<u>Principal</u>	<u>Interest</u>
1994	\$23,090	\$43,129
1995	32,975	41,575
1996	35,125	39,426
1997	33,320	37,230
1998	33,135	35,115

Under the authority of the General Ordinance, the City has issued fourteen series of Gas Works Revenue Bonds consisting of serial and term bonds. Proceeds of all series of Revenue Bonds were applied to reduce capital improvement loans from the City which had been previously approved by the voters, but for which bonds had not been issued, to fund future capital improvements or to refund bonds previously issued. The serial bonds are not subject to redemption prior to maturity while the term bonds are subject to redemption at the option of the City after a designated date, either in whole or in part, at varying redemption prices. In addition, the term bonds are subject to mandatory redemption after a designated date prior to maturity at a redemption price of 100% of principal amount and accrued interest. Funds deposited in a Sinking Fund may be used for this purpose.

Under the terms of the General Ordinance, the City is required to maintain rates to allow the Company to satisfy revenue bond debt coverage ratio requirements.

Also provided by the General Ordinance 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. The General Ordinance also provides that sinking fund reserves be maintained as part of the Sinking Fund, which reserves have heretofore initially 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 such series in any fiscal year. Monies in the sinking fund reserve are to be applied to the payment of debt service, if for any reason, other monies in the Sinking Fund should be insufficient.

Capital Improvement Funds are revenue bond proceeds to be utilized for construction expenditures.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues and monies in the Sinking Fund and sinking fund reserve.

8. LONG-TERM DEBT (Continued):

The following is a summary of the principal amount of outstanding revenue bonds:

Series	Year of Issue	August 31, 1993			August 31, 1992		Interest Rates	Year of Final Maturity	
		Original Amount	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion			
(Thousands of Dollars)									
3rd:	Term.....	1976	\$ 33,865	\$ -	\$ -	\$ 3,435	\$ 16,480	-	-
4th:	Term.....	1978	46,855	-	-	4,450	27,265	-	-
5th:	Term.....	1979	33,320	-	-	2,965	22,495	-	-
7th:	Term.....	1982	10,675	-	-	-	10,675	-	-
8th:	Serial...	1985	19,455	1,425	11,255	1,325	12,680	7.40-8.60%	2000
	Term.....	1985	70,830	-	5,145	-	5,145	8.70%	2015
			<u>90,285</u>	<u>1,425</u>	<u>16,400</u>	<u>1,325</u>	<u>17,825</u>		
9th:	Serial...	1985	37,750	2,045	2,210	1,895	4,255	8.00-8.50%	2001
10th:	Serial...	1986	88,090	6,675	61,230	6,285	67,905	6.25-7.20%	2001
11th:	Serial...	1987	62,520	7,180	19,105	6,755	28,535	6.30-7.40%	2000
	Term.....	1987	79,920	-	-	-	79,920	-	-
			<u>142,440</u>	<u>7,180</u>	<u>19,105</u>	<u>6,755</u>	<u>108,455</u>		
11th "C":	Serial...	1989	46,183	2,805	35,908	2,640	38,713	6.30-7.15%	2004
	Term.....	1989	86,337	-	86,337	-	86,337	6.75-7.25%	2015
			<u>132,520</u>	<u>2,805</u>	<u>122,245</u>	<u>2,640</u>	<u>125,050</u>		
	Accreted Interest			7,453		5,606			
				<u>129,698</u>		<u>130,656</u>			
12th "A":	Serial...	1990	20,911	1,120	16,796	1,055	17,916	6.10-7.10%	2006
	Term.....	1990	29,510	-	29,510	-	29,510	6.00%	2012
			<u>50,421</u>	<u>1,120</u>	<u>46,306</u>	<u>1,055</u>	<u>47,426</u>		
	Accreted Interest			2,226		1,520			
				<u>48,532</u>		<u>48,946</u>			
12th "B":	Serial...	1990	12,670	995	9,020	935	10,015	6.10-7.00%	2001
	Term.....	1990	62,330	-	7,390	-	62,330	7.00-7.10%	2020
			<u>75,000</u>	<u>995</u>	<u>16,410</u>	<u>935</u>	<u>72,345</u>		
13th	Serial...	1991	10,215	845	7,825	795	8,670	6.40-7.50%	2001
	Term.....	1991	65,005	-	6,590	-	65,005	7.70-7.74%	2021
			<u>75,220</u>	<u>845</u>	<u>14,415</u>	<u>795</u>	<u>73,675</u>		
14th	Serial...	1993	116,690	-	113,190	-	-	4.50-5.50%	2004
	Term.....	1993	259,860	-	259,860	-	-	6.45-6.625%	2026
			<u>376,550</u>	<u>-</u>	<u>373,050</u>	<u>-</u>	<u>-</u>		
TOTAL			\$ 23,090	\$681,050	\$ 32,535	\$600,977			

8. LONG-TERM DEBT (Continued):

A portion 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 to the date of compounding is reflected in the preceding schedule as accreted interest and is reported as long-term debt.

On February 1, 1993, the Company issued the Fourteenth Series Revenue Bonds in the amount of \$376,550,000. These bonds, maturing through 2026, were issued for the purpose of restructuring the Company's debt, refunding certain portions of the Company's outstanding debt at lower interest rates and providing approximately \$68,000,000 in funding for capital improvements with such proceeds being deposited in the Capital Improvement Fund. The debt service payments of the restructured and refunded bonds prior to the sale of the Fourteenth Series Revenue Bonds were scheduled to be approximately \$610,431,000. The debt service payments of the Fourteenth Series Revenue Bonds, including the new money portion, are scheduled to be \$791,543,000. The Fourteenth Series Revenue Bonds were issued with an average true interest cost of 6.54 percent. At August 31, 1993, \$29,896,000 of the funds remained on deposit. The advanced refunding and the debt restructuring portions of this debt issue resulted in a net economic gain of \$6,448,000 and an accounting loss of \$23,634,000 (see Note 1).

Subordinate Lease Obligation

In 1989, the Company refinanced the net book value, which approximated the fair market value, of its Headquarters and office complex at 800 W. Montgomery Avenue. This was accomplished through the sale of the facility to the Philadelphia Municipal Authority ("PMA"), an agency of the City, and its leaseback to the Company under a lease which expires June 1, 2014 at which time title transfers to the Company. As part of the indenture, the Company has guaranteed lease payments in an amount equal to the scheduled debt service on the bonds issued by PMA to finance the facility purchase. This lease obligation is subordinate to the Gas Works Revenue Bonds, other general obligation debt and notes payable. Proceeds from the refinancing of the building were utilized in the Company's capital program. The total amount financed was \$25,000,000.

The following is a summary of the subordinate lease obligation:

	<u>August 31, 1993</u>			<u>August 31, 1992</u>		
	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>	<u>Total</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>	<u>Total</u>
	<u>(Thousands of Dollars)</u>					
Subordinate Lease Obligation.....	\$ 500	\$22,785	\$23,285	\$ 470	\$23,285	\$23,755
Unamortized Debt Discount.	(49)	(607)	(656)	(50)	(656)	(706)
Total	<u>\$ 451</u>	<u>\$22,178</u>	<u>\$22,629</u>	<u>\$ 420</u>	<u>\$22,629</u>	<u>\$23,049</u>

8. LONG-TERM DEBT (Continued):

Subordinate Lease Obligation (Continued)

Future minimum rentals, including interest, on the lease are as follows:

	<u>Thousands of Dollars</u>
1994	\$ 2,242
1995	2,243
1996	2,246
1997	2,246
1998	2,243
Thereafter	<u>25,921</u>
Total Minimum Rentals	47,141
Less: Imputed Interest	<u>(24,512)</u>
Total	<u>\$22,629</u>

The gross amount of assets under such lease obligation approximated \$23,084,000 at the end of both years while accumulated amortization approximated \$2,557,000 and \$2,095,000, respectively, at August 31, 1993 and 1992. The amortization of such assets is included in depreciation expense in the statements of income.

9. DEFEASED DEBT:

Defeased debt of the Company (bonds issued by the Company now payable from the proceeds of irrevocably pledged assets) at August 31, 1993 and 1992 was as follows:

Revenue Bond Issue and Scheduled		<u>Interest rate</u>	<u>Thousands of Dollars</u>	
<u>Final Maturity</u>			<u>1993</u>	<u>1992</u>
7th	March 15, 2012	6.0 - 10.25%	\$13,895	\$ 4,620
8th	May 15, 2015	8.70 - 8.75%	65,685	65,685
9th	March 15, 2012	8.70 - 9.125%	88,795	88,795
11A	July 1, 2017	7.4 - 7.875%	82,170	-
12B	May 15, 2020	7.0%	54,940	-
13th	June 15, 2021	7.7%	58,415	-

The assets pledged are primarily noncallable U.S. Government securities and the interest to be earned thereon. The investments had a carrying value of \$367,217,000 and \$156,322,000, respectively, at August 31, 1993 and 1992, respectively, bearing interest on face value at 0% to 10.25%. The investments are held by the Trustee, and maturities and interest payments are scheduled to coincide with Trustee cash requirements for debt service.

The defeased bonds described above and the investments pledged for their redemption are not recognized on the Company's balance sheets in accordance with the terms of the Indenture of Defeasance.

10. ACCOUNTING FOR 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) at August 31, 1993 and 1992 was \$100,512,000 and \$100,003,000, respectively.

At September 1, 1992, the date 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	<u>1,901</u>
Current employees:	
Vested	1,542
Non-vested	<u>884</u>
Total Current Employees	<u>2,426</u>
 Total Membership	 <u><u>4,327</u></u>

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 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:

- (i) 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, applicable to all participants, or;
- (ii) 2% of total earnings received during the period of credited service plus 22.5% of the first \$100 of such 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 5 of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

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

10. ACCOUNTING FOR PENSION COSTS (Continued):

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

Pension Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments

Pension Plan investments are reported at cost. Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the transaction date.

C. Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Pension Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS.

Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8% per year compounded annually (which reflects an increase from the 7.5% utilized in 1992), (b) projected salary increases of 5% per year including 1% representing merit and progression increases and 4% representing general wage increase compounded annually, and (c) 62 as the assumed retirement age.

The change in the return on investment from 7.5% to 8% lowered the pension benefit obligation by approximately \$18.8 million at September 1, 1992.

At September 1, 1992, the estimated unfunded pension benefit obligation was \$39,573,000, as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$168,279,000
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Current employees:

Accumulated employee contributions including allocated investment income	-
Vested	67,804,000
Non-vested	<u>63,401,000</u>

Total pension benefit obligation	\$299,484,000
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Net assets available for benefits, at cost (Market Value \$314,776,000)	<u>259,911,000</u>
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Unfunded pension benefit obligation	<u><u>\$ 39,573,000</u></u>
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D. Contributions Required and Contributions Made

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 sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. Amortization of the unfunded pension benefit obligation over a 40 year period commenced in 1967.

Contributions totaling \$12,469,000 or 12.4% of the covered payroll were made in 1993. These contributions consisted of: (a) \$6,950,000 normal cost (6.9% of the covered payroll) and (b) \$5,519,000 amortization of the unfunded pension benefit obligation (5.5% of the covered payroll). Fiscal 1993 and 1992 contributions represented contributions in accordance with the actuarially recommended contribution through the actuarial study performed in September 1992 and 1990, respectively. The change in the return on investment from 7.5% to 8% reduced the contribution requirement by \$2,768,000 in 1993.

Historically, payments to beneficiaries are made by the Company and not from the assets of the Pension Plan. In 1993 and 1992, payments to beneficiaries exceeded the Company's actuarially computed pension contribution and withdrawals of \$7,112,000 and \$5,066,000, respectively, from the pension assets were necessary to meet beneficiary payment obligations.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

E. Post Employment Benefit Information

In addition to providing pension benefits, the Company also provides health care and life insurance benefits to Pension Plan beneficiaries and their dependents. Such benefits are funded on a pay-as-you-go basis. The Company recognizes the cost of providing health care benefits for the 1,772 and 1,767 beneficiaries and their dependents for the 1993 and 1992 fiscal years, respectively, and the cost of providing such benefits for 2,400 and 2,417 active employees and their dependents for the 1993 and 1992 fiscal years, respectively, by charging the annual insurance premiums to expense. Total premiums incurred for health care amounted to \$19,415,000 in 1993 and \$18,724,000 in 1992, of which approximately 31% in both years represents payments on behalf of retired employees and their dependents. Total premiums for group life insurance were \$1,375,000 in 1993 and \$1,171,000 in 1992, of which approximately 20% and 21%, respectively, is attributable to retired employees.

10. ACCOUNTING FOR PENSION COSTS (Continued):

F. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Certain historical trend information for the Company's PERS is presented below for the last three years.

	<u>For the Years Beginning</u>		
	<u>September 1,</u>		
	<u>1992</u>	<u>1991</u>	<u>1990</u>
Net assets available for benefits (at cost) as a percentage of the pension benefit obligation:	86.8%	74.5%	73.9%
Unfunded pension benefit obligation as a percentage of annual covered payroll:	39.4%	81.5%	83.8%
Company contributions to the PERS as a percentage of annual covered payroll:	12.4%	14.2%	17.1%

G. Ten-Year Historical Trend Information (unaudited)

Additional historical trend information designed to provide information about the progress made by the Company in accumulating sufficient assets to pay pension benefits as they become due is presented on page 24 ("Analysis of Pension Funding Progress").

11. 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. The Company is principally insured through insurance carriers. The Company's property is insured against the risk of loss or damage, without aggregate limits, in the amount of \$250 million per occurrence with a \$100,000 deductible; subject, however, to an annual aggregate limit of \$100 million for earthquake and an annual aggregate limit of \$50 million for flood, generally, and to lower flood limits as to the Richmond Plant. In addition, the Company maintains boiler and machinery, blanket crime, and other forms of property insurance. With respect to incidents arising between October 1, 1986 and August 31, 1991, the Company maintained policies of liability insurance insuring against the risk of damage or injury to the public for \$25 million in excess of \$500,000 for any one incident, generally without aggregate limits. Effective September 1, 1991, the liability insurance retention level was increased from \$500,000 to \$2.0 million for any one incident in accordance with instructions from the PGC. For incidents exceeding the foregoing coverage, the Company has aggregate coverage of \$175

11. RISK MANAGEMENT (Continued):

million. The Company also maintains \$25 million of workers' compensation insurance in excess of \$500,000 per incident for on-duty injuries to employees. During the last three fiscal years, no claim settlements have exceeded the level of insurance coverage. None of these losses have been settled with the purchase of annuity contracts. Director's and officer's liability insurance is the responsibility of the City.

Claims and settlement activity is as follows (Also, see Note 1):

Year Ended August 31,	Thousands of Dollars				
	Beginning of Year Claims	Current Year Claims and Estimate Adjustments	Claims Settled	End of Year Claims	Current Reserve Amount
1992	\$ 7,862	\$ 3,964	\$ (3,157)	\$ 8,669	\$ 2,795
1993	8,669	3,829	(4,623)	7,875	3,625

Also, the Company has entered into several one year contracts to provide health care for both active and retired employees which are experience rated, and premiums are adjusted annually; in addition the Company has acquired approximately \$162 million of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. (Also, see Note 10E).

12. COMMITMENTS AND CONTINGENCIES:

Commitments for major construction and maintenance contracts were approximately \$2,507,000 and \$3,923,000 as of August 31, 1993 and 1992, respectively.

The Company is committed under various noncancellable operating lease agreements to pay minimum annual rentals as follows:

Year Ended August 31,	Thousands of Dollars
1994	\$444
1995	236
1996	45
1997	<u>41</u>
Total	<u>\$766</u>

Rent expense for the years ended August 31, 1993 and 1992 amounted to \$1,435,000 and \$1,452,000, respectively.

12. COMMITMENTS AND CONTINGENCIES (Continued):

In the 1993 fiscal year, the Company paid, as part of its normal monthly bills, pipeline take-or-pay costs billed by its interstate pipeline suppliers under Federal Energy Regulatory Commission ("FERC") approved tariffs. Through the conclusion of the payment schedule in May, 1993, the amount of these costs paid by the Company was \$36,316,000 which includes \$5,023,000 and \$8,903,000 for the years ended August 31, 1993 and 1992, respectively. At August 31, 1993, the Company had no remaining liability under the multi-year cost recovery period established by FERC. Costs incurred by the Company since its inception have been recovered through the normal GCR.

On April 16, 1992, FERC issued Order No. 636 which requires the Company's pipeline suppliers, among other things, to unbundle all services performed and to implement a straight fixed-variable rate design. FERC Order No. 636 also requires the Company to pay transition costs. At August 31, 1993, the pipelines had received FERC authorization to commence billing a portion of their transition costs. The Company's total exposure to transition costs stemming from FERC Order No. 636 is not fully determinable until pipeline suppliers file for cost recovery. Based on their approved filings and in anticipation of future filings for known costs, it is estimated that the Company's liability for transition costs on August 31, 1993 ranges from \$24,500,000 to \$48,000,000. Therefore, the Company has recorded both a deferred debit and a deferred credit on the balance sheet of \$24,500,000. At August 31, 1993, the Company has paid approximately \$1,693,000 of transition costs to its pipeline suppliers. In addition to the above, FERC Order No. 636 allows the pipeline suppliers to pass on the costs of required system upgrades. The Company estimates that its future obligation for such costs ranges from \$5,000,000 to \$10,000,000. It is anticipated that such costs will be recovered through the normal GCR.

As part of the revisions to the Company's contracts with its pipeline suppliers resulting from FERC Order No. 636, the Company is required to buy-out gas in certain storage facilities owned and operated by the pipeline suppliers. In July 1993, the Company paid \$8,192,000 to buy-out gas in such a storage facility; this amount is included with materials and supplies on the balance sheet. At August 31, 1993, the Company has additional commitments to buy-out gas in such storage facilities of approximately \$1,500,000.

The Company in the normal course of conducting business, has entered into long-term contracts for the supply of natural gas and firm transportation and long-term firm gas storage service. The Company's cumulative obligations for demand charges for all of these services is approximately \$6.0 million per month.

13. SUBSEQUENT EVENTS

On October 30, 1993, the 1,800 members of the Gas Works Employees' Union of Philadelphia returned to work ending an 85 day work stoppage. While this work stoppage impacted the level of service which the Company was able to offer, the financial impact for the period ending August 31, 1993 was not material.

13. SUBSEQUENT EVENTS (Continued):

On November 9, 1993, the PGC met and approved revisions to the Company's Customer Service Regulations. The new regulations create a Customer Responsibility Program ("CRP") which absorbs the current Energy Assurance Program and closes the 5%-2% payment plan to new entrants (plans that were in effect to assist customers in meeting their payment obligations); current 5%-2% participants will not be able to continue in the 5%-2% plan in the event of a default on their payment plan, but instead, will be required to enter CRP. CRP requires participants to apply for and assign to the Company at least one fuel grant annually and pay a fixed percentage of income toward their current bills. Additionally, the new Customer Service Regulations include limits on agreement availability and provisions requiring customers to cure existing payment agreements in default prior to entering into new agreements. While the total impact of these changes to the Customer Service Regulations is not presently determinable, it is anticipated that the changes will have a positive impact on collections of accounts receivable.

REQUIRED PENSION SUPPLEMENTARY INFORMATION
ANALYSIS OF PENSION FUNDING PROGRESS (Unaudited)

Ten-year historical trend information designed to provide information about the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented below:

ANALYSIS OF PENSION FUNDING PROGRESS
 (Thousands of Dollars)
 (unaudited)

Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Contribution Payroll	(6) Contri- bution as a % of Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Annual Covered Payroll (4)/(5)	
1983	\$111,012	N/A	-	N/A	\$16,276	\$ 70,418	23.1%	-
1984	129,803	N/A	-	N/A	16,710	75,330	22.2	-
1985	145,845	\$232,714	62.7%	\$ 86,869	16,936	80,017	21.2	108.6%
1986	169,936	262,394	64.8	92,458	17,571	85,537	20.5	108.1
1987	187,417	275,514	68.0	88,097	16,763	90,139	18.6	97.7
1988	194,818	294,539	66.1	99,721	17,016	96,825	17.6	103.0
1989	207,914	309,266	67.2	101,352	17,748	93,137	19.1	108.8
1990	224,176	303,402	73.9	79,226	16,204	94,534	17.1	83.8
1991	238,415	319,903	74.5	81,488	14,245	100,003	14.2	81.5
1992	259,911	299,484	86.8	39,573	12,469	100,512	12.4	39.4

N/A - Information not available for these periods.

Isolated analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the pension plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the pension plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the pension plan.

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APPENDIX B
Engineering Report

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INDEPENDENT CONSULTANT'S REPORT

PHILADELPHIA GAS WORKS

Gas Works Revenue Bonds, Fifteenth Series

December, 1993



STONE & WEBSTER
MANAGEMENT CONSULTANTS, INC.

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STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

ONE PENN PLAZA • 250 WEST 34TH STREET • NEW YORK, NEW YORK 10119
212-290-7000 FAX: 212-290-7033

December 13, 1993

Honorable Ben Hayllar
Director of Finance
City of Philadelphia
1600 Arch Street, 13th Floor
Philadelphia, Pennsylvania 19103

Subject: Independent Consultant's Report
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Fifteenth Series

Dear Mr. Hayllar:

The attached report contains the findings and conclusions of Stone & Webster Management Consultants, Inc., (Stone & Webster) with respect to the issuance of up to \$75,000,000 of Gas Works Revenue Bonds, Fifteenth Series (the Bonds). These Bonds are being issued in order to fund a portion of the City of Philadelphia Gas Works' (PGW) capital improvement program and establish sinking fund reserves. Stone & Webster has broad experience in the technical and financial analysis of the operation of a gas distribution system of the magnitude and scope of the Philadelphia Gas Works and has a favorable reputation for competence in such field and is qualified to do such work (see Appendix for Stone & Webster qualifications).

SCOPE OF WORK

Stone & Webster has prepared a detailed report including historic and forecast schedules. The basis for the report is our review of PGW's operations, facilities, and its customer, sales, and financial forecasts. As the basis for our report, we have conducted an independent investigation of such physical properties and books and records that we deemed necessary in order to make the findings and conclusions contained herein. In this regard, we have reviewed PGW's operations, facilities and customer, sales and financial forecasts. The report also provides an assessment of the condition of the physical plant including PGW's existing production, storage and distribution facilities, among others, based upon on-site inspections of facilities. It reviews and evaluates existing and planned natural gas supply contracts with respect to volumes of gas to be delivered and evaluates the adequacy of present inventory, current and future gas supplies, and supplemental gas production capabilities. Furthermore, an evaluation and description of PGW's capital improvement program for fiscal years 1994 through 1999 is addressed with the objective of judging the consistency and reasonableness of the major replacements, improvements and benefits which will be made to the gas system.

The report provides an overview of PGW's long-term capital program and an assessment of the



regulatory and rate setting environment under which the imposition and collection of rates and charges will occur. This financial assessment, based on PGW's 1994 through 1998 financial forecast, is structured to permit the reader to make an estimate of PGW's ability to meet the current and future costs of operation and maintenance, as well as its ability to meet debt service coverage tests and other bond covenants set forth in the legislation which govern debt financing.

FINDINGS AND CONCLUSIONS

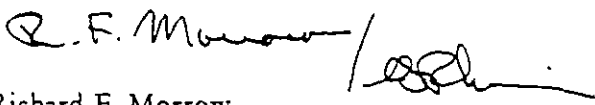
Detailed findings and conclusions are contained in the attached report; however, subject to such findings and conclusions, the following points summarize Stone & Webster's key opinions relevant to issuance of the Bonds:

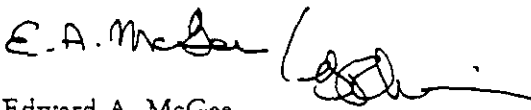
- PGW is a competently managed and operated gas distribution utility. PGW and its facilities are organized, operated and maintained equal to or in excess of regulatory requirements and generally accepted industry practices. Based upon our investigation, we believe PGW's facilities are in good operating condition.
- Based on our investigation and evaluation it is our opinion that over the financial forecast period, 1994 through 1998, on the basis of actual and estimated future annual financial operations of PGW's facilities and certain assumptions with respect thereto over the amortization period of the Fifteenth Series Bonds, current and future project revenues as defined in section 2 of The First Class City Revenue Bond Act (The "Act") will be adequate to meet all expenses of operation and maintenance, repair and replacement, reserve fund deposits, debt service on the bonds issued under the General Ordinance and the surplus requirements of the rate covenants contained in section 4.03(b) of the Ordinance of City Council approved May 30, 1975, Bill Number 1971, as amended (The "General Ordinance").
- The project revenues which are pledged as security for the bonds issued under the General Ordinance are currently and are projected to be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) of the General Ordinance.
- The Bonds are being issued with the intent of funding the capital improvement program and establishing sinking fund reserves.
- Achievement of the forecasted results, 1995 through 1998, is premised on a net revenue increase of \$25.0 million during fiscal year 1994-1995. This could either be through rate increases, expense reductions, efficiencies, increased sales, etc.
- If approved by City Council, the capital improvements proposed during the forecast period, 1994 through 1998, will, along with continued good operation and maintenance practices, enable PGW to maintain its system in good operating condition. Our review of present management practices indicates that this is likely to continue, provided the company is authorized the necessary funds. (Detailed engineering quality assurance inspections and testing were not performed.)

- Contracted PGW gas supplies plus spot market purchases plus anticipated additional contracted supplies plus supplemental gas capacities as well as the pipeline transport capacity to move these supplies to PGW are adequate to meet PGW's forecast of demand on a day of maximum demand (a design peak day), or an hour of maximum demand (a design peak hour), and during a year of maximum demand (a design year).
- PGW's customer count has risen slightly in recent years (0.7% from 1992 to 1993) but is forecasted by PGW to begin to decline. The continuing decline in Philadelphia population (decline of 6.1% between 1980 and 1990) and loss of jobs (decline of 4.0% between 1980 and 1990), if they continue, will eventually limit customer growth. The current unemployment level is 11.9% for the city of Philadelphia (as of September, 1993) versus 7.9% for 1992.
- Total PGW sales volumes over the forecast period are expected to increase by 0.4 percent per year after weather normalization.
- PGW has been without a President and Chief Executive Officer since August 1, 1989 when the former President and Chief Executive Officer, Mr. Robert J. Patrylo resigned. The Philadelphia Facilities Management Corporation organized a Search Committee and has conducted two national searches. To date no appointment has been made. Mr. Alfred P. Degen, PGW Executive Vice President, has served as senior company officer since August 1, 1989.

The accompanying forecasts are based on assumptions of future events and should not be construed as a statement of fact. These assumptions have been provided by or have been reviewed with and approved by PGW and are based on present circumstances and information currently available. During this assignment, we analyzed such information as was considered appropriate for use in evaluating the assumptions pertaining to the financial statement forecasts and, in this connection, it is our opinion that these assumptions are reasonable. These assumptions may be affected by future events and, therefore, the actual results that will be achieved may vary from the forecast.

Sincerely,
 STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.


 Richard F. Morrow
 Vice President
 (Responsible Officer)


 Edward A. McGee
 Assistant Vice President
 (Project Manager)

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INDEPENDENT CONSULTANT'S
REPORT ON THE PHILADELPHIA GAS WORKS

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INTRODUCTION

The Philadelphia Gas Works (PGW), a city owned gas distribution utility in the City of Philadelphia (City), retained Stone & Webster Management Consultants, Inc. (Stone & Webster) to prepare this report in connection with the issuance of up to \$75,000,000 Gas Works Revenue Bonds, Fifteenth Series (the Bonds). Stone & Webster was asked to investigate, evaluate and state conclusions regarding:

- The adequacy of PGW gas supplies;
- The adequacy of current and future PGW revenues to meet operation and maintenance expenses, reserve fund deposits, debt service on the Bonds, lease payments on the Administration building and the requirements of the General Ordinance rate covenants; and,
- The appropriateness of the capital improvements (being financed with the proceeds of the Fifteenth Series Bonds as well as internally generated funds) to maintain the PGW system in good operating condition.

The findings and conclusions regarding these issues are contained in this report. Historical and forecast statistics and related figures are displayed in Figures 1-7, Tables 1-18, and Exhibits I-VI which are an integral part of this report. This report also contains Stone & Webster's independent assessment of PGW's organization and management.

In November 1993, a review and evaluation, based upon on-site inspections, was made of production, storage, distribution and general plant facilities. The adequacy of gas supply and transport resources to meet forecast requirements was determined. The capital improvements program was evaluated as to the appropriateness of quantities and estimates of material and labor prices, and justification of improvements and benefits to the gas system. Finally, Stone & Webster prepared an assessment of the regulatory and rate setting environment which was factored into a series of *pro-forma* financial forecasts for purposes of analysis. This analysis permitted us to estimate PGW's ability to meet the current and future costs of operations, maintenance and debt service coverage requirements and other bond covenants set forth in the statutes which govern debt financing.

Major factors and key assumptions relative to the forecast and discussed in more detail in the report are:

- Base Rates - The Philadelphia Gas Commission is responsible for reviewing and approving PGW's proposals for rate changes. PGW's most recent request for \$31 million in fiscal year 1992 was filed in July, 1991. This request was reduced to \$28 million with the proposed GCR decrease filed August 1, 1991. On December 19, 1991, the Commission approved a \$15 million increase in base rates. Certain aspects of this rate decision have been appealed by the Public Advocate and cross appealed by PGW and PFMC to the Court of Common Pleas of Philadelphia. The order issued by the Court

of Common Pleas of Philadelphia County on October 16, 1992, rejected the issues raised by the Public Advocate, accepted certain expense adjustment changes proposed by PGW and remanded certain items back to the PGC for adjudication. The Public Advocate has appealed the decision to the Commonwealth Court of Pennsylvania. PGW anticipates that it will file a request for a base rate increase before the end of the fiscal year 1994 intended to provide additional net revenues during fiscal year 1995.

- Based on our financial analyses, approval of PGW's anticipated base rate increase for fiscal year 1995 and future GCR requirements will be required in order for PGW to meet the enclosed financial forecasts and the terms of its bond covenants.
- Sales Forecast - Sales volume in one of PGW's interruptible customer classes (LBS-XL Direct) is forecasted to drop significantly (by 73%) after fiscal year 1995 due to the anticipated loss of PGW's largest customer - the Philadelphia Navy Yard. However, increased sale volumes in other interruptible customer classes offset this effect to a decrease of only 0.1 percent over the 1994-1998 forecast period.

GENERAL

THE PHILADELPHIA GAS WORKS

The Philadelphia Gas Works consists of real and personal property, whether tangible or intangible, owned by the City of Philadelphia, plus the organization and personnel necessary for the acquisition, delivery and sale of gas within the City.

In March 1835 a City Ordinance was passed authorizing private ownership and operation of a public utility under trustee management. This Ordinance also contained an option clause permitting the City to take ownership of PGW by issuing City bonds to the private stockholders. This option initiating City ownership of PGW was exercised March 1, 1841, and has since been continuously in effect. Manufactured gas production commenced February 8, 1836 and service was inaugurated February 10, 1836 to 46 gas lamps along Second Street. PGW thus has completed 157 years of service to the citizens of Philadelphia.

During its 157 years of existence, the operation and management of PGW has evolved to its present configuration through a variety of arrangements. Initially it was managed by the private owners. In 1841, a Board of Trustees assumed management of PGW in accordance with an enabling City Ordinance. This arrangement continued through April 1887 when management and operation of PGW was assumed by the City under the Director of Public Works. Serious financial and operating problems led to replacement of 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 City Charter. Operation and management by UGI continued through December 31, 1972.

On January 1, 1973 the Philadelphia Facilities Management Corporation (PFMC), a not-for-profit Pennsylvania corporation, was organized for the specific purpose of operating PGW. PFMC currently manages PGW in accordance with the original Agreement with the City dated December 29, 1972 as subsequently amended (Agreement). The functioning of PGW under the current Agreement is as follows:

<u>Organization</u>	<u>Function</u>
City of Philadelphia	Owns PGW property and establishes legislation for PGW functioning.
The Gas Commission	Established under the Philadelphia Home Rule Charter, operates under the terms of the Agreement and is responsible for overseeing operation of PGW by the PFMC.

PFMC	Provides executive management and operates PGW facilities.
PGW	Manages construction, operation and maintenance of the gas system on a day-to-day basis.

The Agreement states that for the operation of PGW the 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 Philadelphia Gas Commission (Commission). The Commission consists of five members: the City Controller (or his designee), two Mayoral appointees, and two City Council appointees. The Commission has the general responsibility to oversee operation of PGW by PFMC and retains all powers not specifically granted to PFMC. In addition the Agreement specifies certain functions of the Commission, 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,
- Power to establish procurement standards and to fix and regulate rates and charges for supplying gas to customers other than the City and the Board of Education, which will annually produce revenues sufficient to:
 - a) pay all operating and maintenance expenses of PGW and the interest and amortization expense of its debt and,
 - b) pay \$18,000,000 to the City each year and,
 - c) provide such other funds as may be approved by the Gas Commission or City Council.

- *Review and approval of all PGW real estate acquisitions, sales, or leases for submittal to City Council for approval by ordinance.*

ORGANIZATION AND ADMINISTRATION

The current PGW organization, a typical line organization, is shown in Figure 1. In preparing this study interviews were conducted with the Board Secretary of PFMFC, who is on a Board assignment approved by the Chairman, and all of PGW's officers: its acting President and Executive Vice President, each of the three Senior Vice Presidents, and nine of the ten Vice Presidents. The interviews were supplemented by review of PGW policies, practices, procedures and field observation of numerous employees at various facilities performing their functions. Based on these interviews, reviews and observations, it is our opinion that PGW is suitably organized, managed, and operated by qualified personnel.

Total PGW employment as of November, 1993 was 2,388. The Gas Works Employees' Union of Philadelphia, Local #686, Service Employees' International Unit (an AFL-CIO affiliated union) represents 1,758 employees. The United Plant Guards Workers of America, Local # 506, represents 34 employees. These figures represent about an 11.5% decrease from manpower at February, 1989 in accordance with the Gas Commission's order of October, 1988, directed at reduction of expenses.

On August 6, 1993 there was a work stoppage by the Gas Works Employees' Union over a number of issues, including salary issues, in the proposed contract. This work stoppage lasted 85 days until it was settled in October, 1993 with a five-year agreement. It was the third work stoppage in the history of PGW. The first two which occurred in 1971 and 1989 were of shorter duration.

The following brief resumes provide pertinent information on the major management qualifications of the PFMFC/PGW Senior Officers:

Alfred P. Degen, Executive Vice President

Mr. Degen joined PGW in 1968 and has held management positions in the Finance, Customer Activities, and Administrative areas of PGW, including the positions of Assistant Vice President-Customer Activities, Vice President-Administration and Senior Vice President and Chief Financial Officer. On January 12, 1988 Mr. Degen was appointed to the position of Executive Vice President. Since August 1, 1989 Mr. Degen has served as the senior company executive with responsibility for all company activities. He is a member of the Managing Committee of American Gas Association's Finance and Administrative Section, immediate past chairman of the American Gas Association's Consumer and Community Affairs Committee and a current member of the Society of Gas Lighting.

Sydney M. Avent, Esq., Senior Vice President Administration and General Counsel

Ms. Avent joined PGW in January, 1984 as Staff Attorney, was named Senior Attorney in December, 1984, Corporate Counsel in October, 1985, Senior Vice President and General Counsel in January, 1988 and Senior Vice President Administration and General Counsel in September, 1990. Ms. Avent is a member of the Managing Committee of the American Gas Association Legal Forum; the past president of the Women Lawyers Division of the National Bar Association; President of the Philadelphia Bar Foundation; and a member of the American, Pennsylvania, and Philadelphia Bar Associations, and the Barristers Association of Philadelphia. She also is a member of the American Association of Blacks in Energy.

Joseph G. Horan, Senior Vice President and Acting Chief Operating Officer

Mr. Horan joined PGW in 1956 and has held management positions in the Operations, Customer Activities, and the Corporate Planning and Development areas, including the positions of Vice President-Operations and Vice President-Customer Activities. He was named Senior Vice President-Corporate Planning and Development on March 1, 1986, Senior Vice President in January, 1988 and Senior Vice President and Acting Chief Operating Officer on September 11, 1990. He is a member of the American Gas Association, and serves on the Managing Committee of the Operating Section, as well as a member of the Government Relations Committee. He is also a member of the Executive Committee of the Associated Gas Distributors and the Society of Gas Operators.

Edward H. Morris, Jr., Senior Vice President and Chief Financial Officer

Mr. Morris joined PGW as Assistant Vice President of Finance in 1984, was named Vice President of Finance in 1986, appointed Vice President and Chief Financial Officer in 1988 and Senior Vice President and Chief Financial Officer in December, 1990. He has overall responsibility for PGW's Operating Budget and the administration and overview of the Accounting and Budget, Treasury, and Claims and Insurance Departments. In addition, Mr. Morris directs the functions of Customer Activities through the Vice President of Customer Activities. He is a member of the American Gas Association, Financial Executives Institute, and Board of Trustees of the American Gas Foundation. Mr. Morris is also a member of the Board of Directors of Independence Blue Cross and is Chairman of the Audit Committee.

In October, 1991, as a result of the resignation of Joseph Watlington, Jr., Mr. James N. Wade became Chairman of the Board of PFMC and Jacqueline F. Allen, Esq. was named Vice Chair. Other members include Elizabeth H. Gemmill, Esq., Treasurer, Chris R. Van de Velde, Secretary; Asa G. Murray and Kenneth A. Youngblood appointed October, 1991; and Marsha Perelman appointed May, 1992.

SERVICE AREA

Philadelphia Gas Works is the largest municipally-owned gas utility in the nation. PGW purchases, sells, and distributes natural and supplemental gas within the limits of the City of Philadelphia (see Figure 2). The City's borders envelop a predominately urbanized area of 129 square miles in southeastern Pennsylvania along the

Delaware River. Within these boundaries PGW maintains a distribution system with approximately 6,000 miles of gas mains and service pipes serving approximately 524,000 customers.

The City is the largest incorporated area in the Delaware Valley region. The 1990 U.S. census, as reported by the Delaware Valley Regional Planning Commission (DVRPC) in April, 1991, counted 1,585,577 inhabitants in the City, a decrease of 6.1% since 1980, and 5,182,705 in the region's nine counties, an increase of 3.2%. The region is comprised of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania, and Burlington, Camden, Gloucester, and Mercer counties in New Jersey. The five Pennsylvania counties in the region contain 31% of the state's total population.

Philadelphia's economic orientation has been shifting steadily towards service-related activities. In 1990, services accounted for 308,343 jobs (36.1%), retail accounted for 117,017 jobs (13.7%) and manufacturing accounted for 84,559 jobs (9.9%) in Philadelphia County. The main service industries in the City of Philadelphia are insurance, law, finance, health, and education. The relatively low costs of living and office space compared to cities of similar size, along with a prime location at the heart of the Washington-New York-Boston corridor, and the presence of major research universities assures Philadelphia a continuing capacity to attract and retain a dynamic private sector.

The Delaware Valley Regional Planning Commission (DVRPC) is forecasting total employment gains of 1.2% (years: 1990-2000), 5.3% (years: 2000-2010), and 4.5% (years: 2010-2020) for the County of Philadelphia. At the same time the DVRPC is forecasting substantially higher employment gains for each of the counties surrounding the City of Philadelphia. Overall, Philadelphia has been experiencing a continual trend of jobs transferring from the City to the Suburbs.

If the proposed near-to-total shutdown of the Philadelphia Naval Base occurs as announced, ten to twenty thousand jobs (including support industries) could be lost in the Philadelphia area. The proposed closing of the Naval Base would directly affect PGW since the Naval Base and its shipyard together are PGW's largest commercial/industrial customer. Indirectly PGW would also be impacted negatively through the job loss of residents employed at the Naval Base or at related service industries.

The revitalization of Philadelphia's central neighborhoods has included the construction of new office buildings, hotels, and the renovation of existing structures. Many of the City's older sections continue to be rejuvenated through the restoration of existing buildings for residential use.

A new Convention Center has just been completed in downtown Philadelphia. This Center should attract many visitors and businesses to the Philadelphia area. PGW has already secured the Center as a heating and air-conditioning customer, thus the new Convention Center has become one of PGW's largest customers. The gas revenues generated from the Convention Center are expected to partially compensate for revenues lost due to the Naval Base closing.

The impact of the City's revitalization on PGW is not clear. While PGW will indisputably benefit from the growth in commercial market and office space in the City, the residential outlook is mixed. The return of urban professionals and so-called "empty nesters" to the City, attracted by a shorter commute and the advantages of urban life, will be counter-balanced by continuing out-migration by other City residents and the concentration of residential growth outside the City limits.

Despite the last decade's population decline in the City, PGW has maintained a relatively constant level of residential customers during the last four fiscal years (see Table 1).

Table 2 shows the historical pattern of PGW's sales. In fiscal year 1993, PGW sold 63.0 billion cubic feet (Bcf) to firm customers. Firm sales volumes have varied due to changes in the number of heating degree days and the number of firm customers. Total PGW interruptible sales have varied up and down between 10.2 Bcf and 12.5 Bcf over the past five years, with 1990 sales at 10.2 Bcf and 1991 sales at 12.5 Bcf.

SALES FORECAST

PGW's actual sales for fiscal 1993 and anticipated sales for fiscal 1994-1998 are shown in Table 3. The 1994 sales forecast contains the budget figures for the fiscal year. The 1994 total sales and transportation volumes are forecast to increase 2.3 percent from 1993 weather adjusted actual total sales. The 1994 sales forecast is based on 4,600 degree days which is 3% warmer than the previous year's actual degree days. The forecast excluding Load Balancing Service (LBS) sales for 1994 - 1998 is based on an analysis of historical usage patterns and also utilizes a normal (average) weather pattern containing 4,600 degree days. Factors considered in the forecast include the historical growth or decline in number of customers, changes in rates of consumption by customers in each rate classification, the existing and anticipated price advantage of natural gas over alternative fuels, the availability of natural gas, and the likelihood of PGW's participation in new construction and rehabilitation projects. The forecast for LBS sales is based upon the availability of gas for sale at a competitive price after the demand for gas by all other classes of customers has been satisfied.

Total sales are forecast to increase by 1.2 Bcf or 1.6 percent from fiscal years 1994 through 1998, an average annual growth rate of 0.4 percent. However the fiscal year ending 1996 represents a decline of 1.6 percent from fiscal year 1995. This is due to the expected closure of the Philadelphia Naval Base (PGW's largest customer) and associated industries. This appears as a decrease in large and extra large load balancing services (direct). Excluding fiscal year 1996, sales show a real average annual growth rate of 1.1 percent. New air conditioning markets and additional steam system conversions are primarily responsible for this projected growth.

Annual firm sales for fiscal 1994 are forecasted at 63.0 Bcf and, under normal weather conditions, are expected to increase to 64.3 Bcf by the end of the forecast period. Overall, the composite growth rate for firm sales is 0.5 percent per year.

Interruptible sales are expected to fall to 11.8 Bcf in fiscal 1998, representing a decline of 1.0 percent over the forecast period. This fall is due to the closure of the Philadelphia Naval Base and its associated industries.

Table 4 presents PGW's actual total customers for 1993 and a customer forecast. Between 1993 and 1994, the total number of customers is forecast to decrease by 417. The total number of customers is expected to decrease by 1,398 or 0.3 percent over the forecast period 1994-1998. The number of residential customers will decrease by 0.9 percent for a net decrease of 4,596 customers by 1998. Combined commercial and industrial customers are expected to increase by 3,090 customers, or 12.0 percent. Interruptible customers will increase by 105 or 23.9 percent. The total numbers of PHA and municipal accounts are projected to be flat throughout 1994 to 1998.

This forecast includes load growth resulting from new construction, rehabilitation and conversion over the forecast period. Table 5 restates the forecast to illustrate that it envisions a modest decline in market share relative to the City's declining population. In 1993 residential gas customers accounted for 81.63 percent of the City's households; it is expected that they will account for 81.46 percent by 1998.

Table 6 illustrates a sensitivity analysis estimating total residential sales under the assumption that PGW's forecasted percent of population served in fiscal 1993 (i.e. market share) remains constant through the forecast period. At that level, residential sales over the five-year forecast period would be 0.4 Bcf higher than PGW's forecast.

PGW's forecast of sales to its firm commercial and industrial markets projects an increase from 10.7 Bcf to 11.4 Bcf from 1994 to 1998. Included in PGW's forecast is the sale of natural gas to commercial customers presently purchasing steam from the Philadelphia center city steam loop. PGW's marketing department estimates that a significant amount of the steam loop's original load will be converted to gas by 1998 (see Figure 3). This will represent an annual sales volume of 2.5 Bcf by the end of the forecast period. PGW is able to demonstrate a savings to many of these customers relative to the current cost of steam through the use of natural gas. The steam loop has already lost 29.5% of its customers since 1980 and PGW is aggressively competing for future conversions. For fiscal 1994 the number of steam loop conversions is expected to total new load representing 35.0 MMcf.

In general, it is our opinion that PGW's sales forecast is a reasonable projection of sales in light of existing economic conditions within its service territory.

FACILITIES

PRODUCTION FACILITIES

The principal PGW peaking or supplemental facilities include eight City Gate stations and two major gas production plants, Richmond and Passyunk. Located at the plants are two liquefied natural gas (LNG) facilities, a gas control center, a de-activated propane/air plant, and two gas holders.

a) City Gate Stations

Natural gas is received through eight city gate stations from two pipeline transmission companies - Texas Eastern Transmission Corporation (TETCO) and Transcontinental Gas Pipe Line Corporation (TRANSCO). The facilities at each of the city gate stations perform two basic functions - to meter the flow of gas and to control the pressure delivered to PGW's distribution system.

b) Gas Control Center

The gas control dispatchers, located at the Richmond Plant, monitor and control gas flow and pressure from the eight city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the production plant operators concerning startup, shutdown and gas flow output from the supplemental facilities. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

c) Liquefied Natural Gas Facilities

There are two LNG facilities - one at the Passyunk Plant and one at the Richmond Plant.

The LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons (i.e., the equivalent of 253,300 Mcf of natural gas) and three LNG vaporizers, each having a capacity of 45,000 Mcf per day.

The Richmond LNG plant is the largest facility in the U.S. for liquefaction in addition to storage and vaporization. During the non-heating season, PGW uses the Richmond LNG Plant to liquefy and store natural gas from the pipeline. The plant has the capacity to liquefy and store approximately 23,500 Mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid is accomplished with six vaporizers having a total output of 480,000 Mcf per day.

d) Propane/Air Facilities

The Passyunk propane/air plant has the air compression and propane vaporization capacity to produce 60,000 Dth of propane/air mix per day (45,000 Dth per day planning basis) and has a liquid propane storage capacity of approximately 662,250 gallons. This facility is idle since its use is not anticipated in the current gas supply forecast before 1998, and then only in design weather conditions.

e) Gas Holder Storage Facilities

Both Richmond and Passyunk plants each have a low pressure gas holder. These holders have operating capacities of 1,000 Mcf and 6,000 Mcf for Richmond and Passyunk plants, respectively. The holders were installed in the manufactured gas era and are in good working order. Holders are used for keeping daily pipeline purchases within contract limitations and for hourly peak shaving requirements.

DISTRIBUTION FACILITIES

The principal gas distribution facilities consist of approximately 3,021 miles of main, 507,319 services, 205 regulator stations, 525,963 active meters, miscellaneous valves, instruments and other appurtenances. There are 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 psig; the intermediate pressure system operates at 5 psig; the low pressure system operates between 6 and 9 inches of water column (approximately .25 psig). The majority of customers are served from the low pressure system.

Approximately 61 percent of the gas mains are cast iron pipe, 33 percent steel pipe, 5 percent ductile iron pipe and 1 percent are plastic pipe. Approximately 62 percent of the services are steel and 38 percent plastic. The part of the steel system subject to corrosion is cathodically protected.

OTHER FACILITIES

PGW has its executive and operating offices located at 800 W. Montgomery which is a relatively new 150,000 square foot office building. The former general office building houses distribution and customer service dispatch centers, operating stations, and warehousing, as well as management information systems, a meter repair shop, and a metal fabrication shop. Additional facilities include eight district offices and four operating stations for customer service and distribution crews. In addition, there are a warehousing facility and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of over 1,000 vehicles and equipment. PGW also maintains minor automotive repair facilities at three of its operating stations.

CONDITION OF FACILITIES

In November, 1993 Stone & Webster conducted site inspections of certain PGW facilities as deemed appropriate. In the course of these inspections the following facilities were visited:

- 800 W. Montgomery
 - General Offices
 - Network Analysis Work Stations

- 1800 N. 9th Street (former general office building)
 - Meter Repair Shop
 - Meter Warehouse
 - Distribution and Customer Service Dispatch Centers
 - Distribution and Customer Service Work Stations

- 1849 North 9th Street
 - Vehicle Maintenance Facilities
 - Vehicle Refueling Station
 - General Offices

- Hunting Park
 - Warehouse

- 5138 Belfield (Customer Service and Distribution Satellite Operations Center)
 - Customer Service Building
 - Distribution Facilities
 - Yard Area and Fence

- Passyunk Plant
 - Boiler & Water Treatment Facilities
 - LNG Facilities
 - Propane/Air Facilities (idle)
 - Gas Holder Facilities

- Richmond Plant
 - LNG Plant
 - Gas Control Center
 - Gas Holder

- City Gate Stations
 - Richmond (TRANSCO)
 - Ashmead (TRANSCO)
 - 034 (Texas Eastern)

- Large Volume Meters
 - Temple University (1001 W. Montgomery)

- Work Sites
 - **Odor of Gas Report** - A PGW crew responded to an odor of gas report at 240 Christian Street. The crew investigated and confirmed the presence of gas. The suspected leak location was excavated where a 1¼" steel collar on a 6" main was found leaking. A welder was called-in to make the repair.

 - **Leak On Main** - PGW located a leak on a 20" high pressure cast iron main at the corner of Passyunk and Queen Streets. The leak originated at a Dresser Coupling. Having excavated and ventilated the site, the crew was preparing to make a temporary repair to reduce the quantity of leaking gas. Once the leaking gas was reduced, the pipe surface around the coupling would be cleaned to allow the installation of a full encirclement repair sleeve.

 - **Cast Iron Main Replacement** - City plans called for the installation of new sewer and water lines adjacent to a cast iron main in Weikel Street, north of Clearfield. PGW had replaced the cast iron main with a 6" plastic main. A PGW crew was transferring service lines from the cast iron main to the plastic main.

 - **New Service Line Installation** - A PGW crew was preparing to install a new service line to the Police Athletic League at Belgrade and Clearfield due to increased load. The crew had completed the excavation and a 2" Thread-O-Let was welded onto the 6" steel main.

 - **Live Tie-in** - A PGW crew was preparing to make a hot tap into a 20" cast iron main at the corner of Allegheny and Thompson. The 20" x 8" sleeve was being pressure tested prior to tapping to insure its integrity. The hot-tap would tie-in a contractor installed 8" steel main and service line which would serve the James Anderson Asphalt Company.

In addition to the site inspections, Stone & Webster interviewed the Senior Vice President and acting Chief Operating Officer, Senior Vice President and Chief Financial Officer, the Senior Vice President and General Counsel, Vice Presidents of Operations, Marketing, Customer Activities, Administration, Internal Auditing, Technical Services, Rates and Federal Regulatory Affairs, Public Affairs, and Government and Community Relations, and the managers and superintendents of Distribution, Customer Service, and Gas Supply Departments. On this or on previous inspections we have reviewed construction, maintenance and operating practices, system

design criteria, inventory levels, material and construction standards, safety, regulatory compliance and maps and records.

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 are well trained in the operation and maintenance of the gas distribution system. PGW is actively involved in entering their records (Corrosion, Service and Leak Records) into computer databases, thus facilitating and improving the accuracy of accessing information. PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. Reasonable security measures are provided at the major facilities visited such as the two production facilities, the city gate stations and the headquarters building.

Based on the inspections and interviews conducted, it is our opinion that PGW operates and maintains its system prudently and in accordance with current regulatory standards and generally accepted industry practices.

ENVIRONMENTAL

The influence of recent and increasing state and federal attention to and regulation of corporate actions affecting the environment is affecting PGW operations. PGW is increasingly involved in dealing with such matters. Four such situations involving PGW are:

- Passyunk Plant Underground Contamination - PGW recently entered into a settlement agreement with Sun Co., Inc. (Sun) involving clean-up of materials released on Sun's property that migrated to the adjacent PGW Passyunk plant. Sun agreed to reimburse PGW \$1.7 million for past cleanup efforts and PGW and Sun have agreed to share equally further cleanup costs.
- Passyunk Plant Waste Disposal - PGW had made arrangements with Sea Land Inc. (Sea Land) of Mt. Pleasant, Delaware to haul and dispose of oil gas tar from the Passyunk plant. Disposal was in a pit at Mt. Pleasant which was managed by Sea Land. After less than a year of operation Sea Land declared bankruptcy. The Environmental Protection Agency arranged for emergency clean-up of the dump site and is attempting to involve PGW as well as other firms in paying for this and a final clean-up. Sea Land's records show that PGW shipped material to the dump, but do not record the amounts involved. PGW feels that even though they are designated as a potentially responsible party (PRP), they will not be required to contribute to clean-up costs.
- Former Manufactured Gas and Gas Holder Site Surface Contamination - PGW and its many predecessor companies manufactured gas at seven sites and stored them at seventeen other gas holder sites. PGW did an assessment of these twenty-four sites early this year and concluded that they pose no imminent risk to either the environment or human health, and reported that there is no evidence

of surface contamination at any of these sites. PGW plans to monitor the situation at five-year intervals and will perform a comparable assessment of them at each five-year interval.

- Passyunk and Richmond Plant Air Quality - Under the Federal Clean Air Act Amendments of 1990 (CAA) gas compressors at PGW's liquefied natural gas plant will require major changes in combustion controls to avoid exposure to severe penalties for non-attainment. To date the Pennsylvania Department of Environmental Resources (DER) has not set emission standards which are necessary for design of the controls. PGW is proceeding with control engineering in FY 1994, but must, along with owners of about 400 other compressors in Pennsylvania, have final emission requirements specified to complete design and then attempt to order and install the controls prior to the May, 1995 mandated compliance date. PGW's actions are consistent with compliance requirements; however, unless the Pennsylvania DER issues emission standards in a timely manner, PGW and the other Pennsylvania compressor owners will not be able to comply. PGW has budgeted amounts believed necessary to comply.

These and other environmentally related issues affect PGW's planning process and are being handled through normal company procedures.

GAS SUPPLY

SUPPLY SERVICES

PGW is directly connected with two major interstate pipeline companies - Texas Eastern Transmission Corporation (TETCO) and Transcontinental Gas Pipe Line Corporation (TRANSCO) and has pipeline contracts with both. These two pipeline companies deliver virtually all of PGW's supplies over the forecast period. The pipeline contracts provide for the transportation of gas purchased by PGW. In order to utilize these contracts in an economic manner, PGW has contracted for a variety of storage services and owns and operates two LNG plants which also serve a storage role. These storage gas options permit the matching of supplies to winter-period peak demands.

Starting this winter the U.S. natural gas industry will begin operating differently than it has in the past. Due to the Federal Energy Regulatory Commission Order 636, all gas services will be sold unbundled. As a result PGW will no longer purchase its supplies from either of the pipelines directly. Instead PGW will purchase supplies from other firms and use the pipelines only to transport them.

For the past several years PGW has prepared itself for the new era of unbundled services. In 1989 PGW began converting its gas entitlements on the TRANSCO pipeline from sales service to firm transportation service. The following year PGW signed new supply agreements with TETCO permitting partial transportation for the first time. As a result, PGW is well positioned to make the transition to the post 636 marketplace.

As shown in Table 7, PGW has two existing transportation contracts on the TRANSCO system and on the TETCO system for flowing gas. These firm transportation agreements are used to move gas to the Philadelphia city gates either directly from producers or from storage facilities. The FT, FT-1 and CDS contracts are for 365 days per year, whereas the smaller PSFT contract is a winter peaking service available for 90 days per year.

On the TETCO system, PGW employs five storage contracts (SS-1A, SS-1B, CNG-GSS-TE, ANR and Equitrans). The SS-1A, and SS-1B storage services are directly connected to TETCO. ANR, Equitrans and CNG-GSS-TE are off-system storage facilities. PGW has adequate transportation contracts in place to deliver gas withdrawn from these facilities to PGW. PGW's total daily deliverability from these storages is 117,813 DTh.

On the TRANSCO system, PGW has four storage contracts (GSS, S-2, WSS, and LGA), with a total daily deliverability from storage of 106,006 DTh. The LGA contract (10,495 DKT) is still leased to an outside company.

PGW also owns supplemental LNG and propane/air facilities to meet contingent winter demand in excess of pipeline and storage supplies. LNG is produced from pipeline gas during the summer and stored in PGW's two

large facilities and one satellite tank within the City. Propane/air (LPG) can be produced from PGW's Passyunk plant.

Figure 4 pictorially depicts the peak day gas supply delivery sources available to PGW.

SUPPLY/DEMAND BALANCE

Table 8 restates PGW's forecast of supply and demand under normal weather conditions (4,600 HDD) for fiscal years 1994-1998. Over this period it is expected that daily pipeline deliveries (including storage deliveries) will account for about 97% of PGW's requirements, with the balance supplied from LNG.

Table 9 restates PGW's forecast of supply and demand under design weather (5,280 degree days) conditions for fiscal years 1994 - 1998. Daily pipeline deliveries through Texas Eastern and Transco from gas producers/marketers account for approximately 78 to 80 percent of total demand; and storage gas accounts for approximately 16 to 18 percent of demand throughout the forecast period. Remaining demand is met with LNG, with LPG required in 1998.

As shown in Table 7, the pipeline transportation contracts provide PGW with up to 109.7 million Dth annually. To the extent practicable and most prudent, PGW intends to maintain flexibility on both pipelines by contracting future gas supplies from both marketers and producers. A number of supplies are being selected under varying term contracts now for the TRANSCO and TETCO system.

Table 10 restates PGW's forecast of supply and demand under peak day and peak hour conditions. Sendout requirements are based upon the assumptions of a peak winter week day with an average daily temperature of zero degrees Fahrenheit (F) (65 Heating Degree Days) and an hourly peak temperature of minus five degrees Fahrenheit. Under these conditions interruptible sales are planned to be suspended in accordance with provisions in the contracts for such rates. Under peak day conditions, projected firm demand could be met throughout the forecast period by pipeline deliveries and the use of PGW's LNG capacity. Figures 5 A and B compare peak day and peak hour demand to PGW's maximum sendout capability for each of the forecast years. Figure 5B shows a small sendout safety factor exists for peak hour demand.

The maximum daily sendout during the winter of 1989-1990 was 649.0 MMcf (671 MDth) on December 22, 1989. The average daily temperature on that date was 12 degrees Fahrenheit. Demand was satisfied with 453.7 MMcf (469.0 MDth) of pipeline gas, and 195.3 MMcf (202.0 MDth) of LNG. No propane was available due to widespread curtailments throughout the U.S. Two days later, on December 24, PGW faced an unplanned pipeline curtailment. Even though demand was lower than on the peak day, amounting to 567.3 MMcf (587 MDth), dispatching was more difficult. Only 345.9 MMcf (358 MDth) of pipeline gas was available and propane was still unobtainable. PGW met the difference of 221.4 MMcf (229 MDth) entirely from its LNG supplies. During the last winter (1992-1993) the peak sendout occurred on March 14, 1993 when an average temperature

of 20°F was recorded. Sendout totaled 591.4 MMcf and was derived 67% from pipeline gas, and 33% from LNG. No LPG was used.

In summary, based upon our review of PGW's gas supply acquisition policies, proposed budget, and the analyses described herein, it is our opinion that transportation, storage and supplies of natural gas under contract, along with LPG, and LNG normally available to PGW, are adequate to meet PGW's forecast of peak hour, peak day and peak year demand through the 1998 fiscal year.

CAPITAL IMPROVEMENT PROGRAM

BUDGET PROCESS

PGW's capital budget and five-year forecast are the result of a formal process starting when a list of budgeting and operating assumptions is developed to provide overall direction and is circulated to all departments. Individual departments use these assumptions as well as certain agreed upon economic parameters to prepare the capital requirement estimates that form the basis for departmental budgets. These budget requirements and forecasts are based on meeting PGW's design hour and design day forecasts that are prepared by the Energy Planning and Forecasting Department. The major operating departments determine their capital requirements by identifying the capital improvements necessary to safely and reliably meet the system-wide conditions calculated for a design day of zero degrees fahrenheit average temperature and a minus five degrees fahrenheit design hour.

All capital projects and requests are assigned a priority: the highest priority (priority 1) is reserved for expenditures required to maintain the integrity (safety and reliability) of PGW's system, the next priority (2) indicates expenditures required to improve system efficiency/productivity, and the last priority (3) is used for other expenditures which may be of a more discretionary nature. In addition to being assigned priorities, capital projects are also classified according to the following categories of needs:

- Prudent Replacement - replacement of existing facilities that are nearing the end of their useful life.
- Economic Replacement - replacement of existing facilities with alternatives that are more cost effective.
- Load Growth - provision of facilities necessary to supply customers having additional load requirements.
- Improved Efficiency - reduction of future operating costs.
- Enforced Relocation - mandated by City, State or other outside construction activities.
- Other - any other projects that do not fit into the previously defined categories.

PGW's 1994 Capital Budget and 1995-1999 forecasts incorporate several changes which reflect improvements to internal policies, procedures and the level of detail information. The most significant changes include:

- Approved capital budget work orders have a definite life span and adjustments approved by Sr. Vice President and Chief Financial Officer.

- Multi-year capital projects are divided into phases and submitted for the budget years when funds will be required.
- Approved projects not adequately progressing are reviewed as to whether they are still necessary.
- Capital project priorities and needs are presented within a matrix format which highlights the relationship between priorities and project needs.

Proposed capital expenditures for both the fiscal 1994 capital budget and the five-year capital forecast (fiscal 1995 through fiscal 1999) total \$379.8 million on a net basis (after reimbursements, contributions, and salvage). The Capital Improvement Program for fiscal year 1994 - 1998 are summarized in Table 11A and shown graphically in Figures 6 and 7. The expenditures against these authorizations are summarized in Exhibit IV.

The fiscal 1994 capital budget totals \$61.0 million (net basis) with distribution system expenditure totals for the six-year forecast accounting for 64.0 percent, gas supply for 8.0 percent, customer service 17.2 percent, transportation 5.8 percent, and other expenditures 5.0 percent. This budget is \$10.8 million (21.4%) more than last year's original budget filing (fiscal 1993). The fiscal 1994 gross budget of \$63.5 million is comprised of \$49.5 million (78.0%) of replacements and \$14.0 million (22.0%) of additions.

Broken out by priority, 75.4% of the proposed fiscal 1994 gross capital budget is categorized as priority 1, (essential for safe and reliable service), 22.5% as priority 2 (will reduce future operating costs) and 2.0% priority 3 (discretionary). Broken out by needs categories, the fiscal 1994 gross budget is allocated primarily to prudent replacements (\$29.8 million or 46.9%), other (\$8.6 million or 13.5%), and load growth (\$8.5 million or 13.4%). The remaining \$16.6 million (26.2%) is either for economic replacement, improved efficiency, or enforced relocation needs.

Table 11B lists the sixteen largest items in the fiscal 1994 capital budget. These are all of the items budgeted at over one million dollars each. Together these sixteen major projects account for \$51.6 million or 81.3% of the total gross budget. These same sixteen project categories (twelve of which are annual recurring items) also accounted for \$42.6 million of last year's budget. This indicates that in general both the largest projects and the majority of PGW's budget are accounted for by annually recurring activities.

GAS SUPPLY PLANT

Proposed investments for additions and replacements to PGW's gas supply plant total \$5.3 million for the budget period. The 1994 Gas Supply Budget is 29.1% more than the budget filed in 1993. The primary reason for the increase (1994 versus 1993) is the inclusion of emission reducing equipment for LNG liquefaction compressors (Phase I) at the Richmond Plant. This item is expected to be required by the Clean Air Act of 1990 which mandates installation of such equipment by May 1995. At this time, the State of Pennsylvania has not issued its

final requirements and therefore, this estimate is based on the most likely scenario. This is a two-part project with Phase II scheduled in F.Y. 1995 at a cost of \$2,790,000. Project scope will be revised and more definitive estimates will be prepared to minimize overall cost as much as possible, once the State issues its final regulations.

The expenditure breakdown in the 1994 gas supply budget is \$181,000 for Natural Gas Measurement and Control Facilities, \$4.195 million for Supplemental Gas Facilities, and \$946,000 for Building and Grounds. The largest individual expenditures are \$1.8 million for exhaust emission reducing equipment for the LNG liquefaction compressors (Phase I) and \$1.0 million for replacement of the LNG steam supply system (Phase II) at the Passyunk Plant.

DISTRIBUTION PLANT

The proposed expenditures for capital improvements to PGW's distribution system in the fiscal 1994 budget period total \$44.2 million before credits of \$2.1 million for salvage and reimbursement to yield a net total of \$42.1 million. Main and service replacements amounting to \$37.9 million and additions of \$6.2 million account for 85.9 percent and 14.1 percent respectively of the total gross capital expenditures.

- The City intends to upgrade significantly the appearance of South Broad Street, Chestnut to Ellsworth Street, including the footways where 9400 feet of old steel and cast iron main are located. This replacement is budgeted at \$1.4 million and is to be done in conjunction with the city work and should reduce future maintenance cost.
- The Roosevelt and Byberry regulator station, installed in the 1960's, is obsolete and does not meet current code requirements. The FY 1994 budget includes \$750,000 for replacement of the station.
- For Fiscal 1994 PGW has budgeted \$2.3 million for the abandonment of an additional 2,500 services to vacant properties where accounts have been inactive for at least two years. This reduces potential problems and maintenance/inspection requirements.
- PGW has budgeted \$1.7 million in additional funds for enforced relocations primarily due to higher recent projections by the City on water, sewer and street work that will impact on PGW facilities. These projections were derived from the 1993-1998 City Capital Program and the Department of Streets proposed FY 1994 Capital Budget.

The largest capital expenditures for the distribution system are scheduled for the replacement of small diameter (1.25 inches or less) services which account for \$14.1 million of the FY 1994 proposed capital budget. These expenditures are scheduled for the renewal of services based on customer complaints, leak surveys, and city and state work.

Prudent main replacements for intermediate and low pressure mains of small diameter (8 inches or less) amount to \$7.3 million of the FY 1994 budget. Main replacements due to anticipated city and state construction activities involve \$6.4 million of proposed expenditures for the FY 1994 budget.

CUSTOMER SERVICE

PGW's planned customer service related investments total \$6.7 million net in the FY 1994 budget after consideration of \$0.1 million for contributions and salvage. Meter replacements, additions and installations account for \$4.5 million with most of the remaining budget amounts allocated to Automated Meter Reading.

TRANSPORTATION

Capital expenditures budgeted for transportation by PGW total \$3.9 million less \$0.2 million expected for vehicle and equipment salvage during the 1994 budget year. Vehicle replacements/additions will account for 69.3 percent of the total; mobile equipment replacements 16.7 percent, CNG conversions 4.1 percent and the remaining 9.9 percent of the expenditures is planned for miscellaneous equipment.

OTHER DEPARTMENTS

The balance of PGW's budgeted and forecasted capital expenditures amount to \$3.2 million over the three year period from FY 1994 to FY 1996 including \$1.88 million proposed for fiscal 1994. The departmental expenditures are \$2.03 million for building services, \$0.48 million for information systems, \$0.50 million for customer activities, \$0.12 million for materials management and \$0.11 million for Technical Services. Building services expenditures include funding for furniture, office machines and equipment, tools and machinery, paving and structural repairs to PGW buildings and parking lots, a natural gas driven electrical generator, and replacement of an electric chiller with a gas fired chiller. The largest customer activities budget item is \$248,000 for micro-processor hardware over the next two years. The largest information systems expenditure involves \$200,000 for printing equipment over the next two years.

RECENT DEVELOPMENTS

Based on discussions with PGW's management and our review and evaluation of PGW's proposed fiscal 1994 capital budget and forecast capital expenditures for fiscal 1995 through 1999, it is our opinion that the budget is consistent with PGW's corporate objectives and is appropriate for maintaining a safe natural gas distribution system for Philadelphia. PGW's objectives for the proposed capital budget are to provide and maintain the necessary facilities to ensure PGW has the capability to deliver safe, reliable service that is cost effective for existing and future customers.

FINANCIAL CONSIDERATIONS

REGULATORY ENVIRONMENT

The Philadelphia Home Rule Charter contains provisions for the establishment of the Philadelphia Gas Commission (Commission) to regulate the activities of PGW. Under the Management Agreement the Commission's powers and duties include: establishing PGW's rates and related charges, approval of certain management personnel selections by PFMC, approval of operating budgets, review of the capital budget and gas supply contracts prior to approval by City Council, review of PGW's books, records and accounts, setting standards for the procurement and disposal of material, supplies and services, and approval of any changes in gas quality standards. The Commission's five members include: the City Controller, two Mayoral appointees, and two City Council appointees, or their respective designees. The current Commission took office August 21, 1992. Municipal ownership of PGW means that all rate regulation authority is held by the Commission and not by the Pennsylvania Public Utility Commission.

Requests for rate and tariff changes are initiated by PGW based on anticipated revenues, expenses, capital expenditures and debt service coverage. The Commission holds public hearings on proposed changes to base rates at which PGW and other interested parties are permitted to present evidence supporting their positions regarding the proposed rate change. Community Legal Services, Inc. was first appointed in 1988 to be the Public Advocate in rate hearings to represent residential customers. Also, the Commission has recently hired a hearing examiner. The Commission issues orders based on its findings from the evidence and information available. Subsequent to the issuance of orders, an appeals process is available that includes a petition for reconsideration and rights of appeal through the courts. The Commission, through its regulatory review and orders, seeks to obtain a balance between the concerns of PGW, the City and the customers with an increasing emphasis on needs of the low-income customer. PGW makes a considerable effort to work with the Commission to keep them informed on all important matters that affect the company.

In addition to its base rates, PGW has a gas cost recovery (GCR) adjustment designed to permit the company to adjust its charge to firm customers, on a quarterly basis, to recover its actual cost of purchased gas. The projected cost of purchased gas is calculated and recovered from customers on a levelized basis in part from a component included in the base rates and in part from the GCR adjustment. GCR collections, which may be positive or negative, together with the cost of gas included in the base rates, are matched against actual costs for the year. Any differences are then charged or credited to purchased gas costs in the next annual forecast period.

Over the past four years PGW has filed two base rate increase requests:

- In June, 1990 PGW proposed a base rate increase intended to generate \$31 million in additional net revenues. The rate increase application was filed on June 29, 1990. On February 5, 1991 the

Commission issued its Order which authorized an adjustment to the structure of the GCR to increase base non-fuel revenues by approximately \$16 million a year. This was effectuated by decreasing the cost of gas in the base rates and keeping the base rates unchanged. The Commission also granted an \$8 million supplemental increase on May 22, 1991, to offset low revenues due to the mild winter of 1990/1991. At this time the Commission ordered the cost of gas to be reduced further, but again kept the base rates unchanged.

- In July, 1991, PGW submitted a rate increase of \$31 million for fiscal year 1992. This request was reduced to \$28 million with the proposed GCR decrease filed August 1, 1991. On December 19, 1991, the Commission issued an Order approving a \$15 million increase effective September 1, 1991. Certain aspects of this rate decision have been appealed by the Public Advocate and cross appealed by PGW and PFMC to the Court of Common Pleas of Philadelphia. The order issued by the Court of Common Pleas of Philadelphia County on October 16, 1992, rejected the issues raised by the Public Advocate, accepted certain expense adjustment changes proposed by PGW and remanded certain items back to the PGC for adjudication. The Public Advocate has appealed the decision to the Commonwealth Court of Pennsylvania.

The Commission performs an annual review of the GCR procedure. These reviews, which may be technically comprehensive, can include an investigation into fuel planning and gas purchasing practices of the company. The Commission has concluded in the past that PGW's gas procurement has fulfilled applicable regulatory requirements by utilizing least-cost gas supplies while maintaining overall system reliability.

PGW expects to apply for a rate increase in the Spring of 1994, to take effect in fiscal years 1994/95. Although it is not possible to anticipate how PGW will fare in future rate applications, recent events of note include:

- the fact that the Commission has acted favorably with respect to its recent reviews of the company's GCR and operating budget; and
- financial problems in the City have improved somewhat in the last year.

In light of these circumstances the regulatory outlook is seen to be more positive.

ENERGY ASSISTANCE PROGRAMS

High accounts receivable balances and a large number of delinquent accounts have occurred at PGW for a number of years. In response PGW has taken a proactive position in assisting customers in meeting energy costs. The company works closely with community and legislative groups at the city, state and federal levels to increase funding for energy assistance programs. As a result of its activities these financial assistance programs provided a total of \$13.3 million and \$13.6 million in aid for the fiscal years 1992 and 1993 respectively.

The Federally-funded Low Income Home Energy Assistance Program (LIHEAP) provides payments to households in order to help ensure continued utility service. This year the program is expected to have an income eligibility at or below 135 percent of the federal poverty level. Philadelphia's gas consumers make application through PGW's eight neighborhood offices, Department of Public Welfare and many community sites with the funds going directly to PGW for crediting to the customer's account. For the last fiscal year the grant program ran from November 30, 1992 through January 22, 1993. There were 47,280 PGW customers who received \$8.1 million of LIHEAP funds for an average of \$171 per customer. In fiscal year 1993, PGW customers also received assistance from the LIHEAP Crisis program with 18,351 customers receiving \$5.4 million for an average of \$294. In fiscal year 1993, the Crisis program ran from November 30, 1992, through April 2, 1993. In fiscal year 1992, both the cash and Crisis portions of LIHEAP ran from November 15, 1991 through April 3, 1992. For the cash portion of the grant program, there were 47,125 PGW customers who received \$8.7 million of LIHEAP funds for an average of \$184 per customer. For the Crisis program there were 14,242 customers who received \$4.1 million for an average of \$288. It is important to note the dramatic reduction in the length of the grant program year from fiscal year 1992 to 1993 due to federal funding levels. The 1992 season contained 20 weeks for both programs compared with eight weeks for the LIHEAP program and 18 weeks for the Crisis program in 1993.

A "five-and-two" budget repayment program was established to assist customers in paying current bills and eliminating past arrears. Five percent of the balance is required as a down payment with two percent per month paid on arrearages, in addition to full payment of current bills on an equal monthly budget plan. In return, PGW will forgive up to 50 percent of the arrearages on a schedule which provides for a graduated forgiveness based on percent of the arrears paid. As of August 1992, there were 45,186 delinquent customers who had a "five-and-two" percent repayment agreement, of which 22,897 were active with a total receivable balance of \$18.7 million. Through August 1993, there were 54,736 delinquent customers who had a "five-and-two" percent repayment agreement of which 18,931 were active with a total receivable balance of \$15.9 million. This program is subject to an income eligibility criterion at or below 150 percent of the Federal income poverty level. Beginning in early February 1994 this program will no longer be available to new participants.

PGW has established a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the Philadelphia Housing Authority (PHA). These customers occupy dwellings, usually single family homes, owned by the PHA and whose rental is subsidized by the Federal government. Under an 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, which is then assigned to PGW. About 41 percent of the 4,800 Scattered Site Tenants are currently participating in the Vendor Payment Program.

PGW is also participating in the Utility Emergency Services Fund (UESF) which is a private fund set up with the assistance of the City of Philadelphia Water Department, Philadelphia Electric Company and Philadelphia Gas Works. Under this program, customers at or below 150 percent of the poverty level may make application for an energy assistance grant (LIHEAP) which together with their own payment, a grant from UESF, and a matching contribution from the utility involved, will enable the customers to zero-out any arrearages they may have. The maximum allowance that a customer may receive is \$500; \$250 from UESF and a matching grant of \$250 from

the utility. In fiscal year 1992, approximately 2,650 PGW customers received \$525,000 under this program. In fiscal year 1993, approximately 3,200 PGW customers received \$653,000.

In February 1989 PGW implemented a program called "Dollar Plus" wherein PGW's customers were asked to add \$1.00 or more to their gas bill payments as a donation to the Utility Emergency Services Fund. For fiscal 1992 there were 84,304 Dollar Plus payments with contributions totaling \$86,016.88, an average donation of \$1.02. For fiscal 1993 there were 53,251 Dollar Plus payments with contributions totaling \$61,706, an average donation of \$1.16.

For customers whose income is above the poverty level, PGW has a 20 Percent Down Payment Plan. Under this plan the customer pays a 20 percent down payment on any arrearages and the balance is paid over a period as long as 24 months. In addition, consumption is budgeted for the next year and payment is made in equal monthly installments. As of August 1992, there were 93,468 delinquent customers participating in the 20 percent repayment agreement, 36,422 of which were active with a total receivable balance of \$16.1 million. Through August 1993, there were 91,566 delinquent customers participating in the 20 percent repayment agreement, 26,964 of which were active with a total receivable balance of \$13.2 million.

In March 1990, PGW reached a negotiated settlement with the Public Advocate regarding proposed changes to the existing customer service regulations which included a two-year pilot program to keep customers on line by having them pay at least a portion of the amount due as long as it covers some portion of the costs. Known as the Energy Assurance Plan (EAP) the customers in the program must be at or below the 150 percent poverty level and are asked to pay a percentage of income (5, 7 or 8 percent depending on income level) plus \$4 per month toward any arrears up to a set maximum amount. After a three month history of payment compliance is established, a proportional amount of the arrearages will be written off monthly. In addition, the difference between current usage and the percentage of payment amount is shown as a discount. By the end of fiscal year 1993, approximately 15,900 customers had enrolled in the Energy Assurance Program. Since the beginning of the EAP program approximately 8,700 customers were dismissed leaving approximately 7,200 customers on the program at the close of the 1993 fiscal year.

The Philadelphia Gas Commission has approved a Customer Responsibility Program (CRP) - a low income payment plan - designed to increase cash flow to PGW and decrease accounts receivable, the related appropriation for uncollectible reserve and the accumulated provision for uncollectible accounts. Beginning in early February, 1994, the Energy Assurance Program is scheduled to be phased-out and will be replaced with a new Customer Responsibility Program (CRP). Existing EAP participants will automatically be transferred to the new program. The CRP will be open to any customer who is at or below 150% of the poverty level. Participants will be asked to pay the greater of \$30 or 7.35% of their income towards their gas bills, and will have to apply for the Crisis Grant program and assign that grant to PGW. For CRP participants who have excess consumption (defined as consumption in excess of 90% of average consumption for their type of household) there will be a payment cap of 12% of the customer's household income. New customers will be asked to pay 5% of their arrearage as a

down payment. The forecast contained in this report does not reflect the implementation of this program. PGW is in the process of quantifying the financial impact of CRP at this time.

PGW has also been active in promoting its Conservation Works Program (CWP) which was the weatherization energy conservation segment of EAP. As a result of this program, as of the end of fiscal year 1992, 1,871 persons attended conservation workshops, and approximately 1,650 properties received weatherization treatment which has resulted in savings in gas usage of approximately 15 percent. With the EAP recently closed to new participants, CWP has been promoting its conservation programs through speaking engagements, roundtables and direct mail. In 1994 the Conservation Works Program will be involved with the new Customer Responsibility Program which has a very strong conservation component.

PGW offers a senior citizen discount program to customers age 65 or older. The discount is 20 percent of the total gas bill. As of August 31, 1992 there were 102,919 customers taking advantage of the senior citizen discount. This resulted in a discount of \$14.47 million for fiscal year 1992. At the end of the fiscal year 1993, 103,635 customers were enrolled in this program resulting in a discount of \$15.93 million. There are no income requirements for this program.

The company has many programs which it utilizes to inform the community about the energy assistance programs that are available to them. It works with the Emergency Fuel Group, which is a coalition of approximately 300 community organizations around the city and the region, to get word out about energy assistance programs. Its other activities include monthly consumer roundtables, speakers bureau in different Philadelphia communities and individual telephone calls. It also has a tremendous telephone outreach program. In fiscal year 1993, PGW attempted 147,000 calls and reached 67,000 customers to inform them about available fuel grants. Additionally, approximately 18,457 field visits were made to customers' properties where no phone number existed. These field visits alone resulted in over 6,235 grant applications being taken. In November 1992, the company set up a special LIHEAP Crisis Hotline and advertised in English and Spanish the number to call for each. The special hotline resulted in 8,906 calls with over 5,000 customers leaving their names and addresses to receive information and/or to have an application mailed to them.

Lastly, in November 1993, the Philadelphia Gas Commission approved changes in PGW's customer service regulations designed to improve accounts receivables. The revised regulations, scheduled to take effect beginning in February 1994 include: (1) reduction in the bill due date from 30 to 20 days from the date of transmittal; (2) shortening of the collection cycle from 73 days to 58 days; (3) shortening of the winter moratorium period; (4) a customer limit of one payment agreement in a 12 month period and a requirement to make up missed payments in any payment agreement; and (5) permission for PGW to obtain proof of a customer's Social Security number.

PGW is actively involved in other community programs including Career Exploration for Youth (CEY) a mentorship program in the public and parochial schools, and the Project Philadelphia Regional Minorities in Energy (PRIME) program which highlights math and science opportunities to minority students, Community Clean-ups, Consumer Round Tables, and Volunteers for Literacy.

PGW's active support, sponsorship and participation in programs such as these are anticipated to enhance its image in the community and help to reduce the amount of uncollectible accounts and thereby benefit all ratepayers.

RATE SCHEDULES AND DEVELOPMENTS

In order to be responsive to its Management Agreement with the City to offer non-discriminatory rates based on suitable and reasonable classifications as well as to meet the needs of its consumers and remain competitive with alternate energy sources, PGW offers a range of rate schedules.

The company's tariffs can be categorized as either firm sales, interruptible sales, or transportation. Firm sales service provides gas under rate schedules for which the company does not anticipate any interruptions. Interruptible service is offered to large volume customers under contracts that permit service interruptions, usually on short notice during peak load conditions or when specified low temperatures are reached. During fiscal year 1993, 83.6 percent of PGW's gas volumes were provided as firm service to residential, commercial and industrial customers, including municipal and housing authority customers. Interruptible sales accounted for 16.4 percent of total sales. Most firm customers are served under the General Service (GS) rate which has a flat rate for all consumption and a separate monthly charge for each customer group. Municipal and Philadelphia Housing Authority sales are served under separate firm rate schedules (MS and PHA) and represented 4.6 percent of PGW's total sales for fiscal year 1993.

Interruptible sales customers are served under various rate schedules including GTS, Cogen, NGV, Load Balancing Service (LBS) and Boiler and Power Plant Service (BPS). BPS is a flex rate which is set monthly in relationship to the posted price of No. 2 (home-heating) fuel oil. Customers on this rate are generally only interrupted when temperatures reach 18 degrees Fahrenheit. LBS is a flex rate which is set monthly in reference to the posted price of No. 6 (industrial) fuel oil. LBS is divided into 3 schedules for small, large, and extra-large customers. LBS customers have the lowest priority of service.

The company also offers a Gas Transportation Service (GTS) rate. It provides for transportation of customer-owned gas under flexible rates with a cap equal to the margin of the customer's equivalent sales rate. The GTS rate was designed to provide a revenue-neutral approach for PGW for existing interruptible customers that are seeking either interruptible or firm transportation services for their gas supplies. In fiscal year 1993, 2,848 MMcf was transported under the GTS rate, which is 3.6 percent of the combined total of gas sales and transportation volumes.

PGW continues to offer an Economic Development Discount (EDD) rate that first became effective in 1984. This rate provides for a 15 percent discount to certain large volume customers with significant investments in gas-burning equipment that can increase consumption by more than 1,500 Mcf per month above a base level. The EDD rate discount can be in effect for up to three years.

In conjunction with the Commission rate case order for fiscal year 1991, several rate structure revisions were approved. One significant change was to create a new Load Balancing Service-Extra-Large-Volume (LBS-XL) rate for the largest LBS customers. This rate and the LBS-L rate have essentially the same terms, i.e., the ability to set the rate within a range of 10 percent above to 20 percent below the posted tank car price for No. 6 oil. However, for flex rate purposes, these two rates now afford PGW the ability to maximize its margin by targeting a different competitive level for each group of customers. The Commission also approved a new interruptible Cogeneration Service (CG) rate. For cogeneration customers with annual usage of less than 1 million Mcf, the rate is set at a fixed margin over the commodity cost of purchased gas. For larger cogeneration customers the margin over the cost of gas is negotiable.

Also, a recently instituted special provision for gas air-conditioning, incorporated in rates GS, MS, PHA and BPS for separately metered usage during the months of May through September has been attracting many customers. This provision, which is applicable to new installations with a minimum cooling capacity of 15 tons, offers a lower rate and provides a benefit to PGW by increasing its system load factor, thereby lowering overall costs to all firm customers.

Lastly, in order to position itself for the potential Natural Gas Vehicle (NGV) market, PGW recently filed two new rates with the Commission for approval. These rates would enable the company to offer gas to a customer-owned refueling facility. The interruptible NGV rate, whose price changes in relation to the price of unleaded gasoline, has already been approved. The firm NGV rate, which is based on a customer's load factor, is pending approval by the Commission. The company also plans to construct its own compressor station in the next few years.

Within the environment of a declining large-industrial sales base, the company has fought hard to maintain its margins and remain competitive with alternate energy sources by employing both traditional as well as the innovative rate forms described above.

To illustrate how PGW's rates compare with those of other gas companies, Stone & Webster calculated typical bills for PGW's residential, commercial and industrial customers and compared these bills with those of other gas companies using identical gas quantities and customer classes (refer to Tables 12, 13 and 14). These tables indicate that PGW's rates are comparable to those of other large urban utilities having a similar high proportion of residential sales.

STATEMENT OF INCOME

We have reviewed Philadelphia Gas Works' forecast of revenues, operating expenses, and annual amounts of internally generated funds and bond funds needed to satisfy its capital improvement program, its debt service, payments to the City of Philadelphia, and working capital requirements. Recognizing current regulatory and

economic conditions under which the Company operates, we believe that the Company has developed a reasonable financial plan for fiscal years 1994-1998 and, consequently, we concur with it.

The forecast contemplates one base rate increase over the five-year period in the amount of \$25.0 million in 1995.

The rate increase is net of all cost savings and efficiencies deemed realizable by PGW in the forecast years.

As part of our review of PGW's forecast, we have examined the sensitivity of the plan to changes in net revenues. This is meant as a guide for the reader to estimate the impact of important variables. Net revenue could be impacted by any number of variables including:

- size of rate increase
- timing of rate increase
- sales revenues (weather related)
- actual interest rates
- operating cost savings
- actual receivables

Therefore decreased net revenue resulting from any of the above sources could be offset in whole or in part through additional net revenue resulting from the effect of any of the other above factors.

Regulation - PGW's bond covenant in the General Ordinance requires the debt service coverage ratio to be at least 1.50. In the Company's rate proceeding before the Commission in 1988 all parties agreed that there should be some cushion above the 1.50 level to allow the Company to retain its bond rating. The Company has forecasted a base rate increase in 1995 resulting in a coverage ratio of 1.85 times.

1. After the projected rate increase, the Company's financial plan, falls slightly to 1.84 times debt service. However, the Company's financial plan provides an increase to 1.94 times debt service in the last two years without any further rate increases. In our first sensitivity test, Stone & Webster measured the impact of holding those years' coverages at exactly 1.8 times. Since the Company's projection resulted in coverages in excess of 1.8 times, our scenario showed a rate increase of \$4.0 million less in 1995 but \$9.7 million less in the last two years.
2. Our second scenario addressed providing for annual debt service coverage of 1.7. This scenario shows that only a \$13.3 million rate increase is necessary in 1995.

Financial - On May 17, 1991, Moody's Investors Service, Inc., lowered its rating on the Gas Works Revenue Bonds from A to Baal. Moody's opinion was "The rating revision to Baal from A reflects a long term trend of tightened financial operations, reductions in operating flexibility and debt service coverage, and increases in the enterprise's already high debt ratio. While the rate setting commission has indicated its intent to maintain

rates at a level sufficient to provide adequate margins in normal operating circumstances, the margins are no longer wide enough to allow the enterprise to address contingencies. In addition, the enterprise no longer has the flexibility to correct its highly leveraged position by providing for a portion of its substantial capital needs from internally generated funds, as had previously been its practice. Despite concerns over these long-term trends, the enterprise's capable management and strong legal covenants assure adequate bondholder security."

The goal of the Company's financial plan is to strengthen and revise upward its current Baal rating, maximize internally generated funds and minimize outside financing requirements, reduce operating expenses, reduce working capital requirements, and obtain the highest return on temporary investments and escrow funds. Therefore, PGW's financial forecast utilizes a 1.85 times coverage in setting rates, and also projects new debt costs using the current cost of similarly rated financings. Our third scenario therefore addressed a significant rise in debt costs, in case actual debt costs prove to be higher in a future bond market.

3. We increased the interest rate by 200 basis points on both projected revenue bond issues. This change increased the cost assigned to those bonds by \$9.0 million over five years. Debt service coverage averaged 1.82, down slightly from an average of 1.86 in the Company's financial plan.

After analyzing the results of these major scenarios and several minor ones we believe that the Company's financial plan is attainable contingent upon adequate rate relief.

The debt service coverages in the base PGW forecast are detailed on Exhibit V and are summarized in Table 15. Each \$1.0 million of net revenue not achieved would result in a decrease in the coverage ratio by 0.013.

REVENUE BOND FINANCING

We have been informed by PGW that the proceeds from the sale of the Fifteenth Series Bond issue will be used to:

- Finance PGW's current and future capital programs.
- Establish sinking fund reserves.

It is understood that the bonds will be secured solely by the revenues of PGW received from all Gas System users.

The \$75 million Fifteenth Series Bonds, and the projected \$75 million of Sixteenth Series Bonds to be issued in 1994 and 1997, respectively, will be used as shown on Table 16. The application of proceeds from these issues can be summarized as follows:

	<u>Amount</u> (\$000's)
Total Revenue Bonds Issued for Capital Improvements and Repayment of Capital Advance	\$150,000
Capital Improvement Fund Balance (8/31/93)	29,890
Less Deposits for Sinking Fund Reserve and Issue Expenses	<u>17,174</u>
Balance Available to PGW as applied 8/31/98	<u>\$162,716</u>
Capital Improvement Fund Drawdown	\$107,500
Capital Improvement Fund Balance (8/31/98)	<u>55,216</u>
Balance Accounted for (8/31/98)	<u>\$162,716</u>

The rate covenant in the General Ordinance requires that the City, at a minimum, impose, charge and collect in each Fiscal Year, gas rates and charges equal to the greater of:

A. The sum of:

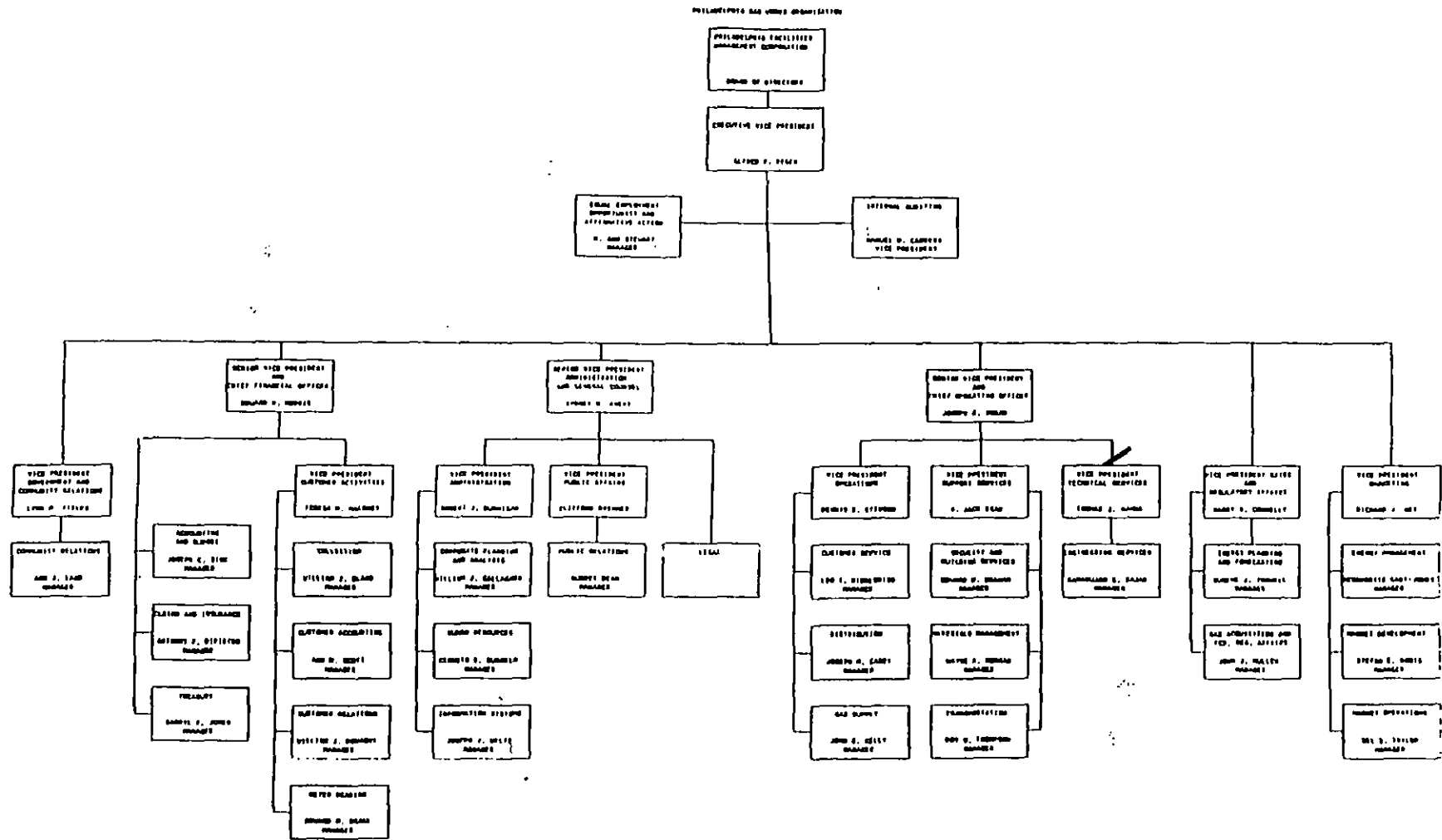
- (i) All Net Operating Expenses payable during such Fiscal Year,
- (ii) 150% of the amount needed to satisfy sinking fund requirements of principal and interest which will become due and payable during such Fiscal Year for all Bonds issued and outstanding hereunder, and
- (iii) The amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year, or

B. The sum of:

- (i) All Net Operating Expenses payable during such Fiscal Year, and
- (ii) All Sinking Fund deposits required during such Fiscal Year with respect to all outstanding Bonds and 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.

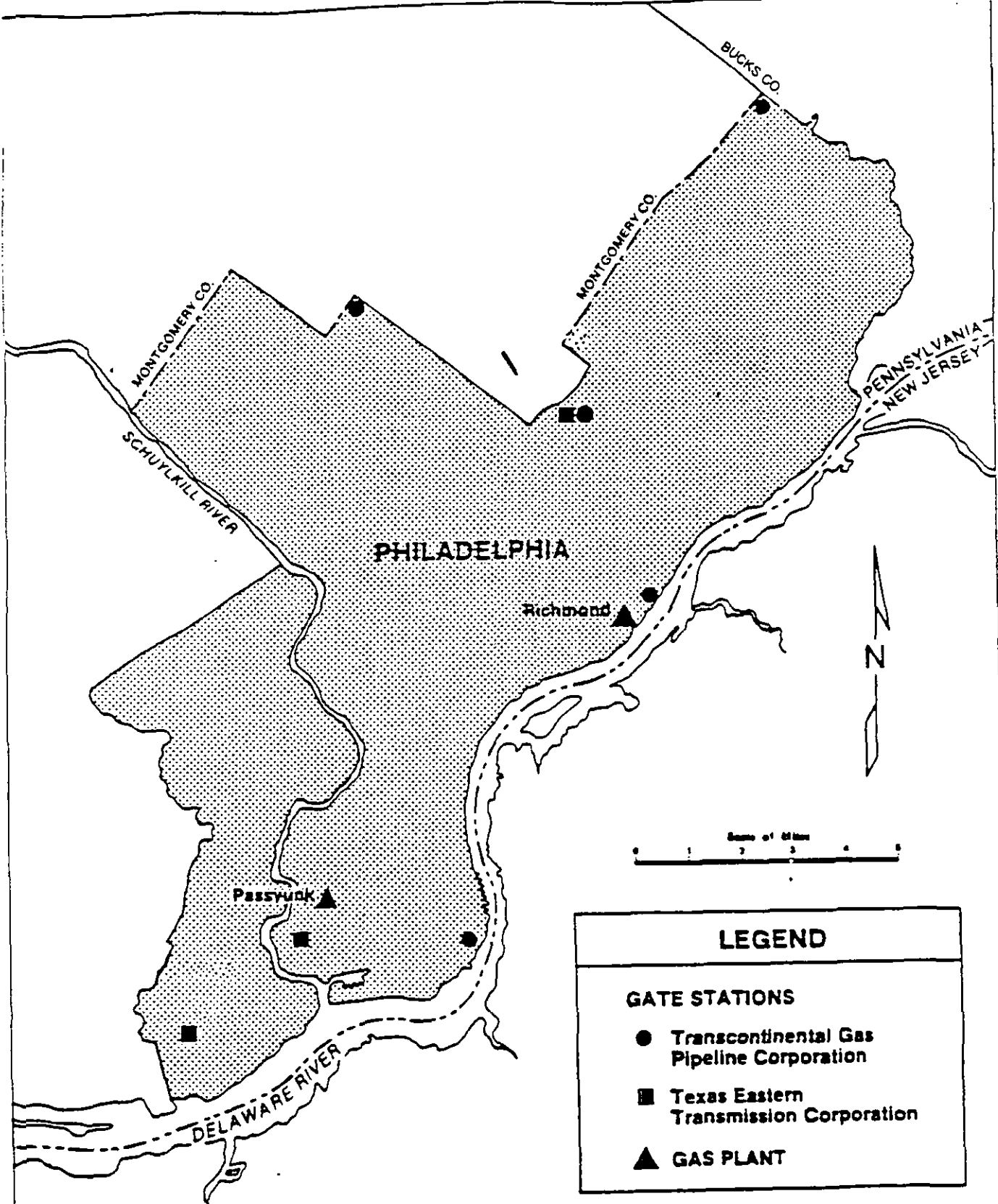
The Gas Commission is authorized and directed by the ordinance to impose, charge and collect, or cause to be collected, all rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

We have also been informed by PGW that the Company is investigating the possible refunding or restructuring some of its outstanding debt. We have not addressed this issue here. However, if such refunding or restructuring were to occur, it is our judgement that the financial implications could only improve the coverage ratios as current debt cost is below the cost of the issues to be refunded.



(4-93)

Figure 1



PHILADELPHIA

Richmond

Passyunk

DELAWARE RIVER

SCHUYLKILL RIVER

MONTGOMERY CO.

MONTGOMERY CO.

BUCKS CO.

PENNSYLVANIA
NEW JERSEY

LEGEND

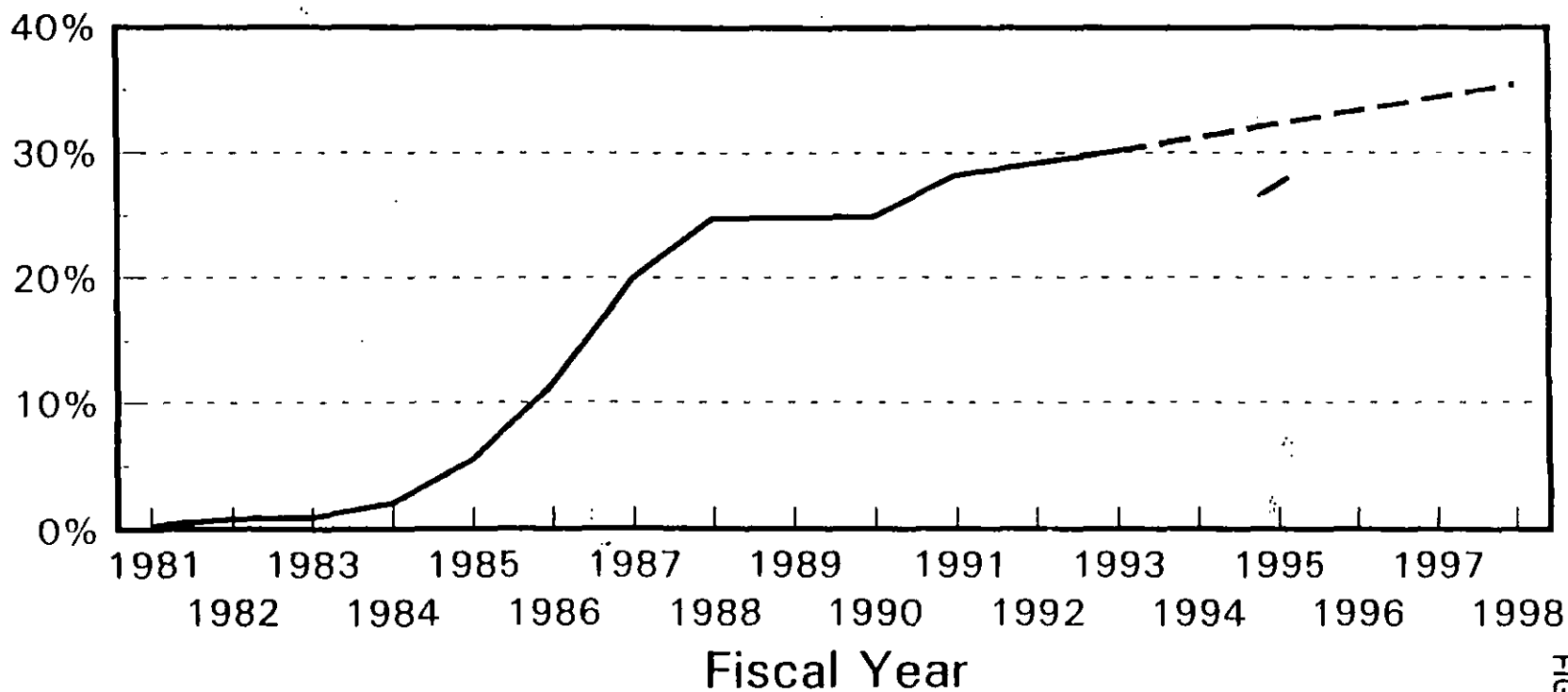
GATE STATIONS

- Transcontinental Gas Pipeline Corporation
- Texas Eastern Transmission Corporation
- ▲ GAS PLANT

**PHILADELPHIA GAS WORKS
SERVICE AREA**

STEAM LOOP CONVERSIONS

Actual and Projected



Actual: 1981 - 1993 Projected: 1994 - 1998

FIGURE 3

1994 PEAK DAY AVAILABILITY BY DELIVERY SOURCE

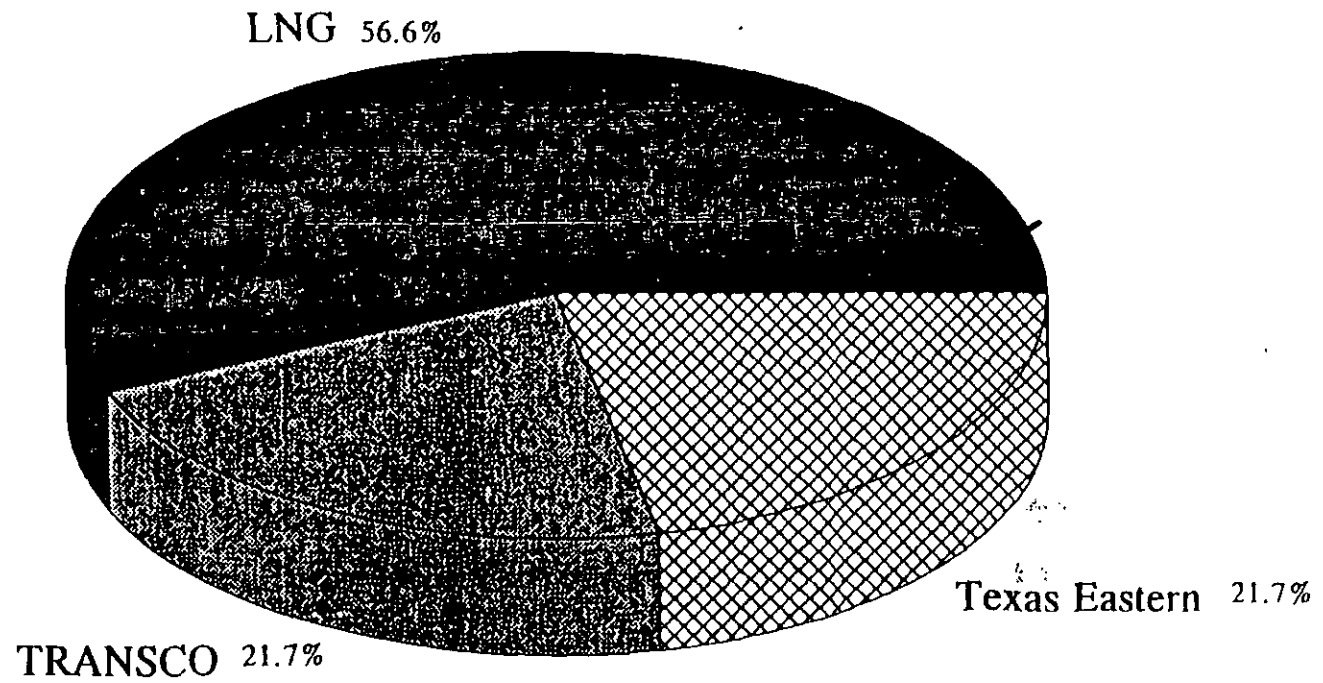


FIGURE 4

PEAK DAY DEMAND vs. AVAILABILITY

(Based on 65 Heating Degree Days)

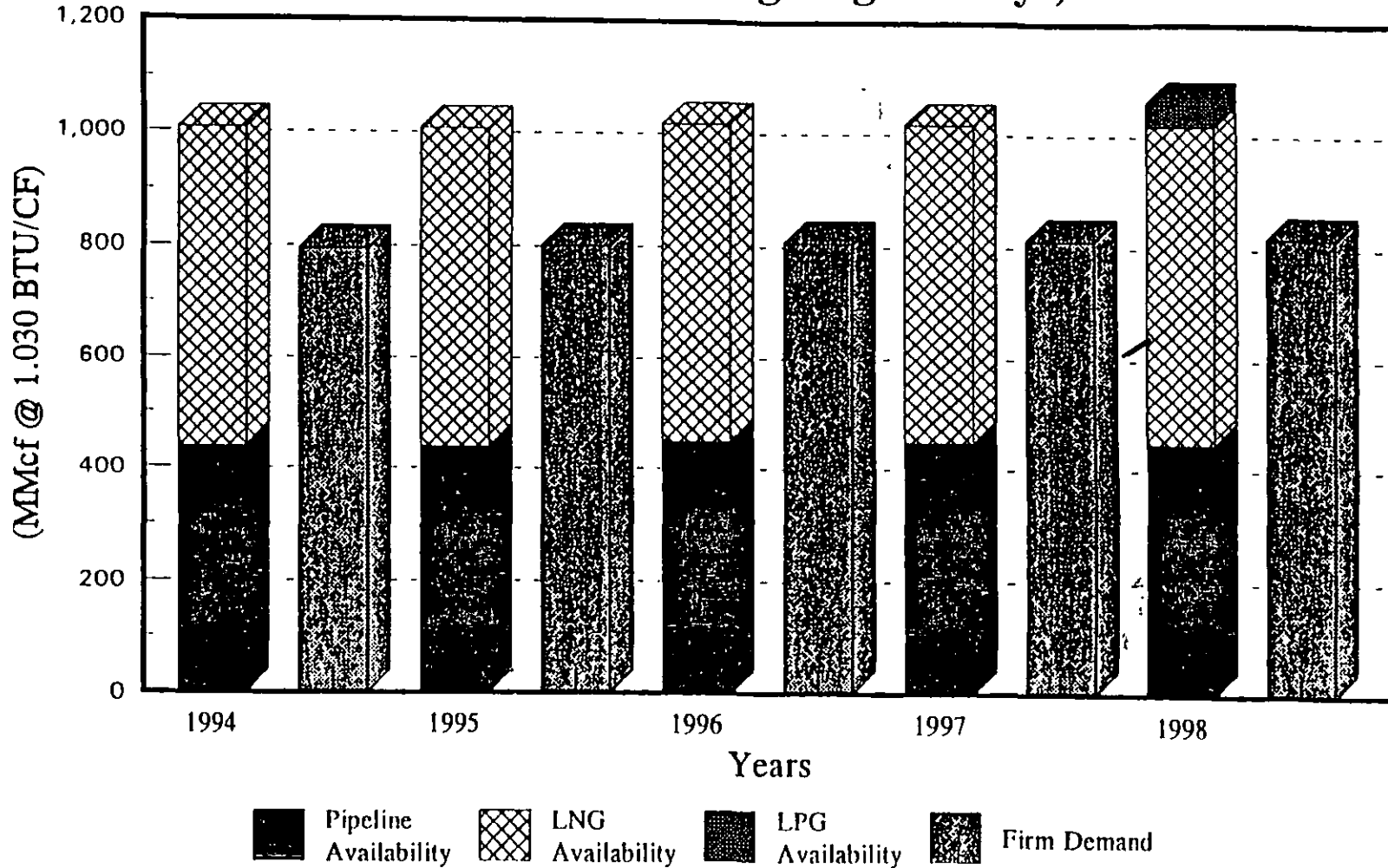


FIGURE 5A

PEAK HOUR DEMAND vs. AVAILABILITY

(Based on -5°F Heating Degree Hour)

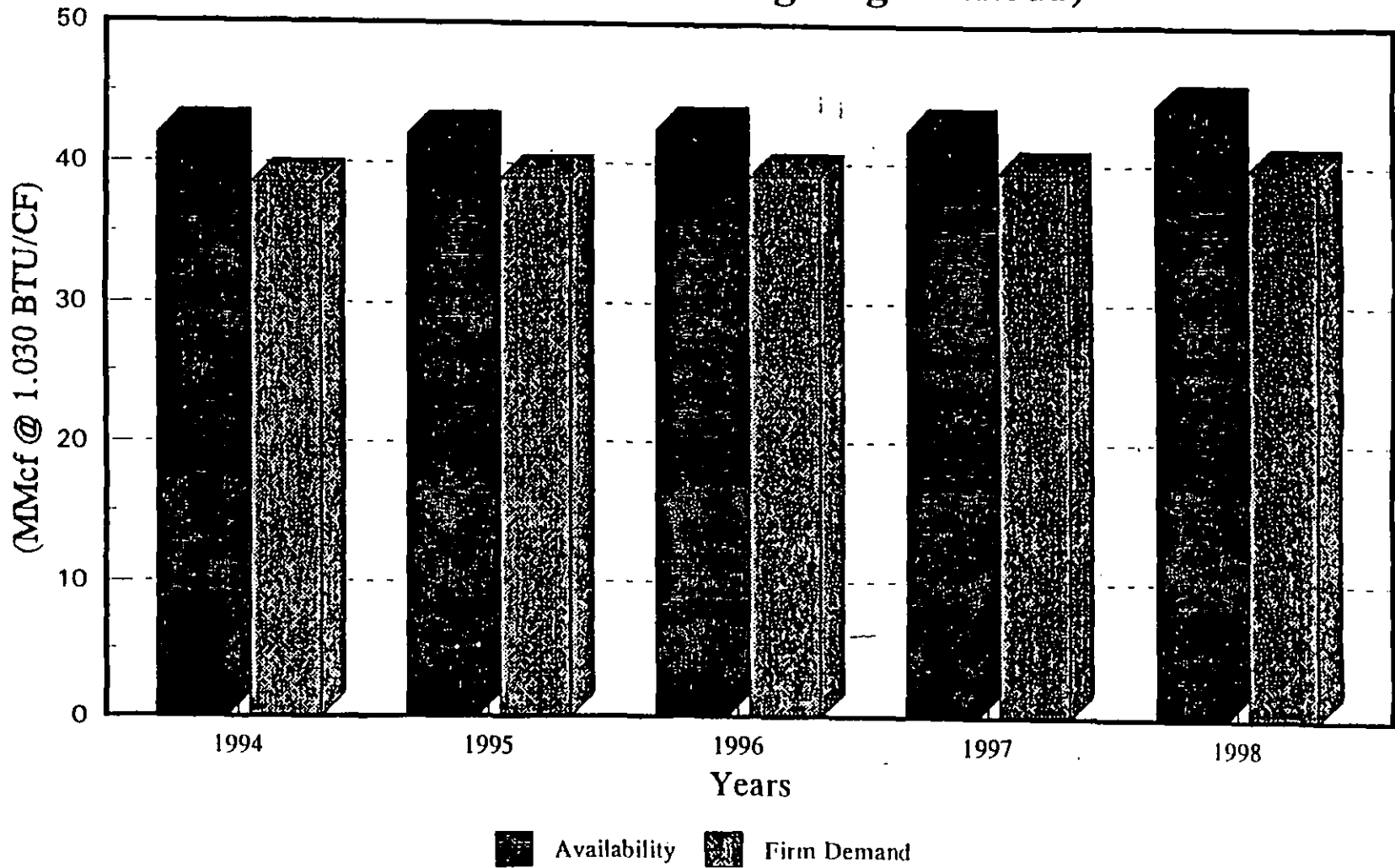


FIGURE 5B

PGW PROPOSED CAPITAL IMPROVEMENT PROGRAM 1994 - 1999

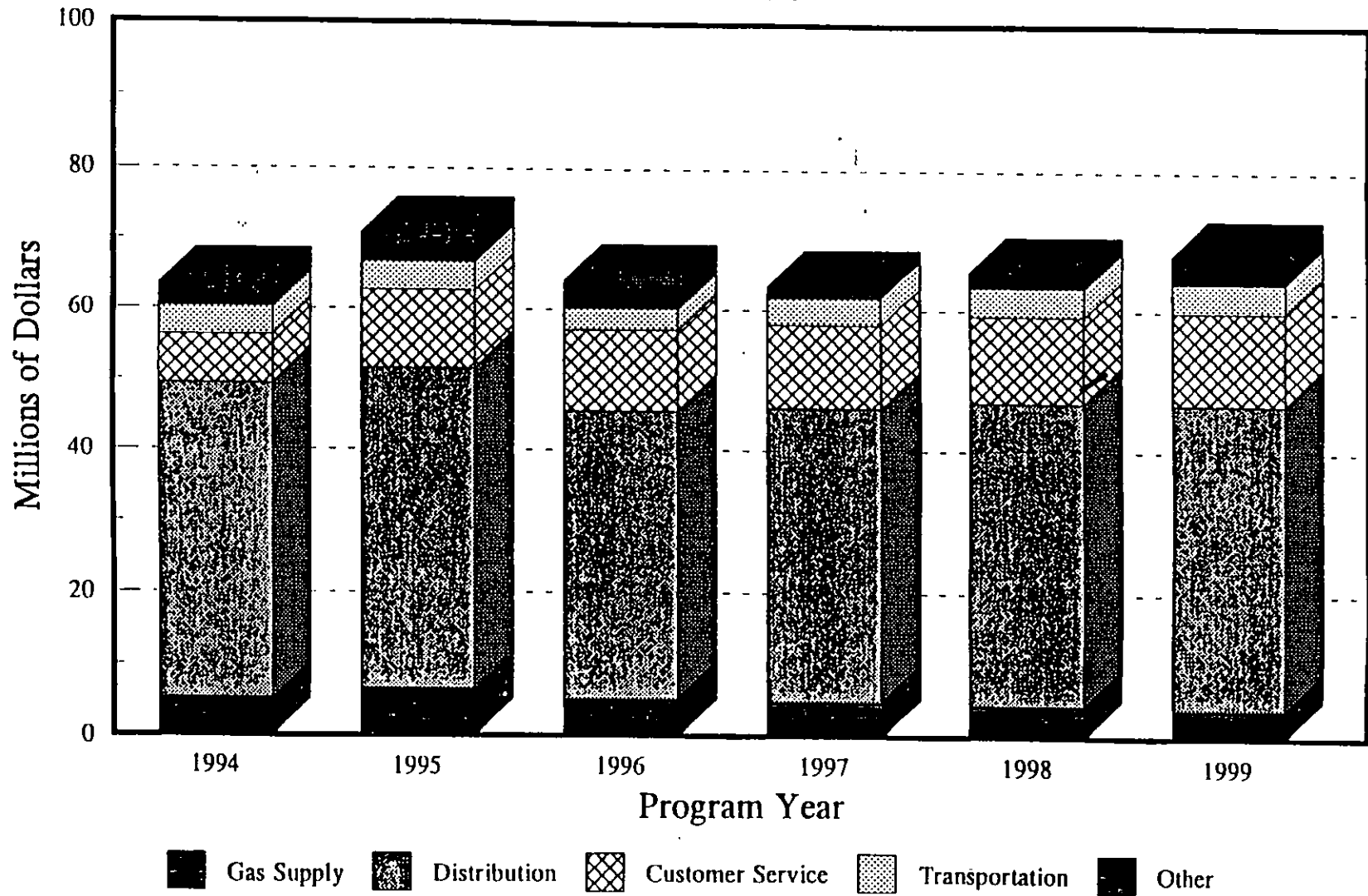


FIGURE 6

PGW PROPOSED CAPITAL BUDGET

1994 - 1999

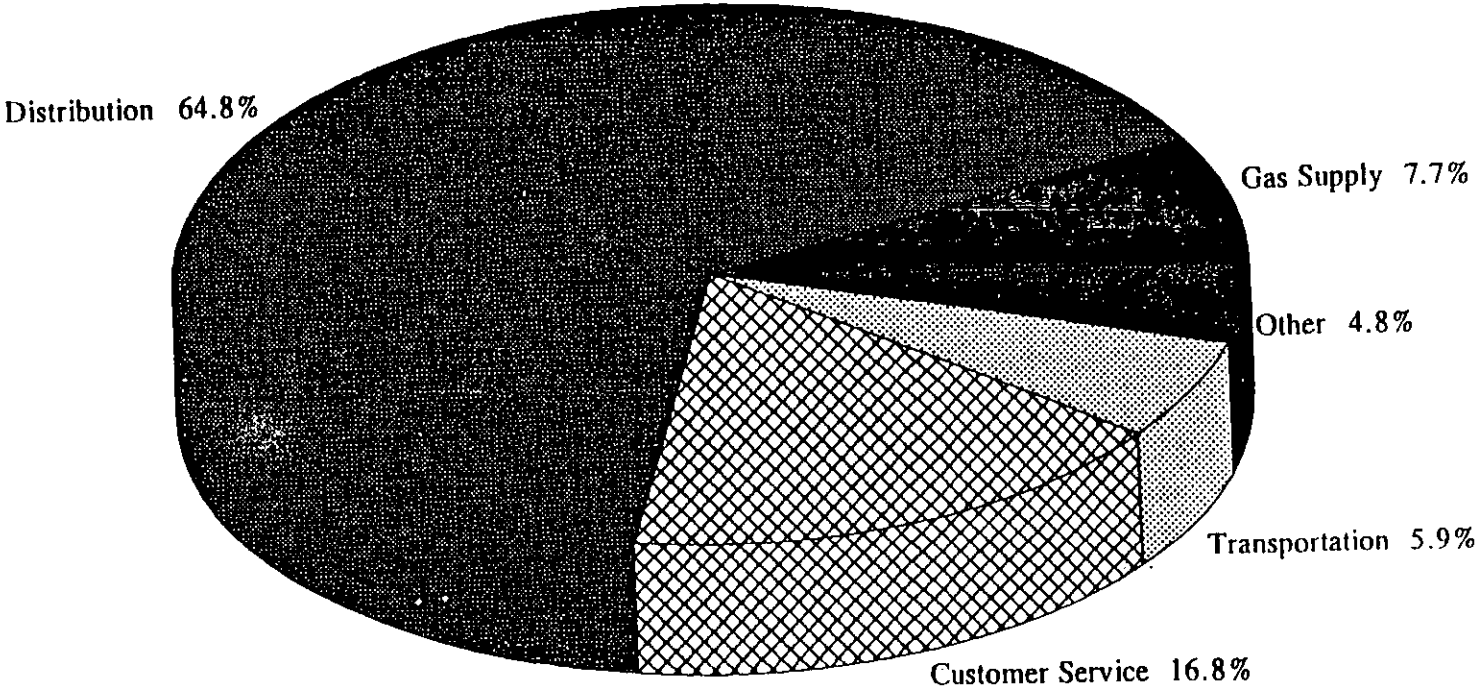


FIGURE 7

TABLE 1
HISTORICAL NUMBER OF CUSTOMERS

	Fiscal Years Ended August 31.					Fiscal Years Ended June 30,	
	1993	1992	1991	1990	1989	1980	1975
<i>Residential</i>	499,189	495,176	497,696	494,253	497,596	516,683	518,929
<i>Commercial & Industrial</i>							
<i>Firm</i>	23,898	24,236	24,788	24,614	20,246	20,328	21,997
<i>Interruptible</i>	416	410	348	337	299	81	288
<i>Municipal & Housing Authority</i>	2	2	2	2	2	2	2
TOTAL	523,505	519,824	522,834	519,206	518,143	537,094	541,216

TABLE 2
HISTORICAL SALES
(MMcf)

	Fiscal Years Ended August 31,					Fiscal Years Ended June 30,	
	1993	1992	1991	1990	1989	1980	1975
Firm:							
Residential	49,210	47,432	43,325	47,898	48,730	51,520	50,197
Commercial	8,412	8,226	7,710	7,792	7,449	6,510	6,103
Industrial	1,971	2,096	2,046	2,334	2,356	3,809	4,318
Municipal	1,443	1,554	1,270	1,394	1,442	1,641	1,880
Housing Authority	1,994	1,832	1,829	1,971	2,007	2,818	2,604
Sales for Resale	0	168	49	96	--	-	-
TOTAL FIRM	63,030	61,308	56,229	61,485	61,984	66,298	65,102
Interruptible:							
Industrial	-	-	-	-	-	8,211	8,529
Boiler & Power Service	3,319	2,898	3,282	3,251	3,054	1,874	1,756
Load Balancing Service	7,026	6,174	8,934	6,987	7,496	10,945	-
Co-Generation	433	335	162	-	-	-	-
Gas Transport-Retail Sales	1,546	1,128	110	-	-	-	-
TOTAL INTERRUPTIBLE	12,324	10,535	12,488	10,238	10,550	21,030	10,285
TOTAL SALES	75,354	71,843	68,717	71,723	72,534	87,328	75,387
Transportation	2,848	3,928	632	-	-	-	-
TOTAL SALES AND TRANS.	78,202	75,771	69,349	71,723	72,534	87,328	75,387
Degree Days (a)	4,731	4,542	3,900	4,431	4,579	4,728	4,583

Note:

(a) PGW's normal heating season (September 1 - May 30) contains 4,600 Degree Days.

TABLE 3

SALES
Fiscal Years 1993 - 1998
(MMCF)

	1993 (Actual)	1994 (Budget)	1995 (Forecast)	1996 (Forecast)	1997 (Forecast)	1998 (Forecast)
Firm:						
Residential	49,210	49,174	49,196	49,466	49,565	49,868
Commercial	8,412	8,720	8,881	9,068	9,259	9,398
Industrial	1,971	2,057	2,035	2,013	1,989	1,962
Municipal	1,443	1,221	1,263	1,263	1,263	1,263
Housing Authority	1,994	1,798	1,798	1,799	1,799	1,793
Sub-Total	63,031	62,970	63,173	63,610	63,875	64,284
Interruptible:						
BPS-Indirect	3,319	3,664	4,023	4,234	4,436	4,642
BPS-AC	0	157	172	199	256	302
LBS-L Direct	692	710	710	387	386	386
LBS-L Indirect	1,768	1,871	1,871	1,875	1,871	1,871
LBS-S Indirect	1,272	1,557	1,756	1,928	2,070	2,211
LBS-XL Direct	2,291	2,442	2,442	665	664	664
LBS-XL Indirect	1,004	1,020	1,020	1,022	1,017	1,020
COGEN Indirect	433	516	507	558	606	658
NGV	0	8	20	21	80	81
GTS SALES	1,546	0	0	0	0	0
Sub-Total	12,324	11,944	12,520	10,890	11,386	11,835
TOTAL SALES	75,354	74,915	75,694	74,499	75,261	76,119
GTS TRANSPORT	2,848	4,287	4,287	4,287	4,287	4,287
TOTAL SALES & TRANSPORT	78,202	79,201	79,980	78,786	79,548	80,406
Degree Days	4,731	4,600	4,600	4,600	4,600	4,600

Note:

* Totals may vary due to rounding

TABLE 4

CUSTOMER BILLINGS*
Fiscal Years 1993 - 1998

	1993 Actual	1994 Forecast	1995 Forecast	1996 Forecast	1997 Forecast	1998 Forecast
Residential	502,552	501,124	499,967	498,828	497,689	496,528
Philadelphia Housing Authority	5,189	5,230	5,230	5,230	5,230	5,230
Commercial	23,477	24,407	25,115	25,923	26,729	27,535
Industrial	1,281	1,331	1,325	1,315	1,304	1,293
Municipal	726	687	688	688	688	688
Interruptible	411	440	470	493	519	545
Total	533,635	533,218	532,794	532,477	532,159	531,820

Note:

*Average number of customer billings.

Totals may vary due to rounding.

TABLE 5
GROWTH IN SHARE OF RESIDENTIAL MARKET
Fiscal Years 1993 - 1998

	Population(a)	Households(b)	Forecast of (c) Residential Customers	Residential Customers as % of Households
1993	1,576,083	615,657	502,551	81.63%
1994	1,572,930	614,426	501,124	81.56%
1995	1,569,785	613,197	499,967	81.53%
1996	1,566,645	611,971	498,828	81.51%
1997	1,563,512	610,747	497,689	81.49%
1998	1,560,385	609,525	496,528	81.46%

Notes:

(a) Represents a 0.2% decline each year in population for Philadelphia County based on 1990 census actuals.

(b) Assumes 2.56 persons/occupied housing unit from the 1990 census for Philadelphia County.

(c) PGW forecast (Table 4).

TABLE 6

**RESIDENTIAL USAGE WITH MARKET SHARE
UNCHANGED FROM 1993 LEVELS (NO GROWTH)
COMPARED WITH PGW'S FORECAST OF GROWTH**

	Forecast of (a) Residential Customers	Sales (a&d) Forecast (MMcf)	Residential (b) Customers at 1993 Level	Sales at (c&d) 1993 Level (MMcf)	Variance (d) In Load (MMcf)
1993	502,551	48,182	502,551	48,182	0
1994	501,124	48,214	501,556	48,256	42
1995	499,967	48,706	500,553	48,763	57
1996	498,828	49,363	499,552	49,435	72
1997	497,689	49,562	498,553	49,648	86
1998	496,528	49,865	497,555	49,968	103
Total					<u>359</u>

Notes:

(a) PGW Forecast.

(b) Assumes 81.63% of households (see 1993 market share in Table 5) are residential customers.

(c) Assumes same use per customer as PGW forecast.

(d) Values may vary due to rounding.

TABLE 7
 CONTRACTS FOR TRANSPORTATION,
 STORAGE AND SUPPLY SERVICES

	Contract Name	Contract Quantity (Dth)		Expiration Date
		Annual	Daily	
<u>Transportation</u>				
<i>Direct Service</i>				
Transco	FT	60,302,333	165,212	03/31/2005
	PSFT	177,030	1,967	07/31/2011
Texas Eastern	CDS	27,375,000	75,000	10/31/2003
	FT-1	21,835,030	59,822	10/31/2003
<i>Storage Related</i>				
Transco	GSS (1)	4,320,359	61,567	03/31/2013
	S-2 (1,2)	466,554	5,193	04/15/1974
	LGA (1,2,3)	52,475	10,495	10/31/1991
Texas Eastern	SS-1A (1)	2,647,080	44,118	04/30/2012
	SS-1B (1)	2,462,120	20,847	04/30/2012
	FTS-2		5,394	03/31/2002
	FTS-7		7,470	04/15/2000
	FTS-8		25,702	03/31/2006
	IT-1		477	04/15/2000
	IT-1		398	03/31/2006
<u>Storage Contracts</u>				
<i>Direct Service</i>				
Transco	GSS (1)	4,320,359	61,567	03/31/2013
	S-2 (1,2)	466,554	5,193	04/15/1974
	WSS	3,335,909	39,246	03/31/1998
	LGA (1,2,3)	52,475	10,495	10/31/1991
Texas Eastern	SS-1A (1)	2,647,080	44,118	04/30/2012
	SS-1B (1)	2,462,120	20,847	04/30/2012
<i>Off System Storage</i>				
Delivery via Texas Eastern	ANR	1,891,011	13,803	03/31/2013
	Equitrans	522,500	4,998	04/01/2002
	CNG-GSS-TE	3,918,971	34,047	03/31/2006
<u>Supply</u>				
<i>Firm Long Term</i>				
Transco	Pipeline	FS	85,121	03/31/2001
	3rd Party	Multiple	60,000	Various
Texas Eastern	Pipeline	-	-	
	3rd Party	Multiple	121,019	Various

Note:

- 1: Bundled storage and transportation service.
- 2: Extended on a year-to-year basis.
- 3: Volume leased to outside company for peaking service.

TABLE 8

Supply/Demand Balance(b)
Fiscal Years 1994 - 1998
(Normal Year - 4,600 HDD)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	----- (000 Dth) -----				
Demand(a)					
Firm	66,639	66,943	67,313	67,593	67,930
Boiler and Power Service	4,034	4,429	4,680	4,953	5,220
Load Balancing Service	7,933	8,142	6,175	6,313	6,464
Cogeneration	545	535	590	640	695
Natural Gas Vehicles	8	22	22	85	86
Total Sales	79,159	80,071	78,779	79,584	80,396
Plant Use					
Storage Injection	1,336	1,278	1,277	1,275	1,277
Liquefaction	17,522	18,168	17,696	17,535	17,682
	3,139	3,578	3,578	3,579	3,578
Subtotal	21,997	23,024	22,550	22,389	22,537
Total Demand	101,156	103,095	101,329	101,973	102,932
Supplies					
Texas Eastern(c)	40,593	38,948	37,289	37,294	37,652
Transco(d)	40,983	42,484	43,290	43,409	43,816
Storage Withdrawal	16,042	18,086	17,171	17,693	17,886
LNG	3,537	3,578	3,579	3,578	3,579
LPG	0	0	0	0	0
Total Supplies	101,156	103,095	101,329	101,973	102,932

Notes:

- a) Includes unaccounted for
- b) Total may vary due to rounding
- c) Delivered on Texas Eastern System
- d) Delivered on Transco System

TABLE 9

SUPPLY/DEMAND BALANCE(b)
Fiscal Years 1994 - 1998
(Design Year - 5,280 HDD)

	1994	1995	1996	1997	1998
	(000 Dth)				
Demand					
Firm	73,632	73,973	74,379	74,702	75,079
Boiler and Power Service	4,375	4,662	4,784	4,822	5,013
Load Balancing Service	4,627	4,505	3,680	3,730	3,794
Cogeneration	371	349	397	419	465
Natural Gas Vehicles	6	15	15	57	57
Total	83,011	83,504	83,255	83,730	84,408
Plant Use	1,496	1,407	1,420	1,421	1,428
Storage Injection	17,549	18,132	18,102	17,606	17,750
Liquefaction	4,197	4,634	4,634	4,636	4,635
Subtotal	23,241	24,174	24,156	23,663	23,813
Total Demand	106,253	107,678	107,412	107,394	108,220
Supplies					
Texas Eastern(c)	41,496	39,051	37,836	37,449	37,796
Transco(d)	43,411	45,437	46,207	46,389	46,524
Storage Withdrawal	16,812	18,650	18,815	18,982	19,144
LNG	4,534	4,540	4,554	4,574	4,579
LPG	0	0	0	0	178
Total Supplies	106,253	107,678	107,412	107,394	108,220

Notes:

- (a) Includes unaccounted for.
- (b) Total may vary due to rounding.
- (c) Delivered on Texas Eastern System.
- (d) Delivered on Transco System.

TABLE 10

**Peak Day and Peak Hour Capacity
Fiscal Years 1994-1998**

(Design Peak Day Weather = 65 HDD)
(Design Peak Hour Weather = -5° F)

Source of Supply (a)	(MMcf @ 1.030 Btu/cf)				
	1994	1995	1996	1997	1998
Transco					
PFT	77.7	92.2	92.2	92.2	92.2
FT	82.7	68.2	68.2	68.2	68.2
PS-6	1.9	1.9	1.9	1.9	1.9
S-2	4.4	4.4	4.4	4.4	4.4
GSS	52.3	52.3	52.3	52.3	52.3
LGA	0.0	0.0	10.2	10.2	10.2
WSS	20.0	20.0	20.0	20.0	20.0
Total Transco	219.0	219.0	229.2	229.2	229.2
Texas Eastern					
CDS	72.8	72.8	72.8	72.8	72.8
FT-1	58.1	58.1	58.1	58.1	58.1
SS-I	55.2	55.2	55.2	55.2	55.2
SS-II	6.5	6.5	6.5	6.5	6.5
SS-III	21.3	21.3	21.3	21.3	21.3
Equitable	4.8	4.8	4.8	4.8	4.8
ANR	12.9	12.9	12.9	12.9	12.9
Total Texas Eastern	218.6	218.6	218.6	218.6	218.6
Sub-Total	437.7	437.7	447.9	447.9	447.9
Supplemental Gas					
LNG	570.0	570.0	570.0	570.0	570.0
LPG	0.0	0.0	0.0	0.0	43.6
Total Supplemental	570.0	570.0	570.0	570.0	613.6
Total Peak Day Supply	1,007.7	1,007.7	1,017.9	1,017.9	1,061.5
Total Peak Hour Supply	42.0	42.0	42.4	42.4	44.2
<u>Note:</u>					
Firm Peak Day Demand	794.8	801.0	807.1	813.2	819.3
Firm Peak Hour Demand	38.5	38.9	39.1	39.4	39.7

Footnote:

(a) Daily available volumes after adjustment for Contract Limitations & Fuel Requirements.

TABLE 11A
PROPOSED CAPITAL IMPROVEMENT PROGRAM
(\$000)

Category	1994	1995	1996	1997	1998	1999	Total \$	Total %
Gas Supply	\$5,322	\$6,633	\$5,166	\$4,784	\$4,509	\$4,023	\$30,437	7.7%
Distribution	44,165	44,964	40,493	41,302	42,590	42,893	256,407	64.8%
Customer Service	6,834	11,105	11,427	11,796	12,223	13,132	66,517	16.8%
Transportation	3,918	4,083	3,115	3,891	4,210	4,250	23,467	5.9%
Other	3,226	4,029	4,044	1,645	2,153	3,936	19,033	4.8%
Subtotal	\$63,465	\$70,814	\$64,245	\$63,418	\$65,685	\$68,234	\$395,861	100.0%
Less:								
Reimbursements(a)	(2,026)	(2,097)	(2,171)	(2,247)	(2,326)	(2,407)	(13,274)	-3.4%
Contribution (b)	(113)	(117)	(121)	(126)	(130)	(135)	(742)	-0.2%
Salvage(c)	(312)	(346)	(273)	(331)	(386)	(392)	(2,040)	-0.5%
Total	\$61,014	\$68,254	\$61,680	\$60,714	\$62,843	\$65,300	\$379,805	-4.1%

Notes:

- (a) Funds available from governmental agencies.
- (b) Customer contributions in aid of construction
- (c) Funds received from sale of scrap metals, used vehicles, equipment, etc.

TABLE 11B

**MAJOR CAPITAL BUDGET ITEMS
FISCAL 1994 BUDGET (\$MM)
(COMPARISON OF 1994 ITEMS OVER \$1MM)**

NO.	CODE	DESCRIPTION	PRIORITY	DEPT.	1994 - 1993					
					1994 AMOUNT	% OF BUDGET	1993 AMOUNT	% OF BUDGET	AMOUNT DIFFERENCE	PERCENT DIFFERENCE
1.	52-24-2-01	RENEWAL OF < 1 1/4" SERVICES	1	DIST	\$14.1	22.2%	\$14.1	27.0%	\$0.0	0.0%
2.	52-21-2-02	PRUDENT MAIN REPLACEMENTS	1	DIST	\$7.3	11.5%	\$7.0	13.4%	\$0.3	4.1%
3.	52-21-2-01	ENFORCED RELOCATIONS, PRESSURE	1	DIST	\$6.4	10.1%	\$5.4	10.3%	\$1.0	15.6%
4.	52-22-2-01	ENFORCED RELOCATIONS	1	DIST	\$2.7	4.3%	\$2.0	3.8%	\$0.7	25.9%
5.	52-99-2-99	REMOVAL & ABANDONMENT	2	DIST	\$2.3	3.6%	\$1.3	2.5%	\$1.0	43.5%
6.	52-24-1-01	INSTAL OF NEW 1 1/4" SERVICES	2	DIST	\$1.8	2.8%	\$2.4	4.6%	(\$0.6)	-33.3%
7.	52-21-1-01	LOCAL MAINS - NEW HOUSES	2	DIST	\$1.5	2.4%	\$1.4	2.7%	\$0.1	6.7%
8.	52-21-2-03	MAINS REPLACE - AVE. OF THE ARTS	1	DIST	\$1.4	2.2%	\$0.0	0.0%	\$1.4	100.0%
9.	52-20-1-03	SUPPLY - PHILADELPHIA THERMAL CO.	2	DIST	\$1.3	2.0%	\$0.0	0.0%	\$1.3	100.0%
10.	52-20-2-01	ENFORCED RELOCATIONS	1	DIST	\$1.0	1.6%	\$1.0	1.9%	\$0.0	0.0%
		SUBTOTAL DISTRIBUTION			\$39.8	62.7%	\$34.6	54.5%	\$5.2	13.1%
11.	50-30-2-01	REPL OF WORN METERS	1	CSD	\$2.3	3.6%	\$2.4	4.6%	(\$0.1)	-4.3%
12.	50-30-1-01	NEW CUSTOMER METERS	2	CSD	\$2.2	3.5%	\$2.2	4.2%	\$0.0	0.0%
13.	50-36-1-01	NEW AUTOMATIC METER READING EQP.	2	CSD	\$1.8	2.8%	\$0.0	0.0%	\$1.8	100.0%
		SUBTOTAL CUSTOMER SERVICE DEPT.			\$6.3	9.9%	\$4.6	8.8%	\$1.7	27.0%
14.	53-02-1-01	EXHAUST EMISSION EQ. - RICHMOND	1	GS	\$1.8	2.8%	\$0.0	0.0%	\$1.8	100.0%
15.	53-02-2-01	STEAM SUPPLY SYSTEM - LNG	1	GS	\$1.0	1.6%	\$1.2	2.3%	(\$0.2)	-20.0%
		SUBTOTAL GAS SUPPLY			\$2.8	4.4%	\$1.2	2.3%	\$1.6	57.1%
16.	73-01-2-01	REPLACEMENT OF MOTOR VEH'S	1	TRAN	\$2.7	4.3%	\$2.2	4.2%	\$0.5	18.5%
		TOTAL MAJOR PROJECTS			\$51.6	81.3%	\$42.6	81.5%	\$9.0	17.4%
		TOTAL ALL PROJECTS			\$63.5	100.0%	\$52.3	100.0%	\$11.2	17.6%

TABLE 12

TYPICAL RESIDENTIAL MONTHLY BILL COMPARISON ^(a) (Based on 100 Therms as of Quarter Ending June 1993)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Brooklyn Union Gas Company	\$102.95
2.	Consolidated Edison Company of New York	92.49
3.	Commonwealth Gas Company, MA	83.09
4.	Long Island Lighting Company, NY	82.44
5.	New Jersey Natural	77.48
6.	Philadelphia Gas Works	77.44
7.	National Fuel Gas, NY	76.74
8.	Elizabethtown Gas Company, NJ	74.58
9.	Rochester Gas & Electric, NY	71.00
10.	Niagara Mohawk Power Corp., NY	67.51
11.	Peoples Natural Gas Company, PA	67.09
12.	South Jersey Gas, NJ	66.58
13.	Philadelphia Electric Company	64.12
14.	Public Service Electric & Gas, NJ	61.79
15.	Baltimore Gas & Electric Company	61.50
16.	Columbia Gas of Pennsylvania	57.81
17.	Bay State Gas Company, MA	55.07
	Boston Gas Company	<i>Not Reported</i>
	UGI Corporation	<i>Not Reported</i>
	Washington Gas Light Company, DC	<i>Not Reported</i>

(a) Comparison of utilities in the region surrounding Philadelphia Gas Works having annual revenues from gas sales in excess of \$200 million.

Source: American Gas Association.

TABLE 13

TYPICAL COMMERCIAL MONTHLY BILL COMPARISON ^(a) (Based on 300 Therms as of Quarter Ending June 1993)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Brooklyn Union Gas Company	\$321
2.	Long Island Lighting Company, NY	254
3.	Philadelphia Gas Works	246
4.	Consolidated Edison Company of New York	240
5.	New Jersey Natural	226
6.	National Fuel Gas, NY	221
7.	Elizabethtown Gas Company, NJ	216
8.	Niagara Mohawk Power Corp., NY	208
9.	Rochester Gas & Electric, NY	201
10.	Philadelphia Electric Company	187
11.	Commonwealth Gas Company, MA	183
12.	South Jersey Gas, NJ	182
13.	Public Service Electric & Gas, NJ	180
14.	Baltimore Gas & Electric Company	168
15.	Columbia Gas of Pennsylvania	157
16.	Bay State Gas Company, MA	156
17.	Peoples Natural Gas Company, PA	124
	Boston Gas Company	<i>Not Reported</i>
	UGI Corporation	<i>Not Reported</i>
	Washington Gas Light Company, DC	<i>Not Reported</i>

(a) Comparison of utilities in the region surrounding Philadelphia Gas Works having annual revenues from gas sales in excess of \$200 million.

Source: American Gas Association.

TABLE 14

TYPICAL INDUSTRIAL MONTHLY BILL COMPARISON ^(a) (Based on 1,000 Therms as of Quarter Ending June 1993)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Niagara Mohawk Power Corp., NY	\$4,467 ^(b)
2.	Long Island Lighting Company, NY	821
3.	Philadelphia Gas Works	754
4.	Consolidated Edison Company of New York	747
5.	New Jersey Natural	720
6.	National Fuel Gas, NY	682
7.	Rochester Gas & Electric, NY	643
8.	Public Service Electric & Gas, NJ	587
9.	Peoples Natural Gas Company, PA	572
10.	South Jersey Gas, NJ	566
11.	Commonwealth Gas Company, MA	563
12.	Elizabethtown Gas Company, NJ	542
13.	Baltimore Gas & Electric Company	525
14.	Columbia Gas of Pennsylvania	501
15.	Bay State Gas Company, MA	417
16.	Brooklyn Union Gas Company	321
	Boston Gas Company	<i>Not Reported</i>
	Philadelphia Electric Company	<i>Not Reported</i>
	UGI Corporation	<i>Not Reported</i>
	Washington Gas Light Company, DC	<i>Not Reported</i>

^(a) Comparison of utilities in the region surrounding Philadelphia Gas Works having annual revenues from gas sales in excess of \$200 million.

Source: American Gas Association.

^(b) Minimum bill provision results in high monthly bill for 1,000 therm consumption level.

TABLE 15

COVERAGE OF DEBT SERVICE FROM OPERATIONS

<u>Fiscal Years</u>	<u>Revenue Bonds</u>
1993 Actual	1.65 x
1994 Projected	1.73 X
1995 Projected	1.85 X
1996 Projected	1.84 X
1997 Projected	1.94 X
1998 Projected	1.94 X

TABLE 16

SOURCES AND USES OF CASH FOR CAPITAL IMPROVEMENT EXPENDITURES
Fiscal Years 1989 Through 1998
(\$000's)

	ACTUAL					PROJECTED				
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sources:										
Bond Proceeds @ Par		\$75,000	\$75,220		\$376,550	\$75,000			\$75,000	
Proceeds from Sale/Leaseback	25,000									
PGW Internal Funds	8,159	17,250	36	11,395	12,891	6,968	36,981	41,972	46,963	53,014
Total Sources	\$33,159	\$92,250	\$75,256	\$11,395	\$389,441	\$81,968	\$36,981	\$41,972	\$121,963	\$53,014
Uses:										
Changes in Capital Improvement Fund	(\$27,318)	\$24,011	\$13,315	(\$41,972)	\$29,890	\$13,113	(\$19,700)	(\$17,500)	\$55,713	(\$6,300)
Discount & Issuance Expense	1,107	4,006	1,572	(35)	10,915	2,625			2,625	
Deposit to Sinking Fund	2,247	6,035	6,476		(369)	5,962			5,962	
Funds Deposited in Escrow					298,114					
Capital Expenditures	57,123	58,198	53,893	53,402	50,891	60,268	56,681	59,472	57,663	59,314
Total Uses	\$33,159	\$92,250	\$75,256	\$11,395	\$389,441	\$81,968	\$36,981	\$41,972	\$121,963	\$53,014
Capital Improvement Fund:										
Deposit	\$21,646	\$64,959	\$67,172	\$35	\$67,890	\$66,413	\$0	\$0	\$66,413	\$0
Drawdown	48,964	40,948	53,857	42,007	38,000	53,300	19,700	17,500	10,700	6,300
Changes in Fund	(\$27,318)	\$24,011	\$13,315	(\$41,972)	\$29,890	\$13,113	(\$19,700)	(\$17,500)	\$55,713	(\$6,300)
Balance End of Period	\$4,646	\$28,657	\$41,972	\$0	\$29,890	\$43,003	\$23,303	\$5,803	\$61,516	\$55,216

TABLE 17

**ACCOUNTS RECEIVABLE, RESERVE FOR UNCOLLECTIBLES,
WRITE-OFF EXPENSES, DELINQUENT CUSTOMERS,
AND REVENUE STATISTICS**
(Dollars in Thousands)

	Twelve Months at August 31				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Billed Gas Revenues	\$469,569	\$470,110	\$443,124	\$492,742	\$526,723
Accounts Receivable	87,994	91,215	93,361	116,688	132,574
Reserve for Uncollectible Accounts	39,181	41,053	48,027	53,051	54,565
Reserve as a Percentage of Accounts Receivable	44.5%	45.0%	51.4%	45.5%	41.2%
Write-off Expenses	20,920	22,137	23,361	22,474	28,355
Receivables as a Percentage of Sales Revenue	18.7%	19.4%	21.1%	23.7%	25.2%
Delinquent Customers (Annual Average)	141,095	133,610	134,368	138,721	145,092

TABLE 18
 FORECAST OF CUSTOMER
 ACCOUNTS RECEIVABLE, RESERVE FOR UNCOLLECTIBLE ACCOUNTS
 AND WRITE-OFF EXPENSES
 (\$000)

	FISCAL YEARS				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Billed Gas Revenues (a)	\$546,407	\$584,870	\$597,772	\$618,021	\$631,715
Gas Accounts Receivable	141,051	157,272	166,900	176,415	178,535
Reserve for Uncollectible Gas Accounts	64,749	71,153	76,513	81,686	83,761
Reserve as a Percentage of Accounts Receivable	45.9%	45.2%	45.8%	46.3%	46.9%
Write-off Expenses	25,944	26,018	24,229	24,242	24,421
Receivables as a Percentage of Gas Revenues	25.81%	26.89%	27.92%	28.55%	28.26%

Note:

(a) 1995 Fiscal Year includes an increase in base rates of \$25.0 million.

EXHIBIT I

**PHILADELPHIA GAS WORKS
SELECTED OPERATING STATISTICS**

Fiscal Data	Years Ended August 31									
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Number of Customers	518,869	518,997	518,614	516,046	517,001	518,143	519,206	522,834	519,824	523,505
Miles of Distribution Mains	2,983	2,986	2,989	2,993	3,018	3,031	3,014	3,008	3,014	3,021
Utility Plant (\$000) (1)	586,752	624,835	667,339	720,506	787,601	840,248	892,970	940,267	987,437	1,031,592
Total Gas Sales (MMcf) (2)	78,269	69,851	71,857	71,338	75,426	72,534	71,723	69,349	75,771	78,202
Operating Revenues (\$000):										
Heating	394,586	373,937	367,716	363,057	372,007	379,673	376,006	356,150	393,336	422,998
Non-heating	130,842	115,482	103,476	87,461	93,115	87,607	90,245	98,347	86,494	95,416
Gas Transportation	-	-	-	-	-	-	-	460	2,354	621
Total Operating Revenues	532,163	495,286	477,127	456,443	469,567	472,706	472,172	461,572	490,214	526,977
Other Income	16,729	15,906	15,643	12,295	15,940	12,858	11,880	12,636	10,238	11,203
Operating Expenses (\$000):										
Natural Gas	305,835	289,383	266,029	221,119	229,284	238,087	230,362	208,402	211,730	243,250
Gas Processing	16,886	17,104	19,729	20,713	24,611	24,410	25,390	22,362	21,389	21,482
Customer Service	18,182	19,455	20,306	20,858	20,786	20,382	19,229	17,835	21,387	20,100
Distribution	12,335	13,048	13,411	14,350	16,562	16,244	20,588	18,519	19,422	20,674
Collection & Meter Reading (3)	36,680	34,673	32,132	36,215	35,010	32,383	37,241	42,963	41,498	44,613
Administrative and General	18,692	19,523	25,068	26,112	28,413	27,185	26,989	28,687	35,357	39,960
Other Operating Expenses (4)	49,649	51,405	52,731	57,267	60,745	60,612	56,676	58,115	59,262	60,665
Total Operating Expenses	458,259	444,591	429,406	396,634	415,411	419,303	416,475	396,883	410,045	450,744
Interest Expense	39,843	40,766	44,244	44,125	48,575	47,736	49,007	52,871	55,555	53,967
Net Income	50,790	17,347 (5)	19,120	27,979	21,521	18,525	18,570	24,454	34,852	33,469

- 1) Gross Plant at original cost.
- 2) Includes transportation in year August 31, 1991, 1992 and 1993.
- 3) Includes appropriation to Reserve for Uncollectible Accounts.
- 4) Includes Customer Relations, Customer Accounting, Marketing, Penelons, Taxes and Net Depreciation and Amortization.
- 5) Includes extraordinary loss of \$8,488,000 due to early extinguishment of debt.

EXHIBIT II
PHILADELPHIA GAS WORKS
FORECAST STATEMENT OF INCOME
Fiscal Years 1993 through 1998
(\$000)

	ACTUAL		FORECAST			
	1993	1994	1995	1996	1997	1998
Operating Revenues						
Sales (Current Rates & Changes to GCR)	\$517,635	\$560,792	\$585,572	\$597,872	\$618,171	\$631,815
Projected Rate Increase – Prior				25,000	25,000	25,000
– Current			25,000			
Other Operating Revenues	9,342	9,276	9,898	10,189	10,386	10,988
Total Operating Revenues	526,977	570,068	620,470	633,061	653,557	667,803
Operating Expenses						
Natural Gas	243,250	274,101	286,212	295,064	308,788	316,806
Gas Processing	21,482	22,494	22,641	23,516	24,474	25,395
Other Operating & Maintenance (Exhibit III)	163,002	170,392	174,531	176,016	182,912	183,774
Operating Expenses Excl. Depreciation	427,734	466,987	483,384	494,596	516,174	525,975
Depreciation	23,010	24,182	26,095	26,811	27,939	29,168
Total Operating Expenses	450,744	491,169	509,479	521,407	544,113	555,143
Net Operating Income	76,233	78,899	110,991	111,654	109,444	112,660
Other Income	11,203	8,095	7,352	6,918	7,773	8,847
Net Income Before Interest	87,436	86,994	118,343	118,572	117,217	121,507
Interest Expense						
Long-term Debt Interest:						
Revenue Bonds	45,997	48,054	49,140	47,200	47,709	48,287
PMA Bonds	1,763	1,731	1,696	1,657	1,616	1,572
Discount & Expenses	2,010	2,028	1,983	1,866	1,829	1,799
Total Long-term Interest	49,770	51,813	52,819	50,723	51,154	51,658
Other Interest:						
Short-term Debt	2,138	2,275	2,275	2,275	2,275	2,275
Loss from Extinguishment of Debt	2,477	2,960	2,880	2,766	2,634	2,494
Interest on Customer Deposits	56	70	75	80	85	90
Miscellaneous	134	183				
Total Other Interest	4,805	5,488	5,230	5,121	4,994	4,859
AFUDC	(608)	(862)	(311)	(279)	(170)	(100)
Total Interest Expense	53,967	56,439	57,738	55,565	55,978	56,417
Net Income	33,469	30,555	60,605	63,007	61,239	65,090
Payment to City of Philadelphia	18,000	18,000	18,000	18,000	18,000	18,000
Net Income Transferred to Retained Earnings	15,469	12,555	42,605	45,007	43,239	47,090

EXHIBIT III
PHILADELPHIA GAS WORKS
FORECAST OTHER OPERATION AND MAINTENANCE EXPENSES
Fiscal Years 1993 through 1998
(\$000's)

	<u>ACTUAL</u>	<u>FORECAST</u>				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Other Operation and Maintenance Expenses						
Administrative & General	\$39,960	\$40,972	\$42,353	\$44,098	\$47,148	\$48,953
Appropriation to Reserve for Uncollectible Accounts	29,866	36,332	32,572	29,739	29,470	26,741
Customer Service	20,100	21,364	22,185	22,977	24,378	25,333
Distribution	20,674	21,497	21,597	22,467	23,412	24,364
Pensions	12,469	12,671	12,830	12,376	12,638	12,903
Customer Relations	9,625	10,048	10,113	10,499	10,937	11,394
Collection	8,226	8,311	8,431	8,766	9,139	7,540
Taxes	8,127	7,384	7,630	7,934	8,261	8,609
Meter Reading	6,521	7,349	7,083	7,081	7,172	7,211
Marketing	4,468	6,340	6,486	6,717	6,860	7,108
Customer Accounting	2,966	3,242	3,251	3,362	3,497	3,618
Work Stoppage		(5,118)				
Total Other Operation & Maintenance Expenses	<u>\$163,002</u>	<u>\$170,392</u>	<u>\$174,531</u>	<u>\$176,016</u>	<u>\$182,912</u>	<u>\$183,774</u>

EXHIBIT IV

**PHILADELPHIA GAS WORKS
CAPITAL EXPENDITURES**

Fiscal Years 1993 through 1999
(\$000)

	Actual		FORECAST				
	1993	1994	1995	1996	1997	1998	1999
Additions and Replacements							
Supply Plant	\$4,803	\$5,828	\$2,985	\$3,435	\$3,890	\$3,736	\$4,288
Distribution Plant	32,833	38,796	35,734	38,133	34,754	36,588	38,349
Customer Service	6,922	9,939	10,512	11,225	11,580	11,995	12,838
Other	5,227	5,414	5,778	5,554	5,996	5,748	8,139
Sub-total	49,785	59,977	55,009	58,347	56,220	58,067	63,614
Less: Contributions in Aid of Construction	1,734	3,537	1,309	1,839	1,596	1,914	2,421
Net Additions and Replacements	48,051	56,440	53,700	56,508	54,624	56,153	61,193
Allowance for Funds Used During Construction							
Supply Plant	226	275	255	265	256	263	290
Distribution, Customer Service and other Plant	573	700	639	684	658	681	748
Sub-total	799	975	894	949	914	944	1,038
Removal Costs (Net)							
Removal Cost	2,137	3,049	2,431	2,287	2,429	2,567	3,019
Salvage	(96)	(196)	(344)	(272)	(314)	(350)	(383)
Sub-total	2,041	2,853	2,087	2,015	2,115	2,217	2,636
TOTAL	\$50,891	\$60,268	\$56,681	\$59,472	\$57,653	\$59,314	\$64,867

EXHIBIT V

PHILADELPHIA GAS WORKS
 ANALYSIS OF INTERNALLY GENERATED FUNDS
 AVAILABLE TO COVER DEBT SERVICE
 Fiscal Years 1993 through 1998
 (\$000)

	ACTUAL		FORECAST			
	1993	1994	1995	1996	1997	1998
Funds Provided:						
Operating Revenues (Exhibit II)	\$526,977	\$570,068	\$620,470	\$633,061	\$653,557	\$667,803
Other Income	11,965	7,992	7,264	6,827	7,679	8,750
AFUDC	608	862	311	279	170	100
Total Funds Provided	539,550	578,922	628,045	640,167	661,406	676,653
Funds Applied to Operations:						
Operation Expenses Excluding Depreciation (Exhibit II)	427,734	466,987	483,384	494,596	516,174	525,975
Less: Expenses Not Requiring Expenditure of Funds	4,779	4,695	5,061	5,190	5,183	5,283
Total Funds Applied	422,955	462,292	478,323	489,406	510,991	520,692
Internally Generated Funds Available for Debt Service						
Less: PMA Bond Debt Service	2,244	2,242	2,243	2,246	2,246	2,243
Internally Generated Funds Available to Cover Revenue Bond Debt Service	114,351	114,388	147,479	148,515	148,169	153,718
Funds Applied to Debt Service:						
Revenue Bonds - Proposed			5,063	5,963	5,962	5,063
- Existing	69,189	66,219	74,550	74,551	70,550	74,212
Total Revenue Bonds	69,189	66,219	79,613	80,514	76,512	79,275
Temporary Financing	2,250	2,275	2,275	2,275	2,275	2,275
Total Funds Applied to Debt Service	71,439	68,494	81,888	82,789	78,787	81,550
Internally Generated Funds Available for City Fee						
Payment to City - City Fee	18,000	18,000	18,000	18,000	18,000	18,000
Internally Generated Funds Available	\$24,912	\$27,894	\$47,591	\$47,726	\$51,382	\$54,168
Debt Service Coverage	1.65	1.73	1.85	1.84	1.94	1.94

EXHIBIT VI
 PHILADELPHIA GAS WORKS
 ANALYSIS OF CASH AND ANNUAL CASH BALANCES
 Fiscal Years 1993 through 1998
 (\$000's)

	ACTUAL	FORECAST				
	1993	1994	1995	1996	1997	1998
Beginning Cash Balance	\$30,313	\$2,040	\$2,325	\$2,702	\$2,369	\$2,175
Sources of Funds:						
Internally Generated:						
Net Income (Exhibit II)	33,469	30,555	60,605	63,007	61,239	65,090
Items in Net Income Not Requiring Funds	27,185	28,024	30,282	31,122	32,429	33,744
Interest Expenses Included in Net Income (Exhibit II)	53,967	56,439	57,738	55,565	55,978	56,417
Total Internal Funds	114,621	115,018	148,625	149,694	149,646	155,251
Externally Generated:						
Revenue Bond Proceeds	67,890	66,413			66,413	
Capital Improvement Fund Drawdown	38,000	53,300	19,700	17,500	10,700	6,300
Temporary Borrowings						
Total External Funds	105,890	119,713	19,700	17,500	77,113	6,300
Total Source of Funds	250,824	236,771	170,650	169,896	229,128	163,726
Uses of Funds:						
Debt Service Coverage (Exhibit V)	71,439	68,494	81,888	82,789	78,787	81,550
PMA Bond Debt Service (Exhibit V)	2,244	2,242	2,243	2,246	2,246	2,243
Working Capital Increases	3,820	19,029	9,136	5,020	3,854	523
Construction Requirements (Exhibit IV)	50,891	60,268	56,681	59,472	57,653	59,314
Payment to City of Phila. - Fee (Exhibit II)	18,000	18,000	18,000	18,000	18,000	18,000
Deposit of Capital Improvement Fund (Table 16)	67,890	66,413	0	0	66,413	0
Repayment of Temporary Borrowings	34,500					
Total Uses of Funds	248,784	234,446	167,948	167,527	226,953	161,630
Ending Cash Balance	\$2,040	\$2,325	\$2,702	\$2,369	\$2,175	\$2,096

APPENDIX

A NOTE ON SALES/SUPPLY/DEMAND UNITS

Sales/supply/demand in this report are reported in volume or energy units. PGW purchases gas in energy units but, usually sells them in volume units because that is what gas meters measure. There is a fundamental relationship between the energy and volume units used for reporting purposes - one cubic foot of gas (volume) equals approximately 1,030 Btu (energy). More complex measures evolve from this relationship as follows:

Energy Units

Btu	-	British thermal unit - the amount of energy required to raise the temperature of one pound of water by one degree Fahrenheit.
Therm	-	100,000 Btu
Dekatherm	-	10 Therms (1,000,000 Btu)

Volume Units

Scf	-	Standard cubic foot - the amount of gas contained in one cubic foot at 60°F and standard pressure of 14.73 pounds per square inch absolute (normal atmospheric pressure)
Mcf	-	Thousand cubic feet, 1,000 Scf
MMcf	-	Million cubic feet, 1,000 Mcf (1,000,000 Scf)
Bcf	-	Billion cubic feet, 1,000 MMcf (1,000,000,000 Scf)

For the reader's ease in reading/understanding the report the following approximations may be useful:

- One Dekatherm equals one Mcf,
- One thousand Dekatherms equals one MMcf.

Heating Units

HDD	-	Heating Degree Days
HDH	-	Heating Degree Hours

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Cascade Natural Gas Corporation
Catalana de Gas y Electricidad S. A.
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Central Illinois Light Company
Central Illinois Public Service Co.
Central Indiana Gas Company
Central Telephone & Utilities Corp.

Champlain Pipeline Project
Chesapeake Utilities
Chinese Petroleum Corporation
Cincinnati Gas & Electric Company
Cities Service Gas Company
Citizens Gas Fuel Company
Citizens Gas & Coke Utility
Citizens Utilities Company
City of Danville, Virginia
City of Hamilton, Ohio
City of Holyoke, Massachusetts Gas and Electric
City of Mesa, Arizona
City of Norwich, Connecticut
 Department of Public Utilities
City of Pensacola, Florida
City of Petersburg, Virginia
City of St. Petersburg, Florida
City of Westfield, Massachusetts
City of Winfield
Coastal States Gas Corporation
Cody Gas Company
Colonial Gas Association, Ltd.
Colonial Gas Company
Colonial Gas Holdings, Ltd.
Colorado Interstate Gas Co.
Colorado Springs Gas Department
Columbia Gas of Kentucky, Inc.
Columbia Gas of Maryland, Inc.
Columbia Gas of New York, Inc.
Columbia Gas of West Virginia, Inc.
Columbia Gas System, Inc.
Commonwealth Gas Company
Commonwealth Gas Distribution Corp.
Commonwealth Natural Gas Corp.
Community Public Service Company
Companhia Municipal
 de Gas de Sao Paulo
Concord Natural Gas Corporation
Connecticut Light & Power Company
Connecticut Natural Gas Corporation
Conoco Pipeline Co.
Consolidated Edison Company of New York, Inc.
Consolidated Natural Gas Company
Consumers' Gas Company

Corning Natural Gas Corporation
Cumberland Gas Company

Dayton Power & Light Company
Delaware Power & Light Company
Delta Natural Gas Company
Distrigas Corporation
Dome Petroleum Limited

Eastern Shore Natural Gas Co.
Eastern Utilities Associates
East Midland Gas Board
East Ohio Gas Company
Elizabeth City, North Carolina
Elizabethtown Gas Company
El Paso Natural Gas Company
Empressa Nacional del Petroleo (Chile)
EnergyNorth Inc.
Energy Services of Pensacola
Equitable Gas Company
Essex County Gas Company

Falcon Seaboard Oil Co.
Fall River Gas Company
Fitchburg Gas and Electric Co.
Flo-Gas Corporation
Florida Gas Company
Florida Public Utilities Company
Fremantle Gas and Coke Company

Gainesville Gas Company
Gas and Fuel Corporation of Victoria
Gas Company of New Mexico
Gas del Estado (Argentina)
Gas Light Company of Columbus
Gas Natural, S.A. (Chile)
Gas Service Company
Gas Service Inc.
Gaz Inter-Cite Quebec
Gaz Metropolitan, Inc.
Geelong Gas Company
Granite State Gas Transmission, Inc.
Greater Winnipeg Gas Company
Great Falls Gas Company
Great Northern Gas Utilities, Ltd.
Greenwich Gas Company
Gulf Coast Natural Gas Company
Gulf States Utilities Company

Hartford Electric Light Company
Hastings Utilities
Hindustan Petroleum Corporation
Hobbs Gas Company

Honolulu Gas Company
Hope Natural Gas Corporation
Houston Natural Gas Corporation
Houston Industrial Gas System

ICG Canadian Propane
Idaho Natural Gas Company
Industrial Gas Supply Corporation
Inland Natural Gas Company, Ltd.
Inter-City Gas Corp., Inc.
Intermountain Gas Company
Interprovincial Pipe Line Limited
Interstate Power Company
Iowa Electric Light & Power Company
Iowa-Illinois Gas & Electric Company
Iowa Public Service Company
Iroquois Gas Corporation

Kansas Power & Light Co. (The)
KPL-Gas Service
KN Energy, Inc.

Laclede Gas Company
Lake Shore Gas Company
Lea County Gas Company
Lone Star Gas Company
Long Island Lighting Company
Louisiana Gas Interstate, Inc.
Louisville Gas & Electric Co.
Lowell Gas Company

Madison Gas & Electric Company
Main Gas Werke (Germany)
Manchester Gas Company
Manila Gas Corporation
Memphis Light, Gas & Water Division
Metropolitan Utilities District of Omaha
Michigan Consolidated Gas Company
Michigan Gas & Electric Company
Michigan Gas Utilities Company
Michigan-Wisconsin Pipe Line Company
Mid-American Pipeline Company
Midland Cogeneration Venture

Midwest Energy Corp.
Midwestern Gas Transmission Company
Mississippi Valley Gas Company
Missouri Utilities Company
Mobile Gas Service Corporation
Montana-Dakota Utilities Company
Montana Power Company
Mountain Fuel Supply Company
Mustang Fuel Corporation

Nantucket Gas & Electric Company
Nashville Gas Company
National Fuel Gas Company
National Fuel Gas Supply Corp.
National Fuel Gas Distribution Corp.
National Gas & Oil Corporation
National Utilities & Industries Corp.
Natural Gas Pipeline Co. of America
New Bedford Gas & Edison Light Co.
New Britain Gas Light Company
New England Gas Association
New Haven Gas Company
New Jersey Natural Gas Company
New York Gas Group
New York State Electric & Gas Corp.
New York State Natural Gas Corp.
New Zealand Gas Association
North Carolina Natural Gas Corp.
North Shore Gas Company
Northeast Utilities Service Company
Northern and Central Gas Corp., Ltd.
Northern Illinois Gas Company
Northern Indiana Public Service Co.
Northern Minnesota Utilities
Northern Natural Gas Company
Northern States Power Company
Northern Utilities Inc.
Northwest Pipeline SGS Customer Group
Northwestern Public Service Company
Northwestern Utilities, Ltd.
Northwest Natural Gas Company

Ohio Fuel Gas Corporation
Ohio Gas Company
Ohio Public Utility Commission
Okaloosa County Gas District
Oklahoma Gas & Electric Company

Oklahoma Natural Gas Company
Orange and Rockland Utilities, Inc.

Pacific Lighting Service & Supply Co.
Pacific Power & Light Company
Panhandle Eastern Pipe Line Company
Pecos Valley Gas Company
Penn Fuel Gas Co.
Pennsylvania Gas Company
Pennsylvania Gas & Water Company
Pennsylvania Gas Association
Pennzoil United, Inc.
Peoples Gas Light & Coke Company
Peoples Gas System
Peoples Natural Gas Company
Peoples Natural Gas Company of South Carolina
Permian Basin Pipeline Company
Philadelphia Gas Commission
Philadelphia Gas Works
Piedmont Natural Gas Company
Pioneer Natural Gas Company
Plains-Western Gas, Ltd.
Polar Gas / McKenzie Delta
Producers Gas Company
Providence Gas Company
Public Service Company of North Carolina, Inc.
Public Service Electric & Gas Company
Puerto Rico Gas Co., Inc.

Quebec Natural Gas Corporation

Richmond Gas Corporation
Roanoke Gas Company
Rochester Gas & Electric Corporation

St. Lawrence Gas Company, Inc.
San Diego Gas & Electric Co.
San Juan Gas Company
Shreveport Intrastate Gas Transmission, Ltd.
Sierra Pacific Power Company
Societe Gazifere de Hull, Inc.
South Australia Gas Company
South Brisbane Gas & Light Company, Ltd.
South Carolina Electric & Gas Company
South County Gas Company
South Eastern Gas Board
South Jersey Gas Company
Southeastern Michigan Gas Company

Southeastern Public Service Company
Southern California Gas Company
Southern Connecticut Gas Company
Southern Indiana Gas & Electric Co.
Southern Natural Gas Company
Southern Union Gas Company
Southwest Gas Corporation
Southwestern Energy Co.
Springfield Gas Light Company
Stadrwerke Dusseldorf
Stadrwerke Wiesbaden Ag.
Suffolk Gas Company
Sugar Bowl Gas Company, Inc.
Sultanate of Oman
Syracuse Suburban Gas Company, Inc.

Technischen Werke der Stadt Stuttgart
Tenneco Inc.
Tennessee Gas Transmission Company
Texas Gas Transmission Corporation
Town of Citronelle, Alabama
TransCanada Pipeline Ltd.
Transco Companies, Ltd.
Transok Pipeline Company
Transcontinental Gas Pipe Line Corp.
Trans Quebec & Maritimes Pipelines, Inc.
Tropical Gas Company
Tucson Gas & Electric Company
T. W. Phillips Gas & Oil Company

Union Gas of Canada
Union Gas & Electric Power Company

Union Gas Limited
United Cities Gas Company
United Fuel Gas Company
United Gas Corporation
United Gas Pipe Line Company
United Natural Gas Company
United Suburban Gas Company, Ltd.
United Texas Transmission Co.

Valero Energy Company
Valley Gas Company
Vermont Gas Systems, Inc.
Virginia Electric & Power Company
Volunteer Natural Gas Company

Wales Gas Board
Washington Gas Light Company
Washington Natural Gas Company
West Ohio Gas Company
West Virginia Power Gas Service
Westfield Gas & Electric Light Company
Western Kentucky Gas Company
Western Resources, Inc.
Williston Basin Interstate Pipeline Co.
Wilmot Gas & Oil Company
Wisconsin Distributor Corp.
Wisconsin Gas Company
Wisconsin Public Service Corp.
Wisconsin Southern Gas & Appliance Corp.
World Bank (IBRD)
Wyoming Gas Company
York County Gas Company

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APPENDIX C

**Summaries of Legislation
Authorizing the Issuance
of Gas Works Revenue Bonds**

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The following are summaries of certain provisions of The First Class City Revenue Bond Act (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), which authorize the issuance of Gas Works Revenue Bonds generally and the Fifteenth Supplemental Gas Works Bond Ordinance (the "Fifteenth Supplemental Ordinance") which authorizes the issuance of the Fifteenth 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 General Ordinance and the Fifteenth Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 13th Floor, 1600 Arch Street, Philadelphia, Pennsylvania 19103, 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 General Ordinance and the Fifteenth 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 (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, as more fully described herein under "Refunding."

"Project" is defined to include, *inter alia*, any building, structure, facility or improvement of a public nature, the related land and rights or leasehold estates therein and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease, 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 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" mean, 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 the Project, 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 payable solely from Project Revenues and to be secured solely by such 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 other than the Project Revenues pledged therefor and against the reserve funds established in respect of the Bonds. 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 order to establish that Project Revenues will be sufficient to amortize all Bonds outstanding, 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 or on a certificate of registered engineers engaged by the City to compile relevant data.

For the purpose of estimating future Project Revenues, the Act provides that only the following shall be included: (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, are or will be in effect and will be reasonably collectible during the fiscal year under the rate schedule which is or will be in effect during such fiscal year, or which may be imposed by administrative action without future legislation; (ii) those bulk payments which may be imposed under existing legislation or which are provided under existing 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) those governmental subsidies or payments 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 fix the aggregate amount of Bonds to be issued from time to time 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 and disbursement of Project Revenues, the operation and maintenance of the Project, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds, the rights and remedies of bondholders 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. Payment into such sinking fund shall be made in annual or more frequent installments 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 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 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, including the Sinking Fund Reserve established by the General Ordinance, 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 are subject to the same protections and provisions required for the issuance of an original issue of Bonds, provided that the maturity date of the refunding Bonds is not later than ten years after the last stated maturity date of the Bonds to be refunded. If outstanding Bonds are refunded in advance of their maturity or redemption date, the principal of and interest to payment or redemption date and redemption premium payable, if any, will no longer be deemed to be outstanding obligations 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 obligations of the United States or of the Commonwealth of Pennsylvania (which, in each case, are insured or secured as public deposits), the principal and interest of which are sufficient to effect, and are irrevocably pledged to, the redemption or payment of such Bonds and, in the case of redemption, notice of such redemption or irrevocable instructions to give such notice shall have been duly given.

Validity of Proceedings: Suits and Limitations Thereon

Prior to the delivery of any 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 the 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 the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the 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, their transfer and the income therefrom, including any gains made on the sale thereof (other than underwriting profits in a distribution thereof), 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 thereof.

Defaults and Remedies

If the City should fail to pay the principal of or interest on any of the Bonds when the same shall be due and payable, the remedy provisions of the Act permit the holder of any such Bond, subject to the limitations described below, to recover the amount due in an action in the Court. However, a judgment rendered in favor of the bondholder in such an action is collectible only from the assessments, revenues, rates, rents, tolls and charges from the Project which are pledged for the payment of the Bonds. The holders of 25% in aggregate principal amount of any series of Bonds 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 them. On being appointed, the trustee shall be the exclusive representative for the holders of such series of Bonds and an individual right of action in the Court shall no longer be available. The trustee may and, upon written request of the holders of 25% in aggregate principal amount of such Bonds, 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: enforce, by proceedings at law or in equity, all rights of the holders of Bonds; bring suit on the Bonds; bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, declare the unpaid principal of the Bonds 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. The Court of Common Pleas, in extreme cases of 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, trustee fees and expenses, 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 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, in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds, together with interest to the redemption date and redemption premium, if any.

Bond Anticipation Notes

The City is authorized by the Act to issue 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 such bond anticipation notes. The reference to the revenue Bonds shall specify a maximum rate of interest to be borne by such Bonds.

THE GENERAL ORDINANCE

Ordinance of City Council approved May 30, 1975 - Bill No. 1871 (the "General Ordinance"), as amended by Ordinance of City Council approved July 26, 1979 - Bill No. 2068, Ordinance of City Council approved July 31, 1980 - Bill No. 274, Ordinance of City Council approved September 22, 1982 - Bill No. 1316, Ordinance of City Council approved May 17, 1985 - Bill No. 534 and Ordinance of City Council approved January 28, 1993 - Bill No. 379. Pursuant to the authorization contained in the Act, the City has adopted the 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 General Ordinance.

Definitions

"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 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.

"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.

"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 services by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or capital 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 therefrom, including all accounts, contract rights and general intangibles representing the Project Revenues and all proceeds of any of the foregoing.

Additional Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (a "Supplemental Ordinance"). The General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The 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 payment, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The 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 General Ordinance authorizes the issuance of Bonds in book-entry form and the sale of Option Rights (the right to call Bonds of a series for mandatory tender for purchase).

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, or (5) refund any general obligation bonds of the City issued for the foregoing purposes. However, the City covenants that it will not issue Bonds to provide funds to refund general obligation bonds or notes issued prior to January 1, 1974.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued unless the financial report of the City's chief fiscal officer, required by the Act to be filed with the City Council in connection with such issuance, shall be accompanied by 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, 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 Project Revenues are to be derived; (3) a statement that, on the basis of actual and estimated future annual financial operations of the Project from which the pledged Project Revenues are to be derived, the Project 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 operating expenses, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged and surplus requirements fixed by the General Ordinance or the Supplemental Ordinance authorizing the issuance of any series of Bonds, and (4) that the revenues upon which the preceding statements are based comply with the definition of "Project Revenues" contained in the Act. The General Ordinance also requires that the engineering report state that the pledged Project Revenues 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, shall be filed with the Fiscal Agent.

Security

The Bonds are and will be equally and ratably secured by a pledge of and a security interest in all Project Revenues and the Sinking Fund, including the Sinking Fund Reserve.

Priority in Application of Project Revenues

Prior to default, the General Ordinance, together with the General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993 (Bill No. 523, approved June 8, 1993) establishes the following priorities in the application of Project Revenues during each fiscal year:

First: to Net Operating Expenses;

Second: to required payments into the Sinking Fund to pay the principal of and interest on all Bonds issued under the General Ordinance and to accumulate, or to restore any deficiency in, the Sinking Fund Reserve;

Third: 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;

Fourth: to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and

Fifth: to the payment of the principal of and interest on the Gas Works Notes, to the payment of any amounts owed to the issuer of the Credit Facility established with respect to the Gas Works Notes and to the payment of any other temporary loans or indebtedness of the City secured by a pledge of the Project Revenues; and

Sixth: to the payment of City Charges including the Base Payment (currently \$18,000,000) and the payment of rentals under the Lease (described under the caption, "ADDITIONAL DEBT") on a parity basis after the payments listed in items First through Fifth above.

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 PGW's operating funds during the same fiscal year.

The General Ordinance does not require the segregation of revenues upon their collection prior to default.

Rate Covenant

The City covenants that it has authorized the imposition of rates and charges by the Gas Commission sufficient to comply with the Rate Covenant in the General Ordinance, and that it will not repeal or materially adversely dilute such authorization.

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:

A. The sum of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all Bonds issued and outstanding under the General Ordinance which will become due and payable during such Fiscal Year; and
- (iii) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year; or

B. The sum of:

- (i) all Net Operating Expenses payable during such Fiscal Year; and
- (ii) 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 (1) that 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) that it will continuously maintain in good condition and operate the Gas Works; and (3) that 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 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 General Ordinance and Supplemental Ordinances. Copies of such report will be available 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 (1) general obligation bonds or (2) under authorization other than the General Ordinance and Supplemental Ordinances, revenue bonds 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 principal, premium, interest and Sinking Fund requirements of all Bonds issued under the General Ordinance.

Sinking Fund and Sinking Fund Reserve

A Gas Works Revenue Bond Sinking Fund is established for the benefit of all Bonds issued under the 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 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. The Sinking Fund Reserve shall be funded from either (i) the proceeds of each series of Bonds in an amount equal to the maximum amount required in any Fiscal Year to pay the debt service on the Bonds of such 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 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 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 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 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 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 on a daily basis 50% of all Project Revenues, or such greater percentage thereof as the Director of Finance shall determine, in the Sinking Fund, so long as the default or deficiency shall continue. The 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 an action brought under the provisions of the 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 General Ordinance and any Supplemental Ordinance may be amended without the consent of any bondholders (1) to cure ambiguities, formal defects or omissions, (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 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 thereof may be made without the consent of the holders of all Bonds outstanding and affected.

Amendments Not Affecting Outstanding Bonds

The 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 General Ordinance governing amendments generally, which shall be inconsistent with, or would impair a prior covenant in,

the 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 FIFTEENTH SUPPLEMENTAL ORDINANCE

(Ordinance of City Council approved December 23, 1993,
Bill No. 693)

The Fifteenth Supplemental Ordinance authorizes the Mayor, City Controller and City Solicitor (the "Bond Committee"), or a majority of them, to sell, in one or more series, Gas Works Revenue Bonds in the maximum aggregate principal amount of \$300,000,000 provided that such aggregate principal amount may be increased to reflect sales of such Bonds at discounts which are in lieu of periodic interest, so long as the aggregate gross proceeds to the City from the sale of such Fifteenth Series Bonds do not exceed \$300,000,000, and authorizes a majority of the Bond Committee to establish the terms and provisions of such Fifteenth Series Bonds.

The Fifteenth Supplemental Ordinance states that the Fifteenth Series Bonds are to be issued for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of PGW as from time to time included in the capital budgets of PGW, as approved by City Council; (ii) refunding of all or a portion of certain series of the City's outstanding Gas Works Revenue Bonds, as designated by the City's Director of Finance; (iii) paying the costs of issuing the Fifteenth Series Bonds, and making any required deposit to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City, or to accounts of the Gas Works of amounts advanced for Project Costs, and the funding or refunding of outstanding bond anticipation notes or other obligations of the City issued in respect of Project Costs.

Based on the report of the Director of Finance filed with City Council pursuant to the Act, the Fifteenth Supplemental Ordinance determines that the pledged Project Revenues (as defined in the General Ordinance) will be sufficient to comply with the Rate Covenant contained in the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in their order of priority as set forth in the General Ordinance.

The City covenants in the Fifteenth Supplemental Ordinance that the proceeds of the Fifteenth Series Bonds applicable to the refunding of the Refunded Bonds will be deposited in one or more escrow or similar accounts with the Fiscal Agent (as defined in the General Ordinance), separate and apart from all other accounts of the City or Gas Works.

The City covenants in the Fifteenth Supplemental Ordinance that the proceeds of the sale of the Fifteenth Series Bonds which remain available for payment of costs of capital improvements shall be deposited in, held in and disbursed from one or more unsegregated accounts of PGW which shall be separate and apart 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.

The City covenants in the Fifteenth Supplemental Ordinance that, so long as any Fifteenth Series Bonds issued thereunder remain unpaid, it shall make payments or cause payments to be made out of the Sinking Fund created under the General Ordinance at such times and in such amounts as shall be sufficient to pay interest on and principal of any Fifteenth Series Bonds when due.

The Fifteenth Supplemental Ordinance authorizes the Director of Finance and any member of the Bond Committee to make such covenants as may be necessary or advisable to insure that interest on the Fifteenth Series Bonds shall be excludible from gross income for purposes of federal income taxation.

The Fifteenth Supplemental Ordinance authorizes the City to accumulate from Project Revenues over a period of not more than six Fiscal Years from the date or dates of issuance and delivery of the Fifteenth Series Bonds issued thereunder the amount required to be deposited in the Sinking Fund Reserve in respect thereof.

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APPENDIX D

**Certain Financial Information
Concerning the City of Philadelphia**

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CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

This Appendix presents certain financial and demographic information regarding the City of Philadelphia.

THE GOVERNMENT OF PHILADELPHIA

General

The City of Philadelphia (the "City") was founded in 1682. In 1854, the City and County of Philadelphia were merged. There are two principal governmental entities in Philadelphia: (1) the City, which performs not only the ordinary municipal functions but also all of the traditional county functions; and (2) the School District, having boundaries coterminous with the City, which has responsibility for all public primary and secondary education activities. 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 judges are paid by the Commonwealth, all other court costs are paid by the City, with partial reimbursement from the Commonwealth.

The City is governed primarily under the Home Rule Charter, 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 branch; and fiscal and budgetary matters, contracts, procurement, property and records. An independent Charter Commission was established in 1992 by City Council and signed into law by Mayor Edward Rendell. Under the law, the Commission has the authority to recommend new Charter provisions. However, only voters have the authority to determine if these proposals become law, with the next opportunity coming at the polls, November 2, 1993. These proposals may or may not affect the structure of the City's government. The School District is governed primarily under the 1965 Educational Supplement to the Home Rule Charter. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. The School District is managed by a nine-member Board of Education appointed by the Mayor from lists supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrance 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.

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 which may be served by members of the City Council. Of the seventeen 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 other than the majority party. Elected at the mid-point of the term of these officials are the District Attorney and the City Controller.

Among his primary responsibilities, the City Controller audits and reports upon the combined financial statements of the City. In the performance of his Home Rule Charter mandated pre-audit functions, the City Controller, who has a staff of approximately 150 persons, reviews each transaction

involving a disbursement of City monies. This review is limited by the Home Rule Charter to a verification of the certification by the Director of Finance that the proposed disbursement is made for the purpose contemplated by the appropriation upon which it is drawn and is in the correct amount. The City Controller has investigatory authority to carry out this responsibility.

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"), who is the chief financial and budget officer and is selected from three names submitted to the Mayor by a Finance Panel, the City Solicitor (the "City Solicitor"), who is head of the Law Department, and the City Representative and Director of Commerce (the "City Representative and Director of Commerce"). These officials form the Mayor's Cabinet, which, together with the Mayor, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the departments and agencies of the City which render the various municipal services provided by the City. The City Solicitor acts as legal advisor to the Mayor, the City Council, and all the agencies of the City government. The City Solicitor is 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 into City Council, and for the conduct of litigation involving the City. The City Representative and Director of Commerce is charged with the responsibility of giving wide publicity to any items reflecting the activities and accomplishments of the City, its inhabitants, commerce and industry, and is charged with the responsibility of promoting and developing commerce and industry.

Under the Home Rule Charter, the financial functions of the City are the responsibility of the Director of Finance. The Director of Finance is responsible for development of financial policy, development of the annual operating budget, assistance in the development of the capital budget and the capital program, supervision of the execution of the operating budget and the collection of revenues through the Department of Revenue, supervision of purchasing and some aspects of property management through the Procurement Department, oversight of pension administration as Chairperson of the Board of Pensions and Retirement, development and execution of the City's program of temporary and long-term borrowing, direction of the treasury functions handled by the City Treasurer appointed by the Director of Finance and general coordination of other financial matters.

The Board of Revision of Taxes, which administers the assessment of real and personal property taxes, is appointed by the Board of Judges of the Court of Common Pleas.

The chart on the following page summarizes the organization of the City's government.

ORGANIZATION OF PHILADELPHIA'S CITY GOVERNMENT

VOTERS

FORMER COUNTY OFFICERS

CITY COMMISSIONERS
CLERK OF QUARTER SESSIONS
DISTRICT ATTORNEY
REGISTER OF WILLS
SHERIFF

CITY COUNCIL

MAYOR

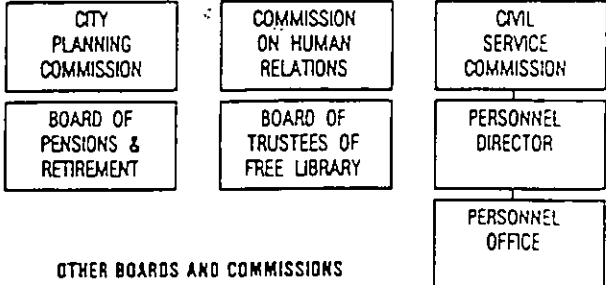
CITY CONTROLLER

MAYOR'S ADVISORY BOARDS AND COMMISSIONS

- Commission on Asian-American Affairs
- Criminal Justice Coordinating Commission
- Mayor's Commission for Women
- Mayor's Commission on Literacy
- Mayor's Commission on People with Disabilities
- Mayor's Commission on Puerto Rican/Latino Affairs
- Mayor's Commission on Services to the Aging
- Mayor's Commission on Sexual Minorities
- Mayor's Consumer Advisory Council
- Mayor's Cultural Advisory Council
- Mayor's Drug and Alcohol Abuse Executive Commission
- Mayor's Office of Community Services Advisory Board
- Mayor's Scholarship Advisory Committee
- Mayor's Task Force on Transit Safety
- Philadelphia City Scholarship Committee
- Veterans Advisory Commission
- Youth Services Coordinating Commission

OFFICE OF THE MAYOR
— CHIEF OF STAFF
— DEPUTY MAYORS
— INSPECTOR GENERAL
— ADVISORY BOARDS

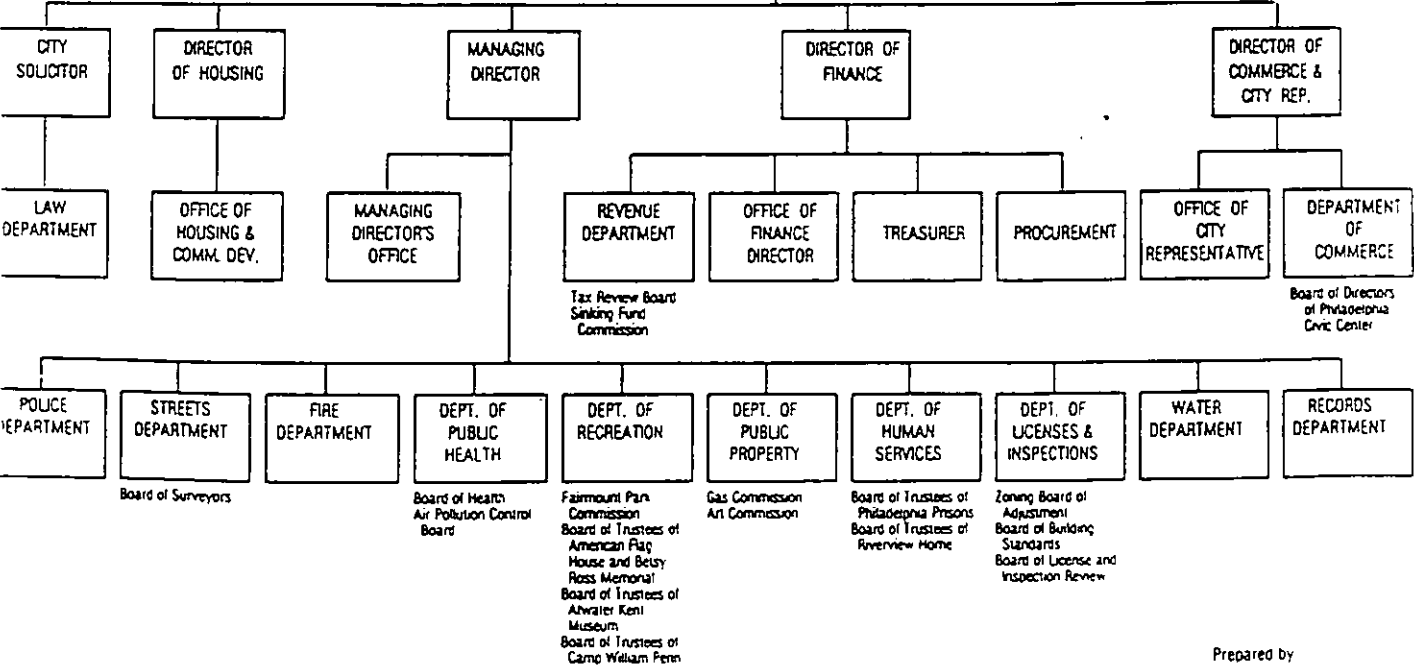
INDEPENDENT BOARDS AND COMMISSIONS



OTHER BOARDS AND COMMISSIONS

- | | |
|--|--------------------------------------|
| Administrative Board | Minority Business Enterprise Council |
| Board of Ethics | Parking Adjudication Advisory Panel |
| Board of Revision of Taxes | Philadelphia Housing Policy Board |
| Board of Safety and Fire Prevention | Plumbing Advisory Board |
| Board of Viewers | Recycling Advisory Committee |
| Child Welfare Advisory Board | Vendor Advisory Board |
| Electrical Code Advisory Board | |
| Fair Housing Commission | |
| Historical Commission | |
| Mental Health/Mental Retardation Board | |

AUDITING DEPARTMENT



Prepared by
Law Department
Designed and Composed by
Department of Records
May 1992

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The following are brief biographical sketches of the Mayor, his chief of staff and his cabinet:

Edward G. Rendell, Mayor, was elected in November 1991. He served as District Attorney of Philadelphia from 1978 through 1985, and is a former partner in the law firm of Mesirov, Gelman, Jaffe, Cramer & Jamieson. Mayor Rendell received his B.A. from the University of Pennsylvania and a J.D. from Villanova University.

David J. Cohen, Chief of Staff, is a former partner with the law firm of Ballard Spahr Andrews & Ingersoll, where he worked from 1982 to 1991. He received his B.A. from Swarthmore College and a J.D. from the University of Pennsylvania.

Judith E. Harris, City Solicitor, was a partner with the law firm of Pepper, Hamilton & Scheetz before assuming her present position. Prior to that, she was managing partner of Harris and Kahn for 14 years. She has served as a member of the boards of the Southeastern Pennsylvania Transportation Authority ("SEPTA") and the Pennsylvania Intergovernmental Cooperation Authority ("Authority"). She received an A.B. from Mount Holyoke College and a J.D. from Howard University Law School.

Raymond Eugene Shipman, Managing Director, was formerly the City Manager of the City of Hartford, Connecticut. Prior to that, he was Assistant City Manager for Kansas City, Missouri for 9 years. Mr. Shipman also served as Town Manager of Chapel Hill, North Carolina from 1978 through 1981. He received his B.A. from North Carolina Agricultural and Technical University and a Master of Public Administration from Howard University.

Ben Hayllar, Director of Finance, served as the Director of Finance of the City of Pittsburgh for four years beginning in October 1989. Prior to that he served as a Vice President and Division Manager of Equibank. From 1977-1985, Dr. Hayllar was the Assistant Executive Secretary to Pittsburgh's Mayor Richard Caligiuri. He holds a B.A. in Literature and a Ph.D. in Communications and Urban Affairs from the University of Pittsburgh.

Stephen P. Mullin, City Representative and Director of Commerce, served as the Budget Director of the City of St. Louis for seven years, as Director of Corporate Development for the Laclede Gas Company and most recently as Deputy Director of the St. Louis Economic Development Corporation, St. Louis' main economic development agency. He holds an A.B. from Harvard University and an M.A. in Economics from the University of Pennsylvania.

Government Services

Municipal services provided by the City include police and fire protection; health care; construction and maintenance of streets, highways and bridges; trash collection and disposal; provision for recreational programs and facilities; maintenance and operation of the water and sewer 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. Funding for most public assistance benefits or payments is provided by the Commonwealth and the Federal government. The City shares responsibility with the Commonwealth for costs of the Children and Youth Program and the Mental Health and Mental Retardation Program.

The City owns the assets which comprise the Philadelphia Gas Works (the "Gas Works") which serves residential, the commercial and industrial customers in the City and is the sole utility for natural gas within a service area which is coterminous with the geographical limits of the City. The Gas Works is operated by Philadelphia Facilities Management Corporation ("PFMC"), a nonprofit corporation specifically organized to manage and operate the Gas Works for the benefit of the City. Rates and

charges of the Gas Works are fixed by the Philadelphia Gas Commission and not by the Public Utility Commission of the Commonwealth. The revenues of the Gas Works are segregated from other funds of the City. Payments for debt service on City of Philadelphia Gas Works Revenue Bonds are made directly by the Gas Works. The Gas Works also makes an annual payment of \$18,000,000 to the City's General Fund. The Fiscal Year 1994 adopted budget includes the annual payment of \$18,000,000 to the City by the Gas Works.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations which 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. As of January 1, 1983, SEPTA's Regional High Speed Line Division assumed direct operations of the commuter rail system formerly operated under contract by Conrail.

The Philadelphia Parking Authority is responsible for monitoring construction and operation of parking facilities in the City and at the Philadelphia International Airport.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) was originally established for the purpose of buying equipment, primarily vehicles, and leasing them to the City. Since the time of the approval of its name change, the Authority's powers were expanded to include the construction of waste recovery facilities for disposal of City waste, correctional facilities, and other municipal buildings.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and 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 blighted areas of the City.

The Hospitals and Higher Education Facilities Authority of Philadelphia (formerly The Hospitals Authority of Philadelphia), among other services, assists non-profit hospitals in the City in financing hospital construction projects. The City does not own or operate any hospitals. In conjunction with the change of name of this Authority, the Authority's powers were expanded to permit the financing of construction of buildings and facilities for certain colleges and universities.

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 in the City and to attract new businesses to the City.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") has been responsible for the design and construction of the Philadelphia Convention Center, a multi-purpose, national convention center in the City which opened June 25, 1993. The Convention Center Authority will maintain, manage, furnish and operate the Convention Center.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") has the power, subject to satisfaction of certain requirements in the Act, to issue bonds and grant or lend the proceeds thereof to the City. On June 16, 1992 PICA, at the request of the City, issued \$474,555,000 of Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992 (the "PICA Bonds"). The proceeds of PICA Bonds were used, (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit, the then-projected Fiscal Year 1992 General Fund deficit and the projected Fiscal Year 1993 General Fund deficit of the City; (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; (iii) to make a grant to the City to provide other financial assistance to the City to enhance productivity in the operation of City government; and (iv) to fund a debt service reserve fund for the holders of the PICA Bonds, to capitalize interest on the PICA Bonds and to pay costs of issuance. See "DISCUSSION OF FINANCIAL OPERATIONS" herein.

Five-Year Plan of the City

One of the conditions precedent to the issuance of the PICA Bonds was the creation by the City and approval by PICA of a five-year financial plan (the "Five-Year Plan"). The original Five-Year 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 approved by PICA on May 18, 1992. The City updated the Original Five-Year Plan and the current Five-Year Plan (the "Current Five-Year Plan") covers Fiscal Years 1994 through 1998 and includes estimated results for Fiscal Year 1993 for comparative purposes. It was approved by City Council on March 11, 1993 and was approved by PICA on April 14, 1993. In the Current Five-Year Plan, the City projects a balanced budget by Fiscal Year 1994 (without a grant from PICA) through a strategy based upon implementation of personnel and benefit initiatives, productivity improvements, cost containments, certain service reductions and revenue enhancements. The City is currently preparing its Five-Year Plan for Fiscal Years 1995 through 1999. See "DISCUSSION OF FINANCIAL OPERATIONS - Quarterly Report to PICA" for information relating to the present status of the City's compliance with the Current Five-Year Plan.

PICA Plan of Finance

PICA issued bonds in late July 1993: (i) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; and (ii) to make a grant to the City to provide for the refunding of certain outstanding general obligation bonds of the City in the aggregate principal amount of \$336,325,000.

Source of Payment of PICA Bonds

The PICA Act authorized the City to impose a tax for the benefit of PICA. In connection with the adoption of the Fiscal Year 1992 budget, the City enacted a 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax") pursuant to the PICA Act for the exclusive purposes of PICA. Proceeds of the PICA Tax are solely the property of PICA and are not subject to appropriation by the Commonwealth or the City. The PICA tax is collected by or on behalf of the Department of Revenue of the Commonwealth and is required to be deposited once every two weeks in a fund for which the State Treasurer is custodian, designated the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund"). 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 PICA bonds, 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 PICA bonds. 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 the PICA Bonds and the City Account. The amount of PICA Tax collected during Fiscal Year 1992 was \$169.5 million. The amount of PICA Tax collected in Fiscal Year 1993 was \$186.0 million.

In connection with the enactment of the ordinance levying the PICA Tax, and the adoption of the Fiscal Year 1992 Budget, the City enacted an ordinance reducing the rates of the existing wage, earnings and net profits taxes on City residents by 1.5%, from 4.96% to 3.46%. In addition, the City levied a one percent (1%) sales and use tax for sales within the City, authorized by Chapter 5 of the PICA Act, for City general revenue purposes (the "City Sales Tax"). 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 City Sales Tax is levied solely for City purposes and is not available for the repayment of the PICA Bonds. The City Sales Tax became effective September 28, 1991. The amount collected in Fiscal Year 1992 (i.e. from September 28, 1991 through June 30, 1992) was \$51.4 million and the amount for Fiscal Year 1993 was \$76.3 million.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics and other information contained in this Official Statement have been prepared by the Office of the Director of Finance.

Independent Audit and Opinion of the City Controller

The combined financial statements of the City for the Fiscal Year ended June 30, 1993, have been audited and reported upon by the City Controller. The City Controller also has examined and expressed opinions on the combined financial statements of the City contained in the Annual Financial Report of the Director of Finance for all prior years.

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 of the tables contained in this Official Statement or otherwise set forth herein. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement. The financial statements, tables, statistics and other information contained in this Official Statement have

been prepared by the Director of Finance and can be reconciled to the financial statements in the Annual Financial Reports of the Director of Finance.

Certificate of Conformance in Financial Reporting

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Conformance in Financial Reporting, now called the Certificate of Achievement for Excellence in Financial Reporting (the "Certificate"), to the City for its Annual Financial Report for each of the fiscal years ended June 30, 1980 through June 30, 1992. In order to be awarded a Certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. A Certificate is valid for a period of one year only. The City has applied for a Certificate for Fiscal Year 1993.

Fund Structure

The major operations of the City are conducted through the Principal Operating Funds (Debt Related), which include the General Fund. In addition, the City has three other Principal Operating Funds which are not debt related ("Non-Debt Related Funds"), two of which are financed solely from grants from the Commonwealth and Federal governments. Collectively, the Principal Operating Funds (Debt Related) and the Non-Debt Related Funds are referred to herein as the "Principal Operating Funds".

Principal Operating Funds

The Unrestricted Debt Related Funds include the General Fund, whose resources are available for any City purpose, and the County Liquid Fuels Tax Fund and the Special Gasoline Tax Fund, the resources of which are available only for servicing general obligation debt issued for construction of public roads or streets. The Other Debt Related Funds include the Water Fund and the Aviation Fund, whose resources are not generally available for other City purposes, and the Convention and Civic Center Fund, which was established in Fiscal Year 1990 to account for the operations of the Convention and Civic Centers.

The Non-Debt Related Funds, whose resources are not available for other City purposes, include the Grants Revenue Fund, Community Development Fund and the Hotel Room Rental Tax Fund. The Hotel Room Rental Tax Fund was established in Fiscal Year 1983 to be used for the promotion of tourism and for the benefit of the Convention Center.

Basis of Accounting

The City's basis of accounting for annual reporting purposes is as follows:

- A. Governmental Funds (which include the General Fund, County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, Grants Revenue Fund, Community Development Fund, Hotel Room Rental Tax Fund, Capital Improvement Funds and Debt Service Funds) and Expendable Trust and Agency Funds are accounted for on the modified accrual basis. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Licenses and permits, charges for service, fines and forfeits and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. General property taxes, self-assessed taxes and investment earnings are recorded when earned as they are measurable and available. Expenditures are recognized in the accounting period in which

the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenditures, and other long-term obligations which are recognized when paid.

- B. Proprietary Funds (which include the Water Fund, Aviation Fund and Convention and Civic Center Fund) and Pension Trust Funds are accounted for on the accrual basis, in which revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

During Fiscal Year 1979, financial statements for the Proprietary Funds were changed to conform to the description above in order to bring their presentation into accord with generally accepted accounting principles as recommended by the National Council on Governmental Accounting. However, the Proprietary Funds are shown in the tables herein on the modified accrual basis for two reasons: (i) because the City's operating budget is prepared on a modified accrual basis and (ii) in order to achieve a consistent presentation of the City's finances as a whole.

Budget Adoption Procedure

At least thirty days before the end of each Fiscal Year, as required by the Home Rule Charter, 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. Within ten days after the adoption of each of such ordinances and its receipt by the Mayor, he must approve or disapprove such ordinance or the ordinance becomes effective.

The operating budget for the next Fiscal Year is prepared by the Mayor in proposed form and is required by the Home Rule Charter to be submitted at least ninety days before the end of the Fiscal Year to City Council for adoption. The budget as adopted must be balanced and provide for discharging any estimated deficit or using any estimated surplus carried over from the current Fiscal Year and make appropriations for all items to be met from City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and of surplus or deficit, if any, 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.

The capital program is prepared annually by the City Planning Commission to show the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total costs 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 16 for a summary of the City's capital program for the Fiscal Years 1994 through 1999.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from City Council controlled or appropriated funds, 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 which it covers.

The City's Fiscal Year 1994 budget was presented to City Council on January 21, 1993 and was approved on March 11, 1993. This budget was prepared by the City in connection with a Five-Year Plan and included General Fund revenue enhancement and operating expense reduction measures identified in the Original Five-Year Plan. The budget was introduced approximately 2.5 months prior to March 31, the date required by the Home Rule Charter, in order to permit coordinated review of the Fiscal Year

1994 budget and revisions to the Fiscal Year 1993 budget to bring it into conformance with the Original Five-Year Plan. At the same time, as required by the PICA Act, the City's Current Five-Year Plan was approved by Council on March 11, 1993, then submitted to PICA where it was approved.

DISCUSSION OF FINANCIAL OPERATIONS

Over the past decade, General Fund spending has grown at a faster rate than General Fund revenues and, until recently, adjustments had not been made to bring the two into alignment.

Over the course of the past eighteen months, however, progress has been made in formulating and implementing a plan to restore fiscal health to the City. The following is a brief description of several of the key events of this period.

Signing of the Intergovernmental Cooperation Agreement (the "Agreement") between PICA and the City. On January 8, 1992 following months of negotiations, the Agreement was signed. The Agreement sets forth the parameters under which the City presents its financial plans to qualify for financial assistance from PICA. The Agreement also sets out the role of PICA in monitoring the financial performance of the City.

Approval of Original Five-Year Plan by PICA. The City's Original Five-Year Plan was prepared by the Mayor, approved by City Council on April 29, 1992 and approved by PICA on May 18, 1992. The Original Five-Year Plan was designed to produce a balanced budget over a five-year period through a combination of personnel and budget initiatives, productivity improvements, cost containments and revenue enhancements.

Adoption of Fiscal Year 1993 Budget in Conformity with Original Five-Year Plan. The City's Fiscal Year 1993 budget was adopted by City Council on April 29, 1992. This budget was the first budget prepared by the City in connection with a Five-Year Plan. The budget process was expedited by the cooperation of City Council and the Mayor and adopted a full month earlier than City budgets are customarily adopted. Early adoption of the budget permitted an earlier issuance of the PICA Bonds.

Issuance of PICA 1992 Bonds. On June 16, 1992, PICA issued the PICA Bonds at the request of the City. The proceeds of the PICA Bonds were used: (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit, the then-projected Fiscal Year 1992 General Fund deficit and the then-projected Fiscal Year 1993 General Fund deficit of the City; (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; (iii) to make a grant to the City to provide other financial assistance to the City to enhance productivity in the operation of City government; and (iv) to fund a debt service reserve fund for the holders of the PICA Bonds, to capitalize interest on the PICA Bonds and to pay costs of issuance.

A grant of \$153.5 million was made to the City in June 1992 to pay the cumulative General Fund deficit through the end of Fiscal Year 1991. PICA also granted the City \$71.4 million, to pay the General Fund deficit for Fiscal Year 1992 and currently has \$7.8 million on reserve to pay the FY93 deficit. The City is drawing down \$120 million in PICA grants to fund a portion of its capital program as projects are being completed. The City utilized \$20 million in PICA grants to establish a fund which provides financial assistance to City departments for productivity projects.

Approval of Current Five-Year Plan by PICA. The City recently updated the Original Five-Year Plan with the Current Five-Year Plan which covers Fiscal Years 1994 through 1998. The Current Five-

Year Plan was approved by City Council on March 11, 1993 and was approved by PICA on April 14, 1993. The Current Five-Year Plan projects a balanced budget over a five-year period through productivity improvements, cost and service reductions, and revenue enhancements.

Adoption of Fiscal Year 1994 Budget in Conformity with Current Five-Year Plan. The City's Fiscal Year 1994 budget was adopted by City Council on March 11, 1993 and signed by the Mayor on March 19, 1993. This year the budget was introduced approximately 2.5 months prior to March 31, the date required by the Home Rule Charter, in order to permit coordinated review of the Fiscal Year 1994 budget and the Current Five-Year Plan.

The City intends to build on the accomplishments described above and vigorously pursue the implementation of the Current Five-Year Plan to restore fiscal stability.

Fiscal Year 1993 General Fund Budget and Actual Results

Table 1 shows the Fiscal Year 1993 General Fund budget and actual results. The Fiscal Year 1993 budget included \$12.1 million from a PICA grant. The City closed the fiscal year with a \$3.0 million surplus and did not require deficit funding.

The Fiscal Year 1993 budget anticipated \$90.0 million in revenues from the 1% sales and use tax that went into effect during Fiscal Year 1992. Total collections of this tax for Fiscal Year 1993 (which represents the first full year of collection) were \$76.3 million. Overall, tax revenues were \$15.6 million less than originally budgeted due largely to a revision of the sales tax base.

Revenues from other governments were \$1.5 million less than the budgeted amount. Revenues from other governments includes the PICA City Account (PICA wage tax less PICA expenses and PICA debt service).

On the obligation side, total estimated obligations are \$2,280.4 million, slightly less than budgeted.

Adopted Fiscal Year 1994 General Fund Budget

The adopted General Fund budget for Fiscal Year 1994 (including prior year adjustments), does not project an operating deficit and therefore achieves a balanced budget as required by law without a deficit elimination grant from PICA.

In preparing the budget for Fiscal Year 1994, the City believes it took a conservative approach to revenue estimation, and included revenue enhancement and operating expense reduction measures identified in the Original and the Current Five-Year Plans. Revenue estimates prepared for the Fiscal Year 1994 budget are consistent with those in the Current Five-Year Plan which projected overall revenue growth at below the rate of inflation. All such revenue estimates were approved by PICA as part of the Current Five-Year Plan review process.

TABLE I
CITY OF PHILADELPHIA
GENERAL FUND
SUMMARY OF OPERATIONS
(Modified Accrual Basis)
(Amounts in Millions)

	Actual					Adopted Budget	Actual	Adopted Budget
	1988	1989	1990	1991	1992	1993	1993	1994
REVENUES								
Real and Personal Property Taxes	\$275.2	\$286.7	\$314.0	\$326.5	\$343.3	\$348.5 (b)	\$345.2 (b)	\$369.4 (b)
Wage and Earnings Tax (d)	856.7	892.3	927.6	950.7	799.0	791.0 (b)	804.4 (b)	838.8 (b)
Net Profits Tax	31.6	21.7	20.2	23.9	16.9	21.4 (b)	15.6 (b)	16.6 (b)
Business Privilege Tax	165.7	201.7	207.5	217.3	200.3	222.8 (b)	215.1 (b)	209.1 (b)
Sales Tax (e)	0.0	0.0	0.0	0.0	51.4	90.0	76.3	84.0
Other Taxes	86.7	89.0	93.6	72.7	70.2	67.5	69.0	74.2
Total Taxes	<u>1,415.9</u>	<u>1,491.4</u>	<u>1,562.9</u>	<u>1,591.1</u>	<u>1,481.1</u>	<u>1,541.2</u>	<u>1,525.6</u>	<u>1,592.1</u>
Locally Generated Non-Tax Revenue	105.9	123.4	110.6	105.9	98.2	123.0	124.6	162.5
Revenue from Other Governments (d)	288.7	310.8	292.3	316.4	567.5 (c)	590.5 (c)	589.0 (c)	589.0
Receipts from Other City Funds	19.5	20.2	18.5	13.1	10.1	12.2	15.3	23.0
Total Revenue	<u>1,830.0</u>	<u>1,945.8</u>	<u>1,984.3</u>	<u>2,026.5</u>	<u>2,156.9</u>	<u>2,266.9</u>	<u>2,254.5</u>	<u>2,366.6</u>
OBLIGATIONS/APPROPRIATIONS								
Personal Services	797.0	810.7	821.3	853.0	884.1	879.6	873.9	863.1
Purchase of Services	533.1	623.9	601.6	632.8	665.0	689.3	689.9	771.4
Materials, Supplies and Equipment	51.7	51.3	55.0	53.5	55.1	86.8	61.2	75.6
Employee Benefits	313.4	321.3	339.6	387.9	437.2	404.9	418.2	439.3
Indemnities, Contributions and Grants	93.0 (a)	59.9	48.4	54.5	60.2	59.8	81.6	56.6
Debt Service	93.7	129.3	126.1	123.0	133.2	134.5	120.1	134.2
Other	-	-	4.0	4.0	4.9	19.7	18.3	21.9
Payments to Other City Funds	12.5	14.5	12.9	17.9	15.9	18.7	17.2	22.5
Total Obligations/Appropriations	<u>1,894.4</u>	<u>2,010.9</u>	<u>2,008.9</u>	<u>2,126.6</u>	<u>2,255.6</u>	<u>2,293.3</u>	<u>2,280.4</u>	<u>2,384.6</u>
Operating Surplus (Deficit) for the Year	(64.4)	(65.0)	(24.6)	(100.1)	(98.7)	(26.6)	(25.9)	(18.0)
Net Adjustments - Prior Year	19.9	21.9	27.1	19.3	27.3	14.5	28.9	18.0
Cumulative Fund Balance (Deficit) Prior Year	12.4	(32.1)	(75.2)	(72.7)	(153.5)	0.0	0.0	0.0
Year End Fund Balance Prior to Deficit Financing	(32.1)	(75.2)	(72.7)	(153.5)	(224.9)	(12.1)	3.0	0.0
PICA Deficit Financing FY91 and Prior	-	-	-	-	153.5	0.0	0.0	0.0
PICA Deficit Financing Current Year	-	-	-	-	71.4	12.1	0.0	0.0
Cumulative Adjusted Year End Fund Balance (Deficit)	<u>(\$32.1)</u>	<u>(\$75.2)</u>	<u>(\$72.7)</u>	<u>(\$153.5)</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$3.0</u>	<u>\$0.0</u>

NOTES:

- (a) Includes City's contributions to the School District in FY 1988 of \$8.0 million.
- (b) Includes collections attributed to revenue enhancement initiatives in the Revenue and Law Departments
- (c) Net of deficit financing through PICA and subsequent PICA grants.
- (d) In FY 1992 and for subsequent fiscal years during which PICA bonds are outstanding the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied new resident PICA Wage and Earnings and Net Profits Taxes at a rate of 1.50%. After paying debt service on the PICA Bonds and PICA expenses, net proceeds from the PICA Wage and Earnings and Net Profits Taxes are remitted to the City, which proceeds are reflected in Revenue from Other Governments.
- (e) A 1% sales tax went into effect on September 28, 1991. Accordingly, the FY 1992 figure represents nine months of collections. Budgets and estimates for FY 1993 and thereafter assume a full year of sales tax collections.

FIGURES MAY NOT ADD DUE TO ROUNDING

TABLE 2
CITY OF PHILADELPHIA
PRINCIPAL OPERATING FUNDS (DEBT RELATED)
SUMMARY OF OPERATIONS
(Modified Accrual Basis)
(Amounts in Millions)

	Actual					Adopted	Actual	Adopted
	1988	1989	1990	1991	1992	Budget 1993	1993	Budget 1994
REVENUES								
General Fund (a)	\$1,830.0	\$1,945.9	\$1,984.3	\$2,026.5	\$2,156.9 (e)	\$2,266.9 (e)	\$2,254.5 (e)	\$2,366.6 (f)
Water Fund (b)	282.6	273.2	282.9	285.6	344.3	352.6	359.4	366.6
Aviation Fund (c)	70.2	72.3	77.4	92.3	109.1	134.2	114.9	131.0
Other Operating Funds (d)	18.7	19.4	67.7	27.6	28.4	44.8	30.5	19.7 (f)
Total Revenue	<u>2,201.5</u>	<u>2,310.8</u>	<u>2,412.3</u>	<u>2,432.0</u>	<u>2,638.7</u>	<u>2,798.5</u>	<u>2,759.3</u>	<u>2,883.9</u>
OBLIGATIONS/APPROPRIATIONS								
Personal Services	885.3	905.8	919.2	954.6	994.7	998.1	993.0	983.9
Purchase of Services	605.9	699.9	728.6	721.1	761.1	824.3	798.2	870.1
Materials, Supplies and Equipment	83.5	79.6	87.8	84.7	89.1	128.2	96.0	118.7
Employee Benefits	343.4	355.4	378.6	430.5	483.5	445.3	461.7	481.8
Indemnities, Contributions and Grants	98.4	66.5	52.0	60.2	66.1	67.6	92.3	65.9
Debt Service	214.6	263.8	262.1	273.6	276.0	313.8	290.2	319.3
Other	--	--	4.0	4.0	4.9	20.2	18.3	22.2
Payments to Other City	--	--	--	--	--	--	--	--
Funds	<u>34.5</u>	<u>39.6</u>	<u>37.3</u>	<u>31.5</u>	<u>51.0</u>	<u>40.8</u>	<u>41.9</u>	<u>68.4</u>
Total Obligations/Appropriations	<u>2,265.6</u>	<u>2,410.6</u>	<u>2,469.6</u>	<u>2,560.2</u>	<u>2,726.4</u>	<u>2,838.3</u>	<u>2,791.6</u>	<u>2,930.3</u>
Operating Surplus (Deficit)								
for the Year	(64.1)	(99.8)	(57.3)	(128.1)	(87.7)	(39.8)	(32.3)	(46.4)
Net Adjustments Prior Year	42.3	34.2	40.7	32.2	40.8	28.3	42.1	28.5
Cumulative Fund Balance								
(Deficit) Prior Year	<u>39.9</u>	<u>18.0</u>	<u>(47.6)</u>	<u>(64.2)</u>	<u>(160.1)</u>	<u>17.9</u>	<u>17.9</u>	<u>22.5</u>
Year End Fund Balance Prior								
to Deficit Financing	<u>18.0</u>	<u>(47.6)</u>	<u>(64.2)</u>	<u>(160.1)</u>	<u>(207.0)</u>	<u>6.4</u>	<u>27.7</u>	<u>4.4</u>
PICA Deficit Financing								
FY91 and Prior	--	--	--	--	153.5	0.0	0.0	0.0
PICA Deficit Financing								
Current Year	--	--	--	--	71.4	12.1	0.0	0.0
Cumulative Adjusted Year								
End Fund Balance (Deficit)	<u>\$18.0</u>	<u>(\$47.6)</u>	<u>(\$64.2)</u>	<u>(\$160.1)</u>	<u>\$17.9</u>	<u>\$18.3</u>	<u>\$27.7</u>	<u>\$4.4</u>

NOTES.

- (a) See Table 1 for details.
- (b) Water and Sewer rates were increased January 1, 1991. 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. The City has determined that only \$4,138,000 per year shall be available for transfers from the Water Fund to the General Fund provided certain other conditions are met.
- (c) Airport revenues are not available for other City purposes.
- (d) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, and the Convention and Civic Center Fund.
- (e) Net of deficit financing through PICA and subsequent PICA grants.
- (f) Operations of the Convention and Civic Center Fund will be transferred to the General Fund in FY 1994.

FIGURES MAY NOT ADD DUE TO ROUNDING.

Quarterly Report 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 will be able to 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 to PICA a report describing 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) within 30 days provides a written explanation of the variance that PICA deems reasonable; (ii) within 45 days 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 required to be delivered to PICA 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.

Because the City showed a variance with the Original Five-Year Plan in the General Fund in the November 16, 1992 quarterly report submitted to PICA, the City began filing monthly reports with PICA.

On January 21, 1993 the City submitted a Transfer Ordinance realigning the adopted budget for Fiscal Year 1993, and ordinances proposing the Fiscal Year 1994 operating and capital budgets and the Current Five-Year Plan to City Council. In addition, the City announced its plan for eliminating the General Fund variance through a program of service and personnel cuts. The City's report to PICA for the period ended December 31, 1992, submitted on February 1, 1993, reported the absence of a variance for Fiscal Year 1993, taking into account, among other things, the actions described above. Subsequently, on April 14, 1993, PICA declared that the City was no longer at variance with the Original Five-Year Plan. The City's most recent quarterly report was submitted to PICA on November 15, 1993 and reports no variance with the Current Five-Year Plan.

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 which 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 municipal 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 of Principal Operating Funds (Debt Related)

The City's revenues are stagnant and the City's tax structure continues to put it at a competitive disadvantage with other cities and with surrounding suburbs. These facts form the basis of the two major policies reflected in the Current Five-Year Plan. As noted in the Current Five-Year Plan, General Fund revenues barely kept pace with inflation for the past eleven years.

The City derives its revenues primarily from various taxes, non-tax revenues and receipts from other governments. The following description does not take into account revenues in the Non-Debt Related Funds. See Table 5 for tax rates for Fiscal Years 1985 through 1994.

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 a wage, earnings and net profits tax of 1.5% on City residents for PICA (the "PICA Tax"). The City wage, earnings and net profits tax rate is presently 3.46% for residents and 4.3125% for non-residents. The proceeds of PICA Tax are revenues of PICA and are pledged by PICA to secure its bonds. As described herein under "PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY", the portion of PICA Tax in excess of the amounts necessary to pay debt service on deficit reduction bonds issued by PICA and to pay PICA operating expenses is required under the PICA Act to be remitted to the City and is accounted for by the City as revenue from other governments.

The wage, earnings and net profits tax base has three components: all residents of Philadelphia, regardless of where they work, are subject to these taxes; all non-residents of Philadelphia who work in Philadelphia are subject to these taxes; and all unincorporated businesses, professions and the like located in Philadelphia are subject to the net profits tax. The City estimates that between one-fourth and one-third of the total wage, earnings and net profits tax is paid by non-residents.

Real Property Taxes — The City levies real estate taxes on all taxable real property situated within its boundaries. For Fiscal Year 1994, the rate for the City is 37.45 mills and the rate for the School District is 45.19 mills.

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, are 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, is 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 of 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 Business Privilege Tax and Net Profits Tax liability 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 accordance with the ordinance, all business activity is assessed a one-time \$200 licensing fee administered by the Department of Licenses and Inspection.

Sales and Use Tax — In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax for City general revenue purposes. The Commonwealth has 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.

Other Taxes — The City also collects a personal property tax, real property transfer tax, 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 1994 General Fund budget projects that 25% of General Fund revenues will be received from other governmental jurisdictions, including: (1) \$280.0 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) \$119.2 million from the Federal government; (3) \$22.2 million of revenue from other governments, which revenues are primarily principal and interest payments on loans made by the City on SEPTA's behalf and rents paid to the City by the Philadelphia Gas Works; and (4) \$7.2 million of revenue characterized as "State-Federal," approximately one-half of which is from the Commonwealth and one-half from the Federal government. In addition, the projected net collections less debt service on the PICA Bonds of the PICA Tax (\$166.4 million) are included. These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue, Community Development and other operating and capital funds of the City, which are not part of the City's General Fund.

City-Owned Facilities

In addition to taxes, the City realizes revenues through the operation of various City-owned facilities such as *Water and Sewer Systems*, the *Gas Works* and the *Philadelphia International Airport*. The City has issued revenue bonds with respect to the *Water and Sewer Systems*, the *Gas Works* and the *Philadelphia Airport* to be paid solely from, and secured by a pledge of, the respective revenues of these facilities. The revenues of the *Philadelphia Airport* are not available for other City purposes. The revenues of the *Water and Sewer Systems* and the *Gas Works* do not represent moneys which are unconditionally available for the payment of general obligations of the City.

Effective June 1991, the revenues of the Water Department are required to be segregated from other funds of the City. Under the City's *Water and Sewer Revenue Bond General Ordinance* as presently enacted, to the extent that there are interest and income earnings at the end of any fiscal year remaining in the capital subaccount of the *Water Fund*, these earnings shall be used as operating funds. If a balance exists in these operating funds such balance may be applied to any lawful purpose of the City, including the City's *General Fund*, and therefore is available for payment of other obligations of the City, provided that in a given fiscal year the amount transferred does not exceed the lowest of (i) the amount of *Sinking Fund Reserve Earnings* transferred to these operating funds during the same fiscal year, (ii) the amount of earnings from the capital improvement funds transferred to these operating funds during the same fiscal year or (iii) \$4.994 million. No such transfers were made for Fiscal Year 1992. In Fiscal Year 1993, \$2.7 million was transferred from the *Water Fund* to the *General Fund*. The Fiscal Year 1994 adopted budget includes a \$4.138 million transfer from the *Water Fund* to the *General Fund*.

The revenues of the *Gas Works* are segregated from other funds of the City. Payments for debt service on *City of Philadelphia Gas Works Revenue Bonds* are made directly by the *Gas Works*. The *Gas Works* also makes an annual payment of \$18,000,000 to the City's *General Fund*. The Fiscal Year 1994 adopted budget includes the annual payment of \$18,000,000 to the City by the *Gas Works*.

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TABLE 3
CITY OF PHILADELPHIA
PRINCIPAL OPERATING FUNDS (DEBT RELATED)
REVENUES BY MAJOR SOURCE

(Modified Accrual Basis)
(Amounts in Millions of Dollars)

Fiscal Year	Real & Personal Property Taxes (a)	Wage Earnings & Net Profits Taxes (a)	Mercantile License Tax (a)(c)	Business Privilege Tax (a)(c)	Sales and Use Tax (a) (b)	Other Taxes (a)	Total Taxes	Water & Sewer Charges (d)	Airport Charges	Other Locally Generated Revenue	Total Local Revenue	Revenue From Other Governments	Transfers Between Funds	Total
1984	238.3	710.2	86.6	-	-	40.9	1,076.2	154.2	51.6	128.5	1,410.5	278.0	24.4	1,712.9
1985	228.3	745.6	-	107.1	-	48.9	1,129.9	171.9	53.9	155.0	1,510.7	307.9	28.0	1,846.6
1986	241.2	779.0	-	135.2	-	60.9	1,215.4	180.9	58.6	144.7	1,599.6	337.2	26.7	1,963.5
1987	261.3	834.9	-	156.6	-	73.8	1,326.6	200.3	60.1	140.0	1,727.0	308.8	29.3	2,065.1
1988	275.2	888.3	-	165.7	-	86.7	1,415.9	209.7	68.9	146.7	1,841.2	328.2	32.1	2,201.5
1989	286.7	913.9	-	201.7	-	89.1	1,491.4	207.7	62.4	167.2	1,928.7	347.3	34.8	2,310.8
1990	314.0	947.8	-	207.5	-	93.6	1,562.9	205.5	73.7	200.5	2,042.6	319.1	50.6	2,412.3
1991	326.6	974.6	-	217.3	-	72.7	1,591.1	217.7	89.7	149.6	2,048.1	341.3	42.7	2,432.1
1992	343.3	815.9 (e)	-	200.3	51.4	70.2	1,481.1	268.8	107.4	164.0	2,021.3	591.9	25.5	2,638.7
Budgeted 1993	346.6	810.1 (e)	-	221.9	90.0	72.6	1,541.2	279.5	130.0	203.8	2,154.7	616.2	27.6	2,798.5
Actual 1993	345.2	820.0 (e)	-	215.1	76.3	69.0	1,525.6	294.8	113.5	176.5	2,110.4	617.1	31.8	2,759.3
Budgeted 1994	364.4	842.0 (e)	-	207.3	84.0	94.2	1,592.1	279.5	129.5	231.3	2,232.4	614.1	37.4	2,883.9

Notes

- (a) See Table 5 for Tax Rates.
- (b) Effective September 28, 1991.
- (c) An ordinance enacted by the City on May 31, 1984 repealed the Mercantile License Tax and imposed a new Business Privilege Tax beginning July 1, 1984 on persons engaging in business within the City. (See "Major Revenue Sources of Principal Operating Funds - Business Privilege Tax" for explanation.)
- (d) Water and Sewer rates were increased on July 1, 1983, January 10, 1986 and December 1, 1991. Rates will also be increased effective July 1, 1993.
- (e) In FY 1992 the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied new PICA resident Wage and Earnings and Net Profits Taxes at a rate of 1.50%, the proceeds of which are remitted to the Pennsylvania Intergovernmental Cooperation Authority for payment of debt service on the PICA Bonds and PICA expenses.

FIGURES MAY NOT ADD DUE TO ROUNDING

TABLE 4
CITY OF PHILADELPHIA
GENERAL FUND
TAX REVENUES (a)
(Amounts in Millions)

	Actual					Adopted Budget	Actual	Adopted Budget
	1988	1989	1990	1991	1992	1993	1993	1994
Real Property Taxes								
Current	\$249.1	\$262.8	\$286.4	\$293.6	\$305.9	\$310.8	\$303.9	\$324.4
Prior	13.8	12.2	14.9	18.9	21.1	20.8	26.6	22.7
Total	<u>\$262.9</u>	<u>\$275.0</u>	<u>\$301.3</u>	<u>\$312.5</u>	<u>\$327.0</u>	<u>\$331.6</u>	<u>\$330.5</u>	<u>\$347.1</u>
Personal Property Taxes								
Current	11.5	11.2	12.3	13.3	15.1	14.2	14.4	16.0
Prior	0.8	0.5	0.5	0.8	1.3	0.8	0.3	1.5
Total	<u>\$12.3</u>	<u>\$11.7</u>	<u>\$12.8</u>	<u>\$14.1</u>	<u>\$16.3</u>	<u>\$15.0</u>	<u>\$14.7</u>	<u>\$17.5</u>
Wage and Earnings Tax (b)								
Current	847.5	882.0	916.5	938.6	786.7	776.9	787.5	812.4
Delinquent	9.1	10.3	11.0	12.2	12.3	12.2	16.9	13.5
Sub-Total Wage Tax	<u>\$856.6</u>	<u>\$892.3</u>	<u>\$927.5</u>	<u>\$950.8</u>	<u>\$799.0</u>	<u>\$789.1</u>	<u>\$804.4</u>	<u>\$825.9</u>
BUSINESS TAXES								
Business Privilege								
Current	139.8	173.3	179.7	181.8	167.8	187.6	178.1	175.5
Delinquent	25.9	28.4	27.8	35.4	32.5	34.3	37.0	31.8
Sub-Total Business Privilege	<u>165.7</u>	<u>201.7</u>	<u>207.5</u>	<u>217.2</u>	<u>200.3</u>	<u>221.9</u>	<u>215.1</u>	<u>207.3</u>
Net Profits Tax								
Current	28.9	19.0	17.6	19.5	13.9	16.9	12.6	13.6
Delinquent	2.7	2.7	2.6	4.3	3.1	4.1	3.0	2.5
Sub-Total Net Profits Tax	<u>31.6</u>	<u>21.7</u>	<u>20.2</u>	<u>23.8</u>	<u>16.9</u>	<u>21.0</u>	<u>15.6</u>	<u>16.1</u>
Total Business Taxes	<u>\$197.3</u>	<u>\$223.4</u>	<u>\$227.7</u>	<u>\$241.0</u>	<u>\$217.2</u>	<u>\$242.9</u>	<u>\$230.7</u>	<u>\$221.5</u>
Other Taxes								
Sales and Use Tax (c)	-	-	-	-	51.4	90.0	76.3	84.0
Amusement Tax	4.2	5.4	6.0	5.0	5.4	5.4	5.3	10.8
Real Property Transfer Tax	64.1	64.4	66.8	46.4	42.7	39.5	40.3	39.4
Parking Taxes	18.1	18.6	20.5	20.8	21.9	22.1	23.2	23.8
Increased Collection/Enforcement	0.0	0.0	0.0	0.0	0.0	5.1	0.0 (d)	20.0
Other Taxes	0.4	0.6	0.3	0.5	0.2	0.5	0.2	0.3
Total	<u>\$86.8</u>	<u>\$89.0</u>	<u>\$93.6</u>	<u>\$72.7</u>	<u>\$121.6</u>	<u>\$162.6</u>	<u>\$145.3</u>	<u>\$178.2</u>
TOTAL	<u>\$1,415.9</u>	<u>\$1,491.4</u>	<u>\$1,562.9</u>	<u>\$1,591.1</u>	<u>\$1,481.1</u>	<u>\$1,541.2</u>	<u>\$1,525.6</u>	<u>\$1,592.1</u>

NOTES.

(a) See Table 5 for tax rates

(b) For FY 1992 and forward the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied new resident PICA Wage and Earnings and Net Profits Taxes at a rate of 1.50%, the proceeds of which are remitted to the Pennsylvania Intergovernmental Cooperation Authority for payment of debt service on the PICA Bonds and PICA expenses. After paying debt service on the PICA Bonds and PICA expenses, net proceeds from the PICA taxes are remitted to the City and classified by the City as Revenue from Other Governments. Amounts shown in FY 1992 and thereafter reflect this reduction.

(c) Effective September 28, 1991.

(d) In FY 1993 the Revenue and Law Departments have undertaken a tax enforcement project the efforts of which are expected to yield \$5.1 million in additional tax collections. The FY 1993 estimate allocates these anticipated collections in the aggregate amount of \$5.1 million to the relevant tax categories above.

FIGURES MAY NOT ADD DUE TO ROUNDING.

TABLE 5
TAX RATES OF THE CITY OF PHILADELPHIA
AND SCHOOL DISTRICT REAL ESTATE TAX RATES
FOR THE TEN-YEAR PERIOD 1985 THROUGH 1994

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Tax Classification										
Real Property										
(% on Assessed Valuation)										
City	3.505%	3.505%	3.505%	3.505%	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%
School District	3.970%	3.970%	3.970%	3.970%	4.120%	4.120%	4.519%	4.519%	4.519%	4.519%
Total Real Property Tax	7.475%	7.475%	7.475%	7.475%	7.865%	7.865%	8.264%	8.264%	8.264%	8.264%
Assessment Ratio as										
Determined by Sales	22.3%	22.5%	25.8%	24.3%	25.0%	23.8%	24.6%	24.6%	n/a	n/a
Effective Tax Rate										
(Real Estate Tax Rate x										
Assessment Ratio)	1.665%	1.682%	1.929%	1.816%	1.966%	1.872%	2.033%	2.033%	n/a	n/a
Wage, Earnings and Net										
Profits Taxes (a)	4.96%	4.96%	4.96%	4.96%	4.96%	4.96%	4.96%	4.96%	4.96%	4.96%
Real Property Transfer Tax	2.5%	2.5% (b)	2.5%	2.5%	4.07% (c)	4.07%	3.92% (d)	3.69% (d)	3.46% (d)	3.24% (d)
Personal Property Tax (% on										
Taxable Intangible Items)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Business Privilege Taxes										
(% on Gross Receipts) (e)	0.305%	0.390%	0.390%	0.390%	0.325%	0.325%	0.325%	0.325%	0.325%	0.325%
(% on Net Income) (e)	3.7%	4.35%	4.35%	4.35%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Sales and Use Tax (f)	-	-	-	-	-	-	-	1.00%	1.00%	1.00%
Amusement Tax	5.0%	5.0%	5.0%	5.0%	7.3%	5.0%	5.0%	5.0%	5.0%	5.0%
Parking Lot Tax (On Gross										
Receipts from Parking Operators)	10.0%	20.0% (g)	17.5% (g)	15.0% (g)	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Sound Reproduction Tax										
(On Gross Income) (h)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	-	-
Bowling Alley Tax										
(Annual Per Alley) (h)	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0	-	-
Mechanical Amusement Device										
Tax (Annual Per Device) (i)	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Vending Machine Tax (Annual per										
Machine, Newspapers Exempt)	-	-	-	-	\$100.0 (j)	-	-	-	-	-
Real Estate Non-Utilization Tax										
(% on Assessed Valuation)	10.0%	10.0%	- (k)	-	-	-	-	-	-	-
Condominium Conversion										
Privilege Tax (% on Assessed										
Valuation)	8.0%	8.0%	8.0%	8.0%	8.3%	-	-	-	-	-
Hotel Room Rental Tax										
(% on Cost of Room Rental)	3.0% (l)	3.0%	5.0% (l)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0% (m)

NOTES:

- (a) The rate for the Wage, Earnings and Net Profits Tax for non-residents is 4.3125%. Effective July 1, 1991 the City's share of the Wage, Earnings and Net Profits Taxes for City residents is 3.46%, while PICA receives 1.5%.
- (b) Effective July 1, 1985, transfers made by corporate entities are subject to Realty Transfer Tax.
- (c) Increase effective July 1, 1988.
- (d) Phased decreases beginning July 1, 1990.
- (e) Tax effective July 1, 1984. Increase effective July 1, 1985. 60% of Net Income Tax paid is credited against Net Profits Tax payable.
- (f) Effective September 28, 1991.
- (g) Increase effective July 1, 1985. Decreases effective July 1, 1986, and July 1, 1987.
- (h) These taxes were repealed in FY 1993.
- (i) The City expects to convert this tax to a licensing fee in FY 1994.
- (j) Tax effective July 1, 1988, repealed effective July 1, 1989.
- (k) Tax no longer assessed.
- (l) Tax effective January 1, 1983 and to be deposited into a special account established solely for the purposes of the tourist promotion agency, and not available for general purposes. Increase effective December 1, 1986.
- (m) Tax rate increase to 6% upon substantial completion of the Convention Center which will occur in FY 1994.

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.

With regard to the assessment of personal property, each taxpayer who resides in the City is required to file an annual return indicating the aggregate actual value of all personal property subject to the Philadelphia personal property tax, which is a tax on certain intangibles. The Board may increase or decrease the property valuations in any personal property tax returns so that such valuations conform with law.

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 which accumulated during the last ten months of the preceding year 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 Table 7 for levies and rates of collections.

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TABLE 6
CITY OF PHILADELPHIA
ASSESSED AND MARKET VALUE OF TAXABLE REALTY IN PHILADELPHIA
FOR THE CALENDAR YEARS 1984 THROUGH 1993
(Amounts in Millions of Dollars)

Calendar Year	Assessed Value Adjusted to 6/30/93 (a)		Market Value on Basis of STEB Ratio			Estimated Market Value Based on Sale		
	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio of State Tax Equalization Board (b)	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio as Determined by Sales (d)	Amount	Percentage Increase (Decrease) Over Prior Year
1984	5,981	1.08%	0.372	16,078	14.94%	0.241	24,869	13.48%
1985	6,271	4.85%	0.365	17,181	6.86%	0.223	28,146	13.18%
1986	6,687	6.63%	0.333	20,081	16.88%	0.252	26,504	(5.83%)
1987	7,156	7.01%	0.329	21,751	8.31%	0.258	27,758	4.73%
1988	7,577	5.88%	0.308	24,601	13.10%	0.243	31,194	12.38%
1989	7,595	0.24%	0.308	24,659	0.24%	0.250	30,380	(2.61%)
1990	8,455	11.32%	0.300	28,221	14.44%	0.238	35,540	16.99%
1991	8,867	4.87%	0.300	29,576	4.80%	0.246	36,103	1.58%
1992	9,049	2.05%	0.300	30,183	2.05%	0.252	35,952	(0.42%)
1993 (c)	9,099	0.55%	N/A	N/A	N/A	N/A	N/A	N/A
Total Increase 1984-1993	3,181	52.13%	-	-	-	-	-	-
Compounded Annual Average Rate of Increase 1984-1993		4.77%						

NOTES:

- (a) The adjustment reflects reductions in assessments pursuant to established procedures for review of assessments
- (b) The State Tax Equalization Board (STEB) determines annually for each municipality in the Commonwealth a ratio of assessed valuation to true value. The ratio is used for the purpose of equalizing certain state school aid distribution
- (c) At June 30, 1993.
- (d) The Assessment Ratio as presented has not been adjusted to allow for the effects of large or unusual sales

TABLE 7
CITY OF PHILADELPHIA
REAL PROPERTY TAXES LEVIED AND COLLECTED
FOR THE CALENDAR YEARS 1984 THROUGH 1993
(\$ in Millions)

Calendar Year of Levy (a)	Original Assessed Value (b)	Assessed Value of Taxable Real Property		Adjusted Gross Levy (4)	Less Amount Not Collectible as of 6-30-93 (e)	Amount Collectible in Year of Levy Adjusted to 6/30/93 (e) (4) - (5)	Amount Collected in Year of Levy (f)	Collections Within Year of Levy as a Percent of Adjusted Amount Collectible (7)/(6)	Collections of Delinquent Taxes Relating to Year of Levy (9)	Total Collections (7) + (9)	Total Collection as a Percent Adjusted Amount Collectible (10)/(6)
		Adjusted to 6/30/93 (c)	Millage Rate (d)								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1984	\$6,370	\$5,981	39.00	\$233.3	\$0.4	\$232.9	\$219.6	94.3	\$13.0	\$232.6	99.9
1985	6,709	6,271	35.05	219.9	0.4	219.5	205.9	93.8	12.3	218.2	99.4
1986	7,223	6,687	35.05	234.4	0.4	234.0	220.3	94.1	11.7	232.0	99.1
1987	7,721	7,156	35.05	250.8	0.5	250.3	236.2	94.4	11.5	247.7	99.0
1988	8,242	7,577	35.05	265.5	0.6	264.9	248.4	93.8	13.2	261.6	98.8
1989	8,317	7,595	37.45	284.4	1.4	283.0	263.4	93.1	15.1	278.5	98.4
1990	9,261	8,455	37.45	316.6	1.8	314.8	290.5	92.3	17.1	307.6	97.7
1991	9,604	8,867	37.45	332.1	3.2	328.9	297.6	90.5	16.0	313.6	95.3
1992	9,681	9,049	37.45	340.2	1.9	338.3	306.4	90.6	5.7	312.1	92.3
1993	9,676	9,099	37.45	340.6	0.1	340.5	288.5 (g)	84.7	N/A	N/A	N/A

NOTES:

- (a) Real property tax bills are sent out in early January and are payable at one percent discount until February 28, and the face amount is due on or before March 31, without interest or penalty.
- (b) Includes \$334.2 million in 1984, \$395.5 million in 1985, \$474.1 million in 1986, \$501.7 million in 1987, \$566.8 million in 1988, \$603.7 million in 1989, \$592.8 million in 1990, \$546.9 million in 1991, \$415.6 million in 1992 and \$334.1 million in 1993 classified as exempt under ordinance (Bill 1130) approved February 8, 1978 which provides relief from real estate taxes on improvements to deteriorated industrial, commercial or other business property for a period of five years. Also includes \$1.0 million in 1985, \$2.6 million in 1986, \$40.1 million in 1987, \$44.9 million in 1988, \$47.9 million in 1989, \$41.8 million in 1990, \$30.9 million in 1991, \$40.4 million in 1992 and \$40.4 million in 1993 classified as exempt under ordinance (Bill 1456-A) as amended, approved January 28, 1983 which provides for a maximum three-year tax abatement for owner-occupants of newly constructed residential property; and Legislative Act 3020-205 as amended, approved October 11, 1984 which provides for a maximum thirty month tax abatement to developers of residential property.
- (c) The adjustment reflects reductions or increases in assessments pursuant to established procedures for review of assessments.
- (d) In 1985 the millage rate was reduced to 35.05 as a result of a rate transfer to the School District of Philadelphia. The millage rate was increased to 37.45 in 1989.
- (e) Amounts shown as not collectible are (1) amounts which have been incorrectly certified as assessable where property belonged to a non-taxable governmental or a non-profit organization, (2) amounts for properties which are considered vacant or abandoned and have delinquencies of more than 2 years and (3) amounts due by taxpayers who are in bankruptcy and protected by the courts from collection of taxes levied. These amounts may not reflect all taxes that are in a non-collectible status as the records of the Department of Revenue do not reflect all properties in bankruptcy. Moreover, the amounts do not reflect the properties which have been taken over by public agencies and which were not removed from the assessment rolls in a timely manner.
- (f) Amounts shown as collected include amounts allowed as discounts for payments during the discount period.
- (g) Includes collections through June 30, 1993 while the other years include collections through December 31 of the year of the levy. It is estimated the approximately 91% of the net levy for FY 1993 will be collected within the year of levy, resulting in approximately \$309.9 million by December 31, 1993.

EXPENDITURES OF THE CITY

The major City expenditures are for personal services, purchase of services, employee benefits, debt service and materials and supplies.

The Current Five-Year Plan proposes several initiatives concerning personnel, management and productivity.

Personal Services (Personnel)

The adopted budget for Fiscal Year 1993 authorized the City to employ 29,690 full-time employees, and the salaries of 24,777 were authorized to be paid from the General Fund, a reduction of 1,600 positions since 1986. The actual number of employees supported by the General Fund was 22,846 as of June 30, 1993, representing a reduction of 1,207 employees since June 30, 1992. 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.

The following table sets forth the number of filled full-time positions of the City as of June 30 for Fiscal Years 1986 through 1993 and budgeted positions for Fiscal Year 1994.

**TABLE 8
CITY OF PHILADELPHIA
FILLED, FULL-TIME POSITIONS - ALL OPERATING FUNDS**

	Actual at June 30								Adopted Budget
	1986	1987	1988	1989	1990	1991	1992	1993	1994
Funds									
General									
Police	7,487	7,557	7,310	6,921	7,396	7,224	7,173	6,885	7,053
Streets	3,365	3,311	3,273	2,851	2,718	2,706	2,611	2,416	2,356
Fire	2,729	2,628	2,603	2,424	2,488	2,409	2,354	2,293	2,417
Health	1,614	1,683	1,696	1,523	1,555	1,449	1,387	1,257	871
Courts	2,363	2,414	2,462	2,439	2,550	2,415	2,128	2,068	2,099
Other	8,819	8,886	9,141	8,485	8,532	8,388	8,400	7,927	8,953
Total General	<u>26,377</u>	<u>26,479</u>	<u>26,485</u>	<u>24,643</u>	<u>25,239</u>	<u>24,591</u>	<u>24,053</u>	<u>22,846</u>	<u>23,749</u>
Other Funds	<u>3,586</u>	<u>3,527</u>	<u>4,106</u>	<u>4,076</u>	<u>4,176</u>	<u>4,283</u>	<u>4,340</u>	<u>4,395</u>	<u>4,786</u>
TOTAL	<u><u>29,963</u></u>	<u><u>30,006</u></u>	<u><u>30,591</u></u>	<u><u>28,719</u></u>	<u><u>29,415</u></u>	<u><u>28,874</u></u>	<u><u>28,393</u></u>	<u><u>27,241</u></u>	<u><u>28,535</u></u>

Labor Relations

The City conducts collective bargaining with four major bargaining units. Approximately 16,000 non-uniformed employees are represented by District Councils 33 and 47 of the American Federation of State, County and Municipal Employees, AFL-CIO. The bargaining units for uniformed employees are the Fraternal Order of Police (the "F.O.P."), Lodge No. 5 and The Philadelphia Fire Fighters Association, Local 22, International Association of Fire Fighters, AFL-CIO, which together represent a total of approximately 9,200 employees. Uniformed employees bargain under Act 111 of 1968, which provides for final and binding arbitration for collective bargaining disputes.

On July 1, 1992, the four year contracts with non-uniformed union members and the two year contracts with uniformed union members both expired.

The City recently completed collective bargaining with representatives of the non-uniformed unions. The resulting four year contracts call for no wage increases in years one and two, a 2% increase in the last quarter of the third year and a 3% increase in the last quarter of the fourth year. The contracts also provide for reduced payments by the City to the unions to cover the costs of union-administered health plans, a reduction in the number of paid holidays from 14 to 11 over a three year period, a reduction in sick days for new hires from 20 to 15 and numerous work rule changes which will grant the City greater flexibility in managing its work force. The contracts also increase the number of paid administrative leave days per year from 3 to 4, maintain longevity pay and prohibit layoffs of non-uniformed employees to make up budget shortfalls arising out of unfavorable arbitration awards relating to uniformed employees. The members of the non-uniformed employees unions have ratified the four year contracts.

The bargaining units representing the uniformed City workers opted for binding arbitration for their new labor contracts. Contract awards were made for the F.O.P. and the fire employees which are consistent with the contract for the non-uniformed unions. The PICA Act provides that labor arbitration decisions made pursuant to Act 111 resulting in increases in wages and fringe benefits shall consider and give weight to the then-approved Five-Year Plan and the ability of the City to pay the cost of such increases. Both parties have the right under certain circumstances to appeal arbitration decisions, which are subject to limited judicial review.

The F.O.P. appealed the 1993 arbitration award to the Philadelphia Court of Common Pleas. The Court of Common Pleas upheld the arbitration award in all respects, except as such award related to the reduction in temporary disability pay. The F.O.P. appealed the decision of the Court of Common Pleas to the Commonwealth Court and the City cross-appealed such decision with respect to temporary disability pay. The City expects to prevail in this matter, but if the F.O.P. should prevail in its appeal, the financial condition of the City could be materially adversely affected.

A large part of the savings projected in the Original Five-Year Plan were contingent upon the outcome of labor negotiations and arbitration awards. The Current Five-Year Plan factors in the outcome of the new contract with non-uniformed workers and assumes similar terms in the contracts for police and fire employees.

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Table 9 presents employee wage increases for the Fiscal Years 1986 through 1996.

TABLE 9
CITY OF PHILADELPHIA
EMPLOYEE WAGE INCREASES
FISCAL YEARS 1986-1996

<u>Fiscal Year</u>	<u>District Council No. 33</u>	<u>District Council No. 47</u>	<u>Fraternal Order of Police</u>	<u>Philadelphia Fire Fighters Association</u>
1986	8.0% (a)	8.0% (a)	8.0% (a)	8.0% (a)
1987	4.0% (b)	5.0% (c)	6.0% (d)	6.0% (d)
1988	6.0% (e)	5.0% (f)	6.0% (g)	6.0% (g)
1989	no increase (h)	no increase (h)	5.0% (i)	5.0% (i)
1990	5.0% (j)	5.0% (j)	6.0% (k)	6.0% (k)
1991	6.0% (l)	6.0% (l)	5.0% (m)	5.0% (m)
1992	8.0% (n)	8.0% (n)	5.0% (o)	5.0% (o)
1993	no increase (p)	no increase (p)	no increase (p)	no increase (p)
1994	no increase (q)	no increase (q)	no increase (q)	no increase (q)
1995	2.0% (r)	2.0% (r)	2.0% (t)	2.0% (t)
1996	3.0% (s)	3.0% (s)	3.0% (u)	3.0% (u)

NOTE:

- (a) Second year of two year contract effective July 1, 1984.
- (b) Increase effective August 15, 1986 — contract expired June 30, 1988.
- (c) 2% increase effective July 1, 1986 and 3% increase effective March 1, 1987 - contract expired June 30, 1988.
- (d) 4% increase effective August 1, 1986 and 2% increase effective January 1, 1987 - contract expired June 30, 1988.
- (e) Second year of two year contract: 6% effective January 1, 1988.
- (f) Second year of two year contract: 5% effective January 1, 1988.
- (g) Second year of two year contract: 3% effective July 1, 1987 and 3% effective January 1, 1988.
- (h) First year of a four year contract - received two cash bonuses (\$500 August 15, 1988, \$500 January 15, 1989). These bonuses did not become part of base salary.
- (i) First year of a two year contract: 3% effective July 1, 1988 and 2% effective January 1, 1989.
- (j) Second year of a four year contract: 5% effective February 1, 1990.
- (k) Second year of two year contract: 6% effective July 1, 1989.
- (l) Third year of a four year contract: 6% effective March 1, 1991.
- (m) First year of a two year contract: 5% effective July 1, 1990.
- (n) Fourth year of a four year contract: 8% effective April 1, 1992.
- (o) Second year of a two year contract: 5% effective July 1, 1991.
- (p) First year of a four year contract.
- (q) Second year of a four year contract.
- (r) Third year of a four year contract: 2% effective April 1, 1995.
- (s) Fourth year of a four year contract: 3% effective April 1, 1996.
- (t) Third year of a four year contract: 2% effective January 1, 1995.
- (u) Fourth year of a four year contract: 3% effective January 1, 1996.

Employee Benefits

The City provides various pension, life insurance, health and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 1988 through 1994 are shown on Table 10.

TABLE 10
CITY OF PHILADELPHIA
GENERAL FUND EMPLOYEE BENEFIT EXPENDITURES
FISCAL YEARS 1988-1994
(Amounts in Millions)

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Actual</u> <u>1993</u>	<u>Adopted</u> <u>Budget</u> <u>1994</u>
Pension Contribution	\$130.9	\$136.2	\$127.5	\$147.5	\$187.1	\$186.2	\$191.5
Health-Medical-Dental	124.2	121.5	139.1	161.0	166.6	136.9	150.3
Social Security	35.5	38.6	37.9	39.7	40.9	42.7	43.7
Other	<u>22.8</u>	<u>25.0</u>	<u>35.1</u>	<u>39.7</u>	<u>42.6</u>	<u>52.4</u>	<u>53.8</u>
Total	\$313.4	\$321.3	\$339.6	\$387.9	\$437.2	\$418.2	\$439.3

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Purchase of Services

The City accounts for a number of expenditures as purchase of services. Major purchases of services in the General Fund in Fiscal Years 1988 through 1994 are shown on Table 11.

TABLE 11
CITY OF PHILADELPHIA
PURCHASE OF SERVICES IN THE GENERAL FUND (a)
FISCAL YEARS 1988-1994
(Amounts in Millions)

	Actual					Adopted	Adopted
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Budget</u>	<u>Budget</u>
Refuse, Garbage and Sludge	\$ 49.8	\$ 63.9	\$ 57.4	\$ 58.7	\$ 62.0	\$ 66.6	\$ 66.3
Utilities and Postage	53.2	53.5	52.7	52.7	56.4	60.1	58.8
Vehicle Leasing	16.7	20.4	23.3	24.3	24.3	5.2	12.7
Building Rentals, Demolitions and Abatements, Other Rents, and Repairs and Maintenance	49.7	52.9	55.2	56.8	68.2	64.1	68.2
Care of Individuals (b)	--225.6	253.9	252.5	268.8	274.9	303.7	352.6
Payment to SEPTA for Commuter Services and Leased Properties (c)	45.8	53.1	50.7	54.1	48.8	50.2	50.8
Criminal Justice Related (d)	17.2	26.3	30.8	27.1	34.2	33.5	54.9
Health Care and Occupational Health	17.2	26.0	22.6	26.3	26.2	28.3	24.2
Convention Center and Port (e)	11.1	10.9	0.0	0.0	0.0	0.0	0.0
All Other	<u>46.8</u>	<u>63.0</u>	<u>56.4</u>	<u>64.0</u>	<u>67.6</u>	<u>77.7</u>	<u>82.9</u>
Total	<u>\$533.1</u>	<u>\$623.9</u>	<u>\$601.6</u>	<u>\$632.8</u>	<u>\$662.6</u>	<u>\$689.3</u>	<u>\$771.4</u>

(a) Figures do not include accounts payable.

(b) Includes Mental Health and Mental Retardation and Child Welfare whose costs are reimbursed in part by the Commonwealth, subject to appropriation being made by the Commonwealth.

(c) Southeastern Pennsylvania Transportation Authority ("SEPTA") directly operates buses, trolleys, subways, and other transit service in the City and in parts of four suburban counties. SEPTA's Regional High Speed Line Division ("RHSL") had been operated under contract by Conrail.

(d) Includes payments for the Public Defender, Dependent and Delinquent Placements, Prison Mandates, and court ordered support of the "Core Court" agencies.

(e) Payments to the Convention Center were formerly on a contractual basis but are now reflected as advances to the Pennsylvania Convention Center Authority.

FIGURES MAY NOT ADD DUE TO ROUNDING

City Payments to SEPTA

SEPTA, the region's mass transit system, is the fourth largest mass transit system in the nation. In recent years SEPTA's operations have been pressured by increasing operating costs. Requirements to replenish the capital plant are not being met and are growing. The City's Fiscal Year 1994 adopted budget assumes annual operating subsidies by the City of \$50.8 million to SEPTA. The Current Five-

Year Plan provides that the City's contribution to SEPTA will grow to \$56.7 million by Fiscal Year 1998.

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 normal costs. Accrued normal costs for any year are actuarially computed amounts necessary to be contributed to the pension funds to provide, in the future, the pension and survivor benefits earned by the work force during such year.
- (b) Interest on the unfunded accrued liability of the pension system at an assumed interest rate of 6%.
- (c) Amortization over periods of twenty and forty years of certain unfunded prior service costs and interest thereon as ordered by the Court of Common Pleas of Philadelphia County in two class action suits brought by pension fund beneficiaries (referred to in Table 12 as the Bogen and Dombrowski cases).

City non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon the attainment of age fifty-five. Upon retirement, non-uniformed employees receive up to 80% of the average salary of their highest three years, based on years of service. City uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon the attainment of age forty-five. Upon retirement, uniformed employees receive up to 100% of their "average final compensation", which is equal to their highest salary during an uninterrupted twelve month period or the final year of employment, subject in either case to certain adjustments.

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 unfunded actuarial accrued liability over 40 years ending in 2025. Based on an actuarial schedule providing payments increasing at 6% per annum, the unfunded accrued liability should be fully amortized by 2019.

Table 12 is a comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 1989 through 1993.

TABLE 12
CITY OF PHILADELPHIA
CITY MUNICIPAL PENSION FUND
COMPARATIVE SCHEDULE OF OPERATIONS
FOR THE FISCAL YEARS 1989 THROUGH 1993
(Amounts in Millions of Dollars)

	1989		1990		1991		1992		1993	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Revenue										
Contributions:										
Employees':										
Members' Contributions	\$ 40.6	12.3	\$ 40.3	10.7	\$ 44.8	14.1	\$ 44.8	9.4	\$ 45.0	10.7
Less: Refunds to Members	6.9	2.0	7.2	1.9	7.2	2.3	5.7	1.2	4.9	1.2
Net Members' Contributions	<u>33.7</u>	<u>10.3</u>	<u>33.1</u>	<u>8.8</u>	<u>37.6</u>	<u>11.8</u>	<u>39.1</u>	<u>8.2</u>	<u>40.1</u>	<u>9.5</u>
Employer's:										
City of Philadelphia	125.0	38.0	147.7	39.3	169.8	53.6	176.6	37.4	174.3	49.6
Commonwealth of Pennsylvania Through City of Philadelphia	27.3	8.3	-	-	-	-	34.8	7.3	35.1	-
Quasi Governmental Agencies	<u>3.4</u>	<u>1.0</u>	<u>3.2</u>	<u>0.9</u>	<u>2.9</u>	<u>0.9</u>	<u>4.8</u>	<u>1.0</u>	<u>3.6</u>	<u>0.9</u>
Total Employer's Contributions	155.7	47.3	150.9	40.2	172.7	54.5	216.2	45.7	213.0	50.5
Commonwealth of Pennsylvania	<u>13.6</u>	<u>4.1</u>	<u>40.9</u>	<u>10.9</u>	<u>46.6</u>	<u>14.8</u>	<u>13.9</u>	<u>2.9</u>	<u>6.5</u>	<u>1.6</u>
Total Contributions	203.0	61.7	224.9	59.9	256.9	81.1	269.2	56.8	259.6	61.6
Investment Earnings	125.0	38.1	150.2	40.0	59.3	18.7	203.5	43.0	161.6	38.3
Other	<u>0.7</u>	<u>0.2</u>	<u>0.4</u>	<u>0.1</u>	<u>0.7</u>	<u>0.2</u>	<u>0.6</u>	<u>0.2</u>	<u>0.5</u>	<u>0.1</u>
Total Revenues	<u>328.7</u>	<u>100.0</u>	<u>375.5</u>	<u>100.0</u>	<u>316.9</u>	<u>100.0</u>	<u>473.3</u>	<u>100.0</u>	<u>421.7</u>	<u>100.0</u>
Disbursements:										
For Pension Benefits	250.4		260.5		272.7		287.8		312.5	
For Other Purposes, Excluding Refunds	<u>10.5</u>		<u>9.6</u>		<u>9.4</u>		<u>10.4</u>		<u>43.2 (1)</u>	
Total Disbursements	<u>260.9</u>		<u>270.1</u>		<u>282.1</u>		<u>298.2</u>		<u>355.7</u>	
Excess of Revenue Over Disbursements	<u>\$ 67.8</u>		<u>\$ 105.4</u>		<u>\$ 34.8</u>		<u>\$ 175.1</u>		<u>\$ 66.0</u>	
Net Assets										
Opening	\$ 1,464.0		\$ 1,531.8		\$ 1,637.2		\$ 1,672.0		\$ 1,847.1	
Closing	<u>1,531.8</u>		<u>1,637.2</u>		<u>1,672.0</u>		<u>1,847.1</u>		<u>1,913.1</u>	
Increase During the Year	<u>\$ 67.8</u>		<u>\$ 105.4</u>		<u>\$ 34.8</u>		<u>\$ 175.1</u>		<u>\$ 66.0</u>	

EXHIBIT

1. Pension Benefits Paid as a Percent of									
A. Net Contributions of Members		743.0		787.0		725.3		736.1	779.3
B. Revenue		76.2		69.4		86.1		60.8	74.1
C. Closing Net Assets		16.3		15.9		16.3		15.6	16.3
2. The Closing Assets as a Percent of									
Total Disbursements		587.1		606.1		592.7		619.4	537.8
3. Coverage of Revenues over Disbursements		126.0		139.0		112.3		158.7	118.6
4. Investment Earnings as a Percent of									
Pension Benefits		49.9		57.7		21.7		70.7	51.7

(1) Disbursements for Other Purposes in the amount of \$43.2 million include \$33.2 million in losses due to the permanent decline in market value of some investments.

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 the 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 of 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") incurred for revenue-producing capital improvements which may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. 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, the only distinction from tax-supported debt being that it is not used in calculation of the constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of July 1, 1993, the Constitutional debt limitation for tax-supported general obligation debt was approximately \$1.063 billion. After legally authorized deductions, approximately \$981.0 million of tax-supported general obligation debt was authorized as of such date (none of which was unissued), leaving a balance of \$82.0 million available for future authorization. The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1974. 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. Each note issue was repaid when due prior to the end of the fiscal year of issuance.

The City sold a \$350 million credit enhanced tax and revenue anticipation note ("TRAN") issue on July 1, 1993. Credit enhancement for the TRANs is in the form of irrevocable direct pay letters of credit provided by Canadian Imperial Bank of Commerce ("CIBC"), CoreStates Bank, N.A., Morgan Guaranty Trust Company of New York, and PNC Bank, National Association. The TRANs were successfully sold in the public capital markets. The City also sold a \$100 million TRAN issue in November 1992, subsequent to the approval of the Original Five-Year Plan by City Council and PICA and PICA's issuance of the PICA Bonds. The TRANs sold in 1992 were credit enhanced by letters of credit from CIBC, CoreStates Bank, N.A., Fidelity Bank, National Association, Mellon Bank, N.A., Meridian Bank, and Provident National Bank, were also successfully sold in the public capital markets and were repaid in full by the City when due. In July of 1992 the City privately placed a \$155 million tax anticipation note issue with PICA.

The City was unable to sell notes in the public capital markets during Fiscal Year 1991 and experienced substantial difficulty negotiating the sale of the notes to local financial institutions. The City initially expected to sell approximately \$375 million of notes during late summer 1990; the City ultimately was able to sell only \$150 million of notes in a private placement in January and February

1991, upon more stringent terms and at a higher interest cost than the City would have normally expected to receive in public capital markets.

Long-Term Debt

Table 13 presents a synopsis of activity in the bonded debt of the City and its component units for Fiscal Year 1993. Table 14 sets forth a ten year historical summary of tax-supported debt of the City and School District. Table 15 sets forth the debt service requirements to maturity of the City's outstanding bonded indebtedness. As of June 30, 1993 the City's tax-supported general obligation debt, less sinking fund assets, equalled \$792.6 million. Prior to 1974, items presently funded from revenue bonds were funded from general obligation debt of the City.

Of the total balance of City tax-supported general obligation bonds outstanding at June 30, 1993, without subtracting sinking fund assets, 29% was due to mature within 5 years and 55% was due to mature within 10 years.

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TABLE 13
CITY OF PHILADELPHIA
CITY RELATED BOND INDEBTEDNESS
June 30, 1993
(Amounts in Millions)

	General Fund Types					Enterprise Funds					Totals All Funds	
	City General Fund	School District General Fund	Municipal Authority Fund	PICA	Totals	Water Fund	Aviation Fund	Gas Works Fund	Redevelopment Authority Fund	Parking Authority Fund*		Totals
Bonded Debt Outstanding July 1, 1992**	\$1,010.8	\$411.4	\$470.6	\$474.5	\$2,367.3	\$1,434.2	\$372.2	\$700.6	\$83.5	\$104.1	\$2,694.6	\$5,061.9
Bonds Issued												
General Obligation	--	212.7	179.9	--	392.6	--	--	--	--	--	--	392.6
Revenue Refunding	--	--	--	--	--	--	--	376.6	--	--	376.6	376.6
Total Bonds Issued	--	212.7	179.9	--	392.6	--	--	376.6	--	--	376.6	769.2
Bonds Matured/Refunded												
General Obligation	104.5	223.4	157.9	--	485.8	6.8	6.6	--	--	--	13.4	499.2
Revenue	--	--	--	--	--	43.3	6.3	31.3	15.6	1.1	97.6	97.6
Revenue Refunded	--	--	--	--	--	--	--	279.9	--	--	279.9	279.9
Total Bonds Matured/Refunded	104.5	223.4	157.9	--	485.8	50.1	12.9	311.2	15.6	1.1	390.9	876.7
Bonded Debt Outstanding, June 30, 1993												
General Obligation	906.3	400.7	492.6	474.5	2,274.1	26.9	76.9	--	--	--	103.8	2,377.9
Revenue	--	--	--	--	--	1,357.2	282.4	766.0	67.9	103.0	2,576.5	2,576.5
Total Bonded Debt Outstanding, June 30, 1993	906.3	400.7	492.6	474.5	2,274.1	1,384.1	359.3	766.0	67.9	103.0	2,680.3	4,954.4
Sinking Fund Assets Available for Payment of Principal	1.9	21.4	11.1	50.0	84.4	134.8	28.8	78.0	5.5	9.6	256.7	341.1
Sinking Fund Assets Held by Fiscal Agents	67.0	--	--	--	67.0	--	0.1	--	--	--	0.1	67.1
Net Debt	\$837.4	\$379.3	\$481.5	\$424.5	\$2,122.7	\$1,249.3	\$330.4	\$688.0	\$62.4	\$93.4	\$2,423.5	\$4,546.2

* The Parking Authority is presented as of the close of their fiscal year March 31, 1993

** Activity of the Convention and Civic Center Fund, closed June 30, 1993, is reflected in the General Fund

TABLE 14
CITY OF PHILADELPHIA
CITY AND SCHOOL DISTRICT NET TAX SUPPORTED DEBT AND DEBT SERVICE RATIOS
FOR THE FISCAL YEARS 1984 THROUGH 1993
(Amounts in Millions of Dollars)

Line No	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Net Tax Supported Debt (Millions)										
City										
1	\$ 662.2	\$ 633.2	\$ 579.1	\$ 680.7	\$ 751.2	\$ 721.6	\$ 841.1	\$ 855.4	\$ 823.9	\$ 792.6
2	337.9	416.6	563.6	671	918.6	1,061.4	1,238.0	1,326.8	1,682.0	1,817.3
3	1,000.1	1,049.8	1,142.7	1,351.7	1,669.8	1,783.0	2,079.1	2,182.2	2,505.9	2,609.9
Overlapping School District										
4	205.1	251.7	316.9	302.9	357.1	377.2	350.7	400.5	411.4	400.7
5	235.3	248.6	270.1	293.8	308.2	328.5	342.7	369.8	392.0	381.3
6	440.6	500.3	587.0	596.7	665.3	705.7	693.4	770.3	803.4	782.0
7	\$1,440.7	\$1,550.1	\$1,729.7	\$1,948.4	\$2,335.1	\$2,488.7	\$2,772.5	\$2,952.5	\$3,309.3	\$3,391.9
8	1,651	1,643	1,647	1,639	1,629	1,647	1,543	1,586	1,586	1,586
9	5,981	6,271	6,687	7,156	7,577	7,595	8,455	8,867	9,049	9,099
10	24,869	28,146	26,504	27,758	31,194	30,380	35,540	36,103	35,952	N/A
City Net Tax Supported Annual Debt Service										
11	83.1	89.9	86.5	102.9	117.2	118.7	116.4	124.8	225.4	176.4
12	12.3	34.4	36.3	42.3	47.6	46.4	53.4	88.1	97.9	96.1
13	95.4	124.3	122.8	145.2	164.8	165.1	169.8	212.9	323.3	272.5
14	1,626.4	1,731.9	1,807.3	1,869.2	2,071.6	2,225.9	2,250.0	2,379.1	2,552.7	2,623.3
Net Tax Supported Debt per Capita										
15	401.0	385.4	351.6	415.3	461.1	438.1	545.1	539.3	519.6	499.7
16	605.7	639.0	693.9	824.7	1,025.0	1,082.6	1,347.4	1,375.9	1,580.0	1,645.6
17	266.8	304.5	353.4	364.0	408.4	428.5	449.4	485.7	506.6	493.1
18	872.5	943.5	1,047.3	1,188.7	1,433.5	1,511.1	1,796.8	1,861.6	2,086.6	2,138.7
Net Tax Supported Debt as a Percentage of Assessed Valuation										
19	11.07%	10.10%	8.66%	9.51%	9.91%	9.50%	9.95%	9.65%	9.10%	8.71%
20	16.72	16.74	17.09	18.89	22.04	23.48	24.59	25.61	27.69	28.68
21	7.37	7.98	8.70	8.34	8.78	9.29	8.20	8.69	8.88	8.59
22	24.09	24.72	25.79	27.23	30.82	32.77	32.79	33.30	36.57	37.28
Net Tax Supported Debt as a Percentage of Estimated Market Value										
23	2.66	2.25	2.18	2.45	2.41	2.38	2.37	2.37	2.29	N/A
24	4.02	3.73	4.31	4.87	5.35	5.87	5.85	6.04	6.97	N/A
25	1.77	1.78	2.20	2.15	2.13	2.32	1.95	2.13	2.23	N/A
26	5.79	5.51	6.51	7.02	7.49	8.19	7.80	8.18	9.20	N/A
City Net Tax Supported Debt Service as a Percentage of City General Governmental Obligations										
27	5.11	5.19	4.79	5.51	5.66	5.33	5.17	5.25	8.83	6.72
28	5.87	7.18	6.79	7.77	7.96	7.42	7.55	8.95	12.67	10.39

FOOTNOTES

Consists of leasing obligations and payments on contingent liabilities. Beginning in 1984, also includes accrued compensated absences

Consists of amounts due the Commonwealth of Pennsylvania for vocational education, the State Public Building Authority and leasing obligations. Beginning in 1984, also includes accrued Terminal and Severance Pays

Source: U.S. Department of Commerce, Bureau of the Census and Wharton Econometric Forecasting Associates.

See Table 6

Consists of General Fund and Special Revenue Funds, all of which account for general governmental functions

TABLE 15
CITY OF PHILADELPHIA
CITY RELATED ANNUAL DEBT SERVICE ON LONG-TERM DEBT
AS OF JUNE 30, 1993
(Amounts in Millions of Dollars)

Fiscal Year	General Obligation Bonds									Revenue Bonds								
	Tax-Supported			Self-Supporting			Total			Water and Sewer			Gas Works			Aviation Fund		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1994	101.2	66.8	168.0	17.4	9.6	27.0	118.6	76.4	195.0	48.5	85.9	134.4	25.8	41.8	67.6	6.8	22.0	28.8
1995	37.7	57.3	95.0	16.8	8.6	25.4	54.5	65.9	120.4	50.7	81.5	132.2	33.7	42.1	75.8	7.2	21.6	28.8
1996	39.8	54.6	94.4	17.3	7.5	24.8	57.1	62.1	119.2	50.1	80.9	131.0	33.7	40.3	74.0	7.7	21.1	28.8
1997	37.6	52.0	89.6	16.2	6.7	22.9	53.8	58.7	112.5	52.7	77.5	130.2	35.8	38.2	74.0	8.2	20.5	28.7
1998	36.7	49.2	85.9	15.5	5.6	21.1	52.2	54.8	107.0	56.7	73.4	130.1	34.1	36.0	70.1	8.8	19.9	28.7
1999	36.6	46.2	82.8	15.1	4.5	19.6	51.7	50.7	102.4	60.9	69.0	129.9	34.0	37.8	71.8	9.5	19.3	28.8
2000	37.5	43.2	80.7	12.4	3.4	15.8	49.9	46.6	96.5	65.4	64.2	129.6	33.9	31.6	65.5	10.2	18.6	28.8
2001	39.8	40.2	80.0	9.7	2.7	12.4	49.5	42.9	92.4	69.1	59.5	128.6	33.2	29.8	63.0	10.9	17.8	28.7
2002	35.3	37.3	72.6	7.9	1.9	9.8	43.2	39.2	82.4	71.0	55.1	126.1	32.6	28.2	60.8	11.8	17.0	28.8
2003	36.9	34.5	71.4	5.9	1.5	7.4	42.8	36.0	78.8	77.4	50.3	127.7	31.9	26.6	58.5	12.6	16.1	28.7
2004	37.0	31.7	68.7	6.2	1.0	7.2	43.2	32.7	75.9	80.6	45.3	125.9	31.0	25.3	56.3	13.0	15.2	28.8
2005	35.3	28.9	64.2	5.7	0.6	6.3	41.0	29.5	70.5	81.7	40.1	121.8	29.8	24.2	54.0	14.6	14.1	28.7
2006	38.3	26.0	64.3	1.0	0.2	1.2	39.3	26.2	65.5	47.2	36.0	83.2	25.2	22.7	47.9	15.8	13.0	28.8
2007	43.7	22.9	66.6	0.8	0.1	0.9	42.5	23.0	65.5	50.2	32.9	83.1	28.5	21.2	49.7	9.1	11.8	20.9
2008	28.9	19.4	48.3	0.5	0.1	0.6	29.4	19.5	48.9	52.4	30.3	82.7	28.0	19.4	47.4	4.8	11.0	20.8
2009	23.1	17.1	40.2	0.2	--	0.2	23.3	17.1	40.4	54.5	28.1	82.6	27.6	17.6	45.2	10.6	10.2	20.8
2010	18.4	15.3	33.7	--	--	--	18.4	15.3	33.7	19.8	26.1	45.9	27.1	15.8	42.9	11.5	9.3	20.8
2011	16.2	14.0	30.2	--	--	--	16.2	14.0	30.2	21.3	24.5	45.8	26.6	14.1	40.7	13.5	8.4	20.9
2012	17.5	12.3	30.2	--	--	--	17.5	12.3	30.2	22.9	22.9	45.8	24.9	13.2	38.1	13.5	7.3	20.8
2013	19.0	11.3	30.3	--	--	--	19.0	11.3	30.3	24.6	21.3	45.9	12.9	12.6	25.5	14.6	6.2	20.8
2014	20.6	9.8	30.4	--	--	--	20.6	9.8	30.4	26.4	19.4	45.8	22.1	11.4	33.5	15.4	5.0	20.9
2015	22.3	8.2	30.5	--	--	--	22.3	8.2	30.5	28.4	17.5	45.9	21.2	10.0	31.2	17.2	3.7	20.9
2016	24.0	6.4	30.4	--	--	--	24.0	6.4	30.4	30.4	15.5	45.9	11.8	8.7	20.5	4.3	2.2	11.5
2017	25.8	4.5	30.3	--	--	--	25.8	4.5	30.3	32.4	13.4	45.8	18.5	7.7	26.2	10.0	1.5	11.5
2018	18.4	2.8	21.2	--	--	--	18.4	2.8	21.2	34.7	11.2	45.9	17.4	6.6	24.0	10.7	0.8	11.5
2019	10.9	1.8	12.7	--	--	--	10.9	1.8	12.7	37.2	8.7	45.9	16.2	5.5	21.7	--	--	--
2020	11.9	1.0	12.9	--	--	--	11.9	1.0	12.9	39.9	6.0	45.9	15.0	4.5	19.5	--	--	--
2021	11.1	0.1	13.2	--	--	--	11.1	0.1	13.2	42.7	3.1	45.8	13.6	3.6	17.2	--	--	--
2022	--	--	--	--	--	--	--	--	--	23.4	0.8	24.2	12.2	2.8	15.0	--	--	--
2023	--	--	--	--	--	--	--	--	--	--	--	--	10.7	2.1	12.8	--	--	--
2024	--	--	--	--	--	--	--	--	--	--	--	--	9.0	1.4	10.4	--	--	--
2025	--	--	--	--	--	--	--	--	--	--	--	--	7.3	0.9	8.2	--	--	--
2026	--	--	--	--	--	--	--	--	--	--	--	--	5.5	0.5	6.0	--	--	--
2027	--	--	--	--	--	--	--	--	--	--	--	--	5.2	0.2	5.4	--	--	--
Total	\$ 861.5 (a)	\$ 715.2 (b)	\$ 1,576.7	\$ 148.6 (c)	\$ 54.1	\$ 202.7	\$ 1,010.1	\$ 769.1	\$ 1,779.4	\$ 1,357.2	\$ 1,102.4	\$ 2,459.6	\$ 766.0	\$ 600.4	\$ 1,366.4	\$ 282.4	\$ 173.6	\$ 456.0
Sinking Fund Assets Held by Fiscal Agent Available City Sinking Fund Assets	67.0	4.6	71.6	0.1	--	0.1	67.1 (d)	4.6	71.7	--	--	--	--	--	--	--	--	--
Net Debt	\$ 792.5	\$ 709.9	\$ 1,502.5	\$ 148.1	\$ 54.0	\$ 202.1	\$ 940.7	\$ 761.9	\$ 1,704.7	\$ 1,222.8	\$ 1,102.4	\$ 2,325.2	\$ 688.0	\$ 599.3	\$ 1,287.3	\$ 253.6	\$ 173.6	\$ 457.2

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NOTES:

- (a) Included in this amount is \$36.3 million issued for Port purposes which has been reclassified as Tax-Supported due to the sale of the Port Corporation.
- (b) On March 22, 1990, \$148.0 million was issued as 30-year variable rate bonds. The variable rate bonds were hedged with a ten-year 6.85% interest rate swap transaction. A 6.85% interest rate was assumed for the remaining term of the Bonds.
- (c) Of this amount, Bonds have been issued for the following major purposes: Water and Sewer, \$26.9 million; Airport, \$76.9 million; Veterans Stadium, \$17.1 million; and Subways, \$24.4 million. Issues for five other purposes account for the balance of \$1.3 million.
- (d) Sinking Fund Assets held by Fiscal Agent represent the remaining proceeds of the General Obligation Refunding issues dated May 1, 1986 and July 1, 1987. \$67.1 million is available to refund certain outstanding issues which will reduce debt service in Fiscal Year 1994.
- (e) In addition to the \$134.4 million available in Sinking Fund Assets, \$32.2 million has been reserved in the Water and Sewer Renewal and Replacement Fund in accordance with the Seventh Supplement Amendment to the General Water and Sewer Revenue Bond Ordinance of 1974.
- (f) In addition to the \$28.8 million available in Sinking Fund Assets, \$2.0 million has been reserved in a Renewal, Replacement and Contingency Fund which has been funded by the proceeds of the Series 1978 Aviation Revenue Bonds.

TABLE 15 - (Continued)
 CITY OF PHILADELPHIA
 CITY RELATED ANNUAL DEBT SERVICE ON LONG-TERM DEBT
 AS OF JUNE 30, 1993
 (Amounts in Millions of Dollars)

Principal	Total		Total General Obligation and Revenue Bonds			Other Long-Term Obligation			Total Long-Term Debt			Fiscal Year
	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
81.1	149.7	230.8	199.7	226.1	425.8	105.5	26.7	132.2	305.2	252.8	558.0	1994
81.6	147.2	228.8	136.1	213.1	349.2	92.7	25.9	118.6	228.8	239.0	467.8	1995
91.5	142.3	233.8	148.6	204.4	353.0	81.8	24.3	106.1	230.4	228.7	459.1	1996
96.7	136.2	232.9	150.5	194.9	345.4	79.6	23.1	102.7	230.1	218.0	448.1	1997
99.6	129.3	228.9	151.8	184.1	335.9	79.8	22.1	101.9	231.6	206.2	437.8	1998
104.4	122.1	226.5	156.1	172.8	328.9	84.2	21.0	105.2	240.3	193.8	434.1	1999
109.5	114.4	223.9	159.4	161.0	320.4	97.4	19.8	117.2	256.8	180.8	437.6	2000
113.2	107.1	220.3	162.7	150.0	312.7	101.3	18.9	120.2	264.0	168.9	432.9	2001
117.4	100.3	217.7	160.6	139.5	300.1	115.5	17.9	133.4	276.1	157.4	433.5	2002
121.9	93.0	214.9	164.7	129.0	293.7	143.2	16.7	159.9	307.9	145.7	453.6	2003
125.2	85.8	211.0	168.4	118.5	286.9	152.4	15.5	167.9	320.8	134.0	454.8	2004
128.1	78.4	206.5	169.1	107.9	277.0	151.4	14.4	165.8	320.5	122.3	442.8	2005
88.2	71.7	159.9	127.5	97.9	225.4	189.9	13.2	203.1	317.4	111.1	428.5	2006
87.8	65.9	153.7	130.3	88.9	219.2	98.5	12.1	110.6	228.8	101.0	329.8	2007
90.2	60.7	150.9	119.6	80.2	199.8	27.2	10.9	38.1	146.8	91.1	237.9	2008
92.7	55.9	148.6	116.0	73.0	189.0	22.9	9.7	32.6	138.9	82.7	221.6	2009
58.4	51.2	109.6	76.8	66.5	143.3	20.2	8.7	28.9	97.0	75.2	172.2	2010
60.4	47.0	107.4	76.6	61.0	137.6	21.0	8.0	29.0	97.6	69.0	166.6	2011
61.3	43.4	104.7	78.8	56.1	134.9	21.8	7.1	28.9	100.6	63.2	163.8	2012
52.1	40.1	92.2	71.1	51.4	122.5	22.6	6.2	28.8	93.7	57.6	151.3	2013
64.4	35.8	100.2	85.0	45.6	130.6	23.6	5.3	28.9	108.6	50.9	159.5	2014
66.8	31.2	98.0	89.1	39.4	128.5	23.8	4.3	28.1	112.9	43.7	156.6	2015
51.5	26.4	77.9	75.5	32.8	108.3	17.5	3.2	20.7	93.0	36.0	129.0	2016
60.9	22.6	83.5	86.7	27.1	113.8	18.6	2.1	20.7	105.3	29.2	134.5	2017
62.8	18.6	81.4	81.2	21.4	102.6	14.4	1.0	15.4	95.6	22.4	118.0	2018
53.4	14.2	67.6	64.3	16.0	80.3	10.5	0.3	10.8	74.8	16.3	91.1	2019
54.9	10.5	65.4	66.8	11.5	78.3	--	--	--	66.8	11.5	78.3	2020
36.3	6.7	43.0	69.4	6.8	76.2	--	--	--	69.4	6.8	76.2	2021
35.6	3.6	39.2	35.6	3.6	39.2	--	--	--	35.6	3.6	39.2	2022
10.7	2.1	12.8	10.7	2.1	12.8	--	--	--	10.7	2.1	12.8	2023
9.0	1.4	10.4	9.0	1.4	10.4	--	--	--	9.0	1.4	10.4	2024
7.3	0.9	8.2	7.3	0.9	8.2	--	--	--	7.3	0.9	8.2	2025
5.5	0.5	6.0	5.5	0.5	6.0	--	--	--	5.5	0.5	6.0	2026
5.2	0.2	5.4	5.2	0.2	5.4	--	--	--	5.2	0.2	5.4	2027
2,405.6	2,016.4	4,422.0 (1)	3,415.7	2,785.6	6,201.3	1,817.3	338.4	2,155.7	5,233.0	3,124.0	8,357.0	
0.0	0.0	0.0	67.1	4.6	71.7	--	--	--	67.1	4.6	71.7	
241.2	1.1	242.3	243.5	1.8	245.3	--	--	--	243.5	1.8	245.3	
\$ 2,164.4	\$ 2,015.3	\$ 4,179.7	\$ 3,105.1	\$ 2,779.2	\$ 5,884.3	\$ 1,817.3	\$ 338.4	\$ 2,155.7	\$ 4,922.4	\$ 3,117.6	\$ 8,040.0	

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CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 1994-1999 contemplates a total commitment of \$3.574 billion of which \$1.816 billion is financed through Federal, Commonwealth and other sources and \$1.757 billion is supported through City funding. Table 16 shows the amounts anticipated to be spent each year from various sources of funds for capital projects.

The Current Five-Year Plan discusses the City's capital budget and its expected commitments and funding sources.

TABLE 16
CITY OF PHILADELPHIA
1994-1999
CAPITAL IMPROVEMENT PROGRAM
(As Adopted)
(Amounts in Thousands)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
City Funds - Tax Supported							
New Loans	\$ 0	\$ 96,334	\$ 71,860	\$ 72,148	\$ 66,049	\$ 60,863	\$ 367,254
Operating Revenues	5,134	4,109	4,143	1,169	1,179	1,189	16,923
City Funds - Self-Sustaining							
Prior Funds	70,725						70,725
New Loans	198,460	122,428	141,156	179,426	255,839	115,845	1,013,154
Operating Revenues	4,000	500	500	500	500	500	6,500
Other City Funds							
Authority	215,564	0	0	0	0	0	215,564
Previously Authorized Authority	33,707	0	0	0	0	0	33,707
Revolving Funds	<u>5,000</u>	<u>3,000</u>	<u>3,000</u>	<u>16,500</u>	<u>3,000</u>	<u>3,000</u>	<u>33,500</u>
Total City Funds	<u>532,590</u>	<u>226,371</u>	<u>220,659</u>	<u>269,743</u>	<u>326,567</u>	<u>181,397</u>	<u>1,757,327</u>
Other Than City Funds							
Federal	299,875	195,209	116,259	170,262	142,243	108,309	1,032,157
State	123,757	99,528	80,341	89,992	90,376	83,363	567,357
Other Governments & Agencies	12,335	11,884	11,092	11,644	12,965	12,574	72,494
Private	84,604	15,107	15,107	16,496	9,543	3,320	144,177
Total Other Than City Funds	<u>520,571</u>	<u>321,728</u>	<u>222,799</u>	<u>288,394</u>	<u>255,127</u>	<u>207,566</u>	<u>1,816,185</u>
TOTAL ALL FUNDS	<u>\$ 1,053,161</u>	<u>\$ 548,099</u>	<u>\$ 443,458</u>	<u>\$ 558,137</u>	<u>\$ 581,694</u>	<u>\$ 388,693</u>	<u>\$ 3,573,512</u>

Source: Philadelphia City Planning Commission.

Various claims in addition to the lawsuits described above have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. As of June 30, 1992, the aggregate loss for Fiscal Year 1992 which resulted from these claims and lawsuits and which was paid out in June 1992 was \$5.0 million. The Water Department's budget for Fiscal Year 1993 contained a reserve for Water Department claims in the amount of \$6.5 million. Fiscal Year 1993 settlements in excess of that amount will be paid during Fiscal Year 1994 from a Water Department claims reserve of \$6.5 million.

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SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of over 1.5 million people. The City is in the heart of an eight county metropolitan area with approximately 4.8 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 terms of total retail sales and disposable income. Approximately one-half of the population of the United States lives within an overnight drive.

Quality of Life

The City is a very livable city with relatively low housing and business costs. According to Federal government statistics, the City is among the safest large cities in the country. In a recent survey of crime data, the City had the lowest crime rate of the ten largest cities in America.

The City is rich in history, art, architecture and entertainment. Cultural and historic attractions include the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, Pennsylvania Academy of Fine Arts, Philadelphia Museum of Art, Franklin Institute, Mann Music Center, Opera Company of Philadelphia and the Rodin Museum. The South Philadelphia Sports Complex, consisting of Veterans Stadium and the Spectrum, is home to the Philadelphia Phillies, 76ers, Flyers and Eagles. The City also offers its residents and visitors the Independence National Historical Area, which includes Independence Hall and the Liberty Bell, and one of the largest urban park systems in the world, including Pennypack Park and the 8,000 acre Fairmount Park, containing the country's first zoo.

The City is a center for health, education, and science facilities. With its many hospitals, six medical schools, two dental schools, schools of optometry and podiatry 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.

The City has thirty-one institutions of higher education with a total enrollment of over 110,000 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 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.

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 ("Science Center"). The Children's Hospital of Philadelphia broke ground in 1992 for a new \$100 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia.

Demographics

During the ten year period between 1980 and 1990, the population of the City decreased from 1,688,210 to 1,585,577. This 6% loss of population was less than half of the 13% loss experienced during the 1970's.

**TABLE 17
POPULATION
CITY, PMSA & NATION**

	<u>1980</u>	<u>1990</u>	<u>% Change 1980-1990</u>
Philadelphia	1,688,210	1,585,577	(6.1)%
Philadelphia PMSA*	4,716,818	4,856,881	3.0%
United States	226,500,000	249,632,692	10.2%

Source: U.S. Dept. of Commerce, Bureau of the Census.

* PMSA: Primary Metropolitan Statistical Area is, by definition of the Bureau of the Census, a large urbanized county, or cluster of counties, with very strong internal economic and social links. A PMSA must have a combined total population of one million or more. In addition, a PMSA must also be comprised of counties that conform to: (a) a total population of at least 100,000; (b) a population that is at least 60% urban; and (c) a population where less than 50% of the resident workers commute to jobs outside of the county. The Philadelphia, Pa.-N.J. PMSA includes the counties of Bucks, Chester, Delaware, Montgomery and Philadelphia in Pennsylvania and the counties of Burlington, Camden and Gloucester in New Jersey.

The average age of the City's population is increasing. This trend toward an older population is consistent with the population patterns in the United States as a whole.

**TABLE 18
POPULATION AGE DISTRIBUTION**

Age	Philadelphia				Pennsylvania			
	<u>1984</u>	<u>% of Total</u>	<u>1990</u>	<u>% of Total</u>	<u>1980</u>	<u>% of Total</u>	<u>1990</u>	<u>% of Total</u>
0-24	633,899	38.4	563,816	35.6	4,623,651	38.9	4,021,585	33.8
25-44	435,458	26.4	490,224	30.9	3,068,618	25.9	3,657,323	30.8
45-64	340,744	20.6	290,803	18.3	2,641,397	22.3	2,373,629	20.0
65-84	219,272	13.3	217,913	13.7	1,404,884	11.8	1,657,270	13.9
85 & up	<u>20,966</u>	<u>1.3</u>	<u>22,801</u>	<u>1.4</u>	<u>125,345</u>	<u>1.1</u>	<u>171,836</u>	<u>1.4</u>
Total	1,688,210	100.0	1,585,577	100.0	11,863,895	100.0	11,881,634	100.0

Age	United States			
	<u>1980</u>	<u>% of Total</u>	<u>1990</u>	<u>% of Total</u>
0-24	93,756,684	41.4	90,342,198	36.2
25-44	62,706,876	27.7	80,754,835	32.3
45-64	44,497,132	19.7	46,371,009	18.6
65-84	23,304,412	10.3	28,161,666	11.3
85 & up	<u>2,239,721</u>	<u>1.0</u>	<u>3,080,165</u>	<u>1.2</u>
Total	226,504,825	100.0	249,632,692	100.0

Source: U.S. Dept. of Commerce, Bureau of the Census.

The Economy

The City economy is composed of diverse industries. Virtually all classes of industrial and commercial businesses are 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 the City 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. Office occupancy rates as of March of 1993 are among the highest in the Country with approximately 84% of office space occupied or committed, while the average cost per square foot for office space in the City also compares favorably with costs in other cities.

TABLE 19
RENTAL RATES CBD* OFFICE SPACE
IN \$ PER SQUARE FOOT

	<u>Average</u>
New York City (midtown)	38.88
Washington, D.C.	37.79
Chicago	31.54
Los Angeles	29.79
Boston	28.46
Miami	26.33
San Francisco	25.31
Philadelphia	23.48
Pittsburgh	20.63
Atlanta	20.25
Dallas	20.02
Phoenix	19.44
Houston	17.67

Source: ONCOR International, Midyear 1991.
* CBD = Central Business District

Employment

Employment data for the City residents show growth in the City's labor force and in the number of City residents who are employed (see Table 20). In 1992, City residents represented 28% of all employed residents of the PMSA. The number of employed City residents increased by more than 50,000 during the period 1980 to 1990.

The total number of jobs within the City increased during the period 1983 to 1988 (Table 22), reversing nearly two decades of job losses. The total number of jobs declined again beginning in 1989 and continuing through 1992, as the City and region began to slip into recession.

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 economy is diversified, with strong representation in the health care, government, and education sectors but

without the domination of any single employer or industry. This continues to moderate the effects of national economic downturns on the local economy.

In accordance with the Federal government's plans to close military facilities, the Philadelphia Navy Base and Shipyard (the "Shipyard") is in danger of being currently targeted for closure. The Shipyard has over 15,000 employees and this figure, if closure occurs, will be reduced to 2,500.

The City's plans to participate to the fullest extent possible in the fight to keep the Shipyard open, including pursuit to an existing federal court lawsuit. But it would be less than prudent for the City to assume complete success in these efforts. Consequently, the City has embarked on a major effort to analyze and plan for the potential reuse of the Shipyard, as well as the job training and placement issues related to the work force. The City has established a tri-state Commission on Economic Development at the Shipyard to provide policy guidance. The City also has convened a working group of City agencies led by the City's Commerce Department, including the Planning Commission, the Law Department, and the Philadelphia Industrial Development Corporation ("PIDC"). Three technical working groups have been set up on Labor, Business and Technology, and Land and Facilities Reuse. The City is in the process of obtaining \$3.3 million in grants funds to support the planning and study efforts related to this activity.

The City's planning goal, assuming closure occurs, is to seek reuse of this facility in closely related economic activity (e.g. manufacturing or as a Marine Technology Center), which will utilize a significant portion of the current work force and in-place facilities and infrastructure.

TABLE 20
LABOR FORCE DATA ANNUAL AVERAGE
BASED ON RESIDENCY

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>	<u>1988</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Philadelphia (000)*								
Labor Force	695.0	693.2	702.7	724.1	728.9	732.4	727.7	699.4
Employment	634.1	621.2	637.3	673.8	686.6	688.2	669.7	638.0
Unemployment	60.8	72.0	65.4	50.3	42.3	44.1	58.1	61.4
Unemployment Rate (%)	8.8	10.4	9.3	6.9	5.8	6.0	8.0	8.8
Philadelphia PMSA (000)*								
Labor Force	2,173.0	2,207.1	2,259.1	2,364.3	2,420.0	2,438.4	2,431.2	2,434.7
Employment	2,025.3	2,015.4	2,103.8	2,239.5	2,320.2	2,324.7	2,274.7	2,255.8
Unemployment	148.5	191.7	155.3	124.8	99.8	113.6	156.5	179.0
Unemployment Rate (%)	6.8	8.7	6.9	5.3	4.1	4.7	6.4	7.4
United States (000,000)								
Labor Force	106.9	110.2	113.5	117.8	121.7	124.8	125.3	127.0
Employment	99.3	99.5	105.0	109.6	115.0	117.9	116.9	117.6
Unemployment	7.6	10.7	8.6	8.2	6.7	6.9	8.4	9.4
Unemployment Rate (%)	7.1	9.7	7.5	7.0	5.5	5.5	6.7	7.4

Source: Commonwealth of Pennsylvania Department of Labor and Industry, Office of Employment Security, Director of Research and Statistics. Pennsylvania Civilian Labor Force Series by County of Residence and Pennsylvania Civilian Labor Force Series by Labor Market Area.

* Re-benchmarked figures.