

# Wolf, Block, Schorr and Solis-Cohen LLP

## DOCUMENT FOLDER

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September 14, 2000

### VIA HAND DELIVERY

James McNulty, Secretary  
PA Public Utility Commission  
North Office Bldg., Rm. B-20  
Harrisburg, PA 17105

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SECRETARY'S BUREAU

RE: Pennsylvania Public Utility Commission v. Philadelphia  
Gas Works; Docket No. R-00005654

Dear Secretary McNulty:

In accordance with the request of the Commission in a Secretarial letter dated September 7, 2000, Philadelphia Gas Works ("PGW") is hereby providing to the Commission copies of various documents associated with PGW's outstanding bonds. The information provided is as follows:

In response to document request No. 1: a) The applicable bond ordinances, and official statements for each outstanding issuance and the bond insurance policies for each outstanding request. b) For the \$62.3 million (1975 Gen. Ord.), 16th series, and \$113.9 million (1998 Gen. Ord.), 2nd Series bond: copies of the following documents:

- Independent Consultant's Report
- Certificate of Stone & Webster Management Consultants, Inc. required by Paragraph 10(e) of the Purchase Contract
- Certificate of Chief Executive Officer and Chief Financial Officer of PGW as required by Paragraph 10(f)(8) of the Purchase Contract
- Certificates of Public Financial Management, Inc. and Hopkins and Company required by Paragraph 10(f)(20) of the Purchase Contract
- Letter from Director of Finance to Bond Committee regarding projected coverage

DSH:23930.1

James McNulty,  
September 14, 2000  
Page 2

(In a discussion with PUC Assistant Andrew Tubbs, it was agreed that the production of the above documents would satisfy the PUC's first request.)

In response to document request No. 2: Debt service schedules for each outstanding bond ordinances.

I am providing copies of these voluminous documents to the PUC the OCA and the OTS. By this letter I am notifying all other parties that copies of this submission are available upon request. In accordance with the PUC's request, PGW will be entering these documents into the record in this proceeding at the hearing scheduled in this matter.

Very truly yours,

A handwritten signature in black ink that reads "Daniel Clearfield" followed by a stylized monogram "BN".

Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww  
Enclosure

cc: Andrew Tubbs, Esq. w/enc.  
Tanya McCloskey, Esq. w/enc.  
Johnnie Simms, Esq. w/enc.  
All Other Parties of Record w/out enc.

Final Quantitative Analysis for:

# Philadelphia Gas Works



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Verified by Drucker & Scaccetti

Merrill Lynch & Co.

June 23, 1999

SECRETARY'S BUREAU  
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City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)

Schedule 6.A.1

POST REFUNDING

OUTSTANDING DEBT SERVICE: ELEVENTH SERIES C

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Bond-Year Debt Service
0	6/23/1999						
1							
2	7/1/1999			-			
3	1/1/2000	7.000%	3,420,457	-	3,810,648	7,231,105	7,231,105
4	7/1/2000			-			
5	1/1/2001	7.000%	3,196,967	-	4,043,033	7,240,000	7,240,000
6	7/1/2001			-			
7	1/1/2002	7.050%	2,965,866	-	4,274,134	7,240,000	7,240,000
8	7/1/2002			-			
9	1/1/2003	7.100%	2,748,811	-	4,491,189	7,240,000	7,240,000
10	7/1/2003			-			
11	1/1/2004	7.150%	2,543,464	-	4,691,536	7,235,000	7,235,000
12	7/1/2004			-			
13	1/1/2005		-	-	-	-	-
14	7/1/2005			-			
15	1/1/2006		-	-	-	-	-
16	7/1/2006			-			
17	1/1/2007		-	-	-	-	-
18	7/1/2007			-			
19	1/1/2008		-	-	-	-	-
20	7/1/2008			-			
21	1/1/2009		-	-	-	-	-
22	7/1/2009			-			
23	1/1/2010		-	-	-	-	-
24	7/1/2010			-			
25	1/1/2011	7.250%	2,319,035	-	8,697,758	11,016,793	11,016,793
26	7/1/2011			-			
27	1/1/2012	7.250%	2,745,400	-	11,259,600	14,005,000	14,005,000
<b>TOTALS</b>			<b>19,940,000</b>	<b>-</b>	<b>41,267,897</b>	<b>61,207,897</b>	<b>61,207,897</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.A.2**  
**OUTSTANDING SENIOR DEBT SERVICE**  
**TWELFTH SERIES A**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1	5/15/1999	6.750%	1,530,000	107,228		1,637,228	1,637,228
2	11/15/1999			55,590		55,590	
3	5/15/2000	6.800%	1,635,000	55,590		1,690,590	1,746,180
4	11/15/2000			-		-	
5	5/15/2001	6.850%	824,687	-	920,313	1,745,000	1,745,000
6	11/15/2001			-		-	
7	5/15/2002	6.900%	766,474	-	978,526	1,745,000	1,745,000
8	11/15/2002			-		-	
9	5/15/2003	6.950%	1,900,488	-	2,759,512	4,660,000	4,660,000
10	11/15/2003			-		-	
11	5/15/2004	7.000%	1,761,033	-	2,893,967	4,655,000	4,655,000
12	11/15/2004			-		-	
13	5/15/2005	7.050%	1,631,950	-	3,023,050	4,655,000	4,655,000
14	11/15/2005			-		-	
15	5/15/2006	7.100%	1,510,920	-	3,144,080	4,655,000	4,655,000
16	11/15/2006						
17	5/15/2007						
18	11/15/2007						
19	5/15/2008						
20	11/15/2008						
21	5/15/2009						
22	11/15/2009						
23	5/15/2010						
24	11/15/2010						
<b>TOTALS</b>			<b>11,560,552</b>	<b>218,408</b>	<b>13,719,448</b>	<b>25,498,408</b>	<b>25,498,408</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 3.A.3  
**OUTSTANDING SENIOR DEBT SERVICE**  
**THIRTEENTH SERIES**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1	6/15/1999	7.300%	1,185,000	141,430		1,326,430	1,326,430
2	12/15/1999			98,178		98,178	
3	6/15/2000	7.400%	1,270,000	98,178		1,368,178	1,466,355
4	12/15/2000			51,188		51,188	
5	6/15/2001	7.500%	1,365,000	51,188		1,416,188	1,467,375
6	12/15/2001						
7	6/15/2002						
8	12/15/2002						
9	6/15/2003						
10	12/15/2003						
11	6/15/2004						
12	12/15/2004						
13	6/15/2005						
14	12/15/2005						
15	6/15/2006						
16	12/15/2006						
17	6/15/2007						
18	12/15/2007						
19	6/15/2008						
20	12/15/2008						
21	6/15/2009						
22	12/15/2009						
23	6/15/2010						
24	12/15/2010						
<b>TOTALS</b>			<b>3,820,000</b>	<b>440,160</b>	<b>-</b>	<b>4,260,160</b>	<b>4,260,160</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 3.A.4  
 OUTSTANDING SENIOR DEBT SERVICE  
 FOURTEENTH SERIES

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999	5.600%	8,715,000	7,547,248		16,262,248	16,262,248
3	1/1/2000			7,303,228		7,303,228	
4	7/1/2000	5.700%	8,925,000	7,303,228		16,228,228	23,531,456
5	1/1/2001			7,048,866		7,048,866	
6	7/1/2001	5.800%	7,125,000	7,048,866		14,173,866	21,222,731
7	1/1/2002			6,842,241		6,842,241	
8	7/1/2002	7.000%	16,625,000	6,842,241		23,467,241	30,309,481
9	1/1/2003			6,260,366		6,260,366	
10	7/1/2003	5.500%	10,490,000	6,260,366		16,750,366	23,010,731
11	1/1/2004			5,971,891		5,971,891	
12	7/1/2004	5.500%	14,055,000	5,971,891		20,026,891	25,998,781
13	1/1/2005			5,585,378		5,585,378	
14	7/1/2005	6.250%	8,660,000	5,585,378		14,245,378	19,830,756
15	1/1/2006			5,314,753		5,314,753	
16	7/1/2006	6.250%	10,475,000	5,314,753		15,789,753	21,104,506
17	1/1/2007			4,987,409		4,987,409	
18	7/1/2007	6.250%	9,580,000	4,987,409		14,567,409	19,554,819
19	1/1/2008			4,688,034		4,688,034	
20	7/1/2008	6.250%	8,640,000	4,688,034		13,328,034	18,016,069
21	1/1/2009			4,418,034		4,418,034	
22	7/1/2009	6.375%	7,635,000	4,418,034		12,053,034	16,471,069
23	1/1/2010			4,174,669		4,174,669	
24	7/1/2010	6.375%	6,585,000	4,174,669		10,759,669	14,934,338
25	1/1/2011			3,964,772		3,964,772	
26	7/1/2011	6.375%	5,195,000	3,964,772		9,159,772	13,124,544
27	1/1/2012			3,799,181		3,799,181	
28	7/1/2012	6.375%	3,965,000	3,799,181		7,764,181	11,563,363
29	1/1/2013			3,672,797		3,672,797	
30	7/1/2013	6.375%	9,875,000	3,672,797		13,547,797	17,220,594
31	1/1/2014			3,358,031		3,358,031	
32	7/1/2014	6.375%	8,960,000	3,358,031		12,318,031	15,676,063
33	1/1/2015			3,072,431		3,072,431	
34	7/1/2015	6.375%	7,985,000	3,072,431		11,057,431	14,129,863
35	1/1/2016			2,817,909		2,817,909	
36	7/1/2016	6.375%	12,545,000	2,817,909		15,362,909	18,180,819
37	1/1/2017			2,418,038		2,418,038	
38	7/1/2017	6.375%	11,790,000	2,418,038		14,208,038	16,626,075
39	1/1/2018			2,042,231		2,042,231	
40	7/1/2018	6.375%	10,985,000	2,042,231		13,027,231	15,069,463
41	1/1/2019			1,692,084		1,692,084	
42	7/1/2019	6.375%	10,125,000	1,692,084		11,817,084	13,509,169
43	1/1/2020			1,369,350		1,369,350	
44	7/1/2020	6.375%	9,210,000	1,369,350		10,579,350	11,948,700
45	1/1/2021			1,075,781		1,075,781	
46	7/1/2021	6.375%	8,240,000	1,075,781		9,315,781	10,391,563
47	1/1/2022			813,131		813,131	
48	7/1/2022	6.375%	7,210,000	813,131		8,023,131	8,836,263
49	1/1/2023			583,313		583,313	
50	7/1/2023	6.375%	6,110,000	583,313		6,693,313	7,276,625
51	1/1/2024			388,556		388,556	
52	7/1/2024	6.375%	4,945,000	388,556		5,333,556	5,722,113
53	1/1/2025			230,934		230,934	
54	7/1/2025	6.375%	3,700,000	230,934		3,930,934	4,161,869
55	1/1/2026			112,997		112,997	
56	7/1/2026	6.375%	3,545,000	112,997		3,657,997	3,770,994
<b>TOTALS</b>			<b>241,895,000</b>	<b>195,560,061</b>		<b>437,455,061</b>	<b>437,455,061</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedulé 3.A.5**  
**OUTSTANDING SENIOR DEBT SERVICE**  
**FIFTEENTH SERIES A**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	8/1/1999	4.100%	4,170,000	769,599		4,939,599	4,939,599
3	2/1/2000			684,114		684,114	
4	8/1/2000	4.250%	4,490,000	684,114		5,174,114	5,858,229
5	2/1/2001			588,702		588,702	
6	8/1/2001	4.400%	4,425,000	588,702		5,013,702	5,602,404
7	2/1/2002			491,352		491,352	
8	8/1/2002	4.500%	1,495,000	491,352		1,986,352	2,477,704
9	2/1/2003			457,714		457,714	
10	8/1/2003	4.600%	185,000	457,714		642,714	1,100,429
11	2/1/2004			453,459		453,459	
12	8/1/2004	4.625%	205,000	453,459		658,459	1,111,919
13	2/1/2005			448,719		448,719	
14	8/1/2005	4.750%	180,000	448,719		628,719	1,077,438
15	2/1/2006			444,444		444,444	
16	8/1/2006	4.875%	705,000	444,444		1,149,444	1,593,888
17	2/1/2007			427,259		427,259	
18	8/1/2007	4.875%	670,000	427,259		1,097,259	1,524,519
19	2/1/2008			410,928		410,928	
20	8/1/2008	4.875%	885,000	410,928		1,295,928	1,706,856
21	2/1/2009			389,356		389,356	
22	8/1/2009	4.875%	905,000	389,356		1,294,356	1,683,713
23	2/1/2010			367,297		367,297	
24	8/1/2010	4.875%	9,725,000	367,297		10,092,297	10,459,594
25	2/1/2011			130,250		130,250	
26	8/1/2011	5.000%	165,000	130,250		295,250	425,500
27	2/1/2012			126,125		126,125	
28	8/1/2012	5.000%	170,000	126,125		296,125	422,250
29	2/1/2013			121,875		121,875	
30	8/1/2013	5.000%	175,000	121,875		296,875	418,750
31	2/1/2014			117,500		117,500	
32	8/1/2014	5.000%	170,000	117,500		287,500	405,000
33	2/1/2015			113,250		113,250	
34	8/1/2015	5.000%	4,530,000	113,250		4,643,250	4,756,500
<b>TOTALS</b>			<b>33,250,000</b>	<b>12,314,289</b>	<b>-</b>	<b>45,564,289</b>	<b>45,564,289</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.A.6**  
**OUTSTANDING SENIOR DEBT SERVICE**  
**FIFTEENTH SERIES B**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	8/1/1999	4.100%	10,845,000	727,038		11,572,038	11,572,038
3	2/1/2000			504,715		504,715	
4	8/1/2000	4.250%	11,200,000	504,715		11,704,715	12,209,430
5	2/1/2001			266,715		266,715	
6	8/1/2001	4.400%	6,300,000	266,715		6,566,715	6,833,430
7	2/1/2002			128,115		128,115	
8	8/1/2002	4.500%	1,445,000	128,115		1,573,115	1,701,230
9	2/1/2003			95,603		95,603	
10	8/1/2003	4.600%	1,380,000	95,603		1,475,603	1,571,205
11	2/1/2004			63,863		63,863	
12	8/1/2004	4.625%	1,370,000	63,863		1,433,863	1,497,725
13	2/1/2005			32,181		32,181	
14	8/1/2005	4.750%	1,355,000	32,181		1,387,181	1,419,363
15	2/1/2006						
16	8/1/2006						
17	2/1/2007						
18	8/1/2007						
19	2/1/2008						
20	8/1/2008						
21	2/1/2009						
22	8/1/2009						
23	2/1/2010						
24	8/1/2010						
<b>TOTALS</b>			<b>33,895,000</b>	<b>2,909,420</b>	<b>-</b>	<b>36,804,420</b>	<b>36,804,420</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 3.A.7  
**OUTSTANDING SENIOR DEBT SERVICE**  
**FIFTEENTH SERIES C**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	8/1/1999			1,797.395		1,797.395	1,797.395
3	2/1/2000			1,797.395		1,797.395	
4	8/1/2000			1,797.395		1,797.395	3,594,790
5	2/1/2001			1,797.395		1,797.395	
6	8/1/2001			1,797.395		1,797.395	3,594,790
7	2/1/2002			1,797.395		1,797.395	
8	8/1/2002	4.900%	4,550,000	1,797.395		6,347,395	8,144,790
9	2/1/2003			1,685,920		1,685,920	
10	8/1/2003	5.000%	2,430,000	1,685,920		4,115,920	5,801,840
11	2/1/2004			1,625,170		1,625,170	
12	8/1/2004	5.100%	2,610,000	1,625,170		4,235,170	5,860,340
13	2/1/2005			1,558,615		1,558,615	
14	8/1/2005	5.125%	2,860,000	1,558,615		4,418,615	5,977,230
15	2/1/2006			1,485,328		1,485,328	
16	8/1/2006	5.250%	1,075,000	1,485,328		2,560,328	4,045,655
17	2/1/2007			1,457,109		1,457,109	
18	8/1/2007	5.375%	1,130,000	1,457,109		2,587,109	4,044,218
19	2/1/2008			1,426,740		1,426,740	
20	8/1/2008	5.400%	1,195,000	1,426,740		2,621,740	4,048,480
21	2/1/2009			1,394,475		1,394,475	
22	8/1/2009	5.500%	1,255,000	1,394,475		2,649,475	4,043,950
23	2/1/2010			1,359,963		1,359,963	
24	8/1/2010	5.500%	1,325,000	1,359,963		2,684,963	4,044,925
25	2/1/2011			1,323,525		1,323,525	
26	8/1/2011	5.250%	2,815,000	1,323,525		4,138,525	5,462,050
27	2/1/2012			1,249,631		1,249,631	
28	8/1/2012	5.250%	2,960,000	1,249,631		4,209,631	5,459,263
29	2/1/2013			1,171,931		1,171,931	
30	8/1/2013	5.250%	3,115,000	1,171,931		4,286,931	5,458,863
31	2/1/2014			1,090,163		1,090,163	
32	8/1/2014	5.250%	3,280,000	1,090,163		4,370,163	5,460,325
33	2/1/2015			1,004,063		1,004,063	
34	8/1/2015	5.250%	3,450,000	1,004,063		4,454,063	5,458,125
35	2/1/2016			913,500		913,500	
36	8/1/2016	5.250%	2,855,000	913,500		3,768,500	4,682,000
37	2/1/2017			838,556		838,556	
38	8/1/2017	5.250%	3,035,000	838,556		3,873,556	4,712,113
39	2/1/2018			758,888		758,888	
40	8/1/2018	5.250%	3,220,000	758,888		3,978,888	4,737,775
41	2/1/2019			674,363		674,363	
42	8/1/2019	5.250%	3,420,000	674,363		4,094,363	4,768,725
43	2/1/2020			584,588		584,588	
44	8/1/2020	5.250%	3,625,000	584,588		4,209,588	4,794,175
45	2/1/2021			489,431		489,431	
46	8/1/2021	5.250%	3,845,000	489,431		4,334,431	4,823,863
47	2/1/2022			388,500		388,500	
48	8/1/2022	5.250%	4,685,000	388,500		5,073,500	5,462,000
49	2/1/2023			265,519		265,519	
50	8/1/2023	5.250%	4,930,000	265,519		5,195,519	5,461,038
51	2/1/2024			136,106		136,106	
52	8/1/2024	5.250%	5,185,000	136,106		5,321,106	5,457,213
<b>TOTALS</b>			<b>68,850,000</b>	<b>58,345,928</b>	<b>-</b>	<b>127,195,928</b>	<b>127,195,928</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)

Schedule 3.B

AGGREGATE OUTSTANDING JUNIOR DEBT SERVICE

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999		1,365,000	7,284,996	-	8,649,996	8,649,996
3	1/1/2000		-	7,257,419	-	7,257,419	
4	7/1/2000		1,600,000	7,257,419	-	8,857,419	16,114,839
5	1/1/2001		-	7,223,714	-	7,223,714	
6	7/1/2001		9,590,000	7,223,714	-	16,813,714	24,037,429
7	1/1/2002		-	6,998,881	-	6,998,881	
8	7/1/2002		4,700,000	6,998,881	-	11,698,881	18,697,761
9	1/1/2003		-	6,889,742	-	6,889,742	
10	7/1/2003		10,855,000	6,889,742	-	17,744,742	24,634,484
11	1/1/2004		-	6,622,409	-	6,622,409	
12	7/1/2004		6,115,000	6,622,409	-	12,737,409	19,359,819
13	1/1/2005		-	6,473,752	-	6,473,752	
14	7/1/2005		10,535,000	6,473,752	-	17,008,752	23,482,504
15	1/1/2006		-	6,202,542	-	6,202,542	
16	7/1/2006		8,110,000	6,202,542	-	14,312,542	20,515,084
17	1/1/2007		-	5,994,567	-	5,994,567	
18	7/1/2007		12,450,000	5,994,567	-	18,444,567	24,439,134
19	1/1/2008		-	5,659,042	-	5,659,042	
20	7/1/2008		12,385,000	5,659,042	-	18,044,042	23,703,084
21	1/1/2009		-	5,324,889	-	5,324,889	
22	7/1/2009		12,320,000	5,324,889	-	17,644,889	22,969,779
23	1/1/2010		-	4,992,839	-	4,992,839	
24	7/1/2010		12,245,000	4,992,839	-	17,237,839	22,230,679
25	1/1/2011		-	4,675,712	-	4,675,712	
26	7/1/2011		10,605,000	4,675,712	-	15,280,712	19,956,424
27	1/1/2012		-	4,401,021	-	4,401,021	
28	7/1/2012		7,420,000	4,401,021	-	11,821,021	16,222,041
29	1/1/2013		-	4,205,681	-	4,205,681	
30	7/1/2013		7,070,000	4,205,681	-	11,275,681	15,481,363
31	1/1/2014		-	4,019,059	-	4,019,059	
32	7/1/2014		7,365,000	4,019,059	-	11,384,059	15,403,119
33	1/1/2015		-	3,825,916	-	3,825,916	
34	7/1/2015		7,755,000	3,825,916	-	11,580,916	15,406,831
35	1/1/2016		-	3,617,500	-	3,617,500	
36	7/1/2016		8,170,000	3,617,500	-	11,787,500	15,405,000
37	1/1/2017		-	3,413,250	-	3,413,250	
38	7/1/2017		8,580,000	3,413,250	-	11,993,250	15,406,500
39	1/1/2018		-	3,198,750	-	3,198,750	
40	7/1/2018		9,005,000	3,198,750	-	12,203,750	15,402,500
41	1/1/2019		-	2,973,625	-	2,973,625	
42	7/1/2019		9,455,000	2,973,625	-	12,428,625	15,402,250
43	1/1/2020		-	2,737,250	-	2,737,250	
44	7/1/2020		9,930,000	2,737,250	-	12,667,250	15,404,500
45	1/1/2021		-	2,489,000	-	2,489,000	
46	7/1/2021		10,425,000	2,489,000	-	12,914,000	15,403,000
47	1/1/2022		-	2,228,375	-	2,228,375	
48	7/1/2022		10,950,000	2,228,375	-	13,178,375	15,406,750
49	1/1/2023		-	1,954,625	-	1,954,625	
50	7/1/2023		11,495,000	1,954,625	-	13,449,625	15,404,250
51	1/1/2024		-	1,667,250	-	1,667,250	
52	7/1/2024		12,070,000	1,667,250	-	13,737,250	15,404,500
53	1/1/2025		-	1,365,500	-	1,365,500	
54	7/1/2025		12,675,000	1,365,500	-	14,040,500	15,406,000
55	1/1/2026		-	1,048,625	-	1,048,625	
56	7/1/2026		13,305,000	1,048,625	-	14,353,625	15,402,250
57	1/1/2027		-	716,000	-	716,000	
58	7/1/2027		13,970,000	716,000	-	14,686,000	15,402,000
59	1/1/2028		-	366,750	-	366,750	
60	7/1/2028		14,670,000	366,750	-	15,036,750	15,403,500
<b>TOTALS</b>			<b>287,185,000</b>	<b>244,372,367</b>	<b>-</b>	<b>531,557,367</b>	<b>531,557,367</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 3.B.1  
 OUTSTANDING JUNIOR DEBT SERVICE  
 FIRST SERIES, SUBSERIES A

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999	4.500%	400,000	4,187,909		4,587,909	4,587,909
3	1/1/2000			4,178,909		4,178,909	
4	7/1/2000	4.500%	580,000	4,178,909		4,758,909	8,937,819
5	1/1/2001			4,165,859		4,165,859	
6	7/1/2001	4.750%	8,525,000	4,165,859		12,690,859	16,856,719
7	1/1/2002			3,963,391		3,963,391	
8	7/1/2002	4.750%	3,595,000	3,963,391		7,558,391	11,521,781
9	1/1/2003			3,878,009		3,878,009	
10	7/1/2003	5.000%	9,700,000	3,878,009		13,578,009	17,456,019
11	1/1/2004			3,635,509		3,635,509	
12	7/1/2004	5.000%	4,910,000	3,635,509		8,545,509	12,181,019
13	1/1/2005			3,512,759		3,512,759	
14	7/1/2005	5.250%	9,280,000	3,512,759		12,792,759	16,305,519
15	1/1/2006			3,269,159		3,269,159	
16	7/1/2006	5.250%	6,800,000	3,269,159		10,069,159	13,338,319
17	1/1/2007			3,090,659		3,090,659	
18	7/1/2007	5.500%	11,080,000	3,090,659		14,170,659	17,261,319
19	1/1/2008			2,785,959		2,785,959	
20	7/1/2008	5.500%	10,955,000	2,785,959		13,740,959	16,526,919
21	1/1/2009			2,484,697		2,484,697	
22	7/1/2009	5.500%	10,820,000	2,484,697		13,304,697	15,789,394
23	1/1/2010			2,187,147		2,187,147	
24	7/1/2010	5.250%	10,680,000	2,187,147		12,867,147	15,054,294
25	1/1/2011			1,906,797		1,906,797	
26	7/1/2011	5.250%	8,965,000	1,906,797		10,871,797	12,778,594
27	1/1/2012			1,671,466		1,671,466	
28	7/1/2012	5.375%	5,705,000	1,671,466		7,376,466	9,047,931
29	1/1/2013			1,518,144		1,518,144	
30	7/1/2013	5.375%	5,265,000	1,518,144		6,783,144	8,301,288
31	1/1/2014			1,376,647		1,376,647	
32	7/1/2014	5.375%	4,810,000	1,376,647		6,186,647	7,563,294
33	1/1/2015			1,247,378		1,247,378	
34	7/1/2015	5.375%	4,335,000	1,247,378		5,582,378	6,829,756
35	1/1/2016			1,130,875		1,130,875	
36	7/1/2016	5.000%	6,495,000	1,130,875		7,625,875	8,756,750
37	1/1/2017			968,500		968,500	
38	7/1/2017	5.000%	6,080,000	968,500		7,048,500	8,017,000
39	1/1/2018			816,500		816,500	
40	7/1/2018	5.000%	5,640,000	816,500		6,456,500	7,273,000
41	1/1/2019			675,500		675,500	
42	7/1/2019	5.000%	5,180,000	675,500		5,855,500	6,531,000
43	1/1/2020			546,000		546,000	
44	7/1/2020	5.000%	4,700,000	546,000		5,246,000	5,792,000
45	1/1/2021			428,500		428,500	
46	7/1/2021	5.000%	4,190,000	428,500		4,618,500	5,047,000
47	1/1/2022			323,750		323,750	
48	7/1/2022	5.000%	3,655,000	323,750		3,978,750	4,302,500
49	1/1/2023			232,375		232,375	
50	7/1/2023	5.000%	3,100,000	232,375		3,332,375	3,564,750
51	1/1/2024			154,875		154,875	
52	7/1/2024	5.000%	2,505,000	154,875		2,659,875	2,814,750
53	1/1/2025			92,250		92,250	
54	7/1/2025	5.000%	1,890,000	92,250		1,982,250	2,074,500
55	1/1/2026			45,000		45,000	
56	7/1/2026	5.000%	1,800,000	45,000		1,845,000	1,890,000
<b>TOTALS</b>			<b>161,640,000</b>	<b>104,761,141</b>		<b>266,401,141</b>	<b>266,401,141</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.B.2**  
**OUTSTANDING JUNIOR DEBT SERVICE**  
**FIRST SERIES, SUBSERIES B**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999			2,595.163		2,595.163	2,595.163
3	1/1/2000			2,595.163		2,595.163	
4	7/1/2000			2,595.163		2,595.163	5,190.325
5	1/1/2001			2,595.163		2,595.163	
6	7/1/2001			2,595.163		2,595.163	5,190.325
7	1/1/2002			2,595.163		2,595.163	
8	7/1/2002			2,595.163		2,595.163	5,190.325
9	1/1/2003			2,595.163		2,595.163	
10	7/1/2003			2,595.163		2,595.163	5,190.325
11	1/1/2004			2,595.163		2,595.163	
12	7/1/2004			2,595.163		2,595.163	5,190.325
13	1/1/2005			2,595.163		2,595.163	
14	7/1/2005			2,595.163		2,595.163	5,190.325
15	1/1/2006			2,595.163		2,595.163	
16	7/1/2006			2,595.163		2,595.163	5,190.325
17	1/1/2007			2,595.163		2,595.163	
18	7/1/2007			2,595.163		2,595.163	5,190.325
19	1/1/2008			2,595.163		2,595.163	
20	7/1/2008			2,595.163		2,595.163	5,190.325
21	1/1/2009			2,595.163		2,595.163	
22	7/1/2009			2,595.163		2,595.163	5,190.325
23	1/1/2010			2,595.163		2,595.163	
24	7/1/2010			2,595.163		2,595.163	5,190.325
25	1/1/2011			2,595.163		2,595.163	
26	7/1/2011			2,595.163		2,595.163	5,190.325
27	1/1/2012			2,595.163		2,595.163	
28	7/1/2012			2,595.163		2,595.163	5,190.325
29	1/1/2013			2,595.163		2,595.163	
30	7/1/2013			2,595.163		2,595.163	5,190.325
31	1/1/2014			2,595.163		2,595.163	
32	7/1/2014	5.000%	665,000	2,595.163		3,260.163	5,855.325
33	1/1/2015			2,578.538		2,578.538	
34	7/1/2015	5.375%	3,420,000	2,578.538		5,998.538	8,577.075
35	1/1/2016			2,486.625		2,486.625	
36	7/1/2016	5.000%	1,675,000	2,486.625		4,161.625	6,648.250
37	1/1/2017			2,444.750		2,444.750	
38	7/1/2017	5.000%	2,500,000	2,444.750		4,944.750	7,389.500
39	1/1/2018			2,382.250		2,382.250	
40	7/1/2018	5.000%	3,365,000	2,382.250		5,747.250	8,129.500
41	1/1/2019			2,298.125		2,298.125	
42	7/1/2019	5.000%	4,275,000	2,298.125		6,573.125	8,871.250
43	1/1/2020			2,191.250		2,191.250	
44	7/1/2020	5.000%	5,230,000	2,191.250		7,421.250	9,612.500
45	1/1/2021			2,060.500		2,060.500	
46	7/1/2021	5.000%	6,235,000	2,060.500		8,295.500	10,356.000
47	1/1/2022			1,904.625		1,904.625	
48	7/1/2022	5.000%	7,295,000	1,904.625		9,199.625	11,104.250
49	1/1/2023			1,722.250		1,722.250	
50	7/1/2023	5.000%	8,395,000	1,722.250		10,117.250	11,839.500
51	1/1/2024			1,512.375		1,512.375	
52	7/1/2024	5.000%	9,565,000	1,512.375		11,077.375	12,589.750
53	1/1/2025			1,273.250		1,273.250	
54	7/1/2025	5.000%	10,785,000	1,273.250		12,058.250	13,331.500
55	1/1/2026			1,003.625		1,003.625	
56	7/1/2026	5.000%	11,505,000	1,003.625		12,508.625	13,512.250
57	1/1/2027			716.000		716.000	
58	7/1/2027	5.000%	13,970,000	716.000		14,686.000	15,402.000
59	1/1/2028			366.750		366.750	
60	7/1/2028	5.000%	14,670,000	366.750		15,036.750	15,403.500
<b>TOTALS</b>			<b>103,550,000</b>	<b>130,331,863</b>		<b>233,881,863</b>	<b>233,881,863</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.B.3**  
**OUTSTANDING JUNIOR DEBT SERVICE**  
**FIRST SERIES, SUBSERIES C**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999	3.850%	965,000	501,924		1,466,924	1,466,924
3	1/1/2000			483,348		483,348	
4	7/1/2000	4.050%	1,020,000	483,348		1,503,348	1,986,695
5	1/1/2001			462,693		462,693	
6	7/1/2001	4.200%	1,065,000	462,693		1,527,693	1,990,385
7	1/1/2002			440,328		440,328	
8	7/1/2002	4.300%	1,105,000	440,328		1,545,328	1,985,655
9	1/1/2003			416,570		416,570	
10	7/1/2003	4.300%	1,155,000	416,570		1,571,570	1,988,140
11	1/1/2004			391,738		391,738	
12	7/1/2004	4.300%	1,205,000	391,738		1,596,738	1,988,475
13	1/1/2005			365,830		365,830	
14	7/1/2005	4.400%	1,255,000	365,830		1,620,830	1,986,660
15	1/1/2006			338,220		338,220	
16	7/1/2006	4.500%	1,310,000	338,220		1,648,220	1,986,440
17	1/1/2007			308,745		308,745	
18	7/1/2007	4.500%	1,370,000	308,745		1,678,745	1,987,490
19	1/1/2008			277,920		277,920	
20	7/1/2008	4.600%	1,430,000	277,920		1,707,920	1,985,840
21	1/1/2009			245,030		245,030	
22	7/1/2009	4.600%	1,500,000	245,030		1,745,030	1,990,060
23	1/1/2010			210,530		210,530	
24	7/1/2010	4.700%	1,565,000	210,530		1,775,530	1,986,060
25	1/1/2011			173,753		173,753	
26	7/1/2011	4.800%	1,640,000	173,753		1,813,753	1,987,505
27	1/1/2012			134,393		134,393	
28	7/1/2012	4.900%	1,715,000	134,393		1,849,393	1,983,785
29	1/1/2013			92,375		92,375	
30	7/1/2013	5.000%	1,805,000	92,375		1,897,375	1,989,750
31	1/1/2014			47,250		47,250	
32	7/1/2014	5.000%	1,890,000	47,250		1,937,250	1,984,500
<b>TOTALS</b>			<b>21,995,000</b>	<b>9,279,364</b>	<b>-</b>	<b>31,274,364</b>	<b>31,274,364</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 2  
 AGGREGATE PROPOSED DEBT SERVICE

Row	Date	Coupon	Yield	Price	Principal	Interest	Gross Semi-Annual Debt Service	Gross Bond Year Debt Service	Accrued Interest	Net Semi-Annual Debt Service	Net Proposed Bond Year Debt Service
0	6/23/1999				-	-	-	-	547,788.54	(547,788.54)	-
1	7/1/1999				-	-	-	-	-	-	(547,788.54)
2	1/1/2000				-	5,228,890.62	5,228,890.62	-	-	5,228,890.62	-
3	7/1/2000				2,075,000.00	4,481,906.25	6,556,906.25	11,785,796.87	-	6,556,906.25	11,785,796.87
4	1/1/2001				-	4,438,256.25	4,438,256.25	-	-	4,438,256.25	-
5	7/1/2001				2,430,000.00	4,438,256.25	6,868,256.25	11,306,512.50	-	6,868,256.25	11,306,512.50
6	1/1/2002				-	4,387,418.75	4,387,418.75	-	-	4,387,418.75	-
7	7/1/2002				2,535,000.00	4,387,418.75	6,922,418.75	11,309,837.50	-	6,922,418.75	11,309,837.50
8	1/1/2003				-	4,334,387.50	4,334,387.50	-	-	4,334,387.50	-
9	7/1/2003				2,640,000.00	4,334,387.50	6,974,387.50	11,308,775.00	-	6,974,387.50	11,308,775.00
10	1/1/2004				-	4,278,287.50	4,278,287.50	-	-	4,278,287.50	-
11	7/1/2004				2,755,000.00	4,278,287.50	7,033,287.50	11,311,575.00	-	7,033,287.50	11,311,575.00
12	1/1/2005				-	4,218,293.75	4,218,293.75	-	-	4,218,293.75	-
13	7/1/2005				9,855,000.00	4,218,293.75	14,073,293.75	18,291,587.50	-	14,073,293.75	18,291,587.50
14	1/1/2006				-	3,967,550.00	3,967,550.00	-	-	3,967,550.00	-
15	7/1/2006				10,335,000.00	3,967,550.00	14,302,550.00	18,270,100.00	-	14,302,550.00	18,270,100.00
16	1/1/2007				-	3,704,562.50	3,704,562.50	-	-	3,704,562.50	-
17	7/1/2007				10,840,000.00	3,704,562.50	14,544,562.50	18,249,125.00	-	14,544,562.50	18,249,125.00
18	1/1/2008				-	3,427,246.88	3,427,246.88	-	-	3,427,246.88	-
19	7/1/2008				11,365,000.00	3,427,246.88	14,792,246.88	18,219,493.75	-	14,792,246.88	18,219,493.75
20	1/1/2009				-	3,134,965.63	3,134,965.63	-	-	3,134,965.63	-
21	7/1/2009				11,525,000.00	3,134,965.63	14,659,965.63	17,794,931.25	-	14,659,965.63	17,794,931.25
22	1/1/2010				-	2,838,771.88	2,838,771.88	-	-	2,838,771.88	-
23	7/1/2010				2,655,000.00	2,838,771.88	5,493,771.88	8,332,543.75	-	5,493,771.88	8,332,543.75
24	1/1/2011				-	2,772,396.88	2,772,396.88	-	-	2,772,396.88	-
25	7/1/2011				2,790,000.00	2,772,396.88	5,562,396.88	8,334,793.75	-	5,562,396.88	8,334,793.75
26	1/1/2012				-	2,702,646.88	2,702,646.88	-	-	2,702,646.88	-
27	7/1/2012				2,925,000.00	2,702,646.88	5,627,646.88	8,330,293.75	-	5,627,646.88	8,330,293.75
28	1/1/2013				-	2,624,037.50	2,624,037.50	-	-	2,624,037.50	-
29	7/1/2013				9,850,000.00	2,624,037.50	12,474,037.50	15,098,075.00	-	12,474,037.50	15,098,075.00
30	1/1/2014				-	2,353,162.50	2,353,162.50	-	-	2,353,162.50	-
31	7/1/2014				10,380,000.00	2,353,162.50	12,733,162.50	15,086,325.00	-	12,733,162.50	15,086,325.00
32	1/1/2015				-	2,067,712.50	2,067,712.50	-	-	2,067,712.50	-
33	7/1/2015				6,460,000.00	2,067,712.50	8,527,712.50	10,595,425.00	-	8,527,712.50	10,595,425.00
34	1/1/2016				-	1,890,062.50	1,890,062.50	-	-	1,890,062.50	-
35	7/1/2016				3,625,000.00	1,890,062.50	5,515,062.50	7,405,125.00	-	5,515,062.50	7,405,125.00
36	1/1/2017				-	1,790,375.00	1,790,375.00	-	-	1,790,375.00	-
37	7/1/2017				3,820,000.00	1,790,375.00	5,610,375.00	7,400,750.00	-	5,610,375.00	7,400,750.00
38	1/1/2018				-	1,694,875.00	1,694,875.00	-	-	1,694,875.00	-
39	7/1/2018				4,015,000.00	1,694,875.00	5,709,875.00	7,404,750.00	-	5,709,875.00	7,404,750.00
40	1/1/2019				-	1,594,500.00	1,594,500.00	-	-	1,594,500.00	-
41	7/1/2019				4,215,000.00	1,594,500.00	5,809,500.00	7,404,000.00	-	5,809,500.00	7,404,000.00
42	1/1/2020				-	1,489,125.00	1,489,125.00	-	-	1,489,125.00	-
43	7/1/2020				4,425,000.00	1,489,125.00	5,914,125.00	7,403,250.00	-	5,914,125.00	7,403,250.00
44	1/1/2021				-	1,378,500.00	1,378,500.00	-	-	1,378,500.00	-
45	7/1/2021				4,645,000.00	1,378,500.00	6,023,500.00	7,402,000.00	-	6,023,500.00	7,402,000.00
46	1/1/2022				-	1,262,375.00	1,262,375.00	-	-	1,262,375.00	-
47	7/1/2022				4,880,000.00	1,262,375.00	6,142,375.00	7,404,750.00	-	6,142,375.00	7,404,750.00
48	1/1/2023				-	1,140,375.00	1,140,375.00	-	-	1,140,375.00	-
49	7/1/2023				5,120,000.00	1,140,375.00	6,260,375.00	7,400,750.00	-	6,260,375.00	7,400,750.00
50	1/1/2024				-	1,012,375.00	1,012,375.00	-	-	1,012,375.00	-
51	7/1/2024				5,645,000.00	1,012,375.00	6,657,375.00	7,669,750.00	-	6,657,375.00	7,669,750.00
52	1/1/2025				-	870,000.00	870,000.00	-	-	870,000.00	-
53	7/1/2025				6,035,000.00	870,000.00	6,905,000.00	7,775,000.00	-	6,905,000.00	7,775,000.00
54	1/1/2026				-	717,750.00	717,750.00	-	-	717,750.00	-
55	7/1/2026				6,445,000.00	717,750.00	7,162,750.00	7,880,500.00	-	7,162,750.00	7,880,500.00
56	1/1/2027				-	555,125.00	555,125.00	-	-	555,125.00	-
57	7/1/2027				6,820,000.00	555,125.00	7,375,125.00	7,930,250.00	-	7,375,125.00	7,930,250.00
58	1/1/2028				-	383,062.50	383,062.50	-	-	383,062.50	-
59	7/1/2028				7,325,000.00	383,062.50	7,708,062.50	8,091,125.00	-	7,708,062.50	8,091,125.00
60	1/1/2029				-	198,187.50	198,187.50	-	-	198,187.50	-
61	7/1/2029				7,850,000.00	198,187.50	8,048,187.50	8,246,375.00	-	8,048,187.50	8,246,375.00
<b>TOTALS</b>					<b>176,280,000.00</b>	<b>144,163,565.62</b>	<b>320,443,565.62</b>	<b>320,443,565.62</b>	<b>547,788.54</b>	<b>319,895,777.08</b>	<b>319,895,777.08</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)

Schedule 2.A

PROPOSED CURRENT REFUNDING DEBT SERVICE

Row	Date	Coupon	Yield	Price	Principal	Interest	Gross Semi-Annual Debt Service	Gross Bond Year Debt Service	Accrued Interest	Net Semi-Annual Debt Service	Net Proposed Bond Year Debt Service	Refunded Annual Debt Service	Gross Savings
0	6/23/1999								200,394.03	(200,394.03)			
1	7/1/1999										(200,394.03)	2,105,743.75	2,306,137.78
2	1/1/2000					1,912,852.08	1,912,852.08			1,912,852.08			
3	7/1/2000	4.000%	3.350%	100.647	355,000	1,639,587.50	1,994,587.50	3,907,439.58		1,994,587.50	3,907,439.58	4,211,487.50	304,047.92
4	1/1/2001					1,632,487.50	1,632,487.50			1,632,487.50			
5	7/1/2001	4.000%	4.000%	100.000	640,000	1,632,487.50	2,272,487.50	3,904,975.00		2,272,487.50	3,904,975.00	4,211,487.50	306,512.50
6	1/1/2002					1,619,687.50	1,619,687.50			1,619,687.50			
7	7/1/2002	4.000%	4.150%	99.577	670,000	1,619,687.50	2,289,687.50	3,909,375.00		2,289,687.50	3,909,375.00	4,211,487.50	302,112.50
8	1/1/2003					1,606,287.50	1,606,287.50			1,606,287.50			
9	7/1/2003	4.250%	4.350%	99.633	695,000	1,606,287.50	2,301,287.50	3,907,575.00		2,301,287.50	3,907,575.00	4,211,487.50	303,912.50
10	1/1/2004					1,591,518.75	1,591,518.75			1,591,518.75			
11	7/1/2004	4.300%	4.450%	99.330	725,000	1,591,518.75	2,316,518.75	3,908,037.50		2,316,518.75	3,908,037.50	4,211,487.50	303,450.00
12	1/1/2005					1,575,931.25	1,575,931.25			1,575,931.25			
13	7/1/2005	5.250%	4.625%	103.251	7,735,000	1,575,931.25	9,310,931.25	10,886,862.50		9,310,931.25	10,886,862.50	11,189,037.50	302,175.00
14	1/1/2006					1,372,887.50	1,372,887.50			1,372,887.50			
15	7/1/2006	5.250%	4.750%	102.954	8,120,000	1,372,887.50	9,492,887.50	10,865,775.00		9,492,887.50	10,865,775.00	11,170,106.25	304,331.25
16	1/1/2007					1,159,737.50	1,159,737.50			1,159,737.50			
17	7/1/2007	5.250%	4.850%	102.630	8,525,000	1,159,737.50	9,684,737.50	10,844,475.00		9,684,737.50	10,844,475.00	11,146,843.75	302,368.75
18	1/1/2008					935,956.25	935,956.25			935,956.25			
19	7/1/2008	5.250%	4.930%	102.306	8,945,000	935,956.25	9,880,956.25	10,816,912.50		9,880,956.25	10,816,912.50	11,121,531.25	304,618.75
20	1/1/2009					701,150.00	701,150.00			701,150.00			
21	7/1/2009	5.250%	5.000%	101.950	8,990,000	701,150.00	9,691,150.00	10,392,300.00		9,691,150.00	10,392,300.00	10,696,131.25	303,831.25
22	1/1/2010					465,162.50	465,162.50			465,162.50			
23	7/1/2010					465,162.50	465,162.50	930,325.00		465,162.50	930,325.00	1,209,262.50	278,937.50
24	1/1/2011					465,162.50	465,162.50			465,162.50			
25	7/1/2011					465,162.50	465,162.50	930,325.00		465,162.50	930,325.00	1,209,262.50	278,937.50
26	1/1/2012					465,162.50	465,162.50			465,162.50			
27	7/1/2012					465,162.50	465,162.50	930,325.00		465,162.50	930,325.00	1,209,262.50	278,937.50
28	1/1/2013					465,162.50	465,162.50			465,162.50			
29	7/1/2013	5.500%	5.200%	102.491	6,765,000	465,162.50	7,230,162.50	7,695,325.00		7,230,162.50	7,695,325.00	8,002,000.00	306,675.00
30	1/1/2014					279,125.00	279,125.00			279,125.00			
31	7/1/2014	5.500%	5.230%	102.238	7,125,000	279,125.00	7,404,125.00	7,683,250.00		7,404,125.00	7,683,250.00	7,986,443.75	303,193.75
32	1/1/2015					83,187.50	83,187.50			83,187.50			
33	7/1/2015	5.500%	5.270%	101.902	3,025,000	83,187.50	3,108,187.50	3,191,375.00		3,108,187.50	3,191,375.00	3,494,075.00	302,700.00
<b>TOTALS</b>					<b>62,315,000.00</b>	<b>32,389,652.08</b>	<b>94,704,652.08</b>	<b>94,704,652.08</b>	<b>200,394.03</b>	<b>94,504,258.05</b>	<b>94,504,258.05</b>	<b>101,597,137.50</b>	<b>7,092,879.15</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)

Schedule 2.B

AGGREGATE PROPOSED NEW MONEY DEBT SERVICE

Row	Date	Coupon	Yield	Price	Principal	Coupon	Yield	Price	Principal	Interest	Gross Semi-Annual Debt Service	Gross Bond Year Debt Service	Accrued Interest	Net Semi-Annual Debt Service	Net Proposed Bond Year Debt Service
0	6/23/1999												347,394.51	(347,394.51)	
1	7/1/1999														(347,394.51)
2	1/1/2000									3,316,039	3,316,038.54			3,316,038.54	
3	7/1/2000	4.250%	3.350%	100.896	1,720,000					2,842,319	4,562,318.75	7,878,357.29		4,562,318.75	7,878,357.29
4	1/1/2001									2,805,769	2,805,768.75			2,805,768.75	
5	7/1/2001	4.250%	4.000%	100.480	1,790,000					2,805,769	4,595,768.75	7,401,537.50		4,595,768.75	7,401,537.50
6	1/1/2002									2,767,731	2,767,731.25			2,767,731.25	
7	7/1/2002	4.250%	4.150%	100.280	1,865,000					2,767,731	4,632,731.25	7,400,462.50		4,632,731.25	7,400,462.50
8	1/1/2003									2,728,100	2,728,100.00			2,728,100.00	
9	7/1/2003	4.250%	4.350%	99.633	1,945,000					2,728,100	4,673,100.00	7,401,200.00		4,673,100.00	7,401,200.00
10	1/1/2004									2,686,769	2,686,768.75			2,686,768.75	
11	7/1/2004	4.375%	4.450%	99.664	2,030,000					2,686,769	4,716,768.75	7,403,537.50		4,716,768.75	7,403,537.50
12	1/1/2005									2,642,363	2,642,362.50			2,642,362.50	
13	7/1/2005	4.500%	4.625%	99.348	2,120,000					2,642,363	4,762,362.50	7,404,725.00		4,762,362.50	7,404,725.00
14	1/1/2006									2,594,663	2,594,662.50			2,594,662.50	
15	7/1/2006	4.500%	4.750%	98.520	2,215,000					2,594,663	4,809,662.50	7,404,325.00		4,809,662.50	7,404,325.00
16	1/1/2007									2,544,825	2,544,825.00			2,544,825.00	
17	7/1/2007	4.625%	4.850%	98.518	2,315,000					2,544,825	4,859,825.00	7,404,650.00		4,859,825.00	7,404,650.00
18	1/1/2008									2,491,291	2,491,290.63			2,491,290.63	
19	7/1/2008	4.750%	4.930%	98.700	2,420,000					2,491,291	4,911,290.63	7,402,581.25		4,911,290.63	7,402,581.25
20	1/1/2009									2,433,816	2,433,815.63			2,433,815.63	
21	7/1/2009	4.750%	5.000%	98.046	2,535,000					2,433,816	4,968,815.63	7,402,631.25		4,968,815.63	7,402,631.25
22	1/1/2010									2,373,609	2,373,609.38			2,373,609.38	
23	7/1/2010	5.000%	5.050%	99.579	2,655,000					2,373,609	5,028,609.38	7,402,218.75		5,028,609.38	7,402,218.75
24	1/1/2011									2,307,234	2,307,234.38			2,307,234.38	
25	7/1/2011	5.000%	5.130%	98.842	2,790,000					2,307,234	5,097,234.38	7,404,468.75		5,097,234.38	7,404,468.75
26	1/1/2012									2,237,484	2,237,484.38			2,237,484.38	
27	7/1/2012	5.375%	5.170%	101.704	2,925,000					2,237,484	5,162,484.38	7,399,968.75		5,162,484.38	7,399,968.75
28	1/1/2013									2,158,875	2,158,875.00			2,158,875.00	
29	7/1/2013	5.500%	5.200%	102.491	3,085,000					2,158,875	5,243,875.00	7,402,750.00		5,243,875.00	7,402,750.00
30	1/1/2014									2,074,038	2,074,037.50			2,074,037.50	
31	7/1/2014	5.500%	5.230%	102.238	3,255,000					2,074,038	5,329,037.50	7,403,075.00		5,329,037.50	7,403,075.00
32	1/1/2015									1,984,525	1,984,525.00			1,984,525.00	
33	7/1/2015	5.500%	5.270%	101.902	3,435,000					1,984,525	5,419,525.00	7,404,050.00		5,419,525.00	7,404,050.00
34	1/1/2016									1,890,063	1,890,062.50			1,890,062.50	
35	7/1/2016	5.500%	5.330%	101.485	3,625,000					1,890,063	5,515,062.50	7,405,125.00		5,515,062.50	7,405,125.00
36	1/1/2017									1,790,375	1,790,375.00			1,790,375.00	
37	7/1/2017	5.000%	5.350%	95.982	3,820,000					1,790,375	5,610,375.00	7,400,750.00		5,610,375.00	7,400,750.00
38	1/1/2018									1,694,875	1,694,875.00			1,694,875.00	
39	7/1/2018	5.000%	5.380%	95.508	4,015,000					1,694,875	5,709,875.00	7,404,750.00		5,709,875.00	7,404,750.00
40	1/1/2019									1,594,500	1,594,500.00			1,594,500.00	
41	7/1/2019	5.000%	5.400%	95.139	4,215,000					1,594,500	5,809,500.00	7,404,000.00		5,809,500.00	7,404,000.00
42	1/1/2020									1,489,125	1,489,125.00			1,489,125.00	
43	7/1/2020	5.000%	5.450%	94.010	4,425,000					1,489,125	5,914,125.00	7,403,250.00		5,914,125.00	7,403,250.00
44	1/1/2021									1,378,500	1,378,500.00			1,378,500.00	
45	7/1/2021	5.000%	5.450%	94.010	4,645,000					1,378,500	6,023,500.00	7,402,000.00		6,023,500.00	7,402,000.00
46	1/1/2022									1,262,375	1,262,375.00			1,262,375.00	
47	7/1/2022	5.000%	5.450%	94.010	4,880,000					1,262,375	6,142,375.00	7,404,750.00		6,142,375.00	7,404,750.00
48	1/1/2023									1,140,375	1,140,375.00			1,140,375.00	
49	7/1/2023	5.000%	5.450%	94.010	5,120,000					1,140,375	6,260,375.00	7,400,750.00		6,260,375.00	7,400,750.00
50	1/1/2024									1,012,375	1,012,375.00			1,012,375.00	
51	7/1/2024	5.000%	5.470%	93.106	4,645,000	5.250%	5.470%	96.772	1,000,000	1,012,375	6,657,375.00	7,669,750.00		6,657,375.00	7,669,750.00
52	1/1/2025									870,000	870,000.00			870,000.00	
53	7/1/2025	5.000%	5.470%	93.106	4,935,000	5.250%	5.470%	96.772	1,100,000	870,000	6,905,000.00	7,775,000.00		6,905,000.00	7,775,000.00
54	1/1/2026									717,750	717,750.00			717,750.00	
55	7/1/2026	5.000%	5.470%	93.106	5,245,000	5.250%	5.470%	96.772	1,200,000	717,750	7,162,750.00	7,880,500.00		7,162,750.00	7,880,500.00
56	1/1/2027									555,125	555,125.00			555,125.00	
57	7/1/2027	5.000%	5.470%	93.106	5,570,000	5.250%	5.470%	96.772	1,250,000	555,125	7,375,125.00	7,930,250.00		7,375,125.00	7,930,250.00
58	1/1/2028									383,063	383,062.50			383,062.50	
59	7/1/2028	5.000%	5.470%	93.106	5,925,000	5.250%	5.470%	96.772	1,400,000	383,063	7,708,062.50	8,091,125.00		7,708,062.50	8,091,125.00
60	1/1/2029									198,188	198,187.50			198,187.50	
61	7/1/2029	5.000%	5.470%	93.106	6,300,000	5.250%	5.470%	96.772	1,550,000	198,188	8,048,187.50	8,246,375.00		8,048,187.50	8,246,375.00
TOTALS					106,465,000				7,500,000	111,773,913.54	225,738,913.54	225,738,913.54	347,394.51	225,391,519.03	225,391,519.03

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 2B.2  
 NEW MONEY DEBT SERVICE: PART B

Row	Date	Coupon	Yield	Price	Principal	Interest	Gross Semi-Annual Debt Service	Gross Bond Year Debt Service	Accrued Interest	Net Semi-Annual Debt Service	Net Proposed Bond Year Debt Service
0	6/23/1999								24,062.50	(24,062.50)	
1	7/1/1999										(24,062.50)
2	1/1/2000					229,687.50	229,687.50			229,687.50	
3	7/1/2000					196,875.00	196,875.00	426,562.50		196,875.00	426,562.50
4	1/1/2001					196,875.00	196,875.00			196,875.00	
5	7/1/2001					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
6	1/1/2002					196,875.00	196,875.00			196,875.00	
7	7/1/2002					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
8	1/1/2003					196,875.00	196,875.00			196,875.00	
9	7/1/2003					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
10	1/1/2004					196,875.00	196,875.00			196,875.00	
11	7/1/2004					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
12	1/1/2005					196,875.00	196,875.00			196,875.00	
13	7/1/2005					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
14	1/1/2006					196,875.00	196,875.00			196,875.00	
15	7/1/2006					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
16	1/1/2007					196,875.00	196,875.00			196,875.00	
17	7/1/2007					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
18	1/1/2008					196,875.00	196,875.00			196,875.00	
19	7/1/2008					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
20	1/1/2009					196,875.00	196,875.00			196,875.00	
21	7/1/2009					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
22	1/1/2010					196,875.00	196,875.00			196,875.00	
23	7/1/2010					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
24	1/1/2011					196,875.00	196,875.00			196,875.00	
25	7/1/2011					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
26	1/1/2012					196,875.00	196,875.00			196,875.00	
27	7/1/2012					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
28	1/1/2013					196,875.00	196,875.00			196,875.00	
29	7/1/2013					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
30	1/1/2014					196,875.00	196,875.00			196,875.00	
31	7/1/2014					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
32	1/1/2015					196,875.00	196,875.00			196,875.00	
33	7/1/2015					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
34	1/1/2016					196,875.00	196,875.00			196,875.00	
35	7/1/2016					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
36	1/1/2017					196,875.00	196,875.00			196,875.00	
37	7/1/2017					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
38	1/1/2018					196,875.00	196,875.00			196,875.00	
39	7/1/2018					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
40	1/1/2019					196,875.00	196,875.00			196,875.00	
41	7/1/2019					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
42	1/1/2020					196,875.00	196,875.00			196,875.00	
43	7/1/2020					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
44	1/1/2021					196,875.00	196,875.00			196,875.00	
45	7/1/2021					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
46	1/1/2022					196,875.00	196,875.00			196,875.00	
47	7/1/2022					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
48	1/1/2023					196,875.00	196,875.00			196,875.00	
49	7/1/2023					196,875.00	196,875.00	393,750.00		196,875.00	393,750.00
50	1/1/2024					196,875.00	196,875.00			196,875.00	
51	7/1/2024	5.250%	5.470%	96.772	1,000,000	196,875.00	1,196,875.00	1,393,750.00		1,196,875.00	1,393,750.00
52	1/1/2025					170,625.00	170,625.00			170,625.00	
53	7/1/2025	5.250%	5.470%	96.772	1,100,000	170,625.00	1,270,625.00	1,441,250.00		1,270,625.00	1,441,250.00
54	1/1/2026					141,750.00	141,750.00			141,750.00	
55	7/1/2026	5.250%	5.470%	96.772	1,200,000	141,750.00	1,341,750.00	1,483,500.00		1,341,750.00	1,483,500.00
56	1/1/2027					110,250.00	110,250.00			110,250.00	
57	7/1/2027	5.250%	5.470%	96.772	1,250,000	110,250.00	1,360,250.00	1,470,500.00		1,360,250.00	1,470,500.00
58	1/1/2028					77,437.50	77,437.50			77,437.50	
59	7/1/2028	5.250%	5.470%	96.772	1,400,000	77,437.50	1,477,437.50	1,554,875.00		1,477,437.50	1,554,875.00
60	1/1/2029					40,687.50	40,687.50			40,687.50	
61	7/1/2029	5.250%	5.470%	96.772	1,550,000	40,687.50	1,590,687.50	1,631,375.00		1,590,687.50	1,631,375.00
<b>TOTALS</b>					<b>7,500,000</b>	<b>10,958,062.50</b>	<b>18,458,062.50</b>	<b>18,458,062.50</b>	<b>24,062.50</b>	<b>18,434,000.00</b>	<b>18,434,000.00</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 2B.1  
 NEW MONEY DEBT SERVICE: PART A

Row	Date	Coupon	Yield	Price	Principal	Interest	Gross Semi-Annual Debt Service	Gross Bond Year Debt Service	Accrued Interest	Net Semi-Annual Debt Service	Net Proposed Bond Year Debt Service
0	6/23/1999								323,332.01	(323,332.01)	
1	7/1/1999										(523,332.01)
2	1/1/2000					3,086,351.04	3,086,351.04			3,086,351.04	
3	7/1/2000	4.250%	3.350%	100.896	1,720,000	2,645,443.75	4,365,443.75	7,451,794.79		4,365,443.75	7,451,794.79
4	1/1/2001					2,608,893.75	2,608,893.75			2,608,893.75	
5	7/1/2001	4.250%	4.000%	100.480	1,790,000	2,608,893.75	4,398,893.75	7,007,787.50		4,398,893.75	7,007,787.50
6	1/1/2002					2,570,856.25	2,570,856.25			2,570,856.25	
7	7/1/2002	4.250%	4.150%	100.280	1,865,000	2,570,856.25	4,435,856.25	7,006,712.50		4,435,856.25	7,006,712.50
8	1/1/2003					2,531,225.00	2,531,225.00			2,531,225.00	
9	7/1/2003	4.250%	4.350%	99.633	1,945,000	2,531,225.00	4,476,225.00	7,007,450.00		4,476,225.00	7,007,450.00
10	1/1/2004					2,489,893.75	2,489,893.75			2,489,893.75	
11	7/1/2004	4.375%	4.450%	99.664	2,030,000	2,489,893.75	4,519,893.75	7,009,787.50		4,519,893.75	7,009,787.50
12	1/1/2005					2,445,487.50	2,445,487.50			2,445,487.50	
13	7/1/2005	4.500%	4.625%	99.348	2,120,000	2,445,487.50	4,565,487.50	7,010,975.00		4,565,487.50	7,010,975.00
14	1/1/2006					2,397,787.50	2,397,787.50			2,397,787.50	
15	7/1/2006	4.500%	4.750%	98.520	2,215,000	2,397,787.50	4,612,787.50	7,010,575.00		4,612,787.50	7,010,575.00
16	1/1/2007					2,347,950.00	2,347,950.00			2,347,950.00	
17	7/1/2007	4.625%	4.850%	98.518	2,315,000	2,347,950.00	4,662,950.00	7,010,900.00		4,662,950.00	7,010,900.00
18	1/1/2008					2,294,415.63	2,294,415.63			2,294,415.63	
19	7/1/2008	4.750%	4.930%	98.700	2,420,000	2,294,415.63	4,714,415.63	7,008,831.25		4,714,415.63	7,008,831.25
20	1/1/2009					2,236,940.63	2,236,940.63			2,236,940.63	
21	7/1/2009	4.750%	5.000%	98.046	2,535,000	2,236,940.63	4,771,940.63	7,008,881.25		4,771,940.63	7,008,881.25
22	1/1/2010					2,176,734.38	2,176,734.38			2,176,734.38	
23	7/1/2010	5.000%	5.050%	99.579	2,655,000	2,176,734.38	4,831,734.38	7,008,468.75		4,831,734.38	7,008,468.75
24	1/1/2011					2,110,359.38	2,110,359.38			2,110,359.38	
25	7/1/2011	5.000%	5.130%	98.842	2,790,000	2,110,359.38	4,900,359.38	7,010,718.75		4,900,359.38	7,010,718.75
26	1/1/2012					2,040,609.38	2,040,609.38			2,040,609.38	
27	7/1/2012	5.375%	5.170%	101.704	2,925,000	2,040,609.38	4,965,609.38	7,006,218.75		4,965,609.38	7,006,218.75
28	1/1/2013					1,962,000.00	1,962,000.00			1,962,000.00	
29	7/1/2013	5.500%	5.200%	102.491	3,085,000	1,962,000.00	5,047,000.00	7,009,000.00		5,047,000.00	7,009,000.00
30	1/1/2014					1,877,162.50	1,877,162.50			1,877,162.50	
31	7/1/2014	5.500%	5.230%	102.238	3,255,000	1,877,162.50	5,132,162.50	7,009,325.00		5,132,162.50	7,009,325.00
32	1/1/2015					1,787,650.00	1,787,650.00			1,787,650.00	
33	7/1/2015	5.500%	5.270%	101.902	3,435,000	1,787,650.00	5,222,650.00	7,010,300.00		5,222,650.00	7,010,300.00
34	1/1/2016					1,693,187.50	1,693,187.50			1,693,187.50	
35	7/1/2016	5.500%	5.320%	101.485	3,625,000	1,693,187.50	5,318,187.50	7,011,375.00		5,318,187.50	7,011,375.00
36	1/1/2017					1,593,500.00	1,593,500.00			1,593,500.00	
37	7/1/2017	5.000%	5.350%	95.983	3,820,000	1,593,500.00	5,413,500.00	7,007,000.00		5,413,500.00	7,007,000.00
38	1/1/2018					1,498,000.00	1,498,000.00			1,498,000.00	
39	7/1/2018	5.000%	5.380%	95.508	4,015,000	1,498,000.00	5,513,000.00	7,011,000.00		5,513,000.00	7,011,000.00
40	1/1/2019					1,397,625.00	1,397,625.00			1,397,625.00	
41	7/1/2019	5.000%	5.400%	95.139	4,215,000	1,397,625.00	5,612,625.00	7,010,250.00		5,612,625.00	7,010,250.00
42	1/1/2020					1,292,250.00	1,292,250.00			1,292,250.00	
43	7/1/2020	5.000%	5.450%	94.010	4,425,000	1,292,250.00	5,717,250.00	7,009,500.00		5,717,250.00	7,009,500.00
44	1/1/2021					1,181,625.00	1,181,625.00			1,181,625.00	
45	7/1/2021	5.000%	5.450%	94.010	4,645,000	1,181,625.00	5,826,625.00	7,008,250.00		5,826,625.00	7,008,250.00
46	1/1/2022					1,065,500.00	1,065,500.00			1,065,500.00	
47	7/1/2022	5.000%	5.450%	94.010	4,880,000	1,065,500.00	5,945,500.00	7,011,000.00		5,945,500.00	7,011,000.00
48	1/1/2023					943,500.00	943,500.00			943,500.00	
49	7/1/2023	5.000%	5.450%	94.010	5,120,000	943,500.00	6,063,500.00	7,007,000.00		6,063,500.00	7,007,000.00
50	1/1/2024					815,500.00	815,500.00			815,500.00	
51	7/1/2024	5.000%	5.470%	93.106	4,645,000	815,500.00	5,460,500.00	6,276,000.00		5,460,500.00	6,276,000.00
52	1/1/2025					699,375.00	699,375.00			699,375.00	
53	7/1/2025	5.000%	5.470%	93.106	4,935,000	699,375.00	5,634,375.00	6,333,750.00		5,634,375.00	6,333,750.00
54	1/1/2026					576,000.00	576,000.00			576,000.00	
55	7/1/2026	5.000%	5.470%	93.106	5,245,000	576,000.00	5,821,000.00	6,397,000.00		5,821,000.00	6,397,000.00
56	1/1/2027					444,875.00	444,875.00			444,875.00	
57	7/1/2027	5.000%	5.470%	93.106	5,570,000	444,875.00	6,014,875.00	6,459,750.00		6,014,875.00	6,459,750.00
58	1/1/2028					305,625.00	305,625.00			305,625.00	
59	7/1/2028	5.000%	5.470%	93.106	5,925,000	305,625.00	6,230,625.00	6,536,250.00		6,230,625.00	6,536,250.00
60	1/1/2029					157,500.00	157,500.00			157,500.00	
61	7/1/2029	5.000%	5.470%	93.106	6,300,000	157,500.00	6,457,500.00	6,615,000.00		6,457,500.00	6,615,000.00
<b>TOTALS</b>					<b>106,465,000</b>	<b>100,815,851.04</b>	<b>207,280,851.04</b>	<b>207,280,851.04</b>	<b>323,332.01</b>	<b>206,957,519.03</b>	<b>206,957,519.03</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.C**  
**AGGREGATE OUTSTANDING SUBORDINATE DEBT SERVICE**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2							
3	10/1/1999		3,199,277	770,158	-	3,969,435	
4	4/1/2000		3,338,982	679,878	-	4,018,860	7,988,294
5	10/1/2000		3,379,739	585,571	-	3,965,310	
6	4/1/2001		3,521,574	490,186	-	4,011,760	7,977,070
7	10/1/2001		3,564,518	390,717	-	3,955,235	
8	4/1/2002		1,708,599	290,111	-	1,998,710	5,953,945
9	10/1/2002		1,753,847	244,863	-	1,998,710	
10	4/1/2003		1,800,293	198,416	-	1,998,709	3,997,419
11	10/1/2003		1,847,970	150,740	-	1,998,710	
12	4/1/2004		1,896,909	101,801	-	1,998,710	3,997,420
13	10/1/2004		1,947,144	51,566	-	1,998,710	
14	4/1/2005		-	-	-	-	1,998,710
15	10/1/2005		-	-	-	-	
16	4/1/2006		-	-	-	-	-
17	10/1/2006		-	-	-	-	
18	4/1/2007		-	-	-	-	-
19	10/1/2007		-	-	-	-	
20	4/1/2008		-	-	-	-	-
21	10/1/2008		-	-	-	-	
22	4/1/2009		-	-	-	-	-
23	10/1/2009		-	-	-	-	
24	4/1/2010		-	-	-	-	-
25	10/1/2010		-	-	-	-	
<b>TOTALS</b>			<b>27,958,852</b>	<b>3,954,006</b>	<b>-</b>	<b>31,912,858</b>	<b>31,912,858</b>

**City of Philadelphia, Gas Works Revenue Bonds**  
**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**  
**\$113,965,000 Second Series Bonds (1998 Ordinance)**  
**Schedule 3.C.1**  
**OUTSTANDING SUBORDINATE DEBT SERVICE**  
**SUBORDINATE LEASE REVENUE BONDS (PRIVATE PLACEMENT)**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999	---					
1							
2							
3	10/1/1999	5.297%	1,499,277	499,433		1,998,710	
4	4/1/2000	5.297%	1,538,982	459,728		1,998,710	3,997,419
5	10/1/2000	5.297%	1,579,739	418,971		1,998,710	
6	4/1/2001	5.297%	1,621,574	377,136		1,998,710	3,997,420
7	10/1/2001	5.297%	1,664,518	334,192		1,998,710	
8	4/1/2002	5.297%	1,708,599	290,111		1,998,710	3,997,420
9	10/1/2002	5.297%	1,753,847	244,863		1,998,710	
10	4/1/2003	5.297%	1,800,293	198,416		1,998,709	3,997,419
11	10/1/2003	5.297%	1,847,970	150,740		1,998,710	
12	4/1/2004	5.297%	1,896,909	101,801		1,998,710	3,997,420
13	10/1/2004	5.297%	1,947,144	51,566		1,998,710	
14	4/1/2005			-		-	1,998,710
15	10/1/2005			-		-	-
16	4/1/2006			-		-	-
17	10/1/2006			-		-	-
18	4/1/2007			-		-	-
19	10/1/2007			-		-	-
20	4/1/2008			-		-	-
21	10/1/2008			-		-	-
22	4/1/2009			-		-	-
23	10/1/2009			-		-	-
24	4/1/2010			-		-	-
25	10/1/2010			-		-	-
<b>TOTALS</b>			<b>18,858,852</b>	<b>3,126,956</b>	<b>-</b>	<b>21,985,808</b>	<b>21,985,808</b>

**City of Philadelphia, Gas Works Revenue Bonds**

**\$62,315,000 Sixteenth Series Bonds (1975 Ordinance)**

**\$113,965,000 Second Series Bonds (1998 Ordinance)**

**Schedule 3.C.2**

**OUTSTANDING SUBORDINATE DEBT SERVICE**

**SUBORDINATE LEASE REVENUE BONDS (PRIVATE PLACEMENT)**

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2							
3	10/1/1999	5.950%	1,700,000	270,725		1,970,725	
4	4/1/2000	5.950%	1,800,000	220,150		2,020,150	3,990,875
5	10/1/2000	5.950%	1,800,000	166,600		1,966,600	
6	4/1/2001	5.950%	1,900,000	113,050		2,013,050	3,979,650
7	10/1/2001	5.950%	1,900,000	56,525		1,956,525	
8	4/1/2002			-		-	1,956,525
9	10/1/2002			-		-	
10	4/1/2003			-		-	
11	10/1/2003			-		-	
12	4/1/2004			-		-	
13	10/1/2004			-		-	
14	4/1/2005			-		-	
15	10/1/2005			-		-	
16	4/1/2006			-		-	
17	10/1/2006			-		-	
18	4/1/2007			-		-	
19	10/1/2007			-		-	
20	4/1/2008			-		-	
21	10/1/2008			-		-	
22	4/1/2009			-		-	
23	10/1/2009			-		-	
24	4/1/2010			-		-	
25	10/1/2010			-		-	
<b>TOTALS</b>			<b>9,100,000</b>	<b>827,050</b>	<b>-</b>	<b>9,927,050</b>	<b>9,927,050</b>

City of Philadelphia, Gas Works Revenue Bonds  
 \$62,315,000 Sixteenth Series Bonds (1975 Ordinance)  
 \$113,965,000 Second Series Bonds (1998 Ordinance)  
 Schedule 6 -- POST REFUNDING  
 AGGREGATE OUTSTANDING DEBT SERVICE

Row	Date	Coupon	Principal	Interest	Compound Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
0	6/23/1999						
1							
2	7/1/1999		27,810,000	18,374,933	-	46,184,933	46,184,933
3	1/1/2000		3,420,457	22,929,530	3,810,648	30,160,634	-
4	7/1/2000		31,195,000	22,182,546	-	53,377,546	91,526,474
5	1/1/2001		3,196,967	21,414,836	4,043,033	28,654,836	-
6	7/1/2001		32,059,687	21,414,836	920,313	54,394,836	91,026,742
7	1/1/2002		2,965,866	20,645,402	4,274,134	27,885,402	-
8	7/1/2002		32,116,474	20,645,402	978,526	53,740,402	87,579,749
9	1/1/2003		2,748,811	19,723,732	4,491,189	26,963,732	-
10	7/1/2003		29,880,488	19,723,732	2,759,512	52,363,732	83,324,884
11	1/1/2004		2,543,464	19,015,079	4,691,536	26,250,079	-
12	7/1/2004		28,871,033	19,015,079	2,893,967	50,780,079	81,027,578
13	1/1/2005		-	18,316,939	-	18,316,939	-
14	7/1/2005		35,076,950	18,316,939	3,023,050	56,416,939	76,732,587
15	1/1/2006		-	17,414,616	-	17,414,616	-
16	7/1/2006		32,210,920	17,414,616	3,144,080	52,769,616	70,184,233
17	1/1/2007		-	16,570,907	-	16,570,907	-
18	7/1/2007		34,670,000	16,570,907	-	51,240,907	67,811,814
19	1/1/2008		-	15,611,991	-	15,611,991	-
20	7/1/2008		34,470,000	15,611,991	-	50,081,991	65,693,983
21	1/1/2009		-	14,661,721	-	14,661,721	-
22	7/1/2009		33,640,000	14,661,721	-	48,301,721	62,963,441
23	1/1/2010		-	13,733,539	-	13,733,539	-
24	7/1/2010		32,535,000	13,733,539	-	46,268,539	60,002,079
25	1/1/2011		2,319,035	12,866,656	8,697,758	23,883,449	-
26	7/1/2011		21,570,000	12,866,656	-	34,436,656	58,320,104
27	1/1/2012		2,745,400	12,278,605	11,259,600	26,283,605	-
28	7/1/2012		17,440,000	12,278,605	-	29,718,605	56,002,210
29	1/1/2013		-	11,796,322	-	11,796,322	-
30	7/1/2013		30,085,000	11,796,322	-	41,881,322	53,677,644
31	1/1/2014		-	10,937,916	-	10,937,916	-
32	7/1/2014		30,155,000	10,937,916	-	41,092,916	52,030,831
33	1/1/2015		-	10,083,372	-	10,083,372	-
34	7/1/2015		30,180,000	10,083,372	-	40,263,372	50,346,744
35	1/1/2016		-	9,238,972	-	9,238,972	-
36	7/1/2016		27,195,000	9,238,972	-	36,433,972	45,672,944
37	1/1/2017		-	8,460,219	-	8,460,219	-
38	7/1/2017		27,225,000	8,460,219	-	35,685,219	44,145,438
39	1/1/2018		-	7,694,744	-	7,694,744	-
40	7/1/2018		27,225,000	7,694,744	-	34,919,744	42,614,488
41	1/1/2019		-	6,934,572	-	6,934,572	-
42	7/1/2019		27,215,000	6,934,572	-	34,149,572	41,084,144
43	1/1/2020		-	6,180,313	-	6,180,313	-
44	7/1/2020		27,190,000	6,180,313	-	33,370,313	39,550,625
45	1/1/2021		-	5,432,713	-	5,432,713	-
46	7/1/2021		27,155,000	5,432,713	-	32,587,713	38,020,425
47	1/1/2022		-	4,692,381	-	4,692,381	-
48	7/1/2022		27,725,000	4,692,381	-	32,417,381	37,109,763
49	1/1/2023		-	3,943,831	-	3,943,831	-
50	7/1/2023		27,655,000	3,943,831	-	31,598,831	35,542,663
51	1/1/2024		-	3,204,288	-	3,204,288	-
52	7/1/2024		27,845,000	3,204,288	-	31,049,288	34,253,575
53	1/1/2025		-	2,466,434	-	2,466,434	-
54	7/1/2025		22,410,000	2,466,434	-	24,876,434	27,342,869
55	1/1/2026		-	1,879,372	-	1,879,372	-
56	7/1/2026		23,295,000	1,879,372	-	25,174,372	27,053,744
57	1/1/2027		-	1,271,125	-	1,271,125	-
58	7/1/2027		20,790,000	1,271,125	-	22,061,125	23,332,250
59	1/1/2028		-	749,813	-	749,813	-
60	7/1/2028		21,995,000	749,813	-	22,744,813	23,494,625
61	1/1/2029		-	198,188	-	198,188	-
62	7/1/2029		7,850,000	198,188	-	8,048,188	8,246,375
<b>TOTALS</b>			<b>876,675,552</b>	<b>658,324,197</b>	<b>54,987,346</b>	<b>1,589,987,095</b>	<b>1,621,899,954</b>

*In the opinion of Co-Bond Counsel, interest on the Fourteenth Series Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX MATTERS" herein, and interest on the Fourteenth Series Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Fourteenth Series Bonds. Under the laws of the Commonwealth of Pennsylvania, the Fourteenth Series Bonds, their transfer and the income therefrom (including any profits made on the sale thereof) are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.*

**\$376,550,000**  
**CITY OF PHILADELPHIA, PENNSYLVANIA**  
**Gas Works Revenue Bonds, Fourteenth Series**

**Dated: February 1, 1993**

**Due: July 1, as shown below**

The Fourteenth Series Bonds are issuable as fully registered bonds maturing in the aggregate principal amounts and bearing interest at the rates set forth below. The Fourteenth 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 Fourteenth Series Bonds. Purchases of the Fourteenth Series Bonds will be made in book-entry form only. Purchasers will not receive certificates representing their interest in Fourteenth Series Bonds purchased. So long as Philadep & Co. is the owner of the Fourteenth Series Bonds, as nominee of PHILADEP, references herein to the registered owners shall mean Philadep & Co., as aforesaid, and shall not mean the actual purchasers of the Fourteenth Series Bonds. See "Description of the Fourteenth Series Bonds — Book-Entry Only System."

The principal and redemption price of the Fourteenth Series Bonds are payable at the principal corporate trust office of Fidelity Bank, National Association, Philadelphia, Pennsylvania, Fiscal Agent and Sinking Fund Depository, at the times and in the amounts set forth herein. Interest is payable initially on July 1, 1993 and thereafter semiannually on each January 1 and July 1 by check mailed by the Fiscal Agent to the persons in whose names the Fourteenth Series Bonds are registered on the 15th day preceding each interest payment date (all as more fully described herein).

**THE FOURTEENTH 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.**

**\$116,690,000 Serial Bonds**

<u>Maturity (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1993	\$ 3,500,000	3.00%	100%	2000	\$ 8,925,000	5.70%	5.80%
1995	8,345,000	4.50	100	2001	7,125,000	5.80	5.90
1996	11,415,000	4.90	100	2002	16,625,000	7.00	6.00
1997	12,095,000	5.20	100	2003	15,495,000	5.50	6.05
1998	10,395,000	5.40	5.50	2004	14,055,000	5.50	6.10
1999	8,715,000	5.60	5.65				

**\$55,170,000 6.250% Term Bonds Due July 1, 2008, Price 98.058% to Yield 6.450%**  
**\$62,345,000 6.375% Term Bonds Due July 1, 2014, Price 97.992% to Yield 6.550%**  
**\$142,345,000 6.375% Term Bonds Due July 1, 2026, Price 96.645% to Yield 6.625%**

Proceeds of the Fourteenth 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 Gas Works Revenue Bonds, (iii) make a deposit into the Sinking Fund Reserve and (iv) pay costs of issuing the Fourteenth 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 Fourteenth 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 Fourteenth Series Bonds by Dilworth, Paxson, Kalish & Kauffman and Ronald A. White, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Pepper, Hamilton & Scheetz and Arline Jolles Lotman, Esquire, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor and Cohen, Shapiro, Polisher, Shiekman and Cohen, Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Philadelphia Gas Works by Obermayer, Rebmann, Maxwell & Hippel, Philadelphia, Pennsylvania. It is anticipated that the Fourteenth Series Bonds will be available for delivery through the facilities of the Philadelphia Depository Trust Company on or about February 18, 1993.*

- |   |   |  |
|---|---|--|
| <b>Donaldson, Lufkin &amp; Jenrette</b><br>Securities Corporation | <b>PaineWebber Incorporated</b>                 | <b>Lazard Frères &amp; Co.</b>                             |
| <b>Artemis Capital Group, Inc.</b>                                | <b>INNOVA Securities, Inc.</b>                  | <b>Kidder, Peabody &amp; Co.</b><br>Incorporated           |
| <b>Merrill Lynch &amp; Co.</b>                                    | <b>Morgan Stanley &amp; Co.</b><br>Incorporated | <b>Prudential Securities Incorporated</b>                  |
| <b>Pryor, McClendon, Counts &amp; Co., Inc.</b>                   | <b>RRZ Public Markets, Inc.</b>                 | <b>William E. Simon &amp; Sons</b><br>Municipal Securities |
|   | <b>A.H. Williams &amp; Co.</b><br>Incorporated  |  |

The date of this Official Statement is February 3, 1993.

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 Fourteenth 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.

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 FOURTEENTH 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.

CITY OF PHILADELPHIA

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MAYOR  
HONORABLE EDWARD G. RENDELL

---

MAYOR'S CABINET

Stephen P. Mullin.....Finance Director  
Judith E. Harris.....City Solicitor  
Raymond Eugene Shipman.....Managing Director  
James J. Cuorato.....Acting City Representative  
and Director of Commerce

City Treasurer  
Kathryn J. Engebretson

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  
Fidelity Bank, National Association

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APPENDICES:

- A. Audited Financial Statements of Philadelphia Gas Works For the Years Ended August 31, 1992 and 1991
- B. Engineering Report
- C. Summaries of Legislation Authorizing the Issuance of Gas Works Revenue Bonds
- D. Certain Information Concerning the City of Philadelphia
- E. Text of Proposed Opinion of Bond Counsel

**OFFICIAL STATEMENT**

of the

**CITY OF PHILADELPHIA, PENNSYLVANIA**

respecting its

**\$376,550,000**

**Gas Works Revenue Bonds, Fourteenth 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 \$376,550,000 aggregate principal amount Gas Works Revenue Bonds, Fourteenth Series (the "Fourteenth 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 1992" refers to the fiscal year ending June 30, 1992. 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.

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 Fourteenth 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 outside the City limits. As of November, 1992, PGW served approximately 526,000 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. See "PGW BUDGET, RATES AND FINANCING PROGRAM." 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 years ended August 31, 1992 and 1991 are presented in Appendix A.

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

### **Financial Position of the City**

For further information regarding the City's financial situation see APPENDIX D - "Certain Financial Information Concerning the City of Philadelphia" herein.

The City and the Philadelphia Housing Authority (hereinafter collectively, "Municipal and Housing Authority") accounted for 5.0% of PGW's total revenues in Fiscal Year 1992. The City's ability to pay for services it receives from PGW and PGW's ability to collect payment from the City may be impaired by the City's financial difficulties. See "REMEDIES OF BONDHOLDERS," herein.

The City has covenanted in the Fourteenth 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 \$68,000,000 of proceeds of the Fourteenth Series Bonds which are available for the payment of the costs of the capital improvements. The City further covenants in the Fourteenth Supplemental Ordinance that, so long as any of the Fourteenth 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 segregation of Fourteenth Series Bond proceeds and Project Revenues may be limited under certain circumstances, including a bankruptcy filing by the City. See "SECURITY" and "REMEDIES OF BONDHOLDERS" herein.

### **Authorization to Issue the Fourteenth Series Bonds**

The Fourteenth 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 Fourteenth Supplemental Gas Works Revenue Bond Ordinance approved January 28, 1993, Bill No. 379 (the "Fourteenth Supplemental Ordinance") and a determination of the Bond Committee of the City, or a majority of them, dated February 3, 1993 (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 November 30, 1992, \$634,132,000 aggregate principal amount of Gas Works Revenue Bonds were outstanding under the General Ordinance and appropriate supplemental ordinances.

## **The Fourteenth Series Bonds**

The Fourteenth Series Bonds will be issued pursuant to the Act, the General Ordinance and the Fourteenth Supplemental Ordinance. The Fourteenth Series Bonds will be dated February 1, 1993, and will bear interest from such date, payable commencing on July 1, 1993 and on each January 1 and July 1 thereafter. The Fourteenth Series Bonds will be issued as fully registered bonds in the aggregate principal amounts set forth on the cover page hereof in denominations of \$5,000 or any whole or multiple thereof. The principal and redemption price of the Fourteenth Series Bonds will be payable at the principal corporate trust office of Fidelity Bank, National Association, in Philadelphia, Pennsylvania (the "Fiscal Agent"). Interest on the Fourteenth Series Bonds will be paid by check mailed by the Fiscal Agent to the persons in whose names the Fourteenth 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 Fourteenth Series Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE FOURTEENTH SERIES BONDS." Registered Owners of at least \$1,000,000 principal amount of the Fourteenth Series Bonds may elect to receive principal, premium, if any, and interest payments by wire transfer.

The Fourteenth Series Bonds maturing on or after July 1, 2008 are subject to optional redemption at the direction of the City as a whole, or in part, at any time, on or after July 1, 2003. Fourteenth Series Bonds are also subject to mandatory redemption as described herein. See "DESCRIPTION OF THE FOURTEENTH SERIES BONDS."

## **Security for the Fourteenth Series Bonds**

The Fourteenth 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 Fourteenth 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 Fourteenth Series Bonds. In the Fourteenth Supplemental Ordinance, the City has covenanted that so long as any of the Fourteenth 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 and not commingled with moneys or accounts of the City not held exclusively for PGW purposes. The security interest of Bondholders in Project Revenues may be materially adversely affected 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 Fourteenth 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. The City will deposit certain amounts from the proceeds of sale of the Fourteenth Series Bonds into the Sinking Fund Reserve. 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, directly or indirectly, solely 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 issued \$71,800,000 principal amount of tax-exempt notes (the "Gas Works Notes") in November of 1992. As of November 30, 1992, \$81,300,000 aggregate principal amount of Gas Works Notes were outstanding. The Gas Works Notes are issued 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 1988, Bill No. 117, approved June 30, 1988 (the "Note Ordinance"). The proceeds of the Gas Works Notes may be used (i) to pay the costs of a project consisting of acquiring a portion of the Inventory and Receivables (as such terms are defined in the Note Ordinance) of PGW reasonably expected to be maintained at all times, (ii) to provide funds in anticipation of revenues to finance current operating expenditures of PGW, and (iii) to refund Gas Works Notes upon maturity. The proceeds of the Gas Works Notes issued in November of 1992 are to be used to pay for operating expenditures in anticipation of revenues. The Gas Works Notes are junior in priority of payment to the Gas Works Revenue Bonds. The Gas Commission has approved a maximum amount of \$85,000,000 principal amount of Gas Works Notes to be outstanding at any one time. The Note Ordinance provides that the final maturity date of Gas Works Notes shall be no later than June 30, 1993. The management of PGW expects that the current authorization will be renewed and extended prior to such date. See "ADDITIONAL DEBT - Subordinated Short-Term Borrowings - Gas Works Notes."

The City had outstanding as of November 30, 1992, \$23,755,000 aggregate principal amount of subordinated lease obligations pursuant to a lease entered into in connection with the issuance of the Philadelphia Gas Works Lease Revenue Bonds, Series of 1989, by The Philadelphia Municipal Authority (see "ADDITIONAL DEBT - Subordinated Long-Term Borrowings - Lease Revenue Bonds"). These rental obligations are payable out of Project Revenues and are junior in priority of payment to the Gas Works Revenue Bonds and the Gas Works Notes.

### **The Project**

The Fourteenth 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) currently refund the outstanding maturities of the City's Gas Works Revenue Bonds, Third Series (the "Series 3 Bonds"), the City's Gas Works Revenue Bonds, Fourth Series (the "Series 4 Bonds") and the City's Gas Works Revenue Bonds, Fifth Series (the "Series 5 Bonds") and to advance refund certain of the City's Gas Works Revenue Bonds, Seventh Series (the "Series 7 Bonds"), the City's Gas Works Revenue Bonds, Eleventh Series A (the "Series 11A Bonds"), the City's Gas Works Revenue Bonds, Twelfth Series B (the "Series 12B Bonds") and the City's Gas Works Revenue Bonds, Thirteenth Series (the "Series 13 Bonds") (the Series 3 Bonds, the Series 4 Bonds, the Series 5 Bonds, the Series 7 Bonds, the Series 11A Bonds, the Series 12B Bonds and the Series 13 Bonds collectively are referred to herein as the "Refunded Bonds"), (3) make deposits into the Sinking Fund Reserve and (4) pay costs of issuance of the Fourteenth 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 Fourteenth 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 over the financial forecast period 1992 through 1997, including future rate increases not presently enacted, such system will yield sufficient Project Revenues over the amortization period of the Fourteenth Series Bonds to meet the requirements of the Rate

Covenant 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 continue to maintain its system in good operating condition. Stone & Webster has also concluded in its report that the supply of PGW's contracted gas supplies plus spot market purchases, anticipated additional contractual supplies and supplemental gas capacities will continue to be adequate to meet PGW's forecast of demand for the period 1993-1997. The Engineering Report contains projections of results of financial operations of the PGW system taking into account anticipated capital improvement expenditures and assuming certain base rate increases for PGW's Fiscal Years 1992-1997. 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 Fourteenth Series Bonds are qualified in their entirety by reference to the definitive forms of the Fourteenth 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 Fourteenth 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**

The proceeds from the sale of the Fourteenth Series Bonds will be used to (1) finance a portion of PGW's Capital Program, (2) currently refund the outstanding maturities of the Series 3 Bonds, the Series 4 Bonds and the Series 5 Bonds and to advance refund certain of the Series 7 Bonds, the Series 11A Bonds, the Series 12B Bonds and the Series 13 Bonds, (3) make the required deposit to the Sinking Fund Reserve and (4) pay the costs of issuance of the Fourteenth Series Bonds as set forth below. See "Plan of Refunding."

**Estimated Sources and Uses of Proceeds**

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

Estimated Sources of Proceeds

Principal Amount	\$ 376,550,000.00
Less Original Issue Discount	(7,431,399.85)
Existing Sinking Fund Reserves	74,898,822.50
Accrued Interest	<u>1,082,628.83</u>
Total	\$ 445,100,051.48

Estimated Use of Proceeds

Capital Improvement Program	\$ 68,000,000.00
Accrued Interest Deposited to Sinking Fund	1,082,628.83
Escrow Account	298,114,033.59
Sinking Fund Reserve Deposit (1)	74,550,592.50
Costs of Issuance (2)	<u>3,352,796.56</u>
Total	\$ 445,100,051.48

- (1) The deposit to the Sinking Fund Reserve from the proceeds of the Fourteenth Series Bonds is equal to the maximum annual debt service requirement on the Fourteenth Series Bonds. See "SECURITY - Sinking Fund Reserve".
- (2) Includes, among other things, fees and expenses of Counsel, the Fiscal Agent and the Underwriters' Discount.

**Plan of Refunding**

PGW is issuing the Fourteenth Series Bonds to provide a portion of the funds to currently refund the outstanding maturities of the Series 3 Bonds, the Series 4 Bonds, and the Series 5 Bonds; to provide a portion of the funds to advance refund certain of the Series 7 Bonds, the Series 11A Bonds, the Series 12B Bonds and the Series 13 Bonds; and to fund a portion of the PGW's capital improvement program. The Refunded Bonds selected include all of those listed in the following table:

<u>Bonds Refunded</u>	<u>Maturities/Sinking Fund Payments</u>	<u>Par Amount</u>
Series 3	January 15, 1994 through January 15, 1997	\$16,480,000
Series 4	July 15, 1993 through July 15, 1998	31,715,000
Series 5	July 15, 1993 through July 15, 1999	25,460,000
Series 7	March 15, 2013	10,675,000
Series 11A	July 1, 2000 through July 1, 2017	82,170,000
Series 12B	May 15, 2006 through May 15, 2020	54,940,000
Series 13	June 15, 2006 through June 15, 2021	58,415,000

The net proceeds of the Fourteenth Series Bonds, together with other moneys available to PGW for such purposes, will be deposited (a) to a refunding escrow account (the "Escrow Account") to purchase Defeasance Obligations to defease those maturities chosen to be advanced refunded and to call those series that are currently callable, (b) to a Sinking Fund Reserve Account to satisfy the Sinking Fund Reserve Requirement and (c) to partially fund the capital improvement program. If the Defeasance Obligations are purchased in the open market, they 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 mandatory sinking fund or optional redemption), the principal of and redemption premium and interest on the Refunded Bonds. The 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.

### DESCRIPTION OF THE FOURTEENTH SERIES BONDS

The Fourteenth Series Bonds are being issued pursuant to the Act, the General Ordinance and the Fourteenth Supplemental Ordinance. The General Ordinance is the governing ordinance under which all Gas Works Revenue Bonds are issued. The Fourteenth Supplemental Ordinance was enacted by City Council and approved by the Mayor on January 28, 1993.

The Fourteenth Series Bonds will be dated February 1, 1993 and will bear interest from such date, payable initially on July 1, 1993 and on each January 1 and July 1 thereafter. The Fourteenth 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 Fourteenth 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 Fourteenth 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 Fourteenth Series Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Fourteenth Series Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Fourteenth 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 Fourteenth Series Bonds shall be in book-entry form, the principal of and interest on the Fourteenth 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 Fourteenth Series Bonds may elect to receive principal, premium, if any, and 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 Fourteenth 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 Fourteenth 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 Fourteenth Series Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

## Book-Entry Only System

The Fourteenth Series Bonds will be issued as fully registered bond certificates in the name of Philadep & Co., as nominee for the Philadelphia Depository Trust Company, Philadelphia, Pennsylvania ("PHILADEP"), which will act as securities depository for the Fourteenth Series Bonds. Purchasers of the Fourteenth Series Bonds will not receive physical delivery of certificates.

The information in this section concerning PHILADEP and PHILADEP's book-entry only system has been provided by PHILADEP, and the City and the Underwriters take no responsibility for the accuracy or completeness thereof. PHILADEP 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 Fourteenth Series Bonds may be purchased by or through PHILADEP Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive certificated Fourteenth Series Bonds. The ownership interest of each Beneficial Owner will be recorded through the records of the PHILADEP Participant from which the Fourteenth 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 Fourteenth Series Bonds. Transfers of ownership interests in the Fourteenth 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 Fourteenth Series Bonds.

So long as Philadep & Co. is the registered owner of the Fourteenth Series Bonds as nominee of PHILADEP, references herein to the owners of the Fourteenth Series Bonds shall mean PHILADEP and shall not mean the Beneficial Owners of the Fourteenth 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 Fourteenth 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, redemption premium, if any, and interest on the Fourteenth 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 Fourteenth Series Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act on behalf of such Beneficial Owners for such purposes. When notices are given, they 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 Fourteenth 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.

THE CITY AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT PHILADEP, PHILADEP PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF, OR INTEREST ON, THE FOURTEENTH SERIES BONDS PAID TO PHILADEP OR ITS NOMINEE, AS THE REGISTERED OWNER, OR ANY REDEMPTION OR OTHER NOTICES, TO THE BENEFICIAL OWNERS OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN A MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CITY AND THE FISCAL AGENT ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF PHILADEP, PHILADEP PARTICIPANTS OR OTHERS TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER IN RESPECT OF THE FOURTEENTH SERIES BONDS OR ANY ERROR OR DELAY RELATING THERETO. FOR SO LONG AS ANY PURCHASER IS A BENEFICIAL OWNER OF A FOURTEENTH SERIES BOND, HE MUST MAINTAIN AN ACCOUNT WITH A BROKER OR DEALER OR OTHER INSTITUTION WHICH IS, OR ACTS THROUGH, A PHILADEP PARTICIPANT IN ORDER TO RECEIVE PAYMENTS OF PRINCIPAL OF, AND INTEREST ON, SUCH FOURTEENTH SERIES BOND AND NOTICES WITH RESPECT THERETO.

NEITHER THE CITY NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PHILADEP PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (i) THE FOURTEENTH SERIES BONDS; (ii) THE ACCURACY OF ANY RECORDS MAINTAINED BY PHILADEP OR ANY PARTICIPANT; (iii) THE PAYMENT BY ANY PHILADEP PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, OR INTEREST ON, THE FOURTEENTH SERIES BONDS; (iv) THE DELIVERY BY ANY PHILADEP PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE GENERAL ORDINANCE OR THE FOURTEENTH SUPPLEMENTAL ORDINANCE TO BE GIVEN TO THE BONDHOLDERS; (v) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE ANY PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE FOURTEENTH SERIES BONDS; OR (vi) ANY OTHER ACTION TAKEN BY PHILADEP AS BONDHOLDER.

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

The City may decide to discontinue use of the system of book-entry transfers through PHILADEP (or a successor securities depository) at any time by giving reasonable notice to PHILADEP. In that event, Fourteenth Series Bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued and the Beneficial Owners become registered owners of the Fourteenth Series Bonds, the provisions applicable to registered owners as set forth herein would apply.

#### **Optional Redemption**

The Fourteenth Series Bonds maturing on or before July 1, 2004 are not subject to redemption prior to maturity. The Fourteenth Series Bonds maturing on or after July 1, 2008 will be subject to redemption at the direction of the City in whole or in part at any time on or after July 1, 2003 at the option of the City. In the case of any optional redemption of less than all of the Fourteenth Series Bonds, such Fourteenth Series

Bonds shall be selected for redemption in such order of maturity as may be designated by the City, and within each maturity by lot, in denominations of \$5,000 or whole multiples thereof, at the redemption prices, expressed as percentages of the principal amount of Fourteenth 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>
July 1, 2003 through June 30, 2004 . . . . .	102%
July 1, 2004 through June 30, 2005 . . . . .	101
July 1, 2005 and thereafter . . . . .	100

**Mandatory Redemption**

The Fourteenth Series Bonds 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 Fourteenth Series Bonds being redeemed, plus accrued interest to the date of redemption:

<u>(July 1)</u>	<u>Principal Amount</u>	<u>(July 1)</u>	<u>Principal Amount</u>
2005	\$ 12,790,000	2016	\$ 18,525,000
2006	15,470,000	2017	17,410,000
2007	14,150,000	2018	16,220,000
2008*	12,760,000	2019	14,950,000
2009	11,275,000	2020	13,605,000
2010	9,725,000	2021	12,170,000
2011	7,675,000	2022	10,645,000
2012	5,855,000	2023	9,025,000
2013	14,585,000	2024	7,300,000
2014*	13,230,000	2025	5,465,000
2015	11,795,000	2026*	5,235,000

\* Stated maturity.

The City may purchase Fourteenth 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 Fourteenth Supplemental Ordinance. The principal amount of Fourteenth Series Bonds 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 Fourteenth Series Bonds which have been provided for other than by mandatory redemption.

**Notice of Redemption of Fourteenth Series Bonds**

Notice of redemption of Fourteenth 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 Fourteenth Series Bonds to be redeemed. A notice of optional redemption may provide that such redemption is conditioned upon the timely deposit of funds with the Fiscal Agent. Failure to mail such notice, or any defect therein, shall not affect the validity of the proceedings for redemption of Fourteenth 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 Fourteenth Series Bonds called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the Fourteenth 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 Fourteenth Series Bonds**

The Fourteenth 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 Fourteenth Series Bonds (a) during the period fifteen Business Days next preceding any interest payment date for such Fourteenth Series Bonds, or (b) during the period twenty Business Days next preceding the first publication or mailing of any notice of redemption of such Fourteenth Series Bonds.

### **SECURITY**

The Fourteenth 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 Fourteenth 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 Fourteenth 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 General Ordinance 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 Fourteenth Supplemental Ordinance that so long as any of the Fourteenth 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 Note Ordinance 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<sup>1</sup>;

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 and any amounts owed to the issuer of the credit facility established with respect to the Gas Works Notes; 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.

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 1988-1992, City Charges exclusive of the \$18,000,000 Base Payment and of rate hearing charges have averaged approximately \$338,000 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. The City requested and received a transfer of excess Project Revenues in the amount of \$6,500,000 in Fiscal Year 1986 but no additional transfers have been requested by or made to the City since then.

#### **Rate Covenant and Rate Requirements**

The General Ordinance includes the Rate Covenant which requires 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 which shall be parity bonds, provided, among other requirements, that an independent engineer determines that estimated Project Revenues will be sufficient to meet the Rate Covenant. See the material under the caption "The General Ordinance" in APPENDIX C for a discussion of the provisions relating to the issuance of additional Bonds. The Fourteenth

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1. 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.

Supplemental Ordinance authorizes the issuance of up to \$400,000,000 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. In accordance with the Fourteenth Supplemental Ordinance, the Fourteenth Series Bonds are being issued to fund capital improvements and refund certain outstanding Gas Works Revenue 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 Fourteenth Supplemental Ordinance has authorized an accumulation from Project Revenues, the Sinking Fund Reserve requirement will be funded from proceeds of the Fourteenth Series Bonds to the extent that the proceeds of the Fourteenth Series Bonds utilized to make such deposit is not greater than ten percent (10%) of the proceeds of such Bonds. 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 November 30, 1992, the value of the funds and investments on deposit in the Sinking Fund Reserve was required to be at least \$74,910,105, 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 generally 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 less than 50% of the Project Revenues being deposited in the Sinking Fund. See "REMEDIES OF BONDHOLDERS."

## ADDITIONAL DEBT

### Bond Anticipation Notes

The Act authorizes the City to issue revenue bond anticipation notes as well as Gas Works Revenue Bonds. Section 16 of the Act provides that:

The City may issue its revenue bond anticipation notes which shall be payable by exchange for, or out of the proceeds of the sale of, a designated series of revenue bonds referred to in the bond anticipation notes. The reference to the revenue bonds shall specify a maximum rate of interest to be borne by said bonds and may provide that said bonds shall be offered for sale but if no proposals shall be received, the sole remedy of the holders of the revenue bond anticipation notes shall be either to accept the bonds at the specified maximum interest rate, or to extend the maturity of the revenue bond anticipation notes for one or more specified additional periods of not less than six months each during which additional offers of the bonds may be made.

The Gas Commission has requested previously that PGW explore the possibility of issuing revenue bond anticipation notes pursuant to the foregoing statutory authorization. PGW does not currently intend to issue revenue bond anticipation notes during the remainder of Fiscal Year 1993 or Fiscal Year 1994.

### Subordinated Short-Term Borrowings - Gas Works Notes

In addition to revenue bond anticipation notes issuable pursuant to the Act, the City is authorized by the Inventory and Receivables Financing Act and the Note Ordinance to issue Gas Works Notes from time to time in amounts, as approved by the Gas Commission, not to exceed \$100,000,000 aggregate principal amount at any one time outstanding in order to finance inventory and accounts receivable. The Gas Commission has approved a maximum amount at any time outstanding for such notes of \$85,000,000. In November of 1992, the City issued \$71,800,000 principal amount of Gas Works Notes maturing no later than June 30, 1993, which are payable out of Project Revenues. As of November 30, 1992, \$81,300,000 aggregate principal amount of Gas Works Notes were outstanding. For a further discussion of the issuance of tax-exempt notes, see "INTRODUCTION - Security for the Fourteenth Series Bonds" and APPENDIX A.

The Note Ordinance establishes a sinking fund for the benefit and security of the holders of the Gas Works Notes. The City covenants to deposit in the sinking fund for the Gas Works Notes from PGW's revenues (after payment of certain other expenses of PGW including the payment of debt service on Bonds outstanding under the General Ordinance) 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 any other available amounts, 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 (the "Authority"). The proceeds of the

Lease Revenue Bonds were used by the Authority to acquire the headquarters and administrative office building of PGW (the "Facility") at 800 West Montgomery Avenue, Philadelphia, Pennsylvania, from the City. The amount received from the Authority has been used in PGW's ongoing capital program. The Authority and the City entered into a Lease dated as of August 1, 1989 (the "Lease") whereby the City leased the Facility back from the Authority 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 under the Note Ordinance), rentals sufficient to pay all debt service on the Lease Revenue Bonds and other obligations of the Authority 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 Project Revenues, to the extent such Project Revenues are available. The payment of rentals by the City under the Lease is subject and subordinate to payment of the Gas Works Revenue Bonds, the Gas Works Notes issued by the City and certain other debt obligations relating to PGW. The City has covenanted in the Lease that it will not in any fiscal year of PGW and for so long as a default exists under the Lease, pay out of Project Revenues any portion of the Base Payment unless and until all rentals due under the Lease for such fiscal year shall have been paid.

### REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders, including the holders of the Fourteenth 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 Fourteenth Supplemental Ordinance, the General Ordinance, and the Fourteenth Series Bonds will depend upon the application of remedies provided in the Act, the Fourteenth 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, which 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 Fourteenth Series Bonds.

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. Certain provisions of the Financially Distressed Municipalities Act, Act No. 1987-47 of the Commonwealth of Pennsylvania, approved July 10, 1987 (the "Distressed Municipalities Act"), which formerly applied to the City and provide, among other things, for the restructuring of debt of a financially distressed municipality and the method by which municipalities are permitted to apply for relief under the Federal Bankruptcy Code have been repealed by the Intergovernmental Cooperation Authority Act for Cities of the First Class (Act No. 6, P.L. 9) (the "Intergovernmental Cooperation Act") insofar as applicable to the City. The provisions of the Distressed Municipalities Act relating to the City, which were not repealed, have been suspended with respect to the City by the Intergovernmental Cooperation Act. In addition,

the Distressed Municipalities Act empowered the Department of Community Affairs of the Commonwealth to declare certain municipalities financially distressed upon the occurrence of certain events and the making of certain determinations by such Department. The Intergovernmental Cooperation Act 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. On June 16, 1992 the Pennsylvania Intergovernmental Cooperation Authority, a body corporate and politic organized and existing pursuant to the Intergovernmental Cooperation Act as a public authority and instrumentality of the Commonwealth, issued \$475,555,000 aggregate principal amount of its Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992, to benefit the City, which bonds are scheduled to mature at various dates to and including June 15, 2022. If the provisions of the Intergovernmental Cooperation Act relating to the authorization by the Governor for the City to file a petition under Chapter 9 of the Federal Bankruptcy Code were invoked, such provisions could limit the enforcement of Bondholders' rights and remedies. 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 Fourteenth 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 the bankruptcy court could alter the payments to Bondholders under Section 105 of the Federal Bankruptcy Code to "promote the public good." 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 decided to use the proceeds of the Fourteenth Series Bonds or the Project Revenues pledged for the benefit of the Bondholders for other than the benefit of 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 Fourteenth 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 available equitable remedies. Section 105 of the Bankruptcy Code would permit a bankruptcy court to do all that is necessary with respect to the effective administration of 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 with respect to each class of non-accepting creditors impaired thereunder, does not discriminate unfairly and the court determined value of the Project Revenues as collateral was preserved. 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 of 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, 1992, 71% was derived from residential customers, 24% 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 PGW's customers during the last five years is shown in the following table:

	Percent of Gas Sales Years Ended August 31				
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Residential . . . . .	65.6	67.2	66.8	63.0	66.0
Industrial and Commercial . . . . .	29.5	28.1	28.5	32.5	29.3
Municipal and Housing Authority . . . . .	<u>4.9</u>	<u>4.7</u>	<u>4.7</u>	<u>4.5</u>	<u>4.7</u>
Total . . . . .	100.0	100.0	100.0	100.0	100.0

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.

On January 12, 1993 the PFMC board of directors announced the nomination of Marsha R. Perelman to the position of President and Chief Executive Officer of PGW. The appointment, subject to the approval of the Gas Commission, is to be effective February 16, 1993. Mr. Alfred P. Degen, who has served as PGW's senior officer, will continue in his position as Executive Vice President.

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

### **Marsha R. Perelman, President and Chief Executive Officer**

Ms. Perelman is scheduled to join PGW as President and Chief Executive Officer on February 16, 1993. Since May 1992 she has been a member of the board of PFMC, the non-profit corporation which oversees operations of PGW for the City of Philadelphia. As President and Chief Executive Officer, Ms. Perelman will be responsible for total oversight of the Gas Works' operations. She is a former president of Clearfield Holdings, Inc., and a former president of Clearfield Energy, Inc. The Clearfield companies own crude oil pipelines and natural gas distribution companies in Ohio and Maryland.

### **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. He is a member of the Managing Committee of the American Gas Association's Finance and Administrative Section and 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-Elect 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 of Independence Blue Cross and is Chairman of the Audit Committee.

### **Employee Relations**

At November 27, 1992, PGW employed 2,439 people. Presently, approximately 74% of PGW's employees are represented by the Gas Workers 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 Workers Employees Union Local 686 expires on May 15, 1993.

### **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 plants, a gas control center, an LPG plant, 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 LNG and LPG plants. 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 253,000 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 plant has the capacity to liquefy and store approximately 25,000 Mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,046,000 Mcf). Regasification of the liquid is accomplished with six vaporizers.

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 662,000 gallons. The LPG plant has been temporarily taken out of service as required use, even under design conditions, is not anticipated until the 1996 Fiscal Year.

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 3,000 Mcf and 6,000 Mcf for the Richmond and Passyunk plants, respectively.

Distribution Facilities - The principal gas distribution facilities consist of approximately 3,011 miles of main, 503,761 service pipes, 205 regulator stations, 525,506 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 100, 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 less than 1 percent plastic pipe. Approximately 67 percent of the service laterals are steel and 33 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, service stations and warehouses, 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, 1994.

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 is a partner in the law firm of Brobyn & Furceno in the City's Society Hill Section.

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 Fourteenth 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 1988-1992:

	FISCAL YEAR				
	NET CAPITAL EXPENDITURES (1)				
	(Dollar Amounts in Thousands)				
	1988	1989	1990	1991	1992
Gas Supply. . . . .	\$ 6,124	\$ 6,320	\$ 6,763	\$ 6,457	\$ 4,310
Distribution. . . . .	41,846	39,419	39,164	36,497	37,073
Customer Service. . . . .	4,426	3,004	4,155	4,638	3,971
Other . . . . .	20,141	8,380	8,116	6,301	8,048
Total . . . . .	<u>\$72,537</u>	<u>\$57,123</u>	<u>\$58,198</u>	<u>\$53,893</u>	<u>\$53,402</u>
Internally Generated Funds to Fund Capital Improve- ments. . . . .	<u>\$19,400</u>	<u>\$ 8,200</u>	<u>\$17,300</u>	<u>-0-</u>	<u>\$11,400</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 1988-92, IGF funded from a low of zero to a high of 30% of the capital expenditures and averaged 19% 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 current 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 used on or after September 1, 1992.

### **Fiscal Year 1991 Budget and Previous Rate Proceedings**

In June, 1990 PGW submitted its proposed operating budget for Fiscal Year 1991 to the Gas Commission for consideration. The proposed budget anticipated a debt service coverage ratio of 1.81. Included in the operating forecast prepared in connection with the operating budget for Fiscal Year 1991 was a proposed base rate increase intended to generate additional net revenues for PGW of \$31,000,000 during Fiscal Year 1991 (representing an increase of 6.5% over the projected Fiscal Year 1990 revenues). PGW was able to defer a base rate increase since 1987, in part, by instituting management efficiencies and by reducing operating expenses. The budget submitted by PGW reflected management's view that nearly all savings achievable by instituting additional cuts in expenditures had been achieved, and provided that after provision for cost savings a base rate increase of \$31 million was necessary to generate sufficient revenues to meet the Rate Covenant and other obligations.

Along with the requested rate increase, PGW recommended that the annual adjustment to the GCR reflect a 48.5 cent per Mcf credit. The Gas Commission combined the two requests into a single proceeding and on February 5, 1991, issued its rate order. In its rate order, the Gas Commission denied the requested \$31 million base rate increase, but with respect to the GCR, the Commission increased the credit for customers to 17.5 cents per Mcf, a greater credit than the 6.55 cents per Mcf established in the prior year, but significantly less than the 48.5 cents per Mcf which had been recommended by PGW. In addition, the base cost of fuel raw material included in base rates was reduced from \$3.60 per mcf to \$3.33 per mcf. Other decreases in the base cost of fuel raw material included in base rates would have the effect (on a normal weather budgetary basis) of increasing PGW's budgeted gas revenues for Fiscal Year 1991 by \$16 million.

PGW's operating budget for Fiscal Year 1991 was also approved by the Gas Commission on February 5, 1991. The approved budget projected a debt service coverage ratio of 1.81. However, as a result of the extremely warm heating season experienced in Fiscal Year 1991 (the warmest in approximately 60 years), PGW estimated operating revenues (as of May 31, 1991) to be approximately \$53.6 million below the budgeted level and operating income to be approximately \$28.5 million below the budgeted level. In the absence of additional budgetary action by PGW and the Gas Commission, these weather related revenue short-falls could have resulted in the debt service coverage ratio falling below the level required in the Rate Covenant contained in the General Ordinance. However, to ameliorate this problem PGW implemented a number of measures, including a hiring freeze, restrictions on overtime and adjustments of its interest earning assumption with respect to its pension plan investments. In addition, the Gas Commission monitored PGW's operating results throughout the heating season and on May 22, 1991, modified its February 5, 1991 rate order by further reducing the base cost of fuel raw materials included in the base rates by an additional \$.15 per Mcf from \$3.33 per Mcf to \$3.18 per Mcf effective retroactive to September 1, 1990. This modification added approximately \$8.0 million to operating revenues in Fiscal Year 1991. These various adjustments to the base cost of fuel raw material included in base rates added \$22.9 million to Fiscal Year 1991 operating revenues.

### **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 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 Fiscal Year 1990 Management Audit

In November 1989, PGW received a management audit report of its operations performed at the request of the Gas Commission by Schumaker & Company, a management consulting firm based in Ann Arbor, Michigan. The management audit included 149 recommendations to improve PGW's operations and financial results, which were accepted by the Gas Commission. The Gas Commission in November 1989 voted to implement immediately ten of those recommendations and appointed a task force to oversee implementation of 64 additional recommendations. Action plans have been developed by PGW for implementation of the majority of the remaining recommendations. Periodic reports on implementation of the action plans are made to the Gas Commission. Schumaker & Company recently filed with the Gas Commission a progress report on the implementation of recommendations from its 1989 report and the impact of such implementation on PGW's 1993 Operating Budget. Although the Gas Commission has yet to act on this matter, there were no budgetary impacts reflected in this report for Fiscal Year 1993.

Implementation of some of the recommendations may produce cost savings over time. Some of the recommendations entail the incurrence of costs. Estimating the amount and timing of costs and savings is difficult because many of the recommendations involve long-term projects such as computerization and the development of more sophisticated programs with respect to accounting, budgeting and forecasting and the redesign and redeployment of departmental resources. Whether any savings will result from such improvements is uncertain. Individual departments have included in their budgets and forecasts, both the costs and the savings expected as a result of the incremental initiation of these action plans.

### 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 each of the last five fiscal years, PGW's actual operating results regularly have produced a DSC ratio appreciably lower than the coverage estimated in the approved Operating Budget:

Fiscal Year	DSC Ratio	
	Budget	Actual
1988	1.85	1.60
1989	1.79	1.59
1990	1.73	1.51
1991	1.81	1.51
1992	1.79	1.55

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" below.

#### **Fiscal Year 1993 Proposed Operating Budget**

PGW filed the 1992-93 Proposed Operating Budget with the Gas Commission on May 29, 1992. The proposed operating budget did not present a request for a change in base rates. A decision on PGW's 1993 Operating Budget is due in March 1993.

#### **1993 Capital Budget and Forecast**

PGW's proposed capital budget for Fiscal Year 1993 and its five-year forecast were filed with the Gas Commission on March 2, 1992. The City's Finance Director gave a favorable recommendation to the Gas Commission regarding PGW's proposed Capital Budget and the Gas Commission forwarded the proposed Capital Budget to City Council on May 15, 1992. City Council approved the Capital Budget on October 15, 1992.

The Fiscal Year 1993 Capital Budget and Forecast in the net amount of \$50.3 million and \$326.9 million, respectively, provides funds for the customary maintenance, construction and replacement items necessary to continue service to PGW's customers. Over 80% of the Fiscal Year 1993 Capital Budget and over 70% of the six-year forecast expenditures are for replacement of facilities to ensure continuing safe, reliable and adequate service. The balance of the projected expenditures are included to provide new and expanded gas service to present and future customers. For a further discussion of the Fiscal Year 1993 Capital Budget and Forecast, see APPENDIX B - "Engineering Report - Capital Improvement Program."

The Fourteenth Series Bonds are being issued by the City on behalf of PGW to pay for various capital expenditures and to provide funds to refund certain outstanding Gas Works Revenue Bonds. PGW's financial forecast for Fiscal Years 1993-1998 currently anticipates the issuance of Fifteenth Series Gas Works Revenue Bonds in 1996, in the principal amount of approximately \$75,000,000.

#### **Other Regulatory Matters**

During the previous year as part of the operating budget or GCR tariff hearings, the Gas Commission ordered PGW to perform the following actions: 1) to file by February 1, 1993 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.

PGW is currently in the process of developing procedures which will enable it to comply with these orders.

#### **Other Matters**

During the previous year the Gas Commission ordered PGW, by August 1, 1993, to submit to the Gas Commission a report identifying all manufacturing gas plant and associated sites owned, leased, or operated by PGW or its predecessors; research potentially responsible parties and insurance policies related to these sites; have each site examined by environmental engineers to determine possible contamination and possible

remediation requirements; and identify necessary actions to limit future liability and ensure the containment of site contamination.

### GAS SUPPLY AND REGULATION

Prior to 1985, PGW purchased all of its natural gas requirements from its two natural gas pipelines, Texas Eastern and Transco. It also relied on pipeline storage gas deliveries under storage contracts with the same pipeline companies. The Federal Energy Regulatory Commission ("FERC") issued Order 436 in 1985 which opened the natural gas market to third party suppliers. Since that time PGW has contracted an increasing amount of its natural gas requirements from third party suppliers.

In 1992 FERC issued Order 636 which completed the process of restructuring the natural gas market to provide open-access to all suppliers and transporters. PGW anticipates that in 1993 and beyond, it will purchase virtually all its natural gas requirements from third party suppliers under both short and long term contracts.

PGW owns and operates supplemental LNG and LPG facilities to meet incremental demand in excess of pipeline and storage supplies. PGW's supplies of natural gas, LNG and LPG 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 1996, and is therefore, at present, temporarily out of service. The supply of interstate natural gas is regulated by FERC. Pursuant to legislation included in the National Gas Policy Act, regulation of the price of interstate natural gas was phased out gradually and terminated on January 1, 1985.

## SUMMARY STATEMENTS OF INCOME

The summary statements of income set forth below 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,					Three Months Ended November 30, (2)	
	1988	1989	1990	1991	1992	1991	1992
Operating revenues	\$469,567	\$472,706	\$472,172	\$461,572	\$490,214	\$ 88,750	\$108,734
Natural gas	229,284	238,087	230,362	208,402	211,730	47,174	51,716
Other raw materials	549	(155)	1,037	423	(105)	(22)	1
Gas processing	24,062	24,565	24,353	21,939	21,494	4,934	4,838
Customer service	20,786	20,382	19,229	17,835	21,387	7,011	6,000
Distribution	16,562	16,244	20,588	18,519	19,422	4,515	4,825
Customer activities	51,186	46,652	51,144	57,644	57,854	15,451	18,093
Administrative and general	28,413	27,185	26,989	28,687	35,357	7,789	8,670
Pensions	17,016	21,497	17,748	16,204	14,245	3,540	3,643
Taxes, other than income	6,398	5,831	6,153	6,340	6,683	1,692	1,766
Depreciation	21,155	19,015	18,872	20,890	21,978	5,540	5,885
Total operating expenses	415,411	419,303	416,475	396,883	410,045	97,624	105,437
Operating income (loss)	54,156	53,403	55,697	64,689	80,169	(8,874)	3,297
Interest and other income	15,940	12,858	11,880	12,636	10,238	2,980	2,149
Income before interest expense	70,096	66,261	67,577	77,325	90,407	(5,894)	5,446
Interest expense	48,575	47,736	49,007	52,871	55,555	13,531	12,900
Net income (loss) (1)	\$ 21,521	\$ 18,525	\$ 18,570	\$ 24,454	\$ 34,852	\$ (19,425)	\$ (7,454)

(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, 1992 (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 varied from a high of 75.4 billion cubic feet (bcf) in 1988 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 can be described as sales to firm or 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 85% of total gas sales by volume as of the end of Fiscal Year 1992. 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 15% of total gas sales in Fiscal Year 1992. (See "SELECTED OPERATING DATA" below for a five year summary of gas sales).

For the 1988 Fiscal Year, gas sales totaled 75.4 bcf, 4.1 bcf higher than the 1987 Fiscal Year. Slightly cooler than normal temperatures during the heating season produced 4,676 degree days, an increase of 76 degree days or 1.7% greater than normal, and 178 degree days or 4% greater than experienced in the prior year. Sales to firm customers of 62.8 bcf were 1.9 bcf higher than experienced in 1987 due to increased heating demand. Interruptible gas sales increased 21% to 12.6 bcf. Associated interruptible revenues increased 18.5% as movement of alternate fuel prices reduced profit margins.

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 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 \$36.1 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 \$3.7 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 10.2 bcf, reflecting both reduced customer demand and cold weather curtailments during the heating season. However, revenues for interruptible customers increase 8.5% to \$39.1 million on improved margins.

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\*\* A "normal year" is 4,600 degree days.

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 11.5% less than experienced in 1990. Sales to firm customers of 56.2 bcf were down 5.3 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 22% to 12.5 bcf and associated interruptible revenues increased 30.8% to \$51.2 million largely as a result of increased customer demand and higher average prices.

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 61.2 bcf, up 5.0 bcf or 8.9% from the 1991 level, increasing revenues by 10.4%. Sales to interruptible customers declined from 12.5 bcf in 1991 to 10.6 bcf in 1992 reflecting reduced customer demand. Associated interruptible revenues decreased 28.9% to \$36.4 million.

### Natural Gas

In fiscal year 1988, natural gas expense increased \$8.2 million over the 1987 level due to the cost of meeting the increased sendout requirement and the initiation of deferred fuel accounting. The deferral of the application of \$6.7 million of refunds received from pipeline suppliers into the 1989 fiscal year coupled with the increased sendout more than offset savings resulting from lower natural gas prices and the economies of spot gas market purchases.

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.

### 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 \$13.5 million and \$13.3 million in aid to customers in the 1991 and 1992 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.
- *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, 1992, there were 45,186 delinquent customers who had 5%-2% Agreements, of which 22,847 were currently active with a total receivable balance of \$18.6 million. There were 93,468 delinquent customers which had 20% repayment agreements, 36,063 of which were active with a total receivable balance of \$15.9 million. The total amount of active outstanding accounts under these two repayment plans was 30% of total Gas Accounts Receivable at August, 1992. 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 is 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 December 31, 1992, approximately 10,625 customers continue to meet the program requirements and are currently enrolled in the EAP Plan. The total amount of outstanding accounts receivable at December 31, 1992 was \$9.2 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.

The status of Accounts Receivable during the 1988 to 1992 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>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Billed gas revenues during the year . . .	\$462,226	\$469,569	\$470,110	\$443,125	\$492,741
Accounts receivable at August 31 . . . . .	\$83,734	\$87,994	\$91,215	\$93,361	\$116,688
Accumulated provisions for uncollectible accounts at August 31 . . . . .	\$40,851	\$39,181	\$41,053	\$48,027	\$53,051
Net accounts receivable at August 31. . . . .	\$42,883	\$48,813	\$50,162	\$45,334	\$63,637
Accumulated provisions for uncollectible accounts as a percentage of accounts receivable (%). . . . .	48.8	44.5	45.0	51.4	45.5
Write-offs during the year* . . . . .	\$20,874	\$20,920	\$22,137	\$23,361	\$22,474
Receivables as a percentage of billed gas revenues during the year (%). . . . .	18.1	18.7	19.4	21.1	23.7
Delinquent customers (annual average). . . . .	148,588	141,095	134,865	134,368	138,721
Delinquent customers at August 31 . . . . .	124,543	121,462	123,024	120,161	125,385

\* Net write-off.

**Write-off of Uncollectible Accounts**

In Fiscal Years 1988, 1989, 1990, 1991, and 1992, in recognition of the substantial number of reactivated gas accounts resulting from the two repayment plans, the reserve was \$40.9 million, decreased slightly to \$39.2 million and then increased to \$41.1 million, \$48.0, and \$53.1 million, respectively, while the amount written off, net of reactivations, was \$20.9 million in both 1988 and 1989, \$22.1 million in 1990, \$23.3 million in 1991, and \$22.5 million in 1992.

The following table presents information regarding the aging of Gas Accounts Receivable of PGW at August, 1992 and August, 1991:

**AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE**

(Dollar Amounts in Thousands)  
August 31, 1992

<u>Customer</u> <u>Receivables</u>	<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total</u> <u>90 Days</u> <u>&amp; Over</u>	<u>Gas</u> <u>Accounts</u> <u>Receivable</u>	<u>Delinquent</u> <u>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>

(Dollar Amounts in Thousands)  
August 31, 1991

<u>Customer</u> <u>Receivables</u>	<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total</u> <u>90 Days</u> <u>&amp; Over</u>	<u>Gas</u> <u>Accounts</u> <u>Receivable</u>	<u>Delinquent</u> <u>Accounts</u>
Residential & small commercial	\$26,716*	\$ 3,441	\$ 2,876	\$38,372	\$ 71,405	\$44,689
Industrial and large commercial	3,937	924	572	3,834	9,267	5,330
Final billing (a)	<u>3,055</u>	<u>2,865</u>	<u>3,686</u>	<u>2,846</u>	<u>12,452</u>	<u>9,397</u>
Total	<u>\$33,708</u>	<u>\$ 7,230</u>	<u>\$ 7,134</u>	<u>\$45,052</u>	<u>\$ 93,124 (b)</u>	<u>\$59,416 (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.

**Three Month Fiscal Period Ended November 30, 1992 Compared to Three Month Fiscal Period Ended November 30, 1991.**

Gas sales for the three month fiscal period ended November 30, 1992 were 12.8 bcf, which amount is 1.5 bcf or 14% more than experienced in the similar period in 1991. Sales to non-heating customers increased by 0.5 bcf as a significant increase in sales to interruptible customers more than offset reduced sales to non-heating firm customers. Gas sales to heating customers of 8.8 bcf were 1.0 bcf or 13% more than sales in the similar period in 1991. This increase is due principally to the cooler heating season experienced in Fiscal Year 1992 which increased degree days to 933, up 141 degree days or 18% from the 1991 level and 144 degree days or 18% above the normal level.

Operating revenues for the three month fiscal period ended November 30, 1992 period were \$20.0 million more than those of the comparable period in the prior year. Non-heating revenues were \$4.0 million more than the comparable period in 1991. Heating revenues and unbilled gas revenues increased \$14.3 million and \$1.9 million, respectively, reflecting the additional revenue producing degree days in the period. Both the heating and non-heating categories benefitted in 1992 from the annual base rate increase of \$15 million which became effective in December 1991.

Operating expenses for the three month fiscal period ended November 30, 1992 were \$105.4 million, up \$7.8 million or 8.0% from the expense level in the comparable period in 1991. Increased sendout requirements due to the cooler temperatures, combined with higher prices from pipeline suppliers, added \$4.5 million to natural gas expenses. These increases were offset somewhat by higher natural gas refunds totaling \$6.4 million more than in 1991. The appropriation for uncollectible gas accounts increased by \$1.6 million, reflecting increased sales and a higher customer gas accounts receivable balance. Appliance maintenance contract revenues decreased \$1.0 million due to a non-recurring adjustment in the 1991 period. The 1992 period reflects a return to a normal level of appliance contract revenues. Administrative and general expenses increased by \$.9 million primarily reflecting higher premiums for employee health and group insurance coverage and an increased appropriation for injury and damage claims, while depreciation increased due to the larger average plant balances. See "SUMMARY STATEMENT OF INCOME" herein.

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

**Subsequent Financial Results**

Gas sales for the month of December, 1992 were more than .6 bcf higher than experienced in the same period in 1991 due to increased revenue producing degree days, which more than offset reduced sales to interruptible customers.

Total operating revenues were \$78.7 million for the month of December, 1992. Such revenues were \$14.0 million, or 22% higher, than recorded in December, 1991, again due to increased revenue producing degree days and the full year impact of the Gas Commission approved rate increase.

Operating expenses were \$55.9 million in December 1992, \$3.5 million or 6.6% higher than in the same period in 1991. Natural gas costs increased to support the added sendout requirements, adding \$2.8 million to expenses. Administrative and general expenses increased \$.8 million, reflecting higher health insurance premiums and reduced allocation of expenses to capital projects.

Interest and other income in December, 1992 was \$.4 million lower than in December, 1991 due to decreased investable balances and interest rates.

Net income for the month of December, 1992 was \$18.8 million, up from the \$8.4 million reported in the same month in 1991.

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**

	<u>Fiscal Years Ended August 31,</u>				
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
DEGREE DAYS . . . . .	4,676	4,579	4,431	3,900	4,542
% of normal (4,600 degree days) . . . . .	102	99	96	85	99
MAXIMUM 24-HOUR SENDOUT (mcf) . . . . .	596,889	576,771	649,033	608,226	589,241
Peak-day avg. temperature (degrees) . . . . .	14	17	12	17	20
<b>GAS REVENUES &amp; SALES BY CUSTOMER CLASSIFICATION</b>					
Gas operating revenues (\$000 omitted)					
Residential:					
Heating . . . . .	\$306,008	\$313,722	\$309,265	\$277,434	\$324,644
Non-heating . . . . .	26,614	25,836	25,334	22,955	25,345
Industrial and commercial:					
Firm . . . . .	65,028	70,134	72,619	69,440	78,954
Interruptible . . . . .	40,410	36,077	39,139	51,187	36,374
Other gas revenues (municipal, Phila. Housing Authority ("PHA"), sales for resale, unbilled revenues and the GCR adjustment) . . . . .					
	<u>26,212</u>	<u>21,211</u>	<u>19,744</u>	<u>33,991</u>	<u>17,567</u>
Total gas revenues . . . . .	464,272	466,980	466,101	455,007	482,884
Other operating revenues . . . . .	<u>5,295</u>	<u>5,726</u>	<u>6,071</u>	<u>6,565</u>	<u>7,330</u>
Total operating revenues . . . . .	469,567	472,706	472,172	461,572	490,214
Other income . . . . .	<u>15,940</u>	<u>12,858</u>	<u>11,880</u>	<u>12,636</u>	<u>10,238</u>
Total revenues and other income . . . . .	<u>\$485,507</u>	<u>\$485,564</u>	<u>\$484,052</u>	<u>\$474,208</u>	<u>\$500,452</u>

**SELECTED OPERATING DATA**  
(continued)

	Fiscal Years Ended August 31,				
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
<b>SUMMARY OF CUSTOMERS AT</b>					
<b>END OF PERIOD</b>					
Residential . . . . .	497,227	497,596	494,253	497,696	495,175
Industrial and Commercial:					
Firm . . . . .	19,513	20,242	24,630	24,758	24,225
Interruptible . . . . .	259	302	321	378	482
Municipal and PHA . . . . .	2	2	2	2	2
Total Customers . . . . .	<u>517,001</u>	<u>518,142</u>	<u>519,206</u>	<u>522,834</u>	<u>519,824</u>
<b>GAS SALES BY CLASSIFICATION</b>					
(MMcf)					
Residential:					
Heating: . . . . .	45,838	45,376	44,612	40,332	44,470
Non-heating . . . . .	3,667	3,354	3,285	2,993	2,961
Industrial and commercial:					
Firm . . . . .	9,670	9,805	10,126	9,757	10,323
Interruptible . . . . .	12,584	10,550	10,238	12,488	10,610
Other . . . . .	3,667	3,448	3,462	3,147	3,479
Total gas sales . . . . .	<u>75,426</u>	<u>72,533</u>	<u>71,723</u>	<u>68,717</u>	<u>71,843</u>
<b>SUPPLY AND DISPOSITION</b>					
<b>OF GAS (MMcf)</b>					
Natural gas purchased	78,178	73,769	73,782	72,294	74,364
Liquid petroleum . . . . .	110	29	113	41	-
Liquefied natural gas . . . . .	<u>2,620</u>	<u>1,626</u>	<u>3,108</u>	<u>1,714</u>	<u>2,388</u>
Total supply . . . . .	<u>80,908</u>	<u>75,424</u>	<u>77,003</u>	<u>74,049</u>	<u>76,752</u>
Deduct:					
Additions to (withdrawals from) gas storage	2,502	(1,435)	1,426	2,044	(465)
PGW's use and other . . . . .	<u>2,980</u>	<u>4,326</u>	<u>3,854</u>	<u>3,288</u>	<u>5,374</u>
Total gas sales . . . . .	<u>75,426</u>	<u>72,533</u>	<u>71,723</u>	<u>68,717</u>	<u>71,843</u>
<b>AVERAGE MONTHLY USAGE OF RESIDENTIAL CUSTOMER (Mcf)</b>					
Heating . . . . .	9.5	9.5	9.4	9.4	9.0
Non-heating . . . . .	2.9	2.7	2.8	2.7	2.7
<b>AVERAGE MONTHLY BILL OF RESIDENTIAL CUSTOMERS</b>					
Heating . . . . .	\$66.10	\$68.26	\$67.91	\$66.88	\$71.29
Non-heating . . . . .	\$21.76	\$21.01	\$21.98	\$20.99	\$24.19

## HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

The financial operations for the years ended August 31, 1988 through 1992 and the revenues available for debt service are shown in the following table:

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Operating revenues. . . . .	\$469,567	\$472,706	\$472,172	\$461,572	\$490,214
Other income. . . . .	<u>15,940</u>	<u>12,858</u>	<u>11,880</u>	<u>12,636</u>	<u>10,238</u>
Total revenues. . . . .	485,507	485,564	484,052	474,208	500,452
Adjustments . . . . .	<u>1,837</u>	<u>1,581</u>	<u>2,570</u>	<u>1,530</u>	<u>1,031</u>
Project revenues. . . . .	<u>487,344</u>	<u>487,145</u>	<u>486,622</u>	<u>475,738</u>	<u>501,483</u>
Operating expenses. . . . .	415,411	419,303	416,475	396,883	410,045
Less:					
Depreciation. . . . .	23,615	21,887	22,155	24,625	25,728
Other adjustments . . . . .	<u>(497)</u>	<u>1,662</u>	<u>489</u>	<u>(1,324)</u>	<u>(1,624)</u>
Net operating expenses. . . . .	<u>392,293</u>	<u>395,754</u>	<u>393,831</u>	<u>373,582</u>	<u>385,941</u>
Net revenues. . . . .	<u>95,051</u>	<u>91,391</u>	<u>92,791</u>	<u>102,156</u>	<u>115,542</u>
Debt service requirements:					
Revenue bonds . . . . .	59,473	57,326	61,654	67,789	74,535
Commercial paper notes. . . . .	<u>5,204</u>	<u>4,668</u>	<u>4,361</u>	<u>4,678</u>	<u>3,280</u>
Total debt service. . . . .	<u>64,677</u>	<u>61,994</u>	<u>66,015</u>	<u>72,467</u>	<u>77,815</u>
Net project revenues available for other purposes. . . . .	<u>\$ 30,374</u>	<u>\$ 29,397</u>	<u>\$ 26,776</u>	<u>\$ 29,689</u>	<u>\$37,727</u>
Debt service coverage:					
Revenue bonds . . . . .	1.60x	1.59x	1.51x	1.51x	1.55x

## 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. 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 \$.5 million 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 10, 1988, an explosion and fire occurred caused by a broken gas main. Injuries to two residents and damages to seven properties resulted from the incident. All claims have been resolved except for a damage claim to one property, part of which was insured. A complaint was filed in the State Court. A

Motion for Partial Summary Judgment based upon governmental immunity was granted in August 1992. Total exposure to PGW is expected to be less than \$500,000.

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 - one of which was 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 two of which are pending. All other claims are resolved. Outstanding action represents (a) injuries to one occupant and damage to his property and (b) alleged injuries (fracture and deformity) to another occupant. PGW exposure may 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 for personal injuries and the others for 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 in State Court were filed; one represents the three death claims and the other represents alleged personal injuries to a passerby. Exposure is estimated to be under \$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 Fourteenth Series Bonds from the City at a purchase price of \$366,317,698.65 (including underwriter's discount of \$2,800,901.50 and an original issue discount of \$7,431,399.85) plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Fourteenth Series Bonds if any are purchased. The Fourteenth 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

The long-term indebtedness of the Gas Works is currently 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 Fourteenth 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 Fourteenth Series Bonds in the secondary market.

## TAX MATTERS

### Tax Exemption-Opinion of Co-Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the Fourteenth Series Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Fourteenth Series Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the City subsequent to the issuance and delivery of the Fourteenth Series Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The City has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the Fourteenth Series Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Fourteenth Series Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Fourteenth Series Bonds to be so includable in gross income retroactive to the date of issuance of the Fourteenth Series Bonds. The City has covenanted to comply with all such requirements. Interest on the Fourteenth Series Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Fourteenth Series Bonds is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to the corporate alternative minimum tax. Co-Bond Counsel express no opinion regarding certain collateral federal tax consequences relating to the Fourteenth Series Bonds or the receipt of interest thereon. See Co-Bond Counsel's discussion of "Collateral Federal Tax Consequences" below.

The initial public offering prices of certain of the Fourteenth Series Bonds (as reflected on the cover page of this Official Statement) are less than the amounts payable at maturity (the "Maturity Amount"). The difference between the initial public offering price at which a substantial amount of the Fourteenth Series Bonds of any maturity are sold and the Maturity Amount constitutes original issue discount ("OID"). OID is treated as interest on the Fourteenth Series Bonds for the purposes of the discussion in the preceding paragraph.

Under Section 1288 of the Code, the amount of OID treated as having accrued with respect to any Fourteenth Series Bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. OID on any Fourteenth Series Bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semi-annual compounding method using the yield to maturity on such Fourteenth Series Bonds. OID attributable to any Fourteenth Series Bond for any particular semi-annual period is equal to the product of (i) one-half of the yield to maturity of such bond, and (ii) the amount which would be the adjusted basis of such bond at the beginning of such semi-annual period if held by the original owner and purchased by such owner at the initial public offering price. The amount so treated as accruing during such semi-annual period is apportioned in equal amounts among the days in that period to determine the amount of OID accruing for such purposes during each such day. Owners of Fourteenth Series Bonds should consult their tax advisors with respect to the Federal income tax consequences of the disposition of such bonds by them.

The initial public offering price of the Fourteenth Series Bonds maturing July 1, 2002 is greater than the Maturity Amount. Purchasers of such Fourteenth Series Bonds should consult their tax advisors regarding the tax treatment and consequences of the payment of any premium in connection with the purchase of such Fourteenth Series Bonds.

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, the Fourteenth Series Bonds, their transfer and the income therefrom (including any profits made on the sale thereof) are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Fourteenth Series Bonds, their transfer, the income therefrom or profits made on the sale thereof. Specifically, the Fourteenth Series Bonds, their transfer, and the income therefrom (including any profits made on the sale thereof) are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax.

#### **Collateral Federal Tax Consequences**

**Alternative Minimum Tax and Environmental Tax.** For taxable years beginning after December 31, 1989, for purposes of the corporate alternative minimum tax, a corporation's alternative minimum taxable income is increased by seventy-five percent of the amount by which "adjusted current earnings" exceeds alternative minimum taxable income. Thus, to the extent that tax-exempt interest (including interest on the Fourteenth Series Bonds) is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to an alternative minimum tax.

In addition, Section 59A of the Code imposes a tax on corporations equal to 0.12 percent of the excess of "modified alternative minimum taxable income" over \$2,000,000 (the Environmental Tax). Modified alternative minimum taxable income is defined generally in the same manner as "alternative minimum taxable income." The Environmental Tax is imposed whether or not the taxpayer is subject to the corporate alternative minimum tax and is deductible from gross income. To the extent that tax-exempt interest (including interest on the Fourteenth Series Bonds) is a component of a corporate holder's "adjusted current earnings" and thus a component of a corporate holder's "modified alternative minimum taxable income," a portion of that interest may be subject to the Environmental Tax.

**Branch Profits Tax.** Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

**S Corporations with Passive Investment Income.** Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect and that have "passive investment income." For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Fourteenth Series Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income." Thus, interest on the Fourteenth Series Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

**Social Security and Railroad Retirement Benefits.** Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. A portion of the benefits is includable in gross income if the sum of (i) the "modified adjusted gross income" of the taxpayer for the taxable year, plus one-half of the benefits received during the taxable year, exceeds (ii) the "base amount" (i.e., \$25,000; \$32,000 in the case of a taxpayer filing a joint return; and zero in the case of a married individual who does not file a joint return and does not live apart from his spouse at all times during the taxable year). The term "modified adjusted gross income" is generally defined as "adjusted gross income" increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax (including interest on the Fourteenth Series Bonds).

**Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations.** The Code, subject to limited exceptions, denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or carry tax-exempt obligations, such as the

Fourteenth Series Bonds. The denial to such institutions is one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations.

**Property or Casualty Insurance Company.** The Code provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

No assurance can be given that legislation will not be proposed and enacted into law in the future which would cause the interest on tax-exempt obligations to be subject directly or indirectly to federal income taxation or adversely affect the market price of tax-exempt obligations, or otherwise prevent the holders of tax-exempt obligations from realizing the full current benefit of the status of the interest thereon.

### CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Fourteenth Series Bonds are subject to the approval of the legality of the issuance of the Fourteenth Series Bonds by Dilworth, Paxson, Kalish & Kauffman and Ronald A. White, 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 Pepper, Hamilton & Scheetz and Arline Jolles Lotman, Esquire both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor and Cohen, Shapiro, Polisher, Shiekman and Cohen, Philadelphia, Pennsylvania. Certain legal matters will be passed on for PGW by Obermayer, Rebmann, Maxwell & Hippel, of Philadelphia, Pennsylvania.

Dilworth, Paxson, Kalish & Kauffman has represented PGW in various matters, including matters before the Federal Energy Regulatory Commission and the Philadelphia Gas Commission and certain other matters unrelated to this financing.

### FINANCIAL ADVISOR

Public Financial Management, Inc., of Philadelphia, Pennsylvania, served as financial advisor to the City in respect to the sale of the Fourteenth 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 Fourteenth 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 AUDITS

The financial statements of PGW as of August 31, 1992 and 1991, 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 Fourteenth Series Bonds, or in any way contesting or affecting the validity of the Fourteenth 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 Fourteenth Series Bonds or the exercise or powers of the City.

Upon delivery of the Fourteenth Series Bonds, the Office of the City Solicitor shall furnish a certificate, in form satisfactory to the 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 Fourteenth Series Bonds or the collection or pledge of any moneys provided for the payment of the Fourteenth Series Bonds or contesting or affecting the validity of the Fourteenth 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 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 Fourteenth 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 & Scaccetti, P.C.

## CERTAIN REFERENCES

All summaries of the provisions of the Fourteenth Series Bonds and the security therefor, the Act, the General Ordinance and the Fourteenth 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, 1992, and, when available, the audited combined financial statements of the City for the Fiscal Year ended June 30, 1992, 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 PGW 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 PGW. The City will continue these practices in future years on an annual basis on behalf of PGW as well as all bond issuances for PGW.

This 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/ JUDITH E. HARRIS  
City Solicitor

/s/ JONATHAN A. SAIDEL  
City Controller

Approved:

/s/ STEPHEN P. MULLIN  
Finance Director

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APPENDIX A

Audited Financial Statements  
of Philadelphia Gas Works for the Years  
Ended August 31, 1992 and 1991

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PHILADELPHIA GAS WORKS

Financial Statements for the Years  
Ended August 31, 1992 and 1991,  
Required Pension Supplementary  
Information and Independent  
Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

To the Controller of the  
City of Philadelphia and the  
Chairman 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, 1992 and 1991 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, 1992 and 1991, 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  
October 26, 1992

PHILADELPHIA GAS WORKS

BALANCE SHEETS

August 31, 1992 and 1991

ASSETS	Notes	(thousands of dollars)		EQUITY AND LIABILITIES	Notes	(thousands of dollars)	
		1992	1991			1992	1991
Utility plant, at original cost:	1			City equity	2	\$ 225,257	\$ 208,405
In service		\$ 969,543	\$ 924,462				
Under construction		<u>17,894</u>	<u>15,805</u>				
Total		987,437	940,267	Long-term debt:	8,9		
Less accumulated depreciation		<u>292,718</u>	<u>273,207</u>	Revenue bonds		585,675	614,523
Utility plant, net		<u>694,719</u>	<u>667,060</u>	Subordinate lease obligation		<u>22,629</u>	<u>23,049</u>
				Total long-term debt		<u>608,304</u>	<u>637,572</u>
Sinking fund, revenue bonds	3,8	<u>78,511</u>	<u>79,534</u>	Current liabilities:			
Capital improvement funds	3,8	<u>0</u>	<u>42,274</u>	Notes payable	6	34,500	9,500
Current assets:				Current portion of long-term debt:	8,9		
Cash and cash equivalents:	3			Revenue bonds		31,228	29,211
Cash		1,313	3,749	Subordinate lease obligation		420	389
Temporary investments		<u>29,000</u>	<u>3,350</u>	Accounts payable		25,822	23,399
Total cash and cash equivalents	1	<u>30,313</u>	<u>7,099</u>	Customer deposits		1,845	2,066
Accounts receivable:				Other current liabilities and deferred credits	1,7,11,12	24,059	11,405
Customers	1	116,688	93,361	Accrued accounts:			
Others	2	13,016	3,193	Interest, taxes and wages		12,039	11,474
Accrued gas revenues	1	7,050	8,350	Distribution to the City	2	<u>3,000</u>	<u>3,000</u>
Accumulated provision for uncollectible accounts		<u>(53,051)</u>	<u>(48,027)</u>				
Accounts receivable, net		83,703	54,877				
Materials and supplies	1	41,529	40,731				
Other current assets and deferred debits	1,7,12	<u>11,874</u>	<u>15,786</u>	Total current liabilities		<u>132,913</u>	<u>90,444</u>
Total current assets		<u>167,419</u>	<u>118,493</u>	Employees' deferred compensation plan	5	<u>9,220</u>	<u>7,114</u>
Unamortized bond issuance costs	1	<u>5,629</u>	<u>6,214</u>	Other liabilities and deferred credits	1,11,12	<u>5,920</u>	<u>7,694</u>
Unamortized losses on reacquired debt	1	<u>18,400</u>	<u>20,318</u>				
Employees' deferred compensation plan	5	<u>9,220</u>	<u>7,114</u>	Commitments and contingencies	12	<u>—</u>	<u>—</u>
Other assets and deferred debits	1,4,11,12	<u>7,716</u>	<u>10,222</u>				
Total assets		<u>\$ 981,614</u>	<u>\$ 951,229</u>	Total equity and liabilities		<u>\$ 981,614</u>	<u>\$ 951,229</u>

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS  
 STATEMENTS OF INCOME  
 for the years ended August 31, 1992 and 1991

		(thousands of dollars)	
	<u>Notes</u>	<u>1992</u>	<u>1991</u>
Operating revenues:	1,6,7,8		
Nonheating		\$ 86,494	\$ 98,347
Gas transport service		2,354	460
Heating		393,336	356,150
Unbilled gas adjustment		700	50
Total gas revenues		<u>482,884</u>	<u>455,007</u>
Other operating revenues		<u>7,330</u>	<u>6,565</u>
Total operating revenues		<u>490,214</u>	<u>461,572</u>
Operating expenses:			
Natural gas	1,12	211,730	208,402
Other raw material		(105)	423
Gas processing		21,494	21,939
Customer service		21,387	17,835
Distribution		19,422	18,519
Collection		7,425	6,449
Meter reading		6,553	6,199
Appropriation for uncollectible reserve		27,520	30,315
Customer relations		9,156	8,607
Customer accounting		2,929	2,869
Marketing		4,271	3,205
Administrative and general		35,357	28,687
Pensions	1,10	14,245	16,204
Taxes		<u>6,683</u>	<u>6,340</u>
Total operating expenses except depreciation		<u>388,067</u>	<u>375,993</u>
Depreciation	1	25,728	24,625
Less depreciation distributed through clearing accounts	1	<u>3,750</u>	<u>3,735</u>
Total		<u>21,978</u>	<u>20,890</u>
Total operating expenses		<u>410,045</u>	<u>396,883</u>
Operating income		80,169	64,689
Interest and other income	1	<u>10,238</u>	<u>12,636</u>
Income before interest		<u>90,407</u>	<u>77,325</u>
Interest			
Long-term debt	1	48,171	44,906
Other		7,488	8,828
Allowance for funds used during construction	1	<u>(104)</u>	<u>(863)</u>
Total interest		<u>55,555</u>	<u>52,871</u>
Net income		34,852	24,454
Distribution to City of Philadelphia	2	<u>18,000</u>	<u>18,000</u>
Transferred to City equity		<u>\$ 16,852</u>	<u>\$ 6,454</u>

See accompanying notes to financial statements.

**PHILADELPHIA GAS WORKS**  
**STATEMENTS OF CHANGES IN CITY EQUITY**  
**for the years ended August 31, 1992 and 1991**

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(thousands of dollars)

	<u>1992</u>	<u>1991</u>
Balance, beginning	\$ 208,405	\$ 201,951
Transferred from statements of income	<u>16,852</u>	<u>6,454</u>
Balance, ending	<u>\$ 225,257</u>	<u>\$ 208,405</u>

See accompanying notes to financial statements.

**PHILADELPHIA GAS WORKS**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended August 31, 1992 and 1991**

	(thousands of dollars)	
	1992	1991
<b>Cash flows from operating activities:</b>		
Operating income	\$ 80,169	\$ 64,689
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	25,742	24,638
Other income	1,385	1,177
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(28,798)	16,121
(Increase) Decrease in materials and supplies inventories	(798)	349
Decrease (increase) in other current assets and deferred debits	3,912	(7,510)
Decrease (increase) in other assets	400	(4,866)
Increase in accounts and construction contracts payable	2,423	400
Increase (Decrease) in other current liabilities	12,898	(23,286)
Increase in other liabilities	332	2,474
<b>Net cash provided by operating activities</b>	<u>97,665</u>	<u>74,186</u>
<b>Cash flows from noncapital financing activities:</b>		
Interest income on temporary investments	2,284	4,746
Interest payments on notes payable	(3,281)	(4,678)
Increase (Decrease) in notes payable	25,000	(11,500)
(Increase) Decrease in accounts receivable-Interest	(28)	162
Payment to the City of Philadelphia	(18,000)	(18,000)
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>5,975</u>	<u>(29,270)</u>
<b>Cash flows from capital &amp; related financing activities:</b>		
<b>Capital spending activities:</b>		
Net construction expenditures	(53,269)	(53,030)
Drawdowns on capital improvement fund	43,285	54,749
<b>Net cash (used in) provided by capital spending activities</b>	<u>(9,984)</u>	<u>1,719</u>
<b>Other capital financing activities:</b>		
Proceeds from long-term debt	0	74,057
Capital improvement fund deposit	(1,011)	(68,076)
Interest income on sinking fund	5,346	5,461
Interest income on capital improvement fund	987	904
Principal payments on long-term debt	(31,020)	(28,450)
Interest payments on long-term debt	(45,767)	(41,591)
Long-term debt issuance expense	0	(446)
Sinking fund deposits	(5,346)	(12,334)
Withdrawals from sinking fund	6,369	6,341
<b>Net cash (used in) capital financing activities</b>	<u>(70,442)</u>	<u>(64,134)</u>
<b>Net cash (used in) capital &amp; related financing activities</b>	<u>(80,426)</u>	<u>(62,415)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>23,214</u>	<u>(17,499)</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>7,099</u>	<u>24,598</u>
<b>Cash and cash equivalents at end of the year</b>	<u>\$ 30,313</u>	<u>\$ 7,099</u>

**Supplemental Disclosure of Non-Cash Capital and Related Financing Activities**

For the Fiscal Years 1992 and 1991, respectively, \$2,381,000 and \$2,221,000 of non-cash interest accreted on the Twelfth Series A and Eleventh Series C Revenue Bonds (see Note 8.) Additional non-cash interest was incurred due to amortization of debt discount of \$1,419,000 and \$1,431,000 in 1992 and 1991, respectively; amortization of bond issuance costs of \$585,000 and \$528,000 in 1992 and 1991, respectively; and amortization of losses on reacquired debt of \$1,918,000 and \$2,006,000, in 1992 and 1991 respectively.

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS

for the years ended August 31, 1992 and 1991

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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 June 29, 1990, the Company filed with the PGC its fiscal year 1991 Operating Budget and a request to increase annual base revenues \$31.0 million. On February 5, 1991, the PGC issued a rate order approving a 1991 operating budget which increased the Gas Cost Rate ("GCR") from a credit of 6.55 cents per Mcf to a credit of 17.5 cents per Mcf, effective December 1, 1990. Base rates were not increased; however, the cost of fuel included in the base rate was reduced from \$3.60 per Mcf to \$3.33 per Mcf.

In May 1991, it became apparent that the extremely warm heating season, in the absence of other revenue adjustments, would cause operating results below the required level established by the General Gas Works Revenue Bond Ordinance of 1975 ("General Ordinance"). Thus, on May 22, 1991, the PGC modified its February 5, 1991 order by further reducing the cost of fuel included in the base rate by an additional \$.15 per Mcf to \$3.18 per Mcf effective September 1, 1990.

These various modifications to the fuel cost included in base rates added \$22.9 million to 1991 Fiscal Year operating revenues.

On July 16, 1991, the Company filed with the PGC its Fiscal Year 1992 Operating Budget and a request to increase annual base revenues \$28.0 million. On December 19, 1991, the PGC approved a \$15 million increase in base rates. Certain aspects of the PGC rate decision were appealed by the Public Advocate and cross appealed by the Company to the Court of Common Pleas of Philadelphia County. In its order issued October 16, 1992, the Court rejected those items appealed by the Public Advocate, determined that a portion of the Company's cross appeal was valid and remanded other items back to the PGC for adjudication. The Company cannot presently estimate the effect that this favorable decision may have on its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Regulation (Continued)

On May 29, 1992, the Company filed with the PGC its 1993 Operating Budget, which does not present a request for an increase in base rates. Hearings before the PGC are on-going. A decision is anticipated in late January, 1993 for the operating budget. The Company cannot presently estimate the impact that this decision will have on its financial statements.

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, 1992 and 1991, the net book value of the SNG Plant was \$40,039,000 and \$43,143,000, respectively and the net book value of the L.P. Plant was \$6,894,000 and \$6,421,000, respectively.

Effective November 1, 1991, the Company entered into a noncancellable operating lease for two naphtha storage tanks of the SNG plant at an annual base rental of \$2,612,000 through September, 1994. The lease agreement also contains provisions for certain thruput charges for lessee usage above a specified level. The costs incurred in preparing these tanks for this purpose (approximately \$1.9 million through August 31, 1992) are being amortized over the life of the lease.

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 7.20% in 1992 and 7.05% in 1991.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 1988 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

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, 1992 and 1991 the number of customers with agreements providing for forgiveness of arrearages approximated 56,700 and 40,300, respectively.

Gas Cost Rate (GCR)

The 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 offset the amounts of gas revenues and natural gas operating expenses but do not affect operating income or net income. (Also, see Note 7).

On August 1, 1990, the Company filed its annual request to reset the GCR with the PGC, requesting a credit of \$.1828/Mcf for the fiscal year commencing September 1, 1990. On August 29, 1990, the PGC authorized the Company to continue using its current GCR, a credit of \$.0655/Mcf, into fiscal year 1991, pending the PGC's consideration of the Company's proposed 1991 fiscal year GCR.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Gas Cost Rate (GCR) (Continued)

On February 5, 1991, the PGC as part of its rate order, authorized a GCR credit of \$.175 per/Mcf to be effective December 1, 1990.

On August 2, 1991, the Company filed its GCR Tariff proposal for the 1991-92 fiscal year as 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 rate of \$.3565 per/Mcf to be effective on the date of their order.

On September 1, 1992, the Company submitted its proposed GCR for the 1993 fiscal year which requests a charge of \$.4075 per/Mcf to be effective September 1, 1992. Hearings before the PGC are on-going. A decision is anticipated in early December, 1992. The Company cannot presently estimate the effect this decision will have on its financial statements.

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 substantially 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).

Statements of Cash Flows

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 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 1991 amounts have been reclassified to conform with the 1992 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 \$7,155,000 in 1992 and \$6,075,000 in 1991 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$331,000 in 1992 and \$371,000 in 1991. Amounts receivable from the City approximated \$2,284,000 and \$1,921,000 at August 31, 1992 and 1991, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled \$1,047,000 in 1992 and \$722,000 in 1991.

Company employees are subject to payroll wage taxes imposed by the City. Such wage taxes paid to the City totaled \$4,780,000 in 1992 and \$4,536,000 in 1991.

3. CASH AND INVESTMENTS:

A. Cash

Cash consists primarily of bank deposits. Bank balances of such deposits at August 31, 1992 and 1991 were \$3,483,000 and \$5,730,000, respectively. Book balances of such deposits at August 31, 1992 and 1991 were \$1,313,000 and \$3,749,000, 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, 1992 and 1991 was \$471,000 and \$435,000, respectively. The composition of the Company's deposits throughout the year ended August 31, 1992 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, 1992 and 1991, 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, 1992 and 1991.

REPURCHASE AGREEMENTS

	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
August 31, 1992	\$29,000,000	\$ -	\$ -	\$29,000,000	\$29,000,000
August 31, 1991	\$ 3,350,000	\$ -	\$ -	\$ 3,350,000	\$ 3,350,000

The Company's Sinking Fund and Capital Improvement Fund deposits are maintained by the City (at August 31, 1991, \$7,202,000 of Capital Improvement Fund deposits were held 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, 1992 was not significantly different from the categorization at the balance sheet date.

4. DEFERRED EXPENSES:

In compliance with rate orders issued by the PGC in March 1987 and December 1991, certain expenses, including the cost of removing residual waste material and certain other projects which produce benefits over an extended period were 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, 1992 and 1991 was \$2,624,000 and \$1,336,000, 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.

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>Thousand of Dollars</u>	
	<u>1992</u>	<u>1991</u>
Fund Assets, September 1	\$7,114	\$5,420
Contributions from Employees	1,615	1,413
Investment Income	722	488
Payments to Eligible Participants and Beneficiaries	<u>(231)</u>	<u>(207)</u>
Fund Assets (at estimated Market Value), August 31	<u>\$9,220</u>	<u>\$7,114</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.

The notes outstanding at August 31, 1992 and 1991 have an average weighted interest rate of approximately 3.05% and 4.2%, respectively, and an average term to maturity of 59 days and 36 days, respectively. Principal amounts outstanding at August 31, 1992 and 1991 were \$34,500,000 and \$9,500,000, respectively.

7. GCR TARIFF RECONCILIATION:

For the year ended August 31, 1992, the Company's billed gas costs under the GCR Tariff exceeded its actual gas costs by \$6,401,000. The Company deferred this excess which is included in other current liabilities and deferred credits. For the year ended August 31, 1991, the Company's billed gas costs under the GCR Tariff were less than its actual gas costs by \$4,155,000. Accordingly, the Company deferred this shortfall which is included in other current assets and deferred debits. The GCR Tariff mechanism amortizes these variations through adjustments to 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, 1992</u>			<u>August 31, 1991</u>		
	<u>Current</u>	<u>Long-Term</u>		<u>Current</u>	<u>Long-Term</u>	
	<u>Portion</u>	<u>Portion</u>	<u>Total</u>	<u>Portion</u>	<u>Portion</u>	<u>Total</u>
	<u>(Thousands of Dollars)</u>					
Revenue Bonds.....	\$ 32,535	\$600,977	\$633,512	\$ 30,579	\$631,132	\$661,711
Unamortized Debt Discount.	<u>(1,307)</u>	<u>(15,302)</u>	<u>(16,609)</u>	<u>(1,368)</u>	<u>(16,609)</u>	<u>(17,977)</u>
Total	<u>\$ 31,228</u>	<u>\$585,675</u>	<u>\$616,903</u>	<u>\$ 29,211</u>	<u>\$614,523</u>	<u>\$643,734</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:

<u>Year Ending</u> <u>August 31</u>	<u>(Thousands of Dollars)</u>	
	<u>Principal</u>	<u>Interest</u>
1993	\$32,535	\$42,375
1994	34,695	40,204
1995	37,050	37,828
1996	37,000	35,171
1997	35,445	32,592

Under the authority of the General Ordinance, the City has issued thirteen 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	Original Amount	August 31, 1992		August 31, 1991		Interest Rates	Year of Final Maturity	
			Current Portion	Long-Term Portion	Current Portion	Long-Term Portion			
(Thousands of Dollars)									
3rd:	Term.....	1976	\$ 33,865	\$ 3,435	\$ 16,480	\$ 3,200	\$ 19,915	7.375%	1997
4th:	Term.....	1978	46,855	4,450	27,265	4,165	31,715	6.80-6.875%	1998
5th:	Term.....	1979	33,320	2,965	22,495	2,790	25,460	6.50-6.80%	1999
7th:	Term.....	1982	10,675	-	10,675	-	10,675	6.00%	2013
8th:	Serial...	1985	19,455	1,325	12,680	1,235	14,005	7.40-8.60%	2000
	Term.....	1985	70,830	-	5,145	-	5,145	8.70%	2015
			<u>90,285</u>	<u>1,325</u>	<u>17,825</u>	<u>1,235</u>	<u>19,150</u>		
9th:	Serial...	1985	37,750	1,895	4,255	1,760	6,150	8.00-8.50%	2001
	Term.....	1985	70,780	-	-	-	-		
			<u>108,530</u>	<u>1,895</u>	<u>4,255</u>	<u>1,760</u>	<u>6,150</u>		
10th:	Serial...	1986	88,090	6,285	67,905	5,930	74,190	6.25-7.20%	2001
11th:	Serial...	1987	62,520	6,755	28,535	6,380	35,290	6.30-7.40%	2000
	Term.....	1987	79,920	-	79,920	-	79,920	7.70-7.875%	2017
			<u>142,440</u>	<u>6,755</u>	<u>108,455</u>	<u>6,380</u>	<u>115,210</u>		
11th "C":	Serial...	1989	46,183	2,640	38,713	2,484	41,354	6.30-7.15%	2004
	Term.....	1989	86,337	-	86,337	-	86,337	6.75-7.25%	2015
			<u>132,520</u>	<u>2,640</u>	<u>125,050</u>	<u>2,484</u>	<u>127,691</u>		
	Accreted Interest				5,606		3,883		
				<u>130,656</u>		<u>131,574</u>			
12th "A":	Serial...	1990	20,911	1,055	17,916	1,000	18,971	6.10-7.10%	2006
	Term.....	1990	29,510	-	29,510	-	29,510	6.00%	2012
			<u>50,421</u>	<u>1,055</u>	<u>47,426</u>	<u>1,000</u>	<u>48,481</u>		
Accreted Interest				1,520		862			
				<u>48,946</u>		<u>49,343</u>			
12th "B":	Serial...	1990	12,670	935	10,015	885	10,950	6.10-7.00%	2001
	Term.....	1990	62,330	-	62,330	-	62,330	7.00-7.10%	2020
			<u>75,000</u>	<u>935</u>	<u>72,345</u>	<u>885</u>	<u>73,280</u>		
13th	Serial...	1991	10,215	795	8,670	750	9,465	6.40-7.50%	2001
	Term.....	1991	65,005	-	65,005	-	65,005	7.70-7.74%	2021
			<u>75,220</u>	<u>795</u>	<u>73,675</u>	<u>750</u>	<u>74,470</u>		
TOTAL			<u>\$ 32,535</u>	<u>\$600,977</u>	<u>\$ 30,579</u>	<u>\$631,132</u>			

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 July 10, 1991, the Company issued the Thirteenth Series Revenue Bonds in the amount of \$75,220,000. These bonds, maturing through 2021, were issued for the purpose of providing funding for capital improvements with the proceeds being deposited in the Capital Improvement Fund. At August 31, 1992, these funds had been exhausted and there were no funds on deposit.

Subsequent to August 31, 1992, the Company has begun negotiation to issue up to \$400 million of revenue bonds. The proceeds from the sale of these bonds will be used to refund certain existing debt, restructure outstanding debt and provide funds to support construction activities.

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") 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, 1992</u>		<u>August 31, 1991</u>	
	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
	<u>(Thousands of Dollars)</u>			
Subordinate Lease Obligation	\$ 470	\$23,285	\$ 440	\$23,755
Unamortized Debt Discount	<u>(50)</u>	<u>(656)</u>	<u>(51)</u>	<u>(706)</u>
Total	<u>\$ 420</u>	<u>\$22,629</u>	<u>\$ 389</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>
1993	\$ 2,244
1994	2,242
1995	2,243
1996	2,246
1997	2,246
Thereafter	<u>38,163</u>
Total	<u>\$49,384</u>

The gross amount of assets under such lease obligation approximated \$23,084,000 at the end of both years while accumulated amortization approximated \$2,095,000 and \$1,633,000, respectively at August 31, 1992 and 1991. 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, 1992 and 1991 was as follows:

Revenue Bond Issue and Scheduled Final Maturity		Interest rate	<u>Thousands of Dollars</u>	
			<u>1992</u>	<u>1991</u>
7th	March 15, 2012	9.50 - 10.875%	\$ 4,620	\$87,140
8th	May 15, 2015	8.70 - 8.75%	65,685	65,685
9th	March 15, 2012	8.70 - 9.125%	88,795	88,795

The assets pledged are primarily noncallable-U.S. Government securities and the interest to be earned thereon. The investments had a carrying value of \$156,322,000 and \$247,249,000, respectively, at August 31, 1992 and 1991, respectively, bearing interest on face value at 0% to 10.27%. 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 at August 31, 1992 and 1991 was \$100,003,000 and \$94,534,000, respectively.

At September 1, 1990, 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>1,927</u>
Current employees:	
Vested	1,349
Non-vested	<u>1,106</u>
Total Current	<u>2,455</u>
Total Membership	<u><u>4,382</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.
- (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 7.5 percent per year compounded annually, as compared to 7% previously utilized (b) projected salary increases of 5 percent per year compounded annually, and (c) 62 as the assumed retirement age.

The change in the return on investment from 7% to 7.5% lowered the pension benefit obligation by approximately \$19.6 million at September 1, 1990.

At September 1, 1991, based on an update of the September 1, 1990 valuation, the estimated unfunded pension benefit obligation was \$81,488,000, as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$174,861,000
Current employees:	
Accumulated employee contributions including allocated investment income:	
Vested	74,177,000
Non-vested	<u>70,865,000</u>
Total pension benefit obligation	\$319,903,000
Net assets available for benefits, at cost (Market Value \$264,746,000)	<u>238,415,000</u>
Unfunded pension benefit obligation	<u>\$ 81,488,000</u>

10. ACCOUNTING FOR PENSION COSTS (Continued):

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 \$14,245,000 or 14.2% of the covered payroll were made in 1992. These contributions consisted of: (a) \$7,592,000 normal cost and (b) \$6,653,000 amortization of the unfunded pension benefit obligation. Fiscal 1992 and 1991 contributions represented contributions in accordance with the actuarially recommended contribution through the actuarial study performed in September 1990.

Historically, payments to beneficiaries are made by the Company and not from the assets of the Pension Plan. In 1992 and 1991, payments to beneficiaries exceeded the Company's actuarially computed pension contribution and withdrawals of \$5,066,000 and \$2,990,000, 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 Retirement 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 1,767 and 1,778 beneficiaries and their dependents for the 1992 and 1991 fiscal years, respectively, and the cost of providing such benefits for 2,417 and 2,455 for the 1992 and 1991 fiscal years, respectively active employees and their dependents by charging the annual insurance premiums to expense. Total premiums incurred for health care amounted to \$18,724,000 in 1992 and \$16,502,000 in 1991 of which approximately 31% in both years represents payments on behalf of retired employees and their dependents. Total premiums for group life insurance were \$1,171,000 in 1992 and \$600,000 in 1991 of which approximately 21% and 22%, 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>1991</u>	<u>1990</u>	<u>1989</u>
Net assets available for benefits (at cost) as a percentage of the pension benefit obligation:	74.5%	73.9%	67.2%
Unfunded pension benefit obligation as a percentage of annual covered payroll:	81.5%	83.8%	108.8%
Company contributions to the PERS as a percentage of annual covered payroll:	14.2%	17.1%	19.1%

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 and for incidents exceeding the foregoing coverage, the Company has aggregate coverage of \$175 million. The Company also maintains \$25 million of workers'

11. RISK MANAGEMENT (Continued):

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
1991	\$ 6,436	\$ 4,883	\$ (3,457)	\$ 7,862	\$ 3,282
1992	7,862	3,964	(3,157)	8,669	2,795

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; and has acquired approximately \$160 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 \$3,923,000 and \$1,723,000 as of August 31, 1992 and 1991, 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
1993	\$ 649
1994	340
1995	169
1996	<u>6</u>
Total	<u>\$1,164</u>

Rent expense for the years ended August 31, 1992 and 1991 amounted to \$1,452,000 and \$1,351,000, respectively.

12. COMMITMENTS AND CONTINGENCIES (Continued):

In the 1988 fiscal year, the Company began paying, 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 August 31, 1992, the amount of these costs paid by the Company was \$31,293,000 which includes \$8,903,000 and \$7,745,000 for the years ended August 31, 1992 and 1991. At August 31, 1992, the Company estimates a total remaining liability of approximately \$6.6 million under the multi-year cost recovery period established by FERC. Approximately \$3.2 million of the liability relates to charges which the Company must pay regardless of future purchases and has been recorded as both a deferred debit and a deferred credit on the Balance Sheet. The remaining \$3.4 million will be assessed based on future purchases of gas. Costs incurred by the Company since May, 1988 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 will also require the Company to pay transition costs. The Company is currently negotiating with its pipeline suppliers and cannot presently determine the magnitude of its obligation; however, it is anticipated that such costs will be recovered through the normal GCR.

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 \$7.6 million per month.

Beginning July 1, 1992, the Company has committed to match Corporate Contributions to the Utility Emergency Service Fund. At August 31, 1992, the Company's required match approximated \$168,000.

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 Contribution Covered Payroll	(6) Contribution as a % of Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Annual Covered Payroll (4)/(5)	
1982	\$ 91,115	\$190,323	47.9%	\$ 99,208	\$15,181	\$ 67,474	22.5%	147.0%
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

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.

**APPENDIX B**  
**Engineering Report**

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**INDEPENDENT CONSULTANT'S REPORT**  
**PHILADELPHIA GAS WORKS**  
**GAS WORKS REVENUE BONDS, FOURTEENTH SERIES**  
**OCTOBER 1992**



**STONE & WEBSTER**  
**MANAGEMENT CONSULTANTS, INC.**

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**STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.**

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October 13, 1992

Honorable Stephen P. Mullin  
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, Fourteenth Series**

Dear Mr. Mullin:

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, Fourteenth 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.

**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. This report provides Stone & Webster's independent assessment of PGW's organization and management, service area, customer base, and sales forecast covering a five-year period from the 1993 through the 1997 fiscal years. 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 1993 through 1998 is addressed with the objective of judging the reasonableness of the major replacements, improvements and benefits which will be made to the gas system.

The report is intended to provide 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 1992 through 1997 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 visual observation and limited review of maintenance records, practices and procedures, we believe PGW's in-service facilities are in "good operating condition."
- Based on our investigation and evaluation it is our opinion that over the financial forecast period, 1992 through 1997, 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 Fourteenth 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") provided that adequate revenues, as discussed in the Financial Considerations section of this report, are provided.
- The Bonds are being issued with the intent of funding the capital improvement program and establishing sinking fund reserves. In addition, there may be refunding bonds issued to refund outstanding revenue bonds in order to reduce, and/or levelize annual debt service cost. In PGW's judgement, with which we agree, the financial implications of such action would be positive because the cost of existing debt to be refunded is higher than the expected cost of new debt.
- Achievement of the forecasted results, 1992 through 1997, is premised on a net revenue increase of \$25.0 million during fiscal year 1993-1994. 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, 1992 through 1997, 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 destructive testing and engineering inspections were not performed.)

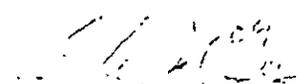
- Contracted PGW gas supplies plus spot market purchases plus anticipated additional contracted supplies plus supplemental gas capacities are adequate to meet PGW's forecast of demand on a day of maximum demand (a design peak day), or an hour of maximum demand (a design peak hour), and during a year of maximum demand (a design year).
- PGW's customer count has risen slightly in recent years (0.1% from 1988 through 1991) 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.
- Total PGW sales volumes over the forecast period are expected to increase by 1.0 percent per year after weather normalization. Due to an abnormally warm fiscal 1992 (4% warmer than normal), the sales growth will average 1.5% per year above this base year without 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 chaired by Ms. Jacqueline F. Allen, Esq., a board member. To date no appointment has been made. Mr. Alfred P. Degan, PGW Executive Vice President, has served as Acting President 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. The 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, Fourteenth 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 fourteenth 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 September 1992, a review and evaluation, based upon on-site inspections, was made of production, storage, distribution and general plant facilities. The adequacy of gas supply 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. On October 13, 1988, after two months of hearings, the Commission denied a requested base rate increase of \$49 million and PGW was ordered to reduce its rates by \$2 million for fiscal year 1989. On February 5, 1991 the Commission issued an Order which rejected PGW's request for a \$31 million rate increase for fiscal year 1991. However, in connection with the related GCR review (see below), base non-fuel revenues were increased by approximately \$16 million and then non-fuel revenues were increased by approximately \$8 million to supplement low revenues due to the mild winter of 1990/1991.

PGW's most recent request for \$34 million in fiscal year 1992 was filed in June 1991. On December 19, 1991, the Commission approved a \$15 million increase in base rates. PGW anticipates that it will file a request for a base rate increase before the end of the fiscal year 1993 intended to provide additional net revenues of \$25 million during fiscal year 1994.

- **Gas Cost Rates** - In conjunction with the fiscal year 1991 rate case, in February 1991, the Commission authorized an adjustment to the structure of the GCR which had the net effect of increasing base non-fuel revenues by approximately \$16 million in a normal weather year. On May 22, 1991, a further adjustment was made to this fuel adjustment clause, thereby increasing base non-fuel revenues an additional \$8 million.

The current GCR, as of October 1, 1992, is a positive 35.65 cents per Mcf, resulting in a debit on customer bills.

Based on our financial analyses, approval of the previously mentioned base rate increase for fiscal year 1994 and any future GCR proposals or their equivalent net revenue from other sources will be required in order for PGW to meet the enclosed *financial forecasts and the terms of its bond covenants*.

- PGW is continuing with its plans to convert all customers to an automatic meter reading system. This requires the conversion of about 75,000 customers per year for seven years. Acceleration of the schedule to as few as five years is also being studied. Treatment of this project in PGW's forecast has been conservative since performance tests are not complete - while the required capital expenditures have been estimated on the high side; the savings have been estimated on the low side.

## 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 156 years of service to the citizens of Philadelphia.

During its 156 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 Chairman of PFMC and all of PGW's officers: its acting President and Executive Vice President, each of the three Senior Vice Presidents, and the nine 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 June 23, 1992 was 2,426. The Gas Works Employees' Union of Philadelphia, Local #686, Service Employees' International Unit (an AFL-CIO affiliated union) represents 1,794 employees. The United Plant Guards Workers of America, Local # 506, represents 37 employees. These figures represent about a 11.5% decrease from manpower levels prior to 1989 in accordance with the Gas Commission's order of October, 1988, directed at reduction of expenses.

In April, 1989 the Gas Workers Employees' Union went out on strike over a number of issues, including salary issues, in the proposed contract. This strike, settled in May, 1989 with a four-year agreement was only the second strike in the history of PGW. The first strike occurred in 1971.

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

Alfred P. Degen, Executive Vice President and Acting 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. He is a member of the Managing Committee of American Gas Association's Finance and Administrative Section, and 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-Elect 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 PPMC 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 534,000 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.

In Philadelphia job losses have been increasing (approximately 2,570 loss in 1989 through 1990). 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, ten to twenty thousand jobs (including support industries) could be lost in the Philadelphia area. The proposed closing of the Naval Base is scheduled to occur over a five to six year period. The outcome of the Naval Base closing 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 is presently being built in downtown Philadelphia, it is expected to be completed by the summer of 1994. This Convention 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 will become one of PGW's largest customer.

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 1991, PGW sold 56.2 billion cubic feet (Bcf) to firm customers. The firm unit volumes sold per degree day have remained fairly constant during the past four years. 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 four years, with 1990 sales at 10.2 Bcf and 1988 and sales at 12.5 Bcf.

## SALES FORECAST

PGW's anticipated sales for fiscal 1992-1997 are shown in Table 3. The 1992 sales forecast is the sum of actual sales experienced during the recently concluded winter and sales forecast for the balance of the fiscal year. The 1992 degree days forecast of 4,418 is 4% warmer than normal, which negatively affects sales, revenues and ultimately bond coverage ratios. After 1992, excluding Load Balancing Service (LBS) sales, the forecast for 1993 - 1997 is based on an analysis of historical usage patterns and utilizes a normal (average) weather pattern containing 4,600 degree days. Factors considered include the actual 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 5.0 Bcf or 7.0 percent from fiscal years 1992 through 1997, an average annual growth rate of 1.3 percent. However most of this increase is due to warm weather conditions experienced in 1992, and not anticipated to recur during the 1993 - 1997 period, which yields a lower than normal base for growth. A more accurate assessment of sales growth can be obtained over the period 1993 through 1997 since all years are weather normalized. Sales growth over this period is approximately 1.0% per year. New air conditioning markets and additional steam system conversions are primarily responsible for this projected growth. In addition to this sales growth, there is a possibility that PGW may transport gas for two cogeneration facilities; for the University of Pennsylvania and for Philadelphia Thermal (operator of the Steam Loop). Should the facilities be built, they would start operations no earlier than fiscal 1994, and would constitute an additional load not shown in the forecast.

Annual firm sales for fiscal 1992 are forecasted at 60.7 Bcf and, under normal weather conditions, are expected to increase to 64.4 Bcf by the end of the forecast period. Overall, the

composite growth rate for firm sales is 1.2 percent per year. Weather normalized growth will approximate 0.7% per year.

Interruptible sales are expected to reach 11.8 Bcf in fiscal 1997, representing an average annual growth rate of 2.4 percent over the forecast period.

Table 4 presents PGW's customer forecast. The total number of customers is expected to decrease by 2,768 or 0.5 percent over the forecast period 1992-1997. The number of residential customers will decrease by 1.0 percent for a net decrease of 5,049 customers by 1997. Combined commercial and industrial customers are expected to increase by 2,118 customers, or 7.7%. Interruptible customers will increase by 85 or 23.2%. The numbers of PHA and municipal accounts are projected to be flat throughout 1993 to 1997.

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 increase in market share relative to the City's declining population. In 1992 residential gas customers will account for 81.57 percent of the City's households; it is expected that they will account for 81.62 percent by 1996.

Table 6 illustrates a sensitivity analysis estimating total residential sales under the assumption that PGW's forecasted percent of population served in fiscal 1992 (i.e. market share) remains constant through the forecast period. At that level, residential sales over the five-year forecast period would be 0.3 Bcf lower than PGW's forecast.

PGW's forecast of sales to its firm commercial and industrial markets projects an increase from 10.1 Bcf to 10.9 Bcf over the forecast period without weather normalization. (After normalization it becomes a slight decrease). 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 over 35 percent of the steam loop's load will be converted to gas by 1998 (see Figure 3). This will represent an annual sales volume of 2.0

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 one-third of its customers since 1974 and PGW is aggressively competing for future conversions. For fiscal 1992 the number of steam loop conversions is expected to be low (4 accounts).

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 has one of the largest facilities 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 75,000 Mcf per day vaporizers. Due to design changes, the originally installed vaporization capacity was reduced to 75% of its nameplate capacity. See the Capital Improvement section of this report for details of ongoing and proposed expenditures to return the capacity to original levels.

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 1996, 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 3,011 miles of main, 503,761 services, 205 regulator stations, 525,506 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 100, 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 less than 1 percent are plastic pipe. Approximately 67 percent of the services are steel and 33 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, service stations, and warehouses, 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 September, 1992 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 Center
  - Distribution and Customer Service Work Stations
  
- City Gate Stations
  - Richmond (TRANSCO)
  - Whitman (TRANSCO)
  
- Hunting Park
  - Warehouse

- Passyunk Plant
  - Boiler & Water Treatment Facilities
  - LNG Facilities
  - Propane/Air Facilities (idle)
  - Gas Holder Facilities
  
- Richmond Plant
  - LNG Plant
  - Gas Control Center
  - Gas Holder
  
- Work Sites
  - Hope Street and Grand Avenue: Crew preparing 6" steel x 6" cast-iron tie-in. Short piece of plastic pipe will be installed to insure proper isolation of newly installed 12" steel main.
  
  - 3rd Street and Girard Ave: 12" and 8" coated and wrapped steel main laid by outside contractor.
  
  - 20th Street and Jefferson Street: 4" plastic x 6" cast iron tie-in. Also an 1 ¼" IPS service extension from roadway cast iron main to new 4" plastic main.
  
- Large Volume Meters
  - Episcopal Hospital (Front & Lehigh)
  - Dietz & Watson (5701 Taconry Street)
  
- District Regulators
  - Belmont Avenue & Ford Road
  
- Maps and Records

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, Support Services, 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 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. Security measures were judged to be excellent 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 and generally accepted industry practices.

## GAS SUPPLY

### SUPPLY SOURCES

PGW has contracts with two major interstate pipeline companies - Texas Eastern Transmission Corporation (TETCO) and Transcontinental Gas Pipe Line Corporation (TRANSCO). These two pipeline companies will deliver virtually all of PGW's supplies over the forecast period. The pipeline contracts provide for gas sales and/or transportation of gas purchased by others. 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 as early as this winter the U.S. natural gas industry will begin operating differently than it has in the past. Due to recent regulation from the Federal Energy Regulatory Commission (Order 636), all gas services will be sold unbundled. As a result PGW will no longer be required to purchase its supplies from either of the pipelines directly. Instead PGW may purchase supplies from other firms and use the pipeline 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 shown in Table 7, there are seven existing contracts on the TRANSCO system and six existing contracts on the TETCO system. Three of the TRANSCO contracts are for flowing gas: 1) PFT, 2) FT, and 3) PSFT. These firm transportation agreements are used to move wellhead gas to the Philadelphia city gates. The PFT and FT contracts are for 365 days per year, whereas the smaller PSFT contract is a winter peaking service available for 90 days per

year. The two TETCO flowing gas contracts, CD-1 and CD-2, are available for 365 and 270 days per year respectively.

On the TETCO system PGW employs four storage contracts (SS-I, SS-II, SS-III, and Equitrans). The SS-I, SS-II and SS-III remain unchanged from last year. The Equitrans contract has increased slightly to 5,397 Dthd from 4,926 Dthd.

On the TRANSCO system, PGW's four storage contracts (GSS, S-2, WSS, and LGA) remain unchanged from previous years. The LGA contract 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. The Richmond plant has carried a total nameplate vaporization capacity of 600,000 Mcf per day. However, it was determined several years ago that the current capacity was approximately 75% of this amount due to design modifications. Capital improvements have been undertaken to restore the plant's vaporization capacity. Current capacity is 450,000 Mcf per day. The Passyunk plant's installed vaporization capacity is currently 90,000 Mcf per day.

Propane/air (LPG) can be produced from PGW's Passyunk plant at the rate of 60,000 Dth per day. In normal practice this output has not been required, although about 75,000 Mcf was produced and sold in past years to keep the plant's facilities ready for design weather conditions. This facility has been put on inactive status since the current gas supply forecast does not require its use until the last two years (1996 and 1997) of the forecast period and then only under design weather conditions.

Figure 4 pictorially depicts the sources of peak day gas supply 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 1993-1997. Over this period it is expected that daily flowing pipeline deliveries (including storage deliveries) will account for substantially all of PGW's requirements.

Table 9 restates PGW's forecast of supply and demand under design weather (5,280 degree days) conditions for fiscal years 1993 - 1997. Daily flowing pipeline supplies account for approximately 80 percent of total demand, and storage gas (underground or pipeline) accounts for approximately 16 percent of demand throughout the forecast period. Remaining demand (approx. 4%) is met with LNG (and LPG in 1996 and 1997).

As shown in Table 7, the pipeline contracts provide PGW with up to 106 million Dth annually. This amount is not exceeded by any year's projected firm demand until 1997, and then only under design weather conditions. To the extent practicable and most prudent, PGW intends to maintain flexibility on both pipelines by contracting future purchases from both marketers and producers. A number of supplies are being selected under varying term contracts now for the TRANSCO 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 F (70 Heating Degree Hours). 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. In only the last two forecast years (1996 and 1997) is propane/air required on any forecast peak day. 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 a peak hour's demand.

The maximum daily sendout during the most recent cold winter (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 (1991-1992) the peak sendout occurred on January 19, 1992 when an average temperature of 20°F was recorded. Sendout totaled 589.2 MMcf and was derived 76% from pipeline gas, and 24% 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 supplies of natural gas, 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 1997 fiscal year.

## CAPITAL IMPROVEMENT PROGRAM

### BUDGET PROCESS

PGW's capital budget and five-year forecast are the result of a process in which a list of budgeting and operating assumptions is developed and 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 F average temperature and a minus five degrees F 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 of PGW's system, the next priority (2) indicates expenditures required to improve system efficiency, 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.

Proposed capital expenditures for both the fiscal 1993 capital budget and the five-year capital forecast (fiscal 1994 through fiscal 1998) total \$377.1 million net. These expenditures are summarized in Table 11A and Exhibit IV and shown graphically in Figures 6 and 7.

The proposed fiscal 1993 capital budget totals \$50.3 million net with distribution system expenditure totals for the six-year forecast accounting for 64.4 percent, gas supply for 9.3 percent, customer service 16.5 percent, transportation 5.2 percent, and other expenditures 4.6 percent. This budget is \$7.3 million (14.0%) less than last year's original budget filing (fiscal 1992) and \$0.7 million less than the amended 1992 capital budget. The fiscal 1993 gross budget of \$52.3 million is comprised of \$42.0 million (80.3%) of replacements and \$10.3 million (19.7%) of additions.

Broken out by priority, 75.1% of the proposed fiscal 1993 gross capital budget is categorized as priority 1, (essential for safe and reliable service), 22.6% as priority 2 (will reduce future operating costs) and 2.3% priority 3 (discretionary). Broken out by needs categories, the fiscal 1993 gross budget is allocated primarily to prudent replacements (\$22.2 million or 44.4%), enforced relocations (\$8.4 million or 16.6%), and load growth (\$10.1 million or 19.4%). The remaining \$11.6 million (19.6%) is either for economic replacement, improved efficiency, or other needs.

Table 11B lists the thirteen largest items in the fiscal 1993 capital budget. These are all of the items budgeted at over one million dollars each. Together these thirteen major projects account for \$43.7 million or 83.6% of the total budget. These same thirteen project categories (twelve of which are annual recurring items) also accounted for \$43.6 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 \$36.2 million for the six year budget and forecast period. The 1993 Gas Supply Budget is 52.6% less than the original budget filed in 1992 and 43.5% less than the amended 1992 capital budget. The 1992 budget included capital requirements associated with PGW's LNG facility at Richmond; these requirements have been substantially reduced in the 1993 budget.

The expenditure breakdown in the 1993 gas supply budget are \$120,000 for National Gas Measurement and Control Facilities, \$1.78 million for Supplemental Gas Facilities, and \$2.23 million for building and grounds. The largest individual expenditure is \$1.2 million for engineering, design and purchase of major equipment and replacement of steam supply system for LNG Facility at the Passyunk Plant.

### **DISTRIBUTION PLANT**

The proposed expenditures for capital improvements to PGW's distribution system in the fiscal 1993 to 1998 budget and forecast period total \$251.9 million before credits of \$11.4 million for salvage and reimbursement to yield a net total of \$240.5 million. Main and service replacements amounting to \$205.0 million and additions of \$46.8 million account for 88 percent and 19 percent respectively of the total gross capital expenditures. The fiscal 1993 budget calls for net

capital improvements to distribution system of \$36.3 million after allowances for salvage and reimbursement of \$1.6 million.

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 \$79.6 million of the six year total including \$14.1 million for the fiscal 1993 proposed capital budget. These expenditures are scheduled for the renewal of services based on customer complaints, leak surveys, and city and state work. Planned new service additions will account for \$2.4 million of the fiscal 1993 budget and \$13.1 million over the entire period.

Prudent main replacements for intermediate and low pressure mains of small diameter (8 inches or less) amount to \$6.9 million of the fiscal 1993 budget and \$39.3 million over the six year period. These amounts are based on the need to replace 40,000 feet of cast iron main annually for maintenance history reasons. Main replacements due to anticipated city and state construction activities involve \$5.4 million of proposed expenditures for the fiscal 1993 budget and \$26.6 million for the total six year period.

## **CUSTOMER SERVICE**

PGW's planned customer service related investments total \$63.4 million net after consideration of \$1.1 million for contributions and salvage over the six year period. The proposed 1993 budget expenditures amount to \$4.7 million on a net total basis. Meter replacements, additions and installations will total \$25.8 million for the six year period including \$4.6 million for the proposed 1993 budget.

PGW is still awaiting approval for the implementation of the Automatic Meter Reading (AMR) program. The total budget forecast for the AMR is \$31.8 million with the first expenditure to occur in 1994 for \$6.0 million. In addition, there is approximately \$6 million available for AMR installation from prior approved capital budgets.

## **TRANSPORTATION**

Capital expenditures for transportation by PGW total \$20.6 million less \$1.5 million expected for vehicle and equipment salvage during the six year budget and forecast period. Vehicle replacements will account for 82 percent of the total; mobile equipment replacements 9.4 percent, and the remaining 8.6 percent of the expenditures is planned for miscellaneous equipment.

## **OTHER DEPARTMENTS**

The balance of PGW's budgeted and forecasted capital expenditures amount to \$17.9 million over the six year period including \$2.3 million proposed for fiscal 1993. The departmental expenditures are \$7.4 million for building services, \$4.7 million for information systems, \$3.0 million for customer activities, \$0.5 million for materials management and \$.05 million for Technical Services. Building services expenditures include funding for building alterations, furniture, office machines and equipment, tools and machinery, paving and structural repairs to PGW buildings and parking lots, an N.G.V. (natural gas vehicle) service station, air conditioning systems, and electrical systems. The largest customer activities budget item is a PBX system scheduled for 1996 for \$1.0 million. The largest information systems expenditures involve \$2.0 million forecast for 1995 for a new central processing unit and \$0.8 million split between 1995 and 1997 for replacement tape drives.

## **RECENT DEVELOPMENTS**

PGW's proposed capital budget for 1993 and its five-year forecast were filed with the Commission on March 2, 1992. PGW received favorable recommendation on the budget from the Commission on May 5, 1992.

Following submission of the previous capital budget (1992) a controversy arose over the amount of previously approved but outstanding capital funds and was not resolved during the 1992

capital budget hearings. However, during the 1993 capital budget hearings the issue was finally resolved through the combined efforts of PGW, the Public Advocate, and the PGC staff, and endorsed by the City of Philadelphia's Finance Director. The resultant Commission order on May 5, 1992 essentially approved a \$51 million capital budget.

Based on discussions with PGW's management and our review and evaluation of PGW's proposed fiscal 1993 capital budget and forecast capital expenditures for fiscal 1994 through 1998, 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. 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 of the 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 five years PGW has filed four base rate increase requests and gone through a Commission-authorized management audit.

- In June 1988 a rate increase request was filed for an additional \$49 million in revenues for Fiscal Year 1989 (September 1, 1988 through August 31, 1989). In October 1988, after two months of hearings, the Commission denied the requested rate increase and ordered the company to reduce its rates to reflect a reduction in revenues of \$2 million beginning in fiscal year 1989. The Order directed PGW to reduce expenses in certain areas in order to meet its financial obligations.
- In November 1989 the results of a Commission-authorized audit of PGW's management and operations became available. The results of the audit included 149 recommendations for improving PGW's operations. The Commission ordered PGW to implement 10 of the *recommendations* immediately and a task force was formed to review possible implementation of 64 additional recommendations.
- In May 1990 PGW proposed an operating budget for fiscal year 1991, which included a proposed 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 effectively denied the request and ordered the company to maintain its existing level of base rates.

In conjunction with the above rate case, the Commission reviewed the GCR and issued an order authorizing an adjustment to the structure of the GCR to increase base non-fuel revenues by approximately \$16 million a year. Effective September 1, 1990, the cost of gas included in the base rates was decreased from \$3.60/Mcf to \$3.33/Mcf and the base rates were kept 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 to \$3.18/Mcf but again kept the base rate unchanged. The most recent GCR, effective December 19, 1991, is a charge of \$0.3565/Mcf for all quantities of gas.

- In June 1991, PGW submitted a rate increase of \$34 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.

The Commission performs an annual review of the GCR procedure. Although it is usually conducted as a separate proceeding, the Commission incorporated a recent review within the scope of the 1990 rate case. This review, which was more technically comprehensive than in previous years, included an investigation into fuel planning and gas purchasing practices of the company. After extensive examination, the Commission and the Public Advocate concluded that PGW's gas procurement has fulfilled applicable regulatory requirements by utilizing least-cost gas supplies and maintaining overall system reliability.

PGW does not expect to apply for a rate increase until next year to take effect in fiscal year 1994. The current Commission has not yet issued any Orders or held any hearings, so it is impossible to anticipate how PGW will fare in future rate applications. In light of what has happened to date regarding implementation of both the cost-saving measures stemming from the management audit and the Commission's cost-cutting directives, the regulatory outlook may be more positive for future rate increases since many identified expense reductions have been

implemented. At the same time, however, continuing financial problems in the City exert mounting pressure to limit rate increases.

## **ENERGY ASSISTANCE PROGRAMS**

High accounts receivable balances and a large number of delinquent accounts have occurred at PGW for several years. 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 level to increase funding for energy assistance programs. As a result of its activities these financial assistance programs provided a total of \$13.5 million and \$13.3 million in aid for the fiscal year 1991 and 1992 respectively.

The Federal Government's Low Income Home Energy Assistance Program (LIHEAP) provides a payment to households which are at or below 150 percent of the federal poverty level in order to help ensure continued utility service. 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 1, 1991 through April 3, 1992. There were 47,125 PGW customers who received \$8.7 million of LIHEAP funds for an average of \$184.00 per customer. In fiscal year 1992, PGW customers also received assistance from the LIHEAP Crisis program with 14,242 customers receiving \$4.1 million for an average of \$288.00. In fiscal year 1991, the grant program ran from October 29, 1990, through May 31, 1991. There were 45,116 PGW customers who received \$8.6 million of LIHEAP funds for an average of \$191.00 per customer. In fiscal year 1991, PGW customers received assistance from the LIHEAP Crisis program with 16,778 customers receiving \$4.6 million for an average of \$274.00. It is important to note the dramatic reduction in grant program year length between fiscal year 1991 and 1992 due to federal funding levels. The 1991 season contained thirty-one weeks compared to twenty-two weeks for program year 1992.

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 1991, there were 33,284 delinquent customers who had a "five-and-two" percent repayment agreement, of which 13,018 were active with a total receivable balance of \$8.1 million. Through July 1992, there were 44,381 delinquent customers who had a "five-and-two" percent repayment agreement of which 22,711 were active with a total receivable balance of \$19.3 million. This program, like LIHEAP, is subject to 150 percent of the Federal income poverty test.

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 40 percent of the 5,400 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 fuel 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 1991, just over 1,600 PGW customers received \$307,000 under this program. In fiscal year 1992, approximately 2,650 PGW customers received \$525,000. These dollars are a reduction compared to previous fiscal years due to many

low income customers participating in the Energy Assurance Program (EAP) which precluded them from receiving or needing UESF funds.

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 1991 there were 78,890 Dollar Plus payments with contributions totaling \$77,588.35 an average donation of \$1.01. For fiscal 1992 there were 84,304 Dollar Plus payments with contributions totaling \$86,016.88 an average donation of \$1.02.

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 1991, there were 84,254 delinquent customers participating in the 20 percent repayment agreement, 29,899 of which were active with a total receivable balance of \$11.0 million. Through July 1992, there were 93,109 delinquent customers participating in the 20 percent repayment agreement, 36,451 of which were active with a total receivable balance of \$17.5 million.

Lastly, 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 1992, approximately 15,900 customers had enrolled in the Energy Assurance Program. Since the beginning of the EAP program

approximately 5,300 customers were dismissed leaving approximately 10,600 customers on the program at the close of the 1992 fiscal year.

PGW has also been active in promoting its Conservation Works Program which is the weatherization energy conservation segment of EAP. As a result of this program, the company anticipates savings in gas usage of up to 20 percent for those participating in the program. In accordance with the Energy Assurance Program 1,700 persons attended conservation workshops. Under the Conservation Works Program approximately 1,100 properties received weatherization treatment in fiscal year 1992. Usage reduction under this program is being analyzed.

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, 1991 there were 102,454 customers taking advantage of the senior citizen discount. This resulted in a discount of \$12.47 million for fiscal year 1991. At the end of the fiscal year 1992, 102,919 customers were enrolled in this program resulting in a discount of \$14.47 million. There are no income requirements for this program.

The company has many techniques 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. In fiscal year 1991 PGW made 61,000 calls to inform customers about available fuel grants. This total increased to approximately 130,000 telephone calls in fiscal year 1992 with the aid of an automatic calling system. Additionally, approximately 13,000 field visits were made to customers properties where no phone number existed. These field visits alone resulted in over 3,000 grant application being taken.

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 there by 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 or interruptible. Firm 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 1991, 77.2 percent of PGW's gas volumes were provided as firm service to residential, commercial and industrial customers. Interruptible sales accounted for 18.2 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 4.5 percent of PGW's total sales for fiscal year 1991. Sales for resale accounted for 0.1 percent.

Interruptible customers are served under various rate schedules including 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.

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, two rates will 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 new special provision for gas air-conditioning has been incorporated in rates GS, MS, PHA and BPS for separately metered usage during the months of May through September. 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, the Commission approved a modification to Rule 10 of the Company's Rules and Regulations. This rule previously allowed up to 100 feet of combination supply main and service supply pipe free of charge to residential customers. The new rule prescribes the effective extent of the company contribution based on a relationship of an amount up to five times the anticipated annual base rate revenue, less the fuel cost component included in the base rates. Under the new rule the customer would pay for any costs in excess of this allowance.

As part of the Commission rate case order for fiscal year 1992 the Customer Charges were increased for all classes: the Residential Customer Charge increased from \$2.50/month to \$4.00, the Commercial Customer Charge increased from \$7.50 to \$10.00, and the Industrial Customer Charge increased from \$15.00 to \$20.00.

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 1993-1997 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 1994.

*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 proposed a debt coverage of 2.11, the Public Advocate said a range of 1.7 to 1.9 will achieve this result, and the Philadelphia Gas Commission adopted a ratio of 1.80 as the target, but the coverage ratio for fiscal 1991 actually dropped to 1.51 times. In June, 1991 the Company requested rate relief in the amount of \$34.0 million based on a coverage ratio of 1.8 times but received only \$15.0 million in December 1991. As a result of the lower increase the coverage ratios for the fiscal years 1992 and 1993 are projected at 1.65 times coverage in contrast to the 1.8 times the Philadelphia Gas Commission had adopted. The Company has forecasted a base rate increase in 1994 resulting in a coverage ratio of 1.85 times.

1. After the projected rate increase, the Company's financial plan, in the last year, falls slightly short of the 1.8 times debt service the Commission previously adopted to provide the minimum cushion necessary for the Company to maintain its bond rating. Therefore, 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, except for the last year, our scenario showed a rate increase of \$4.3 million less in 1994 but \$3.0 million more in the last year.
2. Our second scenario addressed regulation to provide for annual debt service coverage of 1.7. Although the Company's financial plan is still viable under this lower coverage test, its construction fund would be reduced and any additional setback would necessitate additional or accelerated financing for capital programs due primarily to PGW's reduced ability to fund capital programs with internally generated funds. A reduction of coverage would also put upward pressure on interest rates and again put downward pressure on the Company's bond rating which was recently revised from A to Baa1 by Moody's.

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 all projected revenue bond issues. This change increased the cost assigned to those bonds by \$9.0 million over five years. Debt service coverage averaged 1.75, down from an average of 1.79 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 0.012.

## REVENUE BOND FINANCING

We have been informed by PGW that the proceeds from the sale of the Fourteenth Series Bond issues 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 Fourteenth Series Bonds, and the projected \$75 million of Fifteenth Series Bonds to be issued in 1993 and 1996, 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 (8/31/91)	41,972
Less Deposits for Sinking Fund Reserve and Issue Expenses	<u>18,045</u>
Balance Available to PGW as applied 8/31/97	<u>\$173,927</u>
Capital Improvement Fund Drawdown	\$132,607
Repayment of Capital Advance	15,000
Capital Improvement Fund Balance (8/31/97)	<u>26,320</u>
Balance Accounted for (8/31/97)	<u>\$173,927</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:

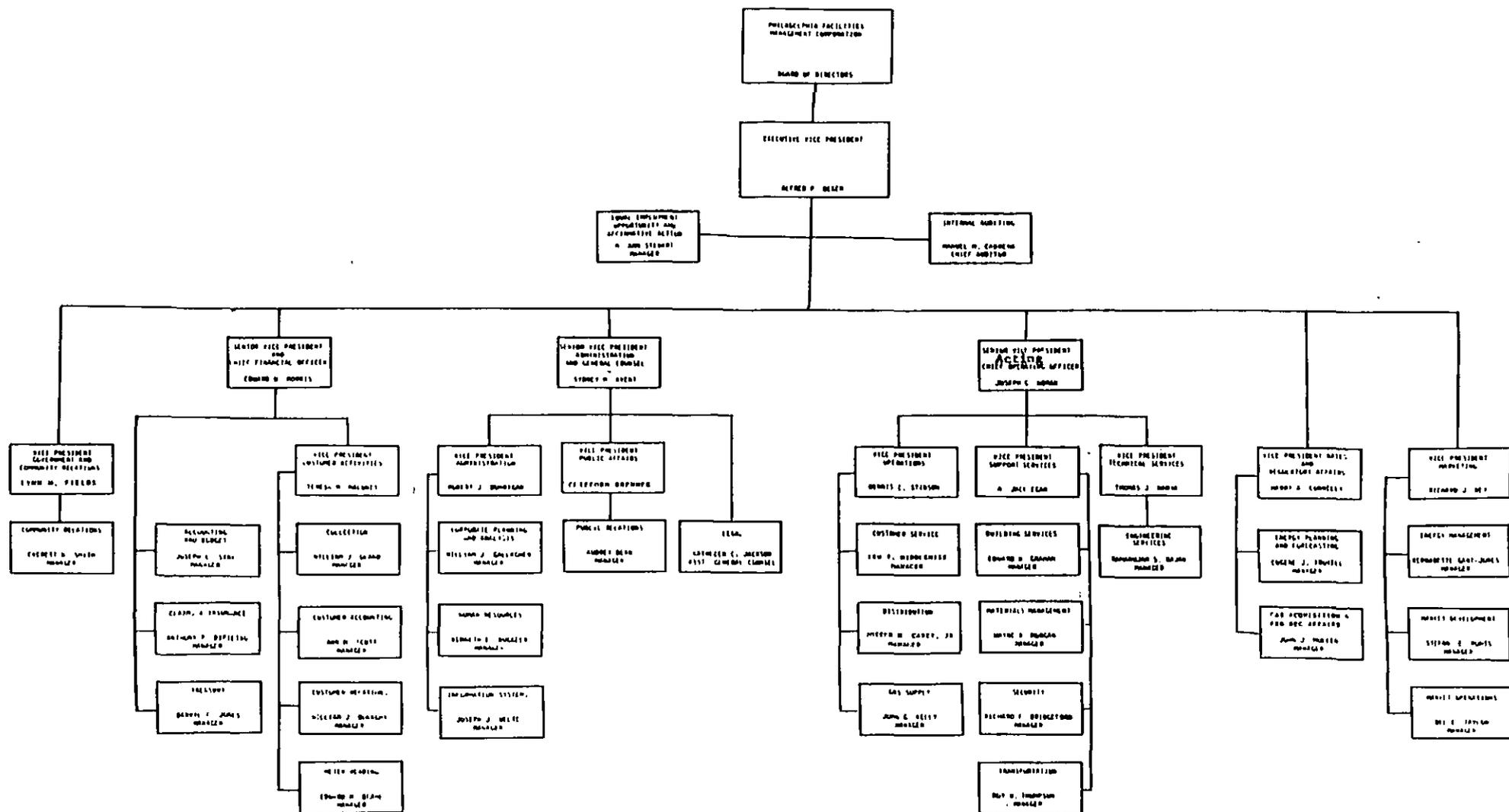
- (i) All Net Operating Expenses payable during such Fiscal Year; and
- (ii) All Sinking Fund deposits required during such Fiscal Year with respect to all outstanding Bonds and general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year 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,

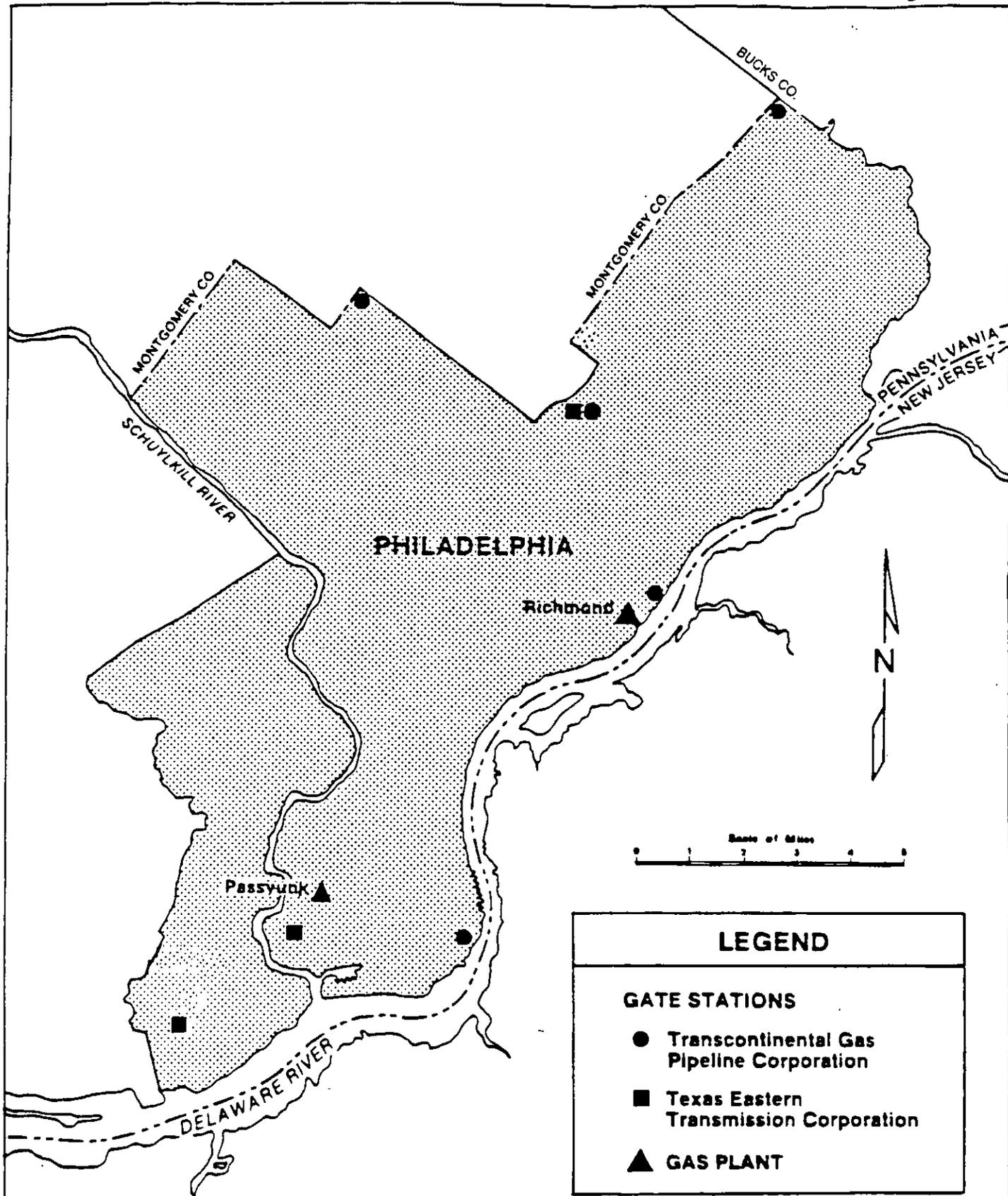
if such refunding or restructuring were to occur, it is our judgement that the financial implications could only improve the coverage ratios as current debt cost is below the cost of the issues to be refunded.

# PHILADELPHIA GAS WORKS ORGANIZATION



MEMBER OF MANAGEMENT EMPLOYEES

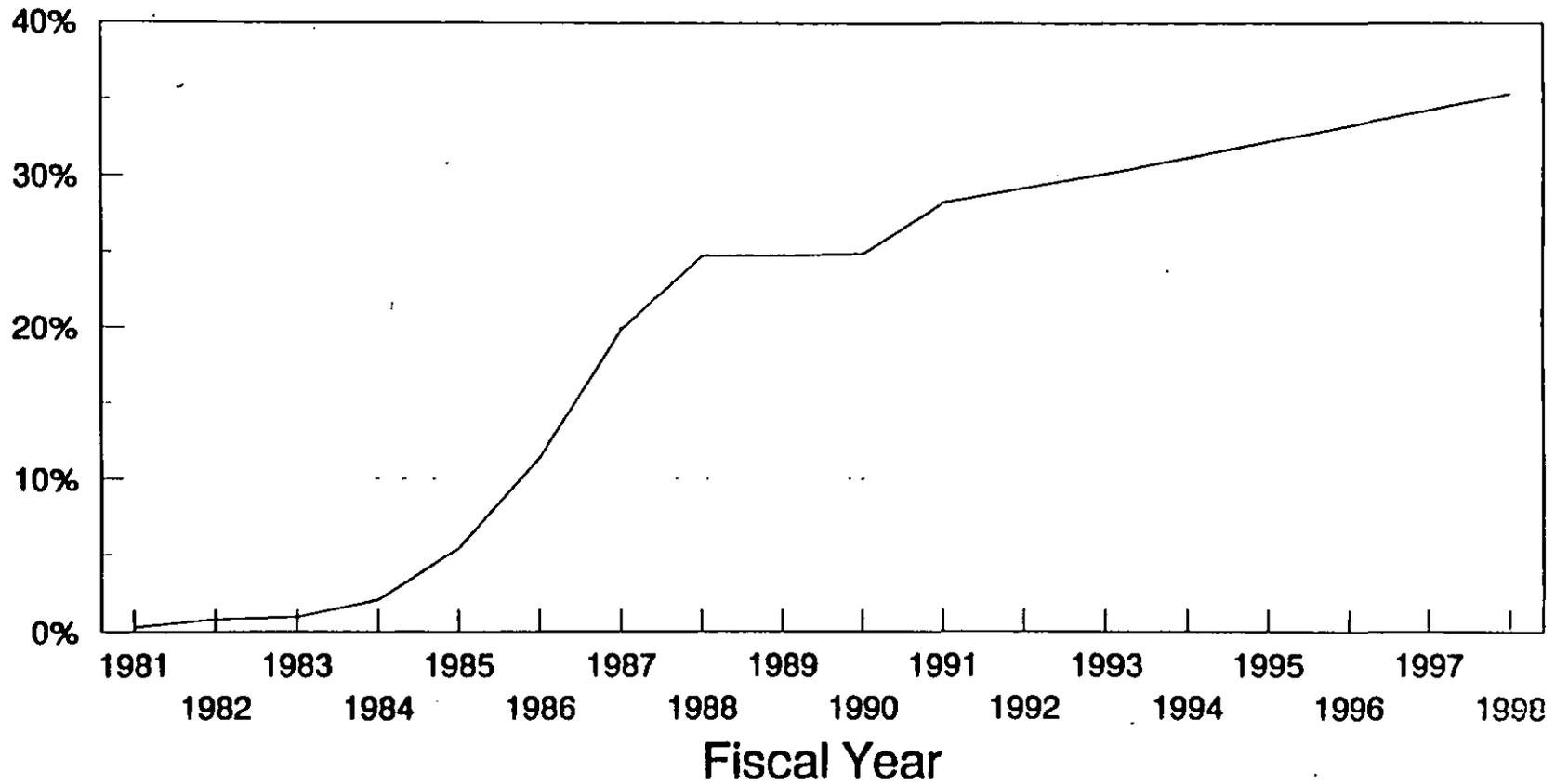
Figure 1



**PHILADELPHIA GAS WORKS  
SERVICE AREA**

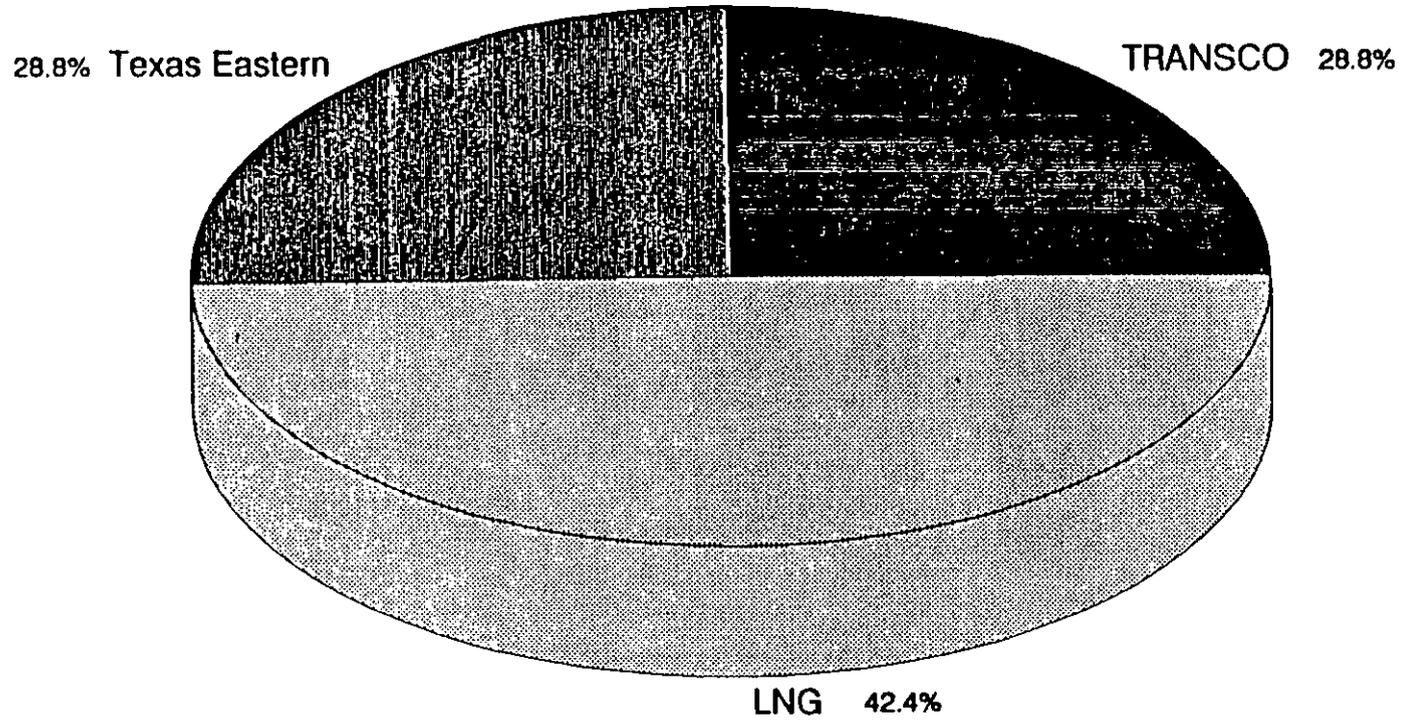
# STEAM LOOP CONVERSIONS Actual and Projected

Percent Converted



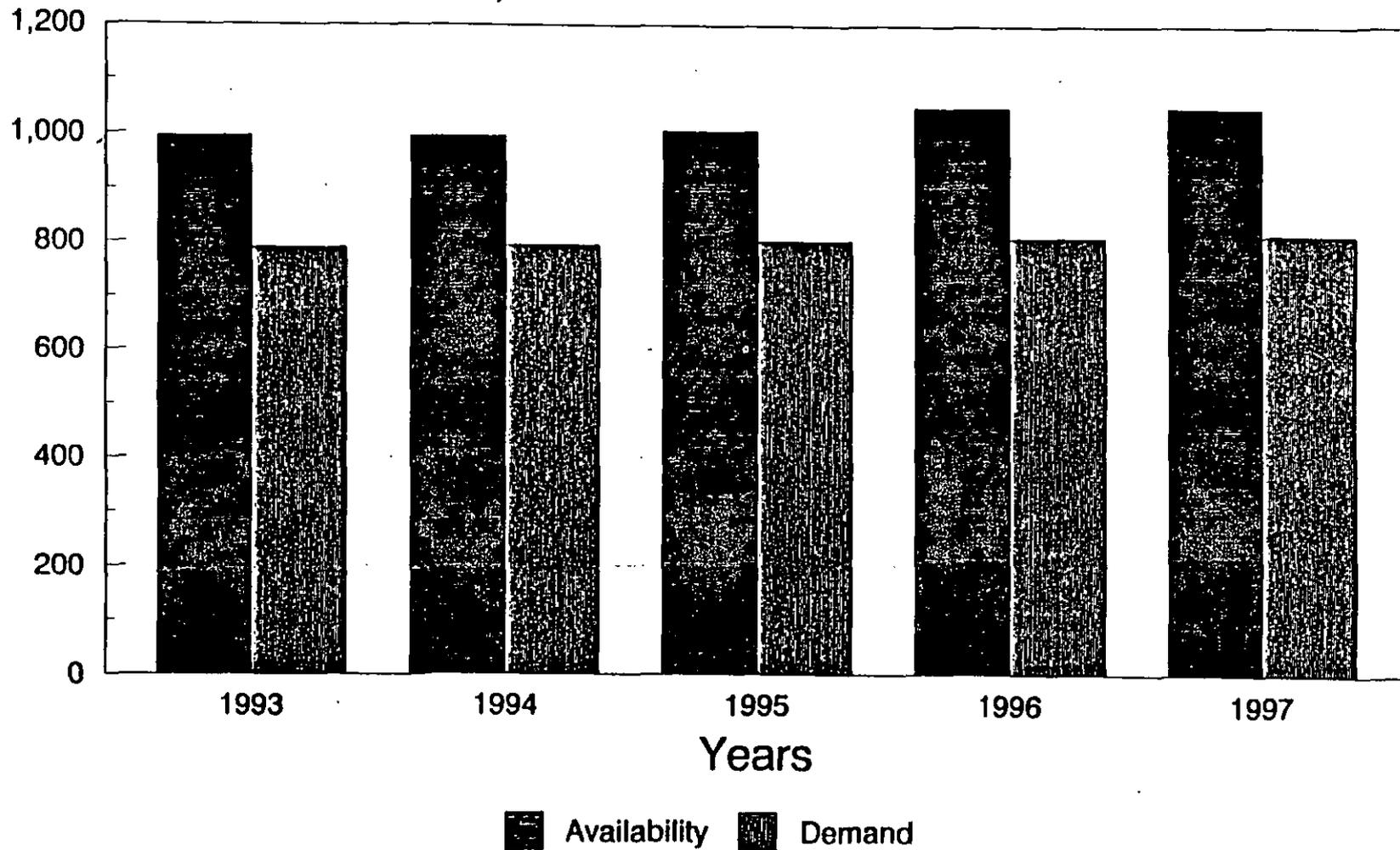
Actual: 1981 - 1991  
Projected: 1992 - 1998

# 1993 PEAK SUPPLY BY SOURCE



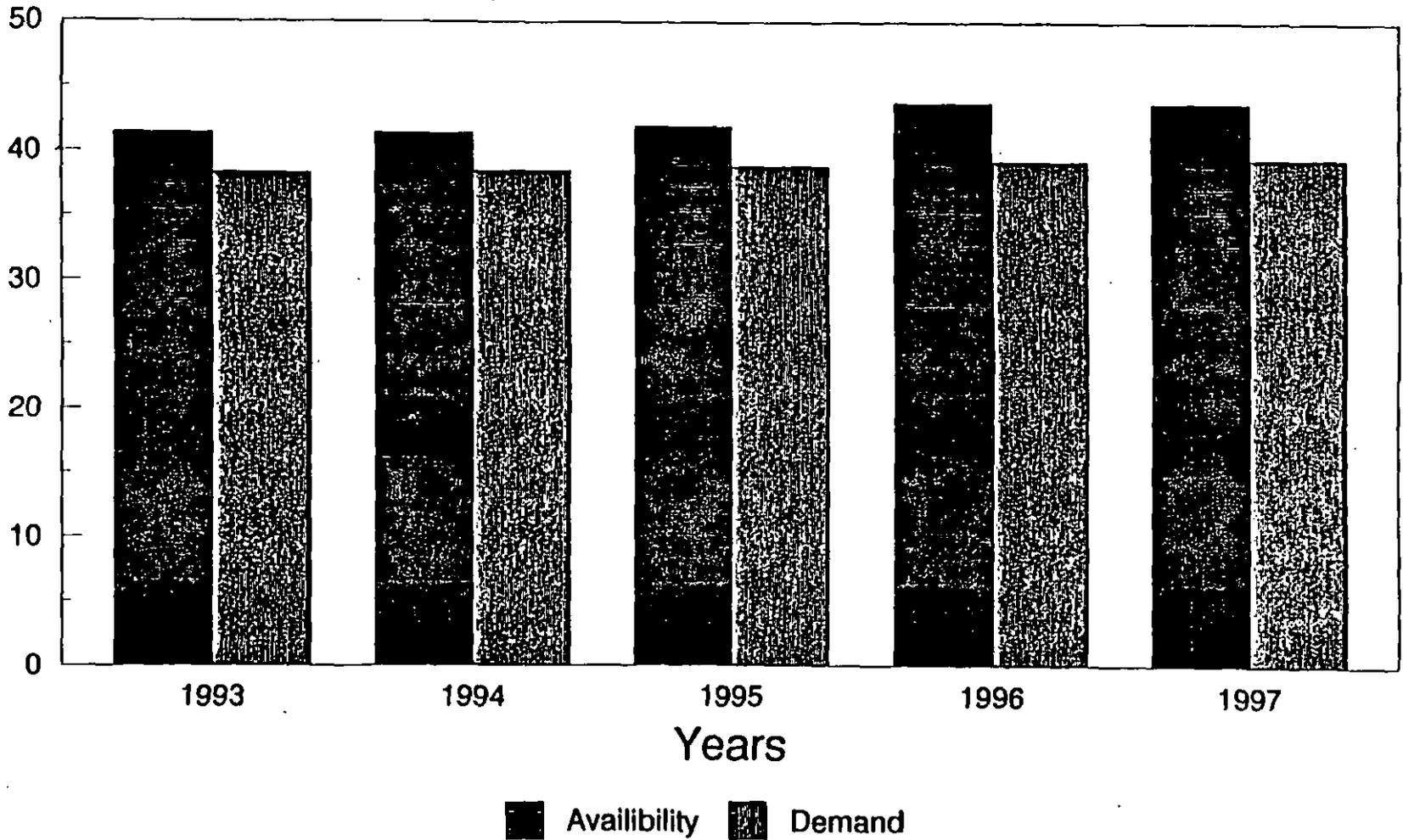
# PEAK DAY DEMAND vs. AVAILABILITY (Based on 65 Heating Degree Days)

(MMcf @ 1.030 BTU/CF)



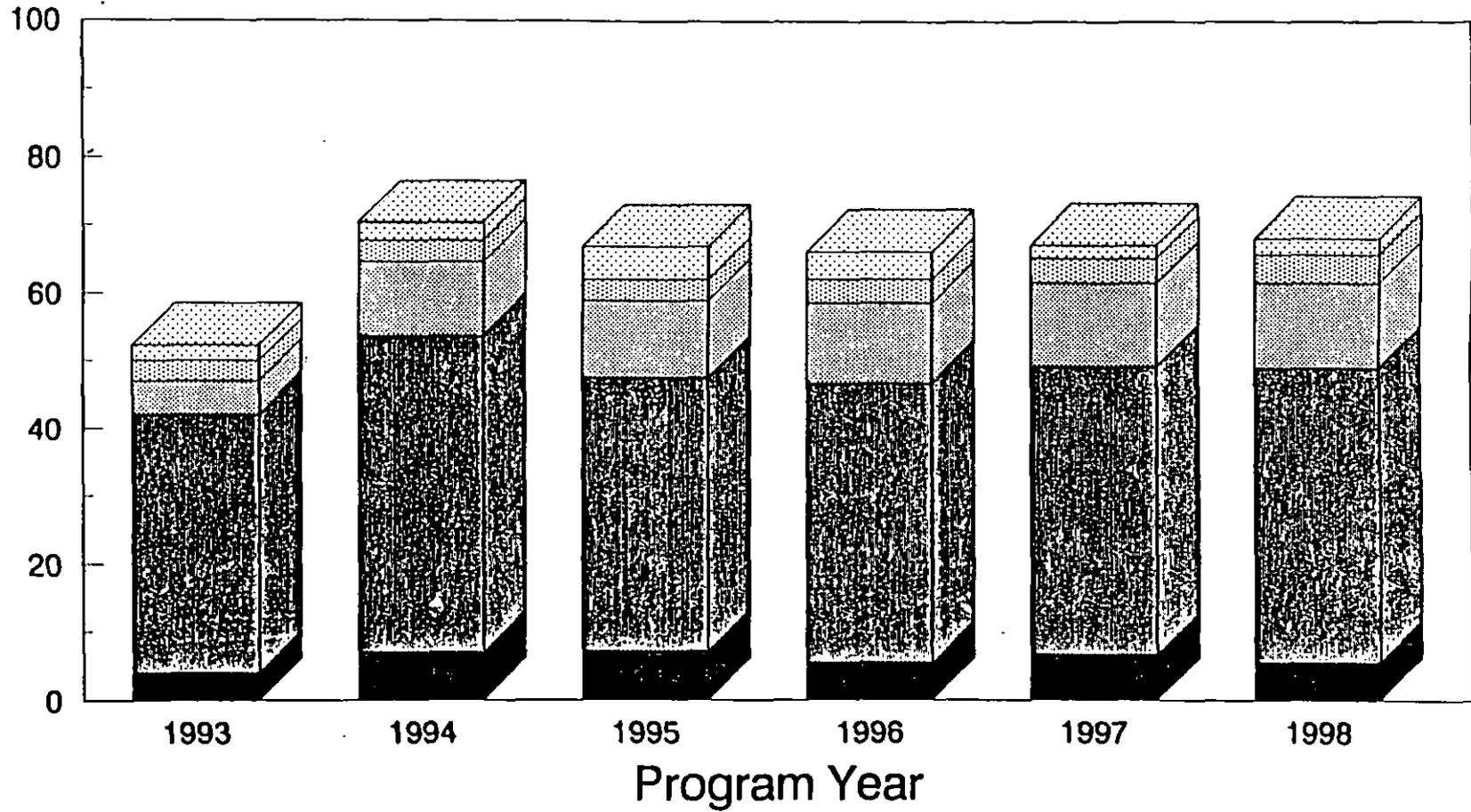
# PEAK HOUR DEMAND vs. AVAILABILITY (Based on 70 Heating Degree Hours)

(MMcf @ 1.030 BTU/CF)



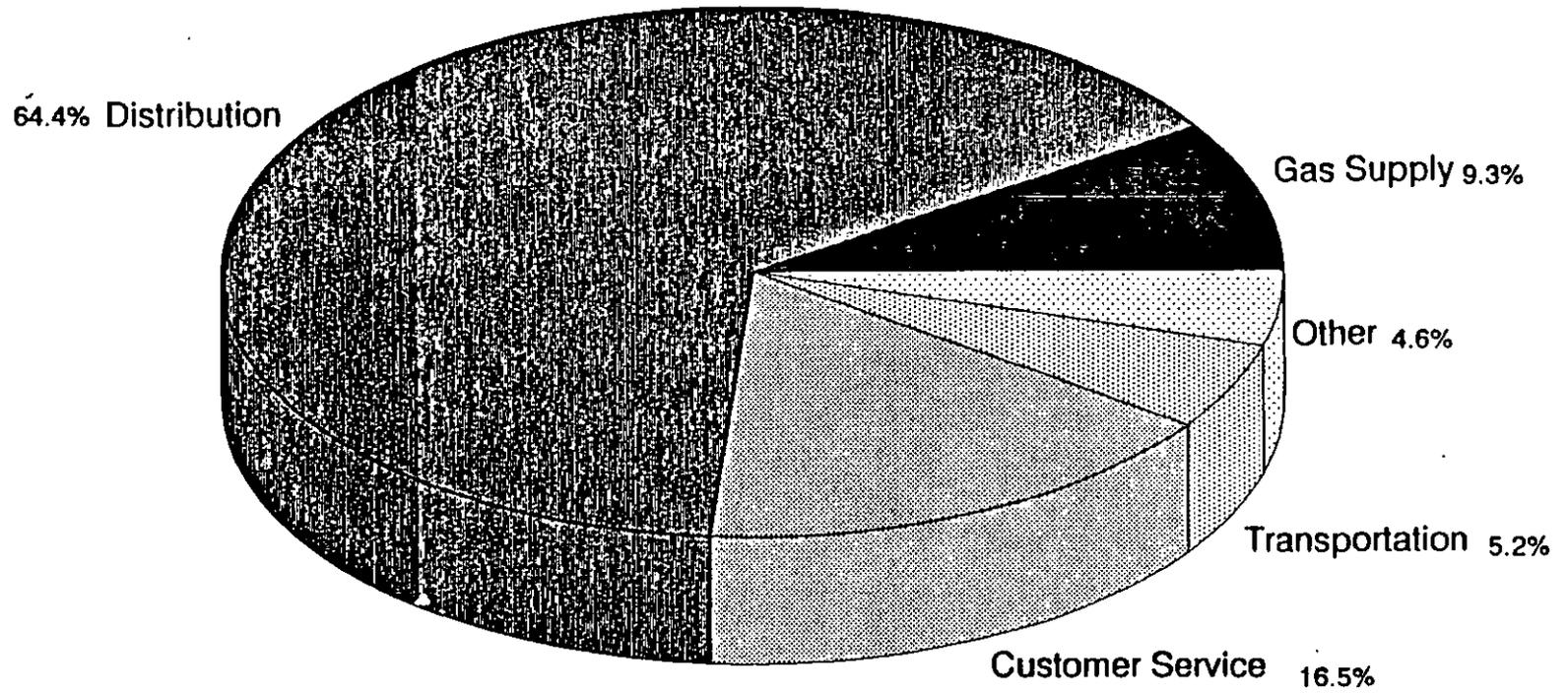
# PGW PROPOSED CAPITAL IMPROVEMENT PROGRAM 1993 - 1998

Millions of Dollars



Gas Supply
  Distribution
  Customer Service
  Transportation
  Other

# PGW PROPOSED CAPITAL BUDGET 1993 - 1998



**TABLE 1**  
**HISTORICAL NUMBER OF CUSTOMERS**

	As of August 31,				As of June 30,	
	1991	1990	1989	1988	1980	1975
Residential	497,696	494,253	497,596	497,228	516,683	518,929
Commercial & Industrial						
Firm	24,788	24,614	20,246	19,507	20,328	21,997
Interruptible	348	337	299	264	81	288
Municipal & Housing Authority	2	2	2	2	2	2
<b>Total</b>	<b>522,834</b>	<b>519,206</b>	<b>518,143</b>	<b>517,001</b>	<b>537,094</b>	<b>541,216</b>

**TABLE 2**  
**HISTORICAL SALES**  
**(MMcf)**

	Fiscal Years Ended August 31,				Fiscal Years Ended June 30,	
	1991	1990	1989	1988	1980	1975
<b>Firm:</b>						
Residential	43,325	47,898	48,730	49,505	51,520	50,197
Commercial	7,710	7,792	7,449	7,127	6,510	6,103
Industrial	2,046	2,334	2,356	2,543	3,809	4,318
Municipal	1,270	1,394	1,442	1,461	1,641	1,880
Housing Authority	1,829	1,971	2,007	2,137	2,818	2,604
Sales for Resale	49	96	-	181	-	-
<b>Total Firm</b>	<b>56,229</b>	<b>61,485</b>	<b>61,984</b>	<b>62,954</b>	<b>66,298</b>	<b>65,102</b>
<b>Interruptible:</b>						
Industrial	-	-	-	-	8,211	8,529
Boiler & Power Service	3,282	3,251	3,054	2,796	1,874	1,756
Load Balancing Service	8,934	6,987	7,496	9,676	10,945	-
Co-Generation	162	-	-	-	-	-
Gas Transport-Retail Sales	110	-	-	-	-	-
<b>Total Interruptible</b>	<b>12,488</b>	<b>10,238</b>	<b>10,550</b>	<b>12,472</b>	<b>21,030</b>	<b>10,285</b>
<b>Total Sales</b>	<b>68,717</b>	<b>71,723</b>	<b>72,534</b>	<b>75,426</b>	<b>87,328</b>	<b>75,387</b>
<b>Degree Days (a)</b>	<b>3,900</b>	<b>4,431</b>	<b>4,579</b>	<b>4,676</b>	<b>4,728</b>	<b>4,583</b>

**Note:**

(a) PGW's normal heating season (September 15 - May 15) contains 4,600 Degree Days.

**TABLE 3**  
**SALES FORECAST\***  
**Fiscal Years 1992 - 1997**  
**(MMcf)**

	1992	1993	1994	1995	1996	1997
<b>Firm:</b>						
Residential	47,325	48,979	49,589	49,722	49,914	50,019
Limited Service	5	4	4	4	4	4
Commercial	8,136	8,554	8,657	8,818	8,972	9,075
Industrial	2,011	2,030	1,984	1,964	1,944	1,923
Municipal	1,352	1,451	1,451	1,451	1,452	1,451
Housing Authority	1,828	1,923	1,923	1,923	1,924	1,924
<b>Sub-Total</b>	<b>60,657</b>	<b>62,941</b>	<b>63,608</b>	<b>63,882</b>	<b>64,210</b>	<b>64,396</b>
<b>Interruptible:</b>						
BPS-Direct	6	0	0	0	0	0
BPS - Indirect	2,910	3,332	3,555	3,778	3,940	4,130
BPS - AC	6	53	116	116	116	116
LBS - L Direct	720	760	760	760	749	724
LBS - L Indirect	1,902	1,936	1,936	1,936	1,920	1,878
LBS - S Indirect	835	995	1,017	1,049	1,109	1,182
LBS - XL Direct	1,903	1,997	1,997	1,997	1,964	1,893
LBS - XL Indirect	847	938	938	938	930	910
COGEN Indirect	363	431	433	614	736	1,004
GTS-Sales	1,017	0	0	0	0	0
Sales for Resale	75	0	0	0	0	0
<b>Sub-Total</b>	<b>10,584</b>	<b>10,442</b>	<b>10,752</b>	<b>11,188</b>	<b>11,464</b>	<b>11,837</b>
<b>Total</b>	<b>71,241</b>	<b>73,383</b>	<b>74,360</b>	<b>75,070</b>	<b>75,674</b>	<b>76,233</b>
Degree Days	4,418	4,600	4,600	4,600	4,600	4,600

Note:

\* Totals may vary due to rounding.

**TABLE 4**  
**CUSTOMER FORECAST\***  
**Fiscal Years 1992 – 1997**

	1992	1993	1994	1995	1996	1997
Residential	503,194	503,330	502,055	500,803	499,515	498,145
Philadelphia Housing Authority	5,305	5,356	5,356	5,356	5,356	5,356
Commercial	23,944	24,278	24,636	25,242	25,788	26,132
Industrial	1,362	1,307	1,280	1,284	1,288	1,292
Municipal	715	718	718	718	718	718
<i>PHILADELPHIA WATERWORKS</i>	<i>111,111</i>	<i>111,111</i>	<i>111,111</i>	<i>111,111</i>	<i>111,111</i>	<i>111,111</i>

Note:

\* Average Number of Customer Billings.

**TABLE 5**  
**GROWTH IN SHARE OF RESIDENTIAL MARKET**  
**Fiscal Years 1992 – 1996**

	Population(a)	Households(b)	Forecast of (c) Residential Customers	Residential Customers as % of Households
1992	1,579,241	616,891	503,194	81.57%
1993	1,576,083	615,657	503,330	81.75%
1994	1,572,930	614,426	502,055	81.71%
1995	1,569,785	613,197	500,803	81.67%
1996	1,566,645	611,971	499,515	81.62%

**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 1992 LEVELS (NO GROWTH)  
COMPARED WITH PGW'S FORECAST OF GROWTH**

	Forecast of (a) Residential Customers	Sales (a&d) Forecast (MMcf)	Residential (b) Customers at 1992 Level	Sales at (c&d) 1992 Level (MMcf)	Variance (d) In Load (MMcf)
1992	503,194	47,325	503,198	47,325	0
1993	503,330	48,979	502,191	48,868	(111)
1994	502,055	49,589	501,187	49,503	(86)
1995	500,803	49,722	500,185	49,661	(61)
1996	499,515	49,914	499,185	49,881	(33)
Total					(291)

## Notes:

(a) PGW Forecast.

(b) Assumes 81.57% of households (see 1992 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**  
**CURRENT INTERSTATE PIPELINE GAS CONTRACTS**

	Contract Quantity		Expiration Date
	Annual	Daily	
	----- (Dth) -----		
<b>Flowing Gas Contracts:</b>			
Texas Eastern CD-2	31,069,980	115,074	10/31/99
CD-1	14,817,175	40,595	10/31/99
Transco (a) PFT (b)	29,200,000	80,000	03/31/2005
LTFT	31,102,380	85,212	03/31/2005
PS-6	177,030	1,967	07/31/2011
Sub-total	106,366,565	322,848	
<b>Storage Contracts:</b>			
Texas Eastern SS-I	2,647,080	44,118	04/15/2000
SS-II	1,197,000	7,947	04/15/2000
SS-III	2,610,000	26,100	04/15/2000
Equitrans	564,300	5,397	04/01/2002
Transco (a) GSS	4,320,359	61,567	03/31/92
S-2	466,554	5,193	04/15/74 (c)
WSS	3,335,909	(d)	03/31/98
LGA (e)	52,475	10,495	10/31/91
Sub-total	15,141,202	150,322	
<b>TOTAL</b>	<b>121,507,767</b>	<b>473,170</b>	

**NOTES:**

- (a) Transco Contract Billing Level Adjusted to Available Level at 1035 BTUs per Mcf.
- (b) Firm Transport
- (c) Extended on a Year-to-year Basis.
- (d) Included in Flowing Gas Contract Quantities.
- (e) Volume not included in totals - Volume Leased to outside company for Peaking Service.

TABLE 8

Supply/Demand Balance(b)  
 Fiscal Years 1993 - 1997  
 (Normal Year - 4,600 HDD)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	----- (000 Dth) -----				
Demand(a)					
Firm	66,543	67,248	67,538	67,884	67,985
Boiler and Power Service	3,570	3,871	4,107	4,278	4,478
Load Balancing Service	6,908	6,931	6,965	6,956	6,870
Cogeneration	454	457	648	776	1,059
<b>Total Sales</b>	<b>77,475</b>	<b>78,507</b>	<b>79,258</b>	<b>79,894</b>	<b>80,392</b>
Plant Use	1,025	1,063	1,095	1,122	1,117
Storage Injection	13,513	18,961	17,052	17,127	17,156
Liquefaction	2,964	3,021	3,411	3,403	3,483
<b>Total Sendout</b>	<b>94,977</b>	<b>101,552</b>	<b>100,816</b>	<b>101,546</b>	<b>102,148</b>
Supplies					
Texas Eastern(c)	25,261	39,948	37,489	36,640	37,007
Transco(d)	51,963	41,120	42,900	44,286	44,495
Storage Withdrawal	14,732	17,073	17,024	17,137	17,184
LNG	3,021	3,411	3,403	3,483	3,462
LPG	0	0	0	0	0
<b>Total Supplies</b>	<b>94,977</b>	<b>101,552</b>	<b>100,816</b>	<b>101,546</b>	<b>102,148</b>

## 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 1993 – 1997**  
**(Design Year – 5,280 HDD)**

	1993	1994	1995	1996	1997
	----- (000 Dth) -----				
<b>Demand</b>					
Firm	73,665	74,479	74,809	75,195	75,325
Boiler and Power Service	3,422	3,714	3,912	4,104	4,296
Load Balancing Service	3,968	3,839	3,760	3,799	3,834
Cogeneration	312	303	407	495	671
<b>Total</b>	<b>81,367</b>	<b>82,335</b>	<b>82,888</b>	<b>83,593</b>	<b>84,126</b>
Plant Use	1,091	1,129	1,169	1,203	1,204
Storage Injection	13,904	19,179	17,298	17,367	17,380
Liquefaction	3,429	3,486	3,876	3,868	3,948
<b>Total Sendout</b>	<b>99,791</b>	<b>106,129</b>	<b>105,231</b>	<b>106,031</b>	<b>106,658</b>
<b>Supplies</b>					
Texas Eastern(c)	28,714	40,648	38,168	37,424	37,702
Transco(d)	52,466	44,000	45,554	46,715	46,806
Storage Withdrawal	14,719	17,198	17,030	17,165	17,256
LNG	3,892	4,283	4,479	4,472	4,465
LPG	0	0	0	255	429
<b>Total Supplies</b>	<b>99,791</b>	<b>106,129</b>	<b>105,231</b>	<b>106,031</b>	<b>106,658</b>

## 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 1993–1997

(Design Peak Day Weather = 65 HDD)  
(Design Peak Hour Weather = 70 HDD)

Source of Supply (a)	(MMCF @ 1.030 BTU/CF)				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<b>Transco</b>					
PFT	77.7	77.7	77.7	77.7	77.7
FT	82.7	82.7	82.7	82.7	82.7
PS-6	1.9	1.9	1.9	1.9	1.9
S-2	5.0	5.0	5.0	5.0	5.0
GSS	59.8	59.8	59.8	59.8	59.8
LGA	0.0	0.0	10.2	10.2	10.2
<b>Total Transco</b>	<b>227.1</b>	<b>227.1</b>	<b>237.3</b>	<b>237.3</b>	<b>237.3</b>
<b>Texas Eastern</b>					
CD-1	39.4	39.4	39.4	39.4	39.4
CD-2	111.7	111.7	111.7	111.7	111.7
SS-I	42.8	42.8	42.8	42.8	42.8
SS-II	6.6	6.6	6.6	6.6	6.6
SS-III	21.8	21.8	21.8	21.8	21.8
Equitable	5.2	5.2	5.2	5.2	5.2
<b>Total Texas Eastern</b>	<b>227.5</b>	<b>227.5</b>	<b>227.5</b>	<b>227.5</b>	<b>227.5</b>
Sub-Total	454.6	454.6	464.8	464.8	464.8
<b>Supplemental Gas</b>					
LNG	540.0	540.0	540.0	540.0	540.0
LPG	0.0	0.0	0.0	43.6	43.6
<b>Total Supplemental</b>	<b>540.0</b>	<b>540.0</b>	<b>540.0</b>	<b>583.6</b>	<b>583.6</b>
<b>Total Supply</b>	<b>994.6</b>	<b>994.6</b>	<b>1004.8</b>	<b>1048.4</b>	<b>1048.4</b>
Firm Peak Day Demand	788.7	794.6	800.9	807.2	813.0
Firm Peak Hour Demand	38.3	38.5	38.8	39.2	39.4

**Note:**

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

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

Category	1993	1994	1995	1996	1997	1998	Total \$	Total %
Gas Supply	\$4,123	\$6,996	\$7,294	\$5,542	\$6,734	\$5,554	\$36,243	9.3%
Distribution	37,968	46,677	40,270	41,156	42,439	43,347	251,857	64.4%
Customer Service	4,930	11,094	11,543	11,895	12,404	12,648	64,514	16.5%
Transportation	3,064	3,116	3,117	3,462	3,588	4,214	20,561	5.2%
Other	2,254	2,620	4,807	4,034	1,929	2,321	17,965	4.6%
	<u>\$52,339</u>	<u>\$70,503</u>	<u>\$67,031</u>	<u>\$66,089</u>	<u>\$67,094</u>	<u>\$68,084</u>	<u>\$391,140</u>	<u>100.0%</u>
Less:								
Reimbursements(a)	(1,691)	(1,757)	(1,825)	(1,897)	(1,971)	(2,047)	(11,188)	-2.9%
Contribution (b)	(136)	(143)	(149)	(154)	(161)	(167)	(910)	-0.2%
Salvage(c)	(262)	(284)	(295)	(326)	(312)	(420)	(1,899)	-0.5%
	<u>\$50,250</u>	<u>\$68,319</u>	<u>\$64,762</u>	<u>\$63,712</u>	<u>\$64,650</u>	<u>\$65,450</u>	<u>\$377,143</u>	<u>-3.6%</u>

**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 1993 BUDGET (\$MM)  
(COMPARISON OF 1993 ITEMS OVER \$1MM)**

CODE	DESCRIPTION	PRIORITY	DEPT.	1993 - 1992					
				1993 AMOUNT	% OF BUDGET	1992 AMOUNT	% OF BUDGET	AMOUNT DIFFERENCE	PERCENT DIFFERENCE
52-24-2-01	RENEWAL OF < 1 1/4" SERVICES	1	DIST	\$14.1	27.0%	\$13.7	23.0%	\$0.4	2.8%
52-21-2-02	PRUDENT MAIN REPLACEMENTS	1	DIST	\$7.0	13.4%	\$6.8	11.4%	\$0.2	2.9%
52-21-2-01	ENFORCED RELOCATIONS, PRESSURE	1	DIST	\$5.4	10.3%	\$5.5	9.2%	(\$0.1)	-1.9%
52-24-1-01	INSTAL OF NEW 1 1/4" SERVICES	2	DIST	\$2.4	4.6%	\$2.4	4.0%	\$0.0	0.0%
52-22-2-01	ENFORCED RELOCATIONS	1	DIST	\$2.0	3.8%	\$3.0	5.0%	(\$1.0)	-50.0%
52-21-1-01	LOCAL MAINS - NEW HOUSES	2	DIST	\$1.4	2.7%	\$1.2	2.0%	\$0.2	14.3%
52-99-2-99	REMOVAL & ABANDONMENT	2	DIST	\$1.3	2.5%	\$1.2	2.0%	\$0.1	7.7%
52-24-1-02	INSTAL OF NEW 2"+ SERVICES	2	DIST	\$1.1	2.1%	\$1.3	2.2%	(\$0.2)	-18.2%
52-20-2-01	ENFORCED RELOCATIONS	1	DIST	\$1.0	1.9%	\$1.0	1.7%	\$0.0	0.0%
	<b>SUBTOTAL DISTRIBUTION</b>			<b>\$35.7</b>	<b>68.3%</b>	<b>\$36.1</b>	<b>60.5%</b>	<b>(\$0.4)</b>	<b>-1.1%</b>
60-30-2-01	REPL OF WORN METERS	1	CSD	\$2.4	4.6%	\$2.7	4.5%	(\$0.3)	-12.5%
50-30-1-01	NEW CUSTOMER METERS	2	CSD	\$2.2	4.2%	\$2.0	3.4%	\$0.2	9.1%
	<b>SUBTOTAL CUSTOMER SERVICE DEPT.</b>			<b>\$4.6</b>	<b>8.8%</b>	<b>\$4.7</b>	<b>7.9%</b>	<b>(\$0.1)</b>	<b>-2.2%</b>
53-02-2-01	STEAM SUPPLY SYSTEM - LNG	1	GS	\$1.2	2.3%	\$0.0	0.0%	\$1.2	100.0%
73-01-2-01	REPLACEMENT OF MOTOR VEH'S	1	TRAN	\$2.2	4.2%	\$2.8	4.7%	(\$0.6)	-27.3%
	<b>TOTAL MAJOR PROJECTS</b>			<b>\$43.7</b>	<b>83.6%</b>	<b>\$43.6</b>	<b>73.2%</b>	<b>\$0.1</b>	<b>0.2%</b>
	<b>TOTAL ALL PROJECTS</b>			<b>\$52.3</b>	<b>100.0%</b>	<b>\$59.6</b>	<b>100.0%</b>	<b>(\$7.3)</b>	<b>-14.0%</b>

TABLE 12

TYPICAL RESIDENTIAL MONTHLY BILL COMPARISON <sup>(a)</sup> (Based on 100 Therms as of March 31, 1992)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Brooklyn Union Gas Company	96.98
2.	Bay State Gas Company, MA	91.08
3.	Boston Gas Company	82.80
4.	New Jersey Natural	79.06
5.	Philadelphia Gas Works	76.60
6.	Elizabethtown Gas Company, NJ	73.79
7.	Washington Gas Light Company, DC	72.74
8.	Long Island Lighting Company, NY	72.38
9.	Consolidated Edison of New York, Inc.	72.03
10.	UGI Corporation	66.46
11.	Philadelphia Electric Company	65.52
12.	Niagara Mohawk Power Corp., NY	64.71
13.	South Jersey Gas, NJ	64.47
14.	National Fuel Gas, NY	62.83
15.	Columbia Gas of Pennsylvania	60.73
16.	Peoples Natural Gas Company, PA	59.47
	Baltimore Gas & Electric Company	Not Reported
	Public Service Electric & Gas, NJ	Not Reported
	Rochester Gas & Electric, NY	Not Reported

<sup>(a)</sup> 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 <sup>(a)</sup> (Based on 300 Therms as of March 31, 1992)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Brooklyn Union Gas Company	302
2.	Boston Gas Company	248
3.	Philadelphia Gas Works	244
4.	Washington Gas Light Company, DC	234
5.	Bay State Gas Company, MA	232
6.	New Jersey Natural	231
7.	Long Island Lighting Company, NY	223
8.	Elizabethtown Gas Company, NJ	214
9.	UGI Corporation	211
10.	Niagara Mohawk Power Corp., NY	197
11.	Philadelphia Electric Company	191
12.	Consolidated Edison of New York, Inc.	189
13.	Peoples Natural Gas Company, PA	181
14.	National Fuel Gas, NY	178
15.	South Jersey Gas, NJ	176
16.	Columbia Gas of Pennsylvania	167
	Baltimore Gas & Electric Company	Not Reported
	Public Service Electric & Gas, NJ	Not Reported
	Rochester Gas & Electric, NY	Not Reported

<sup>(a)</sup> 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 <sup>(a)</sup> (Based on 1000 Therms as of March 31, 1992)		
Bill Rank	Company	Typical Monthly Bill (\$)
1.	Niagara Mohawk Power Corp., NY	4,389 <sup>(b)</sup>
2.	Brooklyn Union Gas Company	922
3.	National Fuel Gas, NY	792
4.	Boston Gas Company	747
5.	Philadelphia Gas Works	746
6.	New Jersey Natural	736
7.	Washington Gas Light Company, DC	722
8.	Long Island Lighting Company, NY	715
9.	Bay State Gas Company, MA	680
10.	UGI Corporation	663
11.	Consolidated Edison of New York, Inc.	581
12.	South Jersey Gas, NJ	546
13.	Elizabethtown Gas Company, NJ	532
14.	Columbia Gas of Pennsylvania	531
15.	Peoples Natural Gas Company, PA	530
	Baltimore Gas & Electric Company	Not Reported
	Philadelphia Electric Company	Not Reported
	Public Service Electric & Gas, NJ	Not Reported
	Rochester Gas & Electric, NY	Not Reported

<sup>(a)</sup> 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.

<sup>(b)</sup> Minimum bill provision results in high monthly bill for 1,000 therm consumption level.

TABLE 15

COVERAGE OF DEBT SERVICE FROM OPERATIONS

<u>Fiscal Year</u>	<u>Revenue Bonds</u>
1991 Actual	1.51 x
1992 Projected	1.65 x
1993 Projected	1.65 x
1994 Projected	1.85 x
1995 Projected	1.82 x
1996 Projected	1.84 x
1997 Projected	1.77 x

TABLE 18

SOURCES AND USES OF CASH FOR CAPITAL IMPROVEMENT EXPENDITURES  
Fiscal Years 1988 Through 1997  
(\$000)

	ACTUAL				PROJECTED					
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Sources:</b>										
Bond Proceeds @ Par			\$75,000	\$75,220		\$75,000			\$75,000	
Proceeds from Sale/Leaseback		25,000								
Capital Advance					15,000					
PGW Internal Funds	19,437	8,159	17,250	36	1,697	38,009	40,042	44,037	42,994	37,999
<b>Total Sources</b>	<b>\$19,437</b>	<b>\$33,159</b>	<b>\$92,250</b>	<b>\$75,256</b>	<b>\$18,697</b>	<b>\$111,009</b>	<b>\$40,042</b>	<b>\$44,037</b>	<b>\$117,994</b>	<b>\$37,999</b>
<b>Uses:</b>										
Changes in Capital Improvement Fund	(\$53,100)	(\$27,318)	\$24,011	\$13,315	(\$41,972)	\$31,760	(\$18,400)	(\$13,700)	\$48,260	(\$23,600)
Repayment of Capital Advance						\$15,000				
Discount & Issuance Expense		1,107	4,006	1,572	(35)	2,625			2,625	
Deposit to Sinking Fund		2,247	6,035	6,476		8,415			6,415	
Capital Expenditures	72,537	57,123	58,198	53,893	58,704	55,209	56,442	57,737	60,694	61,599
<b>Total Uses</b>	<b>\$19,437</b>	<b>\$33,159</b>	<b>\$92,250</b>	<b>\$75,256</b>	<b>\$18,697</b>	<b>\$111,009</b>	<b>\$40,042</b>	<b>\$44,037</b>	<b>\$117,994</b>	<b>\$37,999</b>
<b>Capital Improvement Fund:</b>										
Deposit	\$0	\$21,648	\$64,959	\$67,172	\$35	\$50,960	\$0	\$0	\$65,960	\$0
Drawdown	53,100	48,964	40,948	53,857	42,007	19,200	18,400	13,700	17,700	23,600
<b>Changes in Fund</b>	<b>(53,100)</b>	<b>(27,318)</b>	<b>24,011</b>	<b>13,315</b>	<b>(41,972)</b>	<b>31,760</b>	<b>(18,400)</b>	<b>(13,700)</b>	<b>48,260</b>	<b>(23,600)</b>
<b>Balance End of Period</b>	<b>\$31,964</b>	<b>\$4,648</b>	<b>\$28,657</b>	<b>\$41,972</b>	<b>\$0</b>	<b>\$31,760</b>	<b>\$15,360</b>	<b>\$1,660</b>	<b>\$49,920</b>	<b>\$26,320</b>

TABLE 17

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

	Twelve Months at August 31				
	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Billed Gas Revenues	\$452,432	\$462,226	\$469,569	\$470,110	\$442,664
Accounts Receivable	94,441	83,734	87,994	91,215	93,361
Reserve for Uncollectible Accounts	41,639	40,851	39,181	41,053	48,027
Reserve as a Percentage of Accounts Receivable	44.1%	48.8%	44.5%	45.0%	51.4%
Write-off Expenses	20,496	20,874	20,920	22,137	23,361
Receivables as a Percentage of Sales Revenue	20.9%	18.1%	18.7%	19.4%	21.1%
Delinquent Customers (Annual Average)	156,387	148,588	141,095	133,610	134,368

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

	FISCAL YEARS					
	1992	1993	1994	1995	1996	1997
Billed Gas Revenues (a)	\$491,954	\$492,665	\$547,378	\$559,342	\$571,075	\$583,525
Gas Accounts Receivable	119,411	109,477	118,570	119,368	117,862	118,497
Gas Reserve for Uncollectible Accounts	50,824	48,806	51,176	50,852	48,701	48,078
Reserve as a Percentage of Accounts Receivable	42.6%	44.6%	43.2%	42.6%	41.3%	40.6%
Write-off Expenses	21,139	24,324	23,454	24,708	27,416	25,860
Receivables as a Percentage of Sales Revenue	24.27%	22.22%	21.66%	21.34%	20.64%	20.31%

Note:

(a) 1994 Fiscal Year includes an increase in base rates of \$25.0 million.

EXHIBIT 1

PHILADELPHIA GAS WORKS  
SELECTED OPERATING STATISTICS

Fiscal Data	Year Ended									
	June 30	Years Ended August 31,								
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Number of Customers	528,189	518,393	518,869	518,997	518,614	516,046	517,001	518,143	519,206	522,834
Miles of Distribution Mains	2,986	2,981	2,983	2,986	2,989	2,993	3,018	3,031	3,014	3,008
Utility Plant (\$000) (1)	527,301	557,241	586,752	624,835	667,339	720,506	787,601	840,248	892,970	940,267
Total Gas Sales (MMcf)	83,690	72,537	78,269	69,851	71,857	71,338	75,426	72,534	71,723	68,717
Operating Revenues (\$000):										
Heating	356,673	363,737	394,586	373,937	367,716	363,057	372,007	379,673	376,006	356,150
Non-heating	130,837	130,220	130,842	115,482	103,476	87,461	93,115	87,607	90,245	98,347
Gas Transportation	-	-	-	-	-	-	-	-	-	460
Total Operating Revenues	495,296	502,305	532,163	495,286	477,127	456,443	469,567	472,706	472,172	461,572
Other Income	11,531	13,381	16,729	15,906	15,643	12,295	15,940	12,858	11,880	12,636
Operating Expenses (\$000):										
Natural Gas	272,004	298,237	305,835	289,383	266,029	221,119	229,284	238,087	230,362	208,402
Gas Processing	37,783	22,700	16,886	17,104	19,729	20,713	24,611	24,410	25,390	22,362
Customer Service	17,905	17,525	18,182	19,455	20,306	20,858	20,786	20,382	19,229	17,835
Distribution	10,497	11,212	12,335	13,048	13,411	14,350	16,562	16,244	20,588	18,519
Collection & Meter Reading (2)	38,191	36,888	36,680	34,673	32,132	36,215	35,010	32,383	37,241	42,963
Administrative and General	18,134	18,783	18,692	19,523	25,068	26,112	28,413	27,185	26,989	28,687
Other Operating Expenses (3)	43,535	47,785	49,649	51,405	52,731	57,267	60,745	60,612	56,676	58,115
Total Operating Expenses	438,049	453,130	458,259	444,591	429,406	396,634	415,411	419,303	416,475	396,883
Interest Expense	35,065	38,699	39,843	40,766	44,244	44,125	48,575	47,736	49,007	52,871
Net Income	33,713	23,857	50,790	17,347(4)	19,120	27,979	21,521	18,525	18,570	24,454

1) Gross Plant at original cost.

2) Includes appropriation to Reserve for Uncollectible Accounts.

3) Includes Customer Relations, Customer Accounting, Marketing, Pensions, Taxes and Net Depreciation and Amortization.

4) Includes extraordinary loss of \$8,488,000 due to early extinguishment of debt.

## EXHIBIT II

PHILADELPHIA GAS WORKS  
 FORECAST STATEMENT OF INCOME  
 Fiscal Years 1991 through 1997  
 (\$000)

ACTUAL	FORECAST						
	1991	1992	1993	1994	1995	1996	1997
<b>Operating Revenues</b>							
Sales (Current Rates & Changes to GCR)	\$455,007	\$481,734	\$498,679	\$522,578	\$534,442	\$546,125	\$558,575
Projected Rate Increase - Prior					25,000	25,000	25,000
- Current				25,000			
Other Operating Revenues	6,565	6,938	6,883	7,578	7,706	7,827	7,907
<b>Total Operating Revenues</b>	<b>461,572</b>	<b>488,672</b>	<b>505,562</b>	<b>555,156</b>	<b>567,148</b>	<b>578,952</b>	<b>591,482</b>
<b>Operating Expenses</b>							
Natural Gas	208,402	206,878	213,836	227,748	234,413	242,286	250,370
Other Raw Material	423	(113)	15	18	20	23	25
Gas Processing	21,939	21,491	23,048	23,718	24,511	25,581	26,547
Other Operating & Maintenance (Exhibit III)	145,229	150,180	156,689	165,011	170,555	178,406	186,614
Operating Expenses Excl. Depreciation	375,993	378,236	393,588	416,495	429,499	446,296	463,556
Depreciation	20,890	23,578	28,076	27,661	30,150	32,772	35,548
<b>Total Operating Expenses</b>	<b>396,883</b>	<b>401,814</b>	<b>419,664</b>	<b>444,176</b>	<b>459,649</b>	<b>479,068</b>	<b>499,104</b>
<b>Net Operating Income</b>	<b>64,689</b>	<b>86,858</b>	<b>85,918</b>	<b>110,980</b>	<b>107,499</b>	<b>99,884</b>	<b>92,378</b>
Other Income	12,636	9,621	9,310	8,407	8,116	9,291	10,613
<b>Net Income Before Interest</b>	<b>77,325</b>	<b>96,479</b>	<b>95,228</b>	<b>119,387</b>	<b>115,615</b>	<b>109,175</b>	<b>102,991</b>
<b>Interest Expense</b>							
Long-term Debt Interest:							
Revenue Bonds	43,085	46,380	47,339	48,124	45,877	46,238	46,643
PMA Bonds	1,821	1,794	1,763	1,731	1,896	1,657	1,616
Other			375				
Bond Discount & Expenses	1,958	1,983	1,933	1,896	1,787	1,743	1,710
<b>Total Long-term Interest</b>	<b>46,864</b>	<b>50,137</b>	<b>51,410</b>	<b>51,751</b>	<b>49,360</b>	<b>49,638</b>	<b>49,969</b>
Other Interest:							
Short-term Debt	4,514	3,321	3,124	3,250	3,250	3,250	3,250
Loss from Extinguishment of Debt	2,006	1,918	1,824	1,725	1,619	1,500	1,385
Interest on Customer Deposits	305	145	150	155	160	170	175
Miscellaneous	45	82					
<b>Total Other Interest</b>	<b>6,870</b>	<b>5,466</b>	<b>5,098</b>	<b>5,130</b>	<b>5,029</b>	<b>4,920</b>	<b>4,810</b>
<b>AFUDC</b>	<b>(863)</b>	<b>(397)</b>	<b>(312)</b>	<b>(261)</b>	<b>(220)</b>	<b>(284)</b>	<b>(376)</b>
<b>Total Interest Expense</b>	<b>52,871</b>	<b>55,206</b>	<b>56,196</b>	<b>56,620</b>	<b>54,169</b>	<b>54,274</b>	<b>54,403</b>
<b>Net Income</b>	<b>24,454</b>	<b>41,273</b>	<b>39,032</b>	<b>62,767</b>	<b>61,446</b>	<b>54,901</b>	<b>48,588</b>
Payment to City of Philadelphia	18,000	18,000	18,000	18,000	18,000	18,000	18,000
<b>Net Income Transferred to Retained Earnings</b>	<b>\$6,454</b>	<b>\$23,273</b>	<b>\$21,032</b>	<b>\$44,767</b>	<b>\$43,446</b>	<b>\$36,901</b>	<b>\$30,588</b>

EXHIBIT III

PHILADELPHIA GAS WORKS  
 FORECAST OTHER OPERATION AND MAINTENANCE EXPENSES

Fiscal Years 1991 through 1997  
 (\$000's)

	FORECAST							TOTAL FORECAST	
	ACTUAL 1991	1992	1993	1994	1995	1996	1997	\$	%
Other Operation and Maintenance Expenses									
Administrative & General	\$28,687	\$34,644	\$39,798	\$41,860	\$44,707	\$47,768	\$51,158	\$259,935	25.8%
Appropriation to Reserve for Uncollectible Accounts	30,315	24,009	22,306	25,824	24,383	25,266	25,237	147,025	14.6%
Customer Service	17,835	21,828	21,420	21,853	22,909	24,252	25,638	137,900	13.7%
Distribution	18,519	17,751	19,375	19,904	20,818	21,775	22,774	122,397	12.1%
Pensions	16,204	14,275	14,807	14,922	15,295	14,986	15,404	89,689	8.9%
Customer Relations	8,607	9,142	9,588	9,821	10,291	10,784	11,302	60,928	6.0%
Collection	6,449	7,277	7,429	7,613	7,975	8,355	8,753	47,402	4.7%
Taxes	6,340	6,712	7,266	7,515	7,850	8,196	8,563	46,102	4.6%
Meter Reading	6,199	6,677	7,069	7,106	7,248	7,397	7,553	43,050	4.3%
Marketing	3,205	4,944	4,566	5,461	5,837	6,269	6,708	33,785	3.4%
Customer Accounting	2,869	2,921	3,045	3,132	3,242	3,358	3,524	19,222	1.9%
Total Other Operation and Maintenance Expenses	\$145,229	\$150,180	\$156,669	\$165,011	\$170,555	\$178,406	\$186,614	\$1,007,435	100.0%

EXHIBIT IV

PHILADELPHIA GAS WORKS  
CAPITAL EXPENDITURE

Fiscal Years 1991 through 1997  
(\$000)

	FORECAST						
	Actual 1991	1992	1993	1994	1995	1996	1997
<b>Additions and Replacements</b>							
Supply Plant	\$5,703	\$7,463	\$6,104	\$3,868	\$4,675	\$4,977	\$4,946
Distribution Plant	35,721	36,181	30,363	37,784	35,863	36,517	37,525
Customer Service	4,632	6,774	10,994	9,646	11,354	11,710	12,196
Other	5,919	9,849	7,783	3,804	5,050	6,696	6,313
Sub-total	51,975	60,267	55,244	55,102	56,942	59,900	60,980
Less: Contributions in Aid of Construction	1,080	3,194	2,637	961	1,282	1,384	1,667
Net Additions and Replacements	50,895	57,073	52,607	54,141	55,660	58,516	59,313
<b>Allowance for Funds Used During Construction</b>							
Supply Plant	255	(420)*	265	265	273	287	291
Distribution, Customer Service and other Plant	608	525	633	633	653	687	696
Sub-total	863	105	898	898	926	974	987
<b>Removal Costs (Net)</b>							
Removal Cost	2,135	1,756	2,023	1,672	1,408	1,513	1,615
Salvage	-	(230)	(319)	(269)	(257)	(309)	(316)
Sub-total	2,135	1,526	1,704	1,403	1,151	1,204	1,299
<b>TOTAL</b>	<b>\$53,893</b>	<b>\$58,704</b>	<b>\$55,209</b>	<b>\$56,442</b>	<b>\$57,737</b>	<b>\$60,694</b>	<b>\$61,599</b>

## EXHIBIT V

PHILADELPHIA GAS WORKS  
ANALYSIS OF INTERNALLY GENERATED FUNDS  
AVAILABLE TO COVER DEBT SERVICE

-----  
Fiscal Years 1991 through 1997  
(\$000)

	FORECAST						
	ACTUAL						
	1991	1992	1993	1994	1995	1996	1997
	-----	-----	-----	-----	-----	-----	-----
<b>Funds Provided:</b>							
Operating Revenues (Exhibit II)	\$461,572	\$488,672	\$505,562	\$555,156	\$567,148	\$578,952	\$591,482
Other Income	13,303	9,792	9,169	8,259	7,961	9,128	10,441
AFLDC	863	397	312	261	220	284	376
	-----	-----	-----	-----	-----	-----	-----
<b>Total Funds Provided</b>	<b>475,738</b>	<b>498,861</b>	<b>515,043</b>	<b>563,676</b>	<b>575,329</b>	<b>588,364</b>	<b>602,299</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Funds Applied to Operations:</b>							
Operation Expenses Excluding Depreciation (Exhibit II)	375,993	378,236	393,568	416,495	429,499	446,296	463,556
Less: Expenses Not Requiring Expenditure of Funds	4,656	4,290	4,337	4,430	4,624	4,863	5,079
	-----	-----	-----	-----	-----	-----	-----
<b>Total Funds Applied</b>	<b>371,337</b>	<b>373,946</b>	<b>389,231</b>	<b>412,065</b>	<b>424,875</b>	<b>441,433</b>	<b>458,477</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Internally Generated Funds Available for Debt Service</b>	<b>104,401</b>	<b>124,915</b>	<b>125,812</b>	<b>151,611</b>	<b>150,454</b>	<b>146,931</b>	<b>143,822</b>
Less: PMA Bond Debt Service	2,245	2,243	2,244	2,242	2,243	2,246	2,246
	-----	-----	-----	-----	-----	-----	-----
<b>Internally Generated Funds Available to Cover Revenue Bond Debt Service</b>	<b>102,156</b>	<b>122,672</b>	<b>123,568</b>	<b>149,369</b>	<b>148,211</b>	<b>144,685</b>	<b>141,576</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Funds Applied to Debt Service:</b>							
Revenue Bonds - Proposed				5,625	6,415	6,416	12,037
- Existing	67,789	74,540	74,909	74,899	74,879	72,171	68,037
	-----	-----	-----	-----	-----	-----	-----
<b>Total Revenue Bonds</b>	<b>67,789</b>	<b>74,540</b>	<b>74,909</b>	<b>80,524</b>	<b>81,294</b>	<b>78,587</b>	<b>80,074</b>
	-----	-----	-----	-----	-----	-----	-----
Temporary Financing	4,678	3,366	3,250	3,250	3,250	3,250	3,250
	-----	-----	-----	-----	-----	-----	-----
<b>Total Funds Applied to     Debt Service</b>	<b>72,467</b>	<b>77,906</b>	<b>78,159</b>	<b>83,774</b>	<b>84,544</b>	<b>81,837</b>	<b>83,324</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Internally Generated Funds Available for City Fee</b>	<b>29,689</b>	<b>44,766</b>	<b>45,409</b>	<b>65,595</b>	<b>63,667</b>	<b>62,848</b>	<b>58,252</b>
Payment to City - City Fee	18,000	18,000	18,000	18,000	18,000	18,000	18,000
	-----	-----	-----	-----	-----	-----	-----
<b>Internally Generated Funds Available</b>	<b>\$11,689</b>	<b>\$26,766</b>	<b>\$27,409</b>	<b>\$47,595</b>	<b>\$45,667</b>	<b>\$44,848</b>	<b>\$40,252</b>
	=====	=====	=====	=====	=====	=====	=====
<b>Debt Service Coverage Revenue Bonds</b>	<b>1.51</b>	<b>1.65</b>	<b>1.65</b>	<b>1.85</b>	<b>1.82</b>	<b>1.84</b>	<b>1.77</b>

## EXHIBIT VI

## PHILADELPHIA GAS WORKS

## ANALYSIS OF CASH AND ANNUAL CASH BALANCES

Fiscal Years 1991 through 1997  
(\$000's)

	ACTUAL	FORECAST					
		1991	1992	1993	1994	1995	1996
Beginning Cash Balance	\$24,598	\$7,099	\$15,480	\$11,059	\$11,235	\$11,512	\$11,406
Sources of Funds:							
Internally Generated							
Net Income (Exhibit II)	24,454	41,273	39,032	62,767	61,446	54,901	48,588
Items in Net Income Not Requiring Funds	24,625	27,006	29,629	31,537	34,220	37,056	40,083
Interest Expenses Included in Net Income (Exhibit II)	52,871	55,206	56,196	56,620	54,169	54,274	54,403
Total Internal Funds	101,950	123,485	124,857	150,924	149,835	146,231	143,074
Externally Generated:							
Revenue Bond Proceeds	67,172	35	50,960			65,960	
Capital Improvement Fund Drawdown	53,857	42,007	19,200	16,400	13,700	17,700	23,600
Temporary Borrowings		15,000					
Total External Funds	121,029	57,042	70,160	16,400	13,700	83,660	23,600
Total Source of Funds	247,577	187,626	210,497	178,383	174,770	241,403	178,080
Uses of Funds:							
Debt Service Coverage (Exhibit V)	72,467	77,906	78,159	83,774	84,544	81,837	83,324
PMA Bond Debt Service (Exhibit V)	2,245	2,243	2,244	2,242	2,243	2,246	2,246
Working Capital Increases	15,201	15,258	(5,134)	6,690	734	1,260	1,854
Construction Requirements (Exhibit IV)	53,893	58,704	55,209	56,442	57,737	60,694	61,599
Payment to City of Phila. - Fee (Exhibit II)	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Deposit of Capital Improvement Fund (Table 16)	67,172	35	50,960	0	0	65,960	0
Repayment of Temporary Borrowings	11,500						
Total Uses of Funds	240,478	172,146	199,438	167,148	163,258	229,997	167,023
Ending Cash Balance	\$7,099	\$15,480	\$11,059	\$11,235	\$11,512	\$11,406	\$11,057

## 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 them 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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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 Fourteenth Supplemental Gas Works Bond Ordinance (the "Fourteenth Supplemental Ordinance") which authorizes the issuance of the Fourteenth 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 Fourteenth Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 13th Floor, 1600 Arch Street, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the General Ordinance and the Fourteenth 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 and to issue Bonds to refund previously issued Bonds and certain other 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 the reserve funds established in respect of the Bonds. The amount of the Bonds does not constitute a debt of the City, and is 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 amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, project operation and maintenance, 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 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 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 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 fund is established until properly disbursed.

#### Refunding

Bonds from time to time 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. Bonds 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 (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania, 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 a transcript of the proceedings authorizing issuance of the Bonds. If no action asserting the invalidity of such proceedings, or of the Bonds, 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.

### 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 Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court. However, a judgment rendered in favor of the bondholder in such an action is collectible only from Project Revenues. The holders of 25% in aggregate principal amount 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 affected bondholders. 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, 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 and all such costs and disbursements 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 limitation, 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.

## 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, and Ordinance of City Council approved May 17, 1985 - Bill No. 534. 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 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 Project Revenues (as such term is defined the Act) derived from the Gas Works, and all accounts, contract rights and general intangibles representing the Project Revenues.

### 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 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.

## 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 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 contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works.

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) 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 shall also be filed with the Fiscal Agent, together with a copy of the engineering report.

### 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 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 haven 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 and any amounts owed to the issuer of the Credit Facility established with respect to the Gas Works Notes; 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. Ordinances adopted by the City in 1983 and 1988 allow the issuance of Gas Works Revenue Notes secured by Project Revenues, payment of which Notes shall be subordinated to the payments listed in clauses First through Fourth above.

#### 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: 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; that it will continuously maintain in good condition and operate the Gas Works; and 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 general obligation bonds or revenue bonds, under authorization other than the General Ordinance and Supplemental Ordinances, for the payment of which Project Revenues may be pledged, provided that such pledge is subject and subordinate to the prior payments in each Fiscal Year of all Sinking Fund requirements of all Bonds issued under the 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 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 to cure ambiguities, formal defects or omissions, or to grant to bondholders or any trustee therefor additional rights, remedies, powers or security, 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 may be amended in such other respects as may be authorized by 67% in principal amount of the holders of Bonds outstanding and affected, but no alteration of the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or of the redemption provisions may be made without the consent of the holders of all Bonds outstanding and affected.

#### Amendments Not Affecting Outstanding Bonds

The 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 provide written consent. Any other amendments not listed above may be authorized in writing by the holders of 67% in principal amount of the bonds outstanding and affected.

### THE FOURTEENTH SUPPLEMENTAL ORDINANCE

(Ordinance of City Council approved January 28, 1993,  
Bill No. 379)

The Fourteenth 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 \$400,000,000 provided that such aggregate principal amount may be increased to reflect sales of such Fourteenth Series 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 Fourteenth Series Bonds do not exceed \$400,000,000 and authorizes a majority of the Bond Committee to establish the terms and provisions of such Fourteenth Series Bonds.

The Fourteenth Supplemental Ordinance states that the Fourteenth 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

Fourteenth Series Bonds, as designated by the City's Director of Finance; (iii) paying the costs of issuing the Fourteenth 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 Fourteenth 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 Fourteenth Supplemental Ordinance that the proceeds of the Fourteenth 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 PGW.

The City covenants in the Fourteenth Supplemental Ordinance that the proceeds of the sale of the Fourteenth 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 PGW purposes.

The City covenants in the Fourteenth Supplemental Ordinance that, so long as any Fourteenth 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 Fourteenth Series Bonds when due.

It 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 the Fourteenth Series Bonds issued thereunder will not be "arbitrage bonds" as defined in the Internal Revenue Code of 1986, as amended, and in order to otherwise effect or maintain the exclusion of interest on the Fourteenth Series Bonds from gross income for federal income tax purposes.

The Fourteenth 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 Fourteenth Series Bonds issued thereunder the amount required to be deposited in the Sinking Fund Reserve in respect thereof.

The Fourteenth Supplemental Ordinance amends the General Ordinance by authorizing the issuance of Fourteenth Series Bonds in book-entry (uncertificated) form and authorizes the designation of a securities depository for each series of Fourteenth Series Bonds issued in book-entry form.

The Fourteenth Supplemental Ordinance amends the General Ordinance by providing that if notice is given with respect to an optional redemption, such notice may provide that the redemption is conditioned upon the deposit of moneys with the Fiscal Agent before the date fixed for redemption and that any such notice shall be of no effect and such redemption shall not occur unless such moneys are so deposited.

The Fourteenth Supplemental Ordinance amends the General Ordinance by authorizing the sale of Option Rights with respect to one or more series of Bonds. An Option Right is the right to call Bonds of a series for mandatory tender for purchase. Any sale of Option Rights will transfer to the purchaser thereof, all or a designated part of the City's right during an identified period of time to require the mandatory tender for purchase of an identified principal amount of an identified maturity (or mandatory sinking fund installment) of Bonds of a series prior to the maturity of such Bonds.

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APPENDIX D

Certain Information  
Concerning the City of Philadelphia

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## APPENDIX D

### CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

#### BACKGROUND

##### The Government of Philadelphia

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 education activities. The court system in Philadelphia, consisting of Common Pleas, Municipal and Traffic Courts, is part of 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 largely under the Home Rule Charter, which provides for the election, organization, powers and duties of the legislative branch (the "City Council"); the power and duties of the executive and administrative branch; and fiscal and budgetary matters, contracts, procurement, property and records. The School District is governed largely 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 of Pennsylvania. The School District is managed by a nine-member Board of Education appointed by the Mayor from lists supplied by an Educational Nominating Panel. In some matters, including the incurring of short-term and long-term debt, both the City and the School District continue to be governed by the laws of the Commonwealth. Although for financial reporting purposes, the School District is treated as a component unit of the City, 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 as to 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.

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 comprehended 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 of the City (the "City Solicitor"), who is head of the Law Department, and the City Representative and Director of Commerce of the City (the "City Representative and Director of Commerce"). These officials currently constitute the Mayor's Cabinet, which, together with the Mayor, constitutes the major policy making group in the City's government. The Office of the Managing Director of the City is responsible for supervising the department and agencies of the City which render the various municipal services provided by 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. The City Solicitor's Office 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, and assisting City

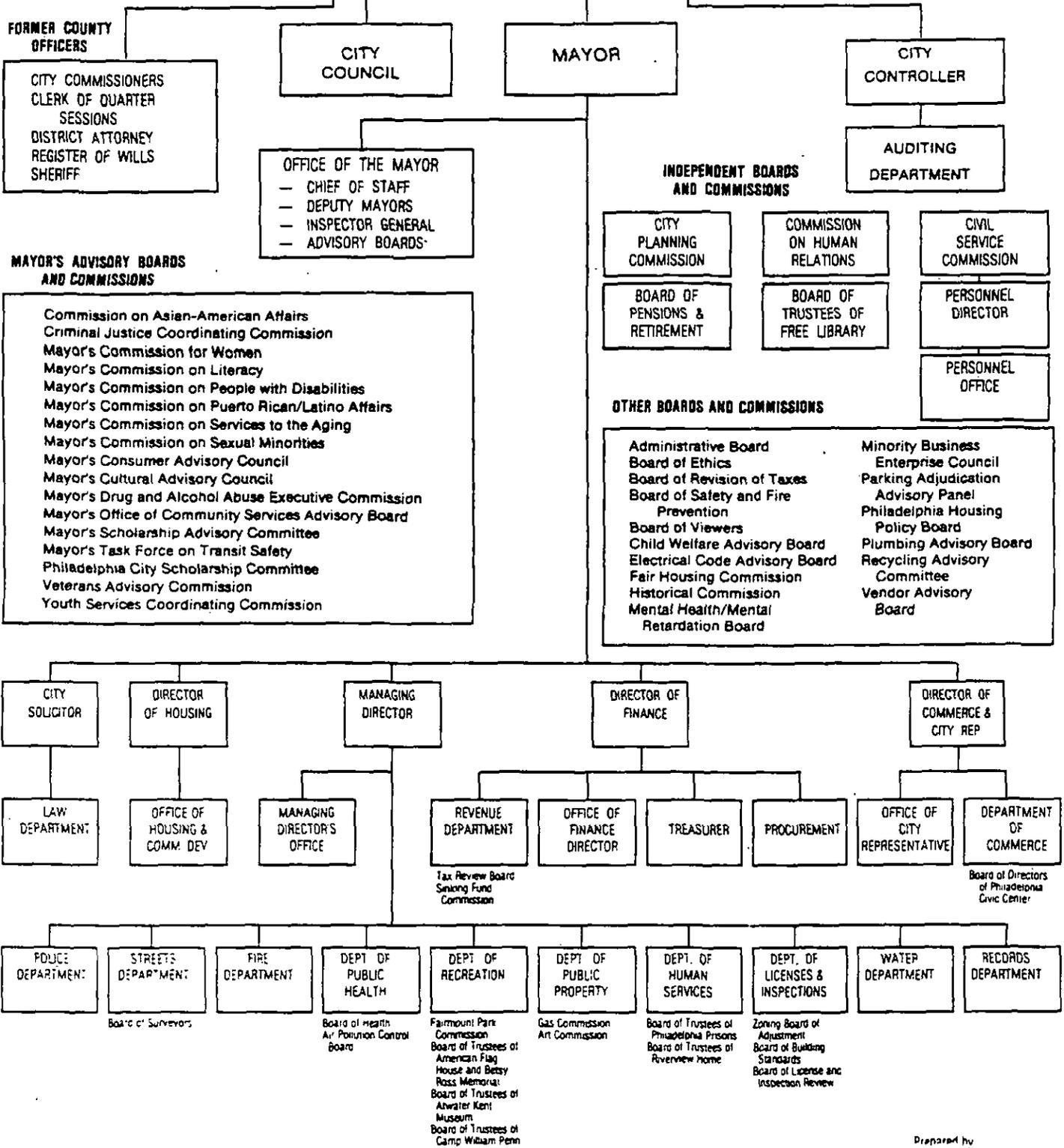
Council, the Mayor and City agencies in the preparation of ordinances for introduction into City Council and for the conduct of litigation to which the City is a party.

Under the Home Rule Charter, the great majority of the financial functions of the City are placed under the Office 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



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 L. 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 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 ("PICA"). She received an A.B. from Mount Holyoke 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.

Stephen P. Mullin, Finance Director, 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. Mr. Mullin will be assuming the position of Director of Commerce and City Representative beginning April 1, 1993. A national search is now underway to select a new Finance Director to succeed Mr. Mullin.

James J. Cuorato, Acting City Representative and Director of Commerce, has served in various public sector capacities in Philadelphia for the past eighteen years. Since 1986, he has been a Deputy Director of Commerce and was appointed Acting Director on December 14, 1992. He holds a B.S. in Business Administration from Saint Joseph's University and an M.B.A. from Drexel University. When Stephen Mullin assumes the Commerce Director position in April 1993, Mr. Cuorato will return to the position of First Deputy Director of Commerce.

#### Governmental 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; 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 Retardation Program.

The Philadelphia Gas Works (the "Gas Works") serves residential, 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 owned by the City and 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.

There are a number of significant governmental authorities and quasi-governmental non-profit corporations which provide a variety of services to or within the City. These include SEPTA, the Philadelphia Parking Authority, The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia), the Philadelphia Redevelopment Authority, The Hospitals and Higher Education Facilities Authority of Philadelphia, the Philadelphia Housing Authority, the Philadelphia Industrial Development Corporation ("PIDC"), the Philadelphia Authority for Industrial Development and the Pennsylvania Convention Center Authority. Except for PIDC all have the power to issue revenue bonds. Several contribute monies annually to the City's General Fund or receive specific annual appropriations from the City's General Fund. None may receive such appropriations without annual approval from the City.

#### The Pennsylvania Intergovernmental Cooperation Authority

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 with the passage of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "Act"). PICA was established to provide financial assistance to cities of the first class. The City is currently the only city of the first class in the Commonwealth of Pennsylvania. The Act provides that, upon the request by the City to PICA for financial assistance and for so long as any bonds of PICA remain outstanding, PICA shall have certain financial and oversight functions. First, PICA shall have the power, subject to satisfaction of certain requirements in the Act, to issue bonds and grant or lend the proceeds thereof to the City. Second, PICA also shall have the power, in its oversight capacity, to exercise certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify noncompliance by the City with its then-existing five-year financial plan (which certification would require the Secretary of the Budget of the Commonwealth to cause certain payments due to the City from the Commonwealth to be withheld by the Commonwealth).

On June 16, 1992 PICA issued \$474,555,000 of Special Tax Revenue Bonds (the "PICA Bonds") at the request of the City. The proceeds of the bonds were used, among other things, to (i) make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit, the projected Fiscal Year 1992 General Fund deficit and the projected Fiscal Year 1993 General Fund deficit of the City; (ii) make grants to the City to pay the costs of certain capital projects to be undertaken by the City, and (iii) make a grant to the City to provide other financial assistance to the City to enhance productivity in the operation of City government.

#### **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 Five-Year Plan, which covers Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on March 5, 1992 and was approved on April 6, 1992 by PICA. A revised amended Five-Year Plan was approved by City Council on April 29, 1992 and was approved by PICA on May 18, 1992. The Five-Year Plan achieves a balanced budget by Fiscal Year 1994 through a strategy based upon implementation of personnel and benefit initiatives, productivity improvements, cost containments, and revenue enhancements. On January 21, 1993, the Administration submitted an updated Five-Year Plan, which covers Fiscal Years 1994 through 1998, to City Council for their approval. Once City Council approves the revised Plan, it will be submitted to PICA. See "CERTAIN FINANCIAL INFORMATION CONCERNING THE CITY - Quarterly Report to PICA" herein for information relating to the present status of the City's compliance with the Five-Year Plan.

#### **Source of Payment of PICA Bonds**

Pursuant to the Act, the City has levied a 1.5% tax on the wages, earnings and net profits of City residents for PICA. Such tax is designated in the Act as the "Pennsylvania Intergovernmental Cooperation Authority Tax" (the "PICA Tax"). Other taxes permitted by the Act to be levied by the City as PICA Taxes are a realty transfer tax and sales and use tax. The PICA Tax is collected by or on behalf of the Department of Revenue of the Commonwealth and the proceeds of the PICA Tax are 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 City estimates that the amount of PICA Tax collected in Fiscal Year 1992 was \$169.5 million. The budgeted amount of PICA Tax to be collected in Fiscal Year 1993 is \$168.1 million.

### **DISCUSSION BY THE OFFICE OF THE DIRECTOR OF FINANCE OF CERTAIN FINANCIAL INFORMATION**

Except as otherwise noted, the financial statements, tables and statistics relating to the City 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, 1992, have been audited and reported upon by the Office of the City Controller. The Office of 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 Office of the City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections set forth in various of the tables contained in this Official Statement or otherwise set forth herein. Consequently, the Office of 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 Office of the Director of Finance and can be reconciled to the financial statements in the Annual Financial Reports of the Director of Finance.

#### **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 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 as outlined in Statement No. 1. 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.

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 1993 Budget, was adopted by City Council on April 29, 1992. This was the first budget prepared by the City in connection with the Five-Year Plan and includes general fund revenue enhancement and operating expense reduction measures identified in the Five-Year Plan. In an effort to allow PICA to proceed with the deficit funding in a timely manner, the budget process was expedited through the cooperation of the City Council and the administration. Consequently, the Fiscal Year 1993 budget was adopted a full month earlier than City budgets customarily are adopted.

The City's Fiscal Year 1994 Budget was presented to City Council on January 21, 1993. This year the budget is being introduced approximately 2½ months prior to March 31, the date required by the Home Rule Charter, in order to permit coordinated review of the Fiscal 1994 Budget and the revised Five-Year Plan.

## HISTORY OF RECENT FINANCIAL OPERATIONS

Tables 1 and 2 summarize the operations of the City's General Fund and of its Principal Operating Funds (Debt Related), including the General Fund, for the Fiscal Years 1987-1992 and adopted budget for Fiscal Year 1993.

TABLE 1  
 CITY OF PHILADELPHIA  
 GENERAL FUND  
 SUMMARY OF OPERATIONS  
 (Modified Accrual Basis)  
 (Amounts in Millions of Dollars)

	Actual						Adopted	Current
	1987	1988	1989	1990	1991	1992	1993	1993
Cumulative Fund Balance (Deficit) Beginning of Year	\$4.7	\$12.4	(\$32.1)	(\$75.2)	(\$72.7)	(\$153.5)	\$0.0(b)	\$0.0
<b>REVENUES</b>								
Real and Personal								
Property Taxes	261.3	275.2	286.7	314.0	326.5	343.3	346.6	352.0
Wage and Earnings Tax	803.6	856.7	892.3	927.6	950.7	799.0	791.8	808.0
Net Profits Tax	31.3	31.6	21.7	20.2	23.9	16.9	21.0	14.0
Business Privilege Tax	156.6	165.7	201.7	207.5	217.3	200.3	224.3	203.0
Other Taxes	73.8	86.7	89.0	93.6	72.7	121.6	157.5	150.0
<b>Total Taxes</b>	<u>1,326.6</u>	<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>1,529.0</u>
Locally Generated Non-Tax Revenue	100.4	105.9	123.4	110.6	105.9	98.2	123.2	125.0
Revenue from Other Governments	286.9	288.7	310.8	292.3	316.4	721.0	602.2	608.0
Receipts from Other City Funds	17.4	19.5	20.2	18.5	13.1	10.1	12.2	13.8
<b>TOTAL REVENUE</b>	<u>1,731.3</u>	<u>1,830.0</u>	<u>1,945.9</u>	<u>1,984.3</u>	<u>2,026.5</u>	<u>2,310.4</u>	<u>2,278.9</u>	<u>2,276.8</u>
<b>OBLIGATIONS/APPROPRIATIONS</b>								
Personal Services	753.1	797.0	810.7	821.3	853.0	884.1	879.6	875.0
Purchase of Services	472.0	533.1	623.9	601.6	632.8	665.0	689.3	693.4
Materials, Supplies and Equipment	48.4	51.7	51.3	55.0	53.5	55.1	86.8	76.6
Employee Benefits	286.4	313.4	321.3	339.6	387.9	437.2	404.9	416.7
Indemnities, Contributions and Grants (a)	63.7	93.0	59.9	48.4	54.5	60.2	59.9	67.7
Debt Service	98.8	93.7	129.3	126.1	123.0	133.2	134.5	127.0
Other	--	--	--	4.0	4.0	4.9	19.7	18.8
Payments to Other City Funds	11.6	12.5	14.5	12.9	17.9	15.9	18.7	18.2
<b>TOTAL OBLIGATIONS/APPROPRIATIONS</b>	<u>1,734.0</u>	<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>2,293.4</u>	<u>2,293.4</u>
Operating Surplus (Deficit) for the Year	(2.7)	(64.4)	(65.0)	(24.6)	(100.1)	54.8	(14.5)	(16.8)
Adjustments to Beginning Fund Balance	10.4	19.9	21.9	27.1	19.3	27.3	14.5	16.8
Adjustments to Ending Fund Balance and prior	--	--	--	--	--	--	--	--
Cumulative Fund Balance (Deficit) End of Year	<u>\$12.4</u>	<u>\$ (32.1)</u>	<u>\$ (72.5)</u>	<u>\$ (72.7)</u>	<u>\$ (153.5)</u>	<u>\$ (71.4)</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>

NOTES:

(a) Includes City's contributions to the School District in Fiscal Year 1988 of \$8.0 million.

(b) Assumes the Fiscal Year 1992 deficit will be eliminated through deficit financing.

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 of Dollars)

	Actual						Adopted	Current
	1987	1988	1989	1990	1991	1992	1993	Estimate 1993
Cumulative Fund Balance (Deficit) Beginning of Year	\$ 50.4	\$ 39.9	\$ 18.0	\$ (47.6)	\$ (64.2)	(\$160.1)	(\$0.4) (d)	\$17.8
<b>REVENUES</b>								
General Fund (a)	1,731.3	1,830.0	1,945.9	1,984.3	2,026.6	2,310.4	2,278.9	2,276.6
Water Fund (b)	254.4	282.6	273.2	282.9	285.6	344.3	352.6	349.9
Aviation Fund (c)	61.2	70.2	72.3	77.4	92.3	109.1	134.2	126.3
Other Operating Funds	18.2	18.7	19.4	67.7	27.6	28.4	44.7	30.1
<b>TOTAL REVENUE</b>	<u>2,065.1</u>	<u>2,201.5</u>	<u>2,310.8</u>	<u>2,412.3</u>	<u>2,432.1</u>	<u>2,792.2</u>	<u>2,810.4</u>	<u>2,782.9</u>
<b>OBLIGATIONS/APPROPRIATIONS</b>								
Personal Services	833.4	885.3	905.8	919.2	954.6	994.7	998.1	995.4
Purchase of Services	545.3	605.9	699.9	728.6	721.1	761.1	824.3	804.8
Materials, Supplies and Equipment	84.6	83.5	79.6	87.8	84.7	89.1	128.2	112.9
Employee Benefits	315.9	343.4	355.4	378.6	430.5	483.5	445.3	458.4
Indemnities, Contributions and Grants (a)	65.8	98.4	66.5	52.0	60.2	66.1	67.6	76.7
Debt Service	217.2	214.6	263.8	262.1	273.6	276.0	313.8	297.7
Other	--	--	--	4.0	4.0	4.9	20.2	19.3
Payments to Other City Funds	33.5	34.5	39.6	37.3	31.5	51.0	40.8	41.8
<b>TOTAL OBLIGATIONS/APPROPRIATIONS</b>	<u>2,095.7</u>	<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>2,806.9</u>
Operating Surplus (Deficit) for the Year	(30.6)	(64.1)	(99.8)	(57.3)	(128.1)	(65.8)	(27.9)	(24.0)
Adjustments to Beginning Fund Balance	20.1	42.3	34.2	40.7	32.2	40.8	28.3	28.5
Adjustments to Ending Fund Balance and prior	--	--	--	--	--	--	--	--
Cumulative Fund Balance (Deficit) End of Year	<u>\$ 39.9</u>	<u>\$ 18.0</u>	<u>\$ (47.6)</u>	<u>\$ (64.2)</u>	<u>\$ (160.1)</u>	<u>\$ (53.5)</u>	<u>\$ 0.0</u>	<u>\$ 22.3</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) Assumes the Fiscal Year 1992 deficit will be eliminated through a deficit financing bond.

FIGURES MAY NOT ADD DUE TO ROUNDING.

## CERTAIN FINANCIAL INFORMATION CONCERNING THE CITY

### Overview of City's Financial Status

Over the past decade, City General Fund spending has been increasing faster than City General Fund revenues have been growing and, until recently, effective adjustments have not been made to bring the two into alignment.

Over the course of the past twelve months, however, progress has been made in formulating and implementing a plan of action to restore fiscal health to the City. Below 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.* Following months of negotiations, on January 8, 1992 the Agreement was signed. The Agreement sets forth the parameters under which the City could present its financial plans and 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 Five-Year Plan by PICA.* The City's Five-Year Plan was initially prepared by the Mayor, approved by City Council on March 5, 1992 and approved by PICA on April 6, 1992. A revised amended Five-Year Plan was approved by City Council on April 29, 1992 and by PICA on May 18, 1992. The Five-Year Plan is 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 Five-Year Plan.* The City's Fiscal Year 1993 budget was adopted by City Council on April 29, 1992. The budget process was expedited through the cooperation of City Council and the Mayor, so that the budget was 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 Bonds.* On June 16, 1992, PICA issued \$474,555,000 of the PICA Bonds at the request of the City. The proceeds of the PICA Bonds were used, among other things, (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; and (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.

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 \$64.3 million, which is 90% of the unaudited General Fund deficit for Fiscal Year 1992, on October 30, 1992 and granted the City \$7.1 million, the remaining 10% of the unaudited General Fund deficit for Fiscal Year 1992, on January 29, 1993. The City is drawing down \$120 million in PICA grants to fund its capital program as projects are being completed.

*Negotiation of New Labor Contracts.* All of the City's labor contracts expired on June 30, 1992. Because much of the fiscal savings described by the Five-Year Plan depended upon personnel and benefit initiatives, it was necessary that the City negotiate labor contracts which would allow these initiatives to be achieved. The City and its non-uniformed union employees entered into four-year contracts negotiated in November 1992 and subsequently ratified by the employees that provide for significant savings in personnel and benefit costs and allow the City significant new management rights. The City's uniformed union employees have opted for binding arbitration for their new labor contracts. Hearings before the arbitrators have been completed and a final decision from the arbitrators is expected in February 1993. See "Labor Relations" below.

### Recent Financial Operations

The City experienced a series of operating deficits in the General Fund beginning in Fiscal Year 1987 and by the end of Fiscal Year 1991 the City's cumulative ending fund balance deficit was \$153.5 million. The City received a grant from PICA in June 1992 which eliminated the deficit through the end of Fiscal Year 1991. The City experienced a deficit for Fiscal Year 1992 of \$71.4 million. The City received additional grants from PICA to eliminate the Fiscal Year 1992 deficit as well. \$64.3 million, which is 90% of the \$71.4 million, was

paid to the City on October 30, 1992, and \$7.1 million, the remaining 10%, was paid to the City on January 29, 1993. The City is projecting a budget deficit for Fiscal Year 1993 of \$1.8 million.

Tables 1 and 2 summarize the operations of the City's General Fund and of its Principal Operating Funds (Debt Related), including the General Fund, for the Fiscal Years 1987 through 1992, the adopted budget for Fiscal Year 1993 and current estimates for Fiscal Year 1993.

#### Fiscal Year 1992 General Fund Actual Results

Table 1 shows the Fiscal Year 1992 General Fund actual results. The Fiscal Year 1992 General Fund budget proposed the elimination of operating deficit through a combination of a new sales and use tax program, additional Commonwealth and federal aid and \$42 million in proceeds of a PICA grant to be funded through the issuance by PICA of deficit reduction bonds.

The adopted budget provided for \$75 million in revenues from an additional 1% sales and use tax collected over a nine month period. Total collections of this tax for Fiscal Year 1992 were \$51.4 million. Estimated receipts from other taxes were \$31.6 million less than originally budgeted, largely due to the economic recession.

Revenues from other governments were \$64.2 million in excess of the budgeted amount. This difference reflects the reclassification of \$42 million in proceeds of deficit reduction bonds projected to have been issued by PICA and the inclusion of \$153.5 million in PICA Bond proceeds actually received by the City. The remaining difference of \$47.3 million is attributable to budgeted Commonwealth and federal revenue which did not materialize.

On the obligation side, total actual obligations were \$2,255.6 million, \$57.8 million less than budgeted. The reduction in obligations includes \$27.8 million in reduced personnel costs and \$6.9 million in reduced employee benefits due to imposition of a hiring freeze and a policy of leaving vacant positions open where possible; \$5.4 million in reduced expenditures on materials, supplies and equipment; and \$17.5 million in reduced debt service costs.

#### Adopted Fiscal Year 1993 General Fund Budget

The adopted General Fund budget for Fiscal Year 1993 anticipated revenues of \$2,278.8 million and expenditures of \$2,293.4 million, with the budget balanced by the inclusion of \$12.1 million in PICA Bond proceeds.

In preparing the adopted budget for Fiscal Year 1993, the City has included revenue enhancement and operating expense reduction measures identified in the Five-Year Plan. Revenue estimates prepared for the Fiscal Year 1993 budget are consistent with those in the 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 Five-Year Plan review process.

#### Fiscal Year 1993 Operating Results

The Fiscal Year 1993 operating results to date do not show major deviations from budgeted figures for either revenues or expenditures. The City is projecting a balanced budget for the Fiscal Year after receiving \$1.8 million of deficit financing from PICA, which is included in Revenue from Other Governments. Revenues are approximately \$2.3 million less than budgeted, or approximately 1% less than the total budgeted figure. Tax revenues are estimated to be \$11.9 million less than budgeted, while Locally Generated Non-tax Revenue, Revenue from Other Governments and Receipts from Other City Funds are estimated to be approximately \$9.7 million higher than budgeted.

On the expenditure side, reductions in Personal Services, Materials, Supplies & Equipment and Debt Service were offset by higher than budgeted expenditures for Purchase of Services, Employee Benefits and Indemnities, Contributions and Grants, so that total budgeted expenditures remain constant.

The estimated operating deficit for Fiscal Year 1993 has increased to \$16.8 million, but that is offset by Adjustments to Beginning Fund Balance of \$16.8 million. The amount of the Adjustments to Beginning Fund Balance rose by \$2.3 million compared to the original budget due to an increase in liquidated encumbrances from Fiscal Year 1993 and previous fiscal years.

In order to balance the budget, the City has taken actions to increase revenues and reduce expenses. These actions include more concentrated tax collection efforts, reductions in personnel through attrition and selected layoffs and a variety of small-scale service cuts.

The current estimates for Fiscal Year 1993 assume that the arbitration award for the police and fire arbitration proceedings will contain terms consistent with the contracts with non-uniformed employees. A ruling adverse to those assumptions will require further revenue increases or expenditure reductions to maintain a balanced budget. The City expects that the final arbitration award in the police and fire arbitration proceedings will be issued in February, 1993. See "Labor Relations" below.

#### Quarterly Report to PICA

On November 16, 1992 the City submitted the first of its quarterly reports to PICA. This reporting is required both under the Act and under the Agreement, so that PICA will be able to determine whether the City is in compliance with the Five-Year Plan. Under the Agreement, 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 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 Five-Year Plan; and (iv) submits monthly supplemental reports as required by the Act and the Agreement.

Because the City showed a variance in the General Fund in the November 16, 1992 report submitted to PICA, the City has been filing monthly reports with PICA.

On January 21, 1993 the City submitted a Transfer Ordinance realigning the Fiscal Year 1993 Budget, and ordinances proposing the Fiscal Year 1994 Operating and Capital budgets and the revised Five-Year Plan to City Council. In addition, the City announced its plan for curing the General Fund variance through a program of service and personnel cuts. The City's report to PICA for the period ending December 31, 1992, submitted on February 1, 1993, reports the absence of a variance for Fiscal Year 1993, taking into account, among other things, the actions described above.

#### 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 include the Fraternal Order of Police of Lodge No. 5 ("FOP") and International Association of Fire Fighters, Local 22 ("AFF"). They collectively represent approximately 9,200 uniformed 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 contract with non-uniformed union members and the two year contract with uniformed union members both expired.

The bargaining units representing the uniformed City workers have opted for binding arbitration for their new labor contract. Hearings have now been completed. A decision is expected from the arbitration team sometime in February, 1993, although the exact timing is uncertain. The PICA Act provides that labor arbitration decisions resulting in increases in wages and fringe benefits shall consider and give weight to the approved Five-Year Plan and the ability of the City to pay the cost of such increases. These arbitration decisions are subject to limited judicial review.

The City recently completed collective bargaining with representatives of the non-uniformed unions. The resulting four year contract calls for 0% wage increases in years one and two, a 2% increase late in the third year and a 3% increase late in the fourth year. The contract also provides 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 contract also increases the number of paid administrative leave days from three to four.

A large part of the savings projected in the Five-Year Plan were contingent upon the outcome of these labor negotiations. While the City received most of the terms it sought through the negotiations, the estimated savings from the contract during the term of the Five-Year Plan are approximately \$144 million less than projected. This figure assumes that the binding arbitration award's contract terms are comparable to those of the non-uniformed employees. This difference between the actual contract and the Plan will be made up through other reductions in the City's budget including reductions in service resulting in reductions in the total number of City employees, privatization of certain City services and the introduction of further management and productivity initiatives in addition to those outlined in the Five-Year Plan.

#### Litigation

Generally, judgments and settlement on claims against the City are payable out of the General Fund, except for claims against the Water Department, the Aviation Division and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund which is then reimbursed by the Water Fund. Claims against the Aviation Division, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund. The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," establishes a \$500,000 aggregate limitation in tort cases on damages arising from the same transaction or occurrence or series of transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of that decision to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages, which are in effect prejudgment interest, are awardable against the City and are not subject to the \$500,000 limitation. The limit on damages is inapplicable to any suit against the City which does not arise under state tort law.

Various claims, constituting general or special litigation claims, have been asserted against the City. Included among these claims are several actions involving catastrophic injuries. The potential exposure in many of these cases is well in excess of \$500,000, and in certain of these cases the City may be liable to such amounts, notwithstanding the \$500,000 limitation on cases brought under the Political Subdivision Tort Claims Act mentioned above. A City ordinance dated December 4, 1990 (the "Governmental Immunity Ordinance"), provides that (1) persons allegedly injured by the negligence or misconduct of a City employee, whether or not such employee is a police officer, will retain the right to seek recovery against the City only if the alleged unlawful conduct falls within one of the eight waiver areas set forth in the Political Subdivision Tort Claims Act and (2) if the Political Subdivision Tort Claims Act is applicable, the City will be subject to damage liability of not more than \$500,000. The retroactive application of the Governmental Immunity Ordinance is currently the subject of litigation. The conduct of a City employee remains actionable under federal civil rights laws regardless of the provisions of the Political Subdivisions Tort Claims Act or the Governmental Immunity Ordinance.

The aggregate loss for Fiscal Year 1992 which resulted from general and special litigation claims and was paid by June 30, 1992 was \$38.8 million. The City's Five-Year Plan includes provisions for losses and judgments of \$37,411,000, \$31,779,495, \$33,209,578 and \$39,368,108 for the Fiscal Years 1993 through 1996, respectively. The City's adopted budget for Fiscal Year 1993 contains a reserve for losses and judgments of \$37,411,000. Actual claims paid out for such litigation averaged \$23.8 million per year over the past five Fiscal Years. Certain special litigation matters are currently being litigated and adverse outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. Among the more significant of these proceedings are those that involve: (i) a request for declaratory and injunctive relief directing the City to pay costs associated with hospital care of indigent patients; (ii) a class action seeking recoupment of money allegedly charged by the City for emergency medical services rendered by its fire department; (iii) a pending binding arbitration and a federal district court action to address police pay grievances; (iv) claims against the City for damages arising out of allegations that constitutional rights were violated as a result of police (and other City officials) misconduct in serving warrants and making arrests; (v) a claim against the City for damages arising out of injuries to a minor on land allegedly in possession of the City; (vi) consent decree and/or court ordered prescribed relief addressing prison overcrowding, subjecting the City to possible fines for non-compliance; (vii) a claim for damages as a result of a City ordinance which authorizes the historic designation of private property without consent of the owner; (viii) environmental-related actions against the City for damages and the possible imposition of fines against the City arising out of allegations that the City created certain environmental pollutants, was, in whole or in part, responsible for the clean-up of certain environmental pollutants, was responsible for personal and economic injuries resulting from certain pollutants, failed to comply with certain environmental protection labeling and reporting requirements, and was in breach of its ash-hauling contracts; (ix) an action for injunctive relief and damages for the City's alleged failure to comply with the Americans with Disabilities Act in connection with City streets and roads; (x) a class action seeking a revision to the City's pay evaluation system and back pay to any female dominated job classification in which discrimination is found; and (xi) a putative class action seeking the provision of various child welfare services.

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 are 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 contains a reserve for Water Department claims in the amount of \$5.0 million, which has already been spent. For the remainder of Fiscal Year 1993, settlements of Water Department cases will be conditional on payment during Fiscal Year 1994.

## 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 fourth largest market in the United States. 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 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 teaching 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 percent loss of population was less than half of the 13 percent loss experienced during the 1970's.

TABLE 3  
POPULATION  
CITY, PMSA\* & NATION

	1980	1990
Philadelphia	1,688,210	1,585,577
Philadelphia PMSA*	4,716,818	4,856,881
United States	226,500,000	249,632,692

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 4  
POPULATION AGE DISTRIBUTION

Age	Phila. 1984	% of Total	Phila. 1990	% of Total
0-24	633,899	38.4	563,816	35.6
25-44	435,458	26.4	490,224	30.9
45-64	340,744	20.6	290,803	18.3
65-84	219,272	13.3	217,913	13.7
85...	20,966	1.3	22,801	1.4
ALL AGES	1,650,339	100.0	1,585,577	100.0

\* Provisional population projection

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 are among the highest in the country with approximately 86% of office space occupied or committed, while the average cost per square foot for office space also compares favorably.

TABLE 5  
RENTAL RATES CBD\* OFFICE SPACE  
IN \$ PER SQUARE FOOT

	Average
Atlanta	\$20.25
Boston	28.46
Chicago	31.54
Dallas	20.02
Houston	17.67
Los Angeles	29.79
Miami	26.33
New York City (midtown)	38.88
Philadelphia	23.48
Phoenix	19.44
Pittsburgh	20.63
San Francisco	25.31
Washington, D.C.	37.79

\*CBD = Central Business District

Source: ONCOR International, Midyear 1991.

### 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 6). In 1990, the City residents represented 30 percent 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 City's 1991 wage and salary employment of 718,400 represented nearly 34 percent of the metropolitan region's (Philadelphia PMSA) total establishment employment. The total number of jobs within the City increased during the period 1983 to 1988 (Table 7), reversing nearly two decades of job losses. The total number of jobs declined again beginning in 1989, 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 had helped to moderate the effects of national economic downturns on the local economy.

TABLE 6  
LABOR FORCE DATA ANNUAL AVERAGE

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>	<u>1988</u>	<u>1990</u>	<u>1991</u>
Philadelphia (000)*							
Labor Force	695.0	693.2	702.7	724.1	728.9	732.4	727.7
Employment	634.1	621.2	637.3	673.8	686.6	688.2	669.7
Unemployment	60.8	72.0	65.4	50.3	42.3	44.1	58.1
Unemployment Rate (%)	8.8	10.4	9.3	6.9	5.8	6.0	8.0
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
Employment	2,025.3	2,015.4	2,103.8	2,239.5	2,320.2	2,324.7	2,274.7
Unemployment	148.5	191.7	155.3	124.8	99.8	113.6	156.5
Unemployment Rate (%)	6.8	8.7	6.9	5.3	4.1	4.7	6.4
United States (000,000)							
Labor Force	106.9	110.2	113.5	117.8	121.7	124.8	125.3
Employment	99.3	99.5	105.0	109.6	115.0	117.9	116.9
Unemployment	7.6	10.7	8.6	8.2	6.7	6.9	8.4
Unemployment Rate (%)	7.1	9.7	7.5	7.0	5.5	5.5	6.7

\* Re-benchmarked figures.

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.

TABLE 7  
PHILADELPHIA  
NON-FARM PAYROLL EMPLOYMENT  
(Amounts in Thousands)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Total Employment	743.1	752.4	755.4	760.3	772.3	775.9	761.6	746.7	718.4
Manufacturing	109.2	108.6	103.2	99.8	96.0	92.2	87.0	81.6	74.8
Non-Manufacturing	633.9	643.8	652.2	660.5	676.3	683.7	674.6	665.1	643.8
Construction and									
Mining	17.0	17.2	17.3	17.2	17.3	17.5	17.0	16.0	13.4
Transportation/Public									
Utilities	46.6	46.4	45.2	44.3	45.0	44.4	40.9	39.9	89.5
Trade	142.5	145.0	145.8	148.1	148.1	149.3	144.3	136.3	126.5
Finance/Insurance/									
Real Estate	64.7	66.4	66.6	69.5	72.8	71.5	68.6	64.7	61.3
Services	225.0	228.5	235.9	242.5	250.3	257.2	262.1	265.2	264.4
Government	138.1	140.3	141.5	138.9	142.8	143.8	141.7	143.0	139.5

Source: Commonwealth of Pennsylvania, Department of Labor and Industry, Office of Employment Security, Bureau of Research and Statistics.

TABLE 8  
LARGEST 20 NON-GOVERNMENTAL EMPLOYERS  
IN THE CITY OF PHILADELPHIA

<u>Employer (1)</u>	<u>No. of Employees</u>
University of Pennsylvania	22,196 (2)
Thomas Jefferson University	7,886
CoreStates Financial Corporation	7,429
Cigna Corporation	5,067
Strawbridge & Clothier	4,739
Albert Einstein Healthcare Foundation	4,630
Philadelphia Electric Company	4,166
Hahnemann University	4,110
Bell of Pennsylvania	3,419
Mellon PSFS	3,411
Provident National Bank	3,381
The Medical College of Pennsylvania	3,381
Consolidated Rail Corporation (Conrail)	3,300
ARA Services Inc.	2,949
Philadelphia Newspapers, Inc.	2,797
Pennsylvania Hospital	2,665
The Children's Hospital of Philadelphia	2,650
Graduate Health System	2,524
Drexel University	2,335
US Air	1,974

(1) Does not include federal, state and city agencies.

(2) Includes Hospital of the University of Pennsylvania.

Source: Philadelphia Business Journal, Book of Business Lists, 1993 Edition; December 28, 1992.

Income

The following Table (9) shows comparable data relating to per-capita income for the City, the PMSA, and the United States.

Over the past few years, real per-capita income has generally outpaced the urban cost of living index, suggesting that on average, the newly created service jobs have generated positive real income growth for City wage earners.

TABLE 9

## CONSUMER PRICES PERSONAL INCOMES

	<u>1985</u>	<u>1990</u>	<u>% change</u> <u>1985-1990</u>
CPI-U (1) Philadelphia PMSA 1982-84=100	108.8	135.8	24.8%
Personal Income Per Capita (2)			
Philadelphia	12,410	16,721	34.7%
Philadelphia PMSA	15,253	21,347	29.5%
United States	13,899	18,696	34.5%

(1) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.

(2) U.S. Department of Commerce, Bureau of Economic Analysis. Regional Economic Information System. 1991 data will not be available until April, 1993.

Retail Sales

The following table compares retail sales activity among the City, the City's PMSA, and the United States.

TABLE 10

## RETAIL SALES

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988*</u>	<u>1989*</u>	<u>1990*</u>	<u>1991*</u>
Philadelphia (\$ Billions)								
Durable Goods	1.4	1.2	1.1	2.1	N/A	N/A	N/A	N/A
Non-Durable Goods	5.1	5.3	5.1	4.8	N/A	N/A	N/A	N/A
Total	6.5	6.5	6.2	6.9	7.4	8.7	9.1	9.6
Philadelphia PMSA (\$ Billions)								
Durable Goods	8.4	9.8	11.9	11.6	11.9	12.2	12.2	15.2
Non-Durable Goods	16.0	17.3	18.0	18.8	20.0	22.1	22.9	23.0
Total	24.4	27.1	30.3	30.4	31.9	34.3	35.1	38.2
United States (\$ Billions)								
Durable Goods	463.0	511.3	562.8	576.6	627.4	645.5	646.4	653.0
Non-Durable Goods	830.9	866.5	882.7	965.5	1,022.6	1,088.1	1,151.5	1,189.7
Total	1,293.9	1,377.9	1,445.5	1,542.1	1,650.0	1,733.0	6,797.9	1,842.7

Source: 1984-1987 Wharton Econometric Forecasting Associates; for 1988-1990, U.S. Department of Commerce, Current Business Reports, BR89-R.

\*The City has ceased its subscription to the Wharton (WEFA) Econometric Philadelphia Model. For 1988-90, Retail Sales per WEFA has been replaced with Retail Sales per U.S. Department of Commerce. The two statistical series may not be exactly equivalent.

## Infrastructure

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the surrounding counties. The Pennsylvania General Assembly in 1991 enacted legislation providing a dedicated source of revenue to SEPTA for use in maintaining and upgrading its infrastructure. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority ("DRPA"). An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985. The line places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center which is currently under construction. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey and the airport high speed line.

Amtrak, SEPTA, Conrail, CSX Transportation and Delaware and Hudson Railroad provide inter-city, commuter and freight rail services connecting Philadelphia to the other major cities and markets in the United States. More than 100 truck lines serve the Philadelphia area.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation as well as high speed rail by virtue of the recent completion of I-95 in the vicinity of Philadelphia International Airport; the Vine Street Expressway (I-676), running east-to-west through the Central Business District between I-76 and I-95; and now the "Blue Route" (I-476) in suburban Delaware and Montgomery Counties which feeds into the Schuylkill Expressway (I-76) and thus into Center City Philadelphia.

The City owns the Philadelphia International Airport (PHL) located eight miles southwest of Center City and a smaller airport in Northeast Philadelphia. The PHL is accessible by major highways within the City and from surrounding communities and SEPTA's high speed train line. The PHL annually provides its 15 million passengers with service from seven domestic air carriers, ten commuter airlines, four foreign flag carriers, eleven charter airlines and ten all-cargo carriers. USAir has hub operations in the City. A new terminal with 12 gates for both international and domestic operations opened in March 1991. During 1991, passenger volume decreased by 7.8%, due mainly to the recession and the impact of the Persian Gulf war on air travel.

In 1985, United Parcel Service, Inc. (UPS) selected PHL as its site for construction of a major East Coast hub package handling and sorting facility. This facility began operations in September 1989. More recently, the U.S. Postal Service commenced construction of a new 30-acre airmail facility at the PHL. Airfreight continues as a growth business even during a recession. Outbound tonnage during 1991 exceeded 1990 tonnage by 4.5%.

The City's port is the world's largest freshwater port and one of its highest tonnage ports. It is a distribution center for northeastern United States imports and is now utilized for the cruise business as well. Port facilities can be purchased or leased in a foreign trade zone for international business. General cargo facilities, including two modern container terminals, are publicly owned and privately operated. An automobile import/export terminal further contributes to the port's economic diversity. Plans to update and modernize existing facilities are now being implemented as the Commonwealth of Pennsylvania plans to invest \$56 million to modernize and upgrade port facilities.

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area) and a relatively smaller quantity of water to the Bucks County Water and Sewer Authority. The City obtains approximately 54 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 503,000 households through 3,300 miles of mains and provides fire protection through more than 26,700 fire hydrants.

The wastewater system services a total of 279 square miles of which 130 square miles are within the City and 149 square miles are in suburban areas. The total population served is approximately 2,286,000, according to the 1990 census. The wastewater system contains three water pollution control plants, 16 pumping

stations and approximately 2,955 miles of sewers. By order of the Delaware River Basin Commission, the City is required to achieve effluent limitations which are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act Amendments of 1972, as amended.

The City is responsible for collecting solid wastes from sources other than industrial or commercial institutions. Approximately 3,200 tons of solid waste per day are collected by the City. Municipal solid waste is disposed of at various landfills operated outside City limits. The City has entered into a contract with a major private contractor for landfill space.

Some elements of the City's capital plant are aged and in need of repair, maintenance and/or reconstruction. The City's capital improvement program for 1992-97 addresses this need. The City's capital improvement requirements are dictated by the need to provide services and maintain the existing infrastructure. Rebuilding the City's infrastructure is the first priority. New projects are recommended by the City Planning Commission only if they enhance the City's economy, protect public health and safety, improve the City's neighborhoods, make government more efficient, leverage other government and private funds or preserve unique resources. Examples consistent with these priorities are projects such as the modernization of terminal buildings at the PHL, upgrading police and fire facilities, improvement of housing services, libraries, health facilities, the transit system and numerous projects to enhance the City's industrial and commercial development. Also included in the capital improvement program are projects for the City's museums, recreation facilities and parklands.

### Housing

The City boasts a diversity of neighborhoods and housing opportunities. There are over 100 neighborhoods, some of which trace their origin to the eighteenth century and the early settlements of the City. Approximately 60 percent of the City's housing units are owner-occupied.

Housing costs are low relative to the largest metropolitan areas in the United States, and costs are very competitive with major metropolitan areas in the Northeast. Since 1988, homeowners and renters costs in Philadelphia have increased more slowly than costs in Pittsburgh, Baltimore and Washington, D.C.

TABLE 11  
HOUSING AFFORDABILITY IN MAJOR CITIES  
Third Quarter 1991\*

	Median Priced Existing Single Family Home	Mortgage Rate**	Median Household Income	Qualifying Income**	Composite Affordability Index
United States	\$101,800	9.31%	\$30,511	\$32,329	94.4
Atlanta, GA	95,100	9.41	34,490	30,466	113.2
Baltimore, MD	114,000	9.53	33,947	36,902	92.0
Boston, MA	175,500	9.51	36,833	56,734	64.9
Chicago, IL	135,800	9.51	31,902	43,902	72.7
Cleveland, OH	89,400	9.40	30,239	28,607	105.7
Dallas, TX	90,300	9.42	32,920	28,967	113.6
Detroit, MI	83,100	9.58	33,254	26,974	123.3
Houston, TX	76,700	9.52	34,394	24,806	138.7
Kansas City, MO	76,800	9.32	30,378	24,409	124.5
Los Angeles, CA#	220,300	9.74	28,709	72,643	39.5
Miami/Hialeah, FL	99,500	9.63	26,351	32,482	81.1
New York/N. New Jersey, Long Island, NY/NJ/CT	176,200	9.25	33,823	55,663	60.8
Philadelphia, PA	112,100	9.42	30,852	35,948	85.8
Phoenix, AZ	86,500	9.56	30,771	28,079	109.6
San Diego, CA#	191,800	9.74	28,742	63,221	45.5
San Francisco Bay Area#	262,000	9.78	34,038	86,687	39.3
St. Louis, MO	80,700	9.49	31,357	26,036	120.4
Washington, DC/MD/VA	118,200	9.53	43,623	52,190	83.6

\* Source: HSH Associates for Metropolitan Areas; FHFB for U.S.

\*\* Based on current leading requirements of the Federal National Mortgage Association using a 20% down payment.

#Note: The California Association of Realtors publishes a housing affordability index for areas within the state which differs significantly from these values because it measures the proportion of households which could theoretically afford to purchase the median price home rather than the ability of a median income family to carry the mortgage. California data is provided for comparison only.

Source: Home Sales; National Association of Realtors, Economic Research Division; December 1991.

While the City's housing market has remained fairly stable, there has been significant development in the commercial real estate sector. The tables below summarize certain information concerning real estate assessments and construction activity.

TABLE 12  
CONSTRUCTION AUTHORIZED BY BUILDING PERMIT  
Declared Valuation  
(Millions of Dollars)

	<u>Residential</u>	<u>Commercial</u>	<u>Other (a)</u>	<u>Total</u>	<u>New Housing Units</u>
1980	116.2	147.0	372.2	635.4	2,704
1981	99.1	176.9	151.9	427.9	2,060
1982	88.0	122.7	166.9	377.6	1,768
1983	56.6	40.2	125.8	322.6	1,152
1984	66.7	213.3	261.7	541.7	1,498
1985	147.7	352.1	91.7	591.5	3,027
1986	113.6	252.6	264.6	630.8	2,569
1987	98.0	427.0	118.3	643.3	1,561
1988	163.4	765.8	98.5	1,027.7	2,981
1989	104.9	434.9	118.7	658.5	1,496
1990	84.9	469.9	108.0	662.8	1,213
1991	55.1	391.0	41.7	487.8	614
1992 (b)	26.5	147.1	80.2	253.8	196

(a) Includes construction by government, industrial, medical and educational units.

(b) 1992 data includes first seven months only.

Source: City of Philadelphia, Department of Licenses and Inspections.

TABLE 13  
TEN HIGHEST CERTIFIED MARKET AND ASSESSMENT VALUES  
FOR TAX YEAR 1992 OF FULLY TAXABLE PROPERTIES

<u>Rank</u>	<u>Location</u>	<u>1992 Certified Market Value</u>	<u>1992 Certified Assessment Value</u>
1.	1500-42 Market Street	\$240,790,000	\$77,052,800
2.	1650 Market Street	192,128,000	61,480,960
3.	2005 Market Street	133,972,600	42,871,232
4.	1600-22 Market Street	115,000,000	36,800,000
5.	1414-38 South Penn Square	113,537,800	36,332,096
6.	1700-40 Market Street	105,000,000	33,600,000
7.	1835 Market Street	104,425,900	33,416,288
8.	701-39 Market Street	100,000,000	32,000,000
9.	1801-21 Market Street	85,000,000	27,200,000
10.	124-48 South 6th Street	85,000,000	27,200,000

Source: City of Philadelphia, Board of Revision of Taxes.

TABLE 14  
TEN HIGHEST CERTIFIED MARKET AND ASSESSMENT VALUES  
FOR TAX YEAR 1992 OF REAL ESTATE TAX ABATED PROPERTIES

<u>Rank</u>	<u>Location</u>	<u>1992 Certified Market Value</u>	<u>Taxable Assessment Value</u>	<u>Exempt Assessment Value</u>
1.	4301 Byberry Road	\$146,606,000	\$10,380,093	\$36,533,827
2.	50 South 16th Street	145,328,800	11,391,040	35,114,176
3.	1717 Arch Street	140,400,000	7,471,488	37,456,512
4.	1735 Market Street	126,297,200	6,675,712	33,739,392
5.	1901-19 Market Street	111,400,000	1,108,332	34,539,668
6.	1818-28 Market Street	92,128,800	28,256,911	1,224,305
7.	1301-25 Chestnut Street	74,000,000	15,904,000	7,776,000
8.	200 South Broad Street	71,343,750	6,358,815	16,471,185
9.	1625-37 Market Street	38,155,000	6,570,764	5,638,836
10.	1327-39 Chestnut Street	37,000,000	8,640,000	3,200,000

Source: City of Philadelphia, Board of Revision of Taxes.

The City has a long tradition of planning and redevelopment. Since the 1950's, the City's Central Business District, known as Center City, has benefited from both commercial and residential revitalization. The Planning Commission's Plan for Center City Philadelphia (1963) established the foundation for public and private investment through the 1960's, 1970's, and early 1980's. In response to evolving development conditions, the Planning Commission in 1988 prepared a new Plan for Center City to guide growth into the 21st Century.

Center City's attractiveness to business recently has been highlighted by the decisions of CIGNA, Bell Atlantic, and Consolidated Rail Corporation to locate their headquarters in the downtown area. In 1991, the Sun Company announced that it would return its corporate offices to Center City from a suburban location.

The concentration of office buildings along the West Market Street corridor has been supplemented by several substantial projects. The largest of these is Rouse and Associates' Liberty Place. Liberty Place is a recently completed \$520 million project consisting of twin office towers connected by an atrium of retail space and a Ritz Carlton Hotel. The atrium contains a food court and two levels of over 40 retail establishments. The second tower has the CIGNA insurance company as its prime tenant, while several large Philadelphia law firms anchor the first tower. Other recent additions to the skyline stretching along West Market Street include the Blue Cross-Linpro Tower, a 50 story office building occupied by Independence Blue Cross and the Mellon Bank Center, an award-winning 53 story office building. A few blocks to the North, the Bell Atlantic and Two Logan Square office buildings have been added.

The second Commerce Square Tower at 20th and Market was completed in 1992. The building houses the corporate offices of Consolidated Rail Corporation. The first Commerce Square building, with IBM as the prime tenant, was completed in 1987. Overall Center City office occupancy rates stood at 85.5% at year end 1991.

To enhance the tourist and retail climate in the Central Business District, City Council passed an ordinance in 1990 that created the Center City District, a special assessment district encompassing the City's central retail and commercial core. In 1991 a special tax assessment on properties in this district began to be used to implement and coordinate additional police, clean-up and tourist aid details there. A centrally coordinated 52-person police detail working out of a new sub-station has facilitated law enforcement and police service, reducing response time. A private contract clean-up detail provides a staff of over 100 covering day and night shifts and cleaning every street and sidewalk every day. Uniformed litter enforcement and community service representatives also patrol the area.

With cooperation from the federal government and the private sector, the City has successfully redeveloped the area adjacent to Independence Mall. The development of a national historic park and new construction of the U.S. Mint, the Federal Reserve Bank of Philadelphia, a Federal Courthouse and office building

complex and the headquarters for the Rohm and Haas Corporation, as well as numerous smaller office and commercial projects, have been completed. In the Franklintown area of Center City, a \$92.5 million project consisting of an office and hotel complex has been completed. The office building houses the U.S. headquarters of the SmithKline Beecham Corporation. The 760 room hotel, currently the City's largest, is known as the Wyndham Franklin Plaza. The Four Seasons Hotel is a major international luxury hotel and is located on nearby Logan Circle.

A substantial amount of development attention has been devoted to the Market East area between City Hall and Independence Mall. The Gallery I retail mall opened in 1977 and was followed by a major expansion in 1984. A new commuter rail transportation center and the ARA Tower office building were also completed in 1984. Enhanced lighting and sidewalk improvements were completed on Market Street from Juniper to 5th Streets, and a privately-funded maintenance association was established. The John Wanamaker building at 13th and Market recently underwent \$150 million of improvements, including the total renovation of the John Wanamaker department store and the conversion of 800,000 square feet of space to office use.

Market East is also the site of the new Pennsylvania Convention Center. This Center, when completed in 1993, will offer more than 500,000 square feet of meeting and exhibit space and significantly boost the demand for hotel and retail services in Center City. A 1,200-room Marriott Hotel is slated for completion in 1994, and more than 2,000 additional rooms are expected to be developed by the end of the decade.

The City is moving ahead with plans to transform the Penn's Landing waterfront development area into an active commercial, entertainment and residential complex. Capital funds already have been used to construct the Great Plaza and to provide road connections and utility service. Two large riverfront piers have now been converted to residential and commercial use. Two hotels have opened and several marinas and a United States Coast Guard Operations Center have been added to the waterfront area. A new boat connecting Penn's Landing with the New Jersey State Aquarium of Camden has attracted significant ridership in the first year of service.

Complementing downtown commercial growth is the substantial residential reinvestment taking place in the Society Hill, Old City, Franklintown, Washington Square West and Rittenhouse Square areas of Center City. In Society Hill, most of the residential structures have been restored and many new houses have been constructed, while Old City has seen the conversion of many warehouses and commercial structures to residential units. Downtown revitalization also has encouraged residential growth in several neighborhoods adjoining Center City.

Four Commonwealth-sponsored enterprise zones have been designated in Philadelphia's inner-city neighborhoods under the Commonwealth's enterprise zone program: American Street, West Parkside, Hunting Park West and the Port Area. The Commonwealth's program provides grants and technical assistance in order to improve the business climate and create jobs in economically depressed neighborhoods. Substantial industrial growth also has occurred in the southeast and northwest sections of the City.

Significant hospital construction projects recently have been completed. These projects include the replacement of substantially all of the patient care rooms at Temple University Hospital, the construction of new patient care facilities at Albert Einstein Medical Center, and the construction of new core buildings at the Hospital of the University of Pennsylvania, Pennsylvania Hospital, and Thomas Jefferson University Hospital.

Health services is a growing and important industry in the regional economy. It functions as an export in a regional balance of accounts, in that revenue and income are attracted to the City from outside the region. Health services payrolls in the City have expanded by 4.9% in the last 12 months. Health-care construction is facilitated by both state and local financing authorities. The Hospitals and Higher Education Facilities Authority of Philadelphia has issued over \$2 billion of revenue bonds since its inception in 1974.

The City's efforts to retain and attract industry are directed by PIDC. Established in 1958, PIDC is a non-profit partnership between the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. Among the many services provided by PIDC are the administration of (1) a tax-exempt financing program that provides low interest mortgage or bond financing for real and personal property, (2) local applications for assistance under the Pennsylvania Industrial Development Authority Program, (3) the Federally funded Inner-city Land Development Program and (4) the City Wide Land Development Program, which offers 700 acres of

industrial land at below appraised market values. Even in the current slow economic environment, PIDC-assisted projects were up nearly 10% in 1991 from 1990.

TABLE 15  
RECENTLY COMPLETED PROJECTS

<u>Project</u>	<u>Estimated Cost</u>
Two Liberty Place, 17th & Chestnut Streets	\$310,000,000
Philadelphia Center for Healthcare Sciences	300,000,000
Franklin Mills, Woodhaven Road	300,000,000
Mellon Bank Center, 17th & Market Streets	260,000,000
One Liberty Place, 17th & Market Streets	210,000,000
Vine Street Expressway, 17th Street to I-95	203,000,000
Bell Atlantic Tower, 18th & Arch Streets	200,000,000
Commerce Square, Phase I, 20th & Market Streets	150,000,000
Blue Cross/Linpro Tower, Phase I, 19th & Walnut Streets	150,000,000
John Wanamaker Building	150,000,000
Two Logan Square, 18th & Arch Streets	130,000,000
Philadelphia International Airport Terminal A	115,000,000
The Bellevue, Broad & Walnut Streets	110,000,000
United Parcel Service, Philadelphia International Airport	108,000,000
Commerce Square, Phase II, 20th & Market Street	100,000,000
Hospital of the University of Pennsylvania	100,000,000
Rittenhouse Hotel, 210 West Rittenhouse Square	100,000,000
Temple University Hospital	79,000,000
Jefferson University Life Sciences Building	76,000,000
St. Christophers Hospital	72,000,000
Franklin Futures Center, 20th & the Parkway	70,000,000
Airport Parking Garage A-B	60,000,000
I-95 Central Riverfront Ramps	57,000,000
Pier 5 (Residences), Delaware Waterfront	50,000,000
Lincoln Green, Presidential Boulevard	50,000,000
Walnut Street Bridge	45,000,000
Fox Chase Cancer Center	33,000,000
Walnut Towers, 9th & Walnut Streets	30,000,000
United Parcel Service, Oregon Avenue	25,600,000
Girard/Belmont Bridge Reconstruction	23,000,000
Omni Hotel	22,500,000

Source: Philadelphia City Planning Commission.

TABLE 16  
PROJECTS UNDER CONSTRUCTION

<u>Project</u>	<u>Estimated Cost</u>
Frankford Elevated Subway Reconstruction	\$513,000,000
The Pennsylvania Convention Center	500,000,000
Marriott Hotel, 12th and Market Street	200,000,000
Commerce Square, Phase II, 20th & Market Streets	100,000,000
Childrens Hospital Research Facility	100,000,000
Spectrum II, South Philadelphia	100,000,000
30th Street Station Renovation	61,000,000
CONRAIL Computer Operations Facility	29,000,000
Girard/Belmont Bridge Reconstruction	23,000,000
Philadelphia Food Distribution Center Improvements	17,000,000

Source: Philadelphia City Planning Commission

**APPENDIX E**

**Text of Proposed Opinion  
of Bond Counsel**

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(215) 575-7000

February , 1993

City of Philadelphia  
1650 Arch Street  
Room 1760  
Philadelphia, Pennsylvania 19103

Attention: Finance Department

Re: \$ 376,550,000 City of Philadelphia, Pennsylvania,  
Gas Works Revenue Bonds, Fourteenth Series

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the authorization, issuance and sale of City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Fourteenth Series (the "Fourteenth Series Bonds"), under and pursuant to authority contained in the Act of the General Assembly of the Commonwealth of Pennsylvania of October 18, 1972 (P.L. 955) (the "Act"), the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), and the Fourteenth Supplemental Ordinance thereto approved January 28, 1993 (the "Fourteenth Supplemental Ordinance"). The Fourteenth Series Bonds, in the aggregate principal amount of \$376,550,000, bear interest at the rates set forth in the bond authorization dated February 3, 1993 of the bond committee, consisting of the Mayor, the City Controller and the City Solicitor, payable each January 1 and July 1 commencing July 1, 1993. They have been issued for the purpose of funding a portion of the capital improvement program of the Philadelphia Gas Works ("PGW"), refunding certain outstanding maturities of the City of Philadelphia Gas Works Revenue Bonds,

To: City of Philadelphia

making a deposit to the sinking fund reserve created under the General Ordinance and paying the costs of issuance of the Fourteenth Series Bonds.

Thirteen series of Gas Works Revenue Bonds have heretofore been issued pursuant to the General Ordinance and as of November 30, 1992, \$634,132,000 in aggregate principal amount of such bonds were outstanding. The Fourteenth Series Bonds are equally and ratably secured with all such prior bonds and will be equally and ratably secured with all bonds issued in the future under the General Ordinance (all such prior bonds, the Fourteenth Series Bonds and all bonds to be issued under the General Ordinance in the future, collectively, the "Bonds").

The City of Philadelphia (the "City") has made a pledge of, and granted a security interest in, all Project Revenues (as defined in the General Ordinance) and all accounts, contract rights and general intangibles representing Project Revenues to secure the payment of the Bonds. The General Ordinance provides that except upon the occurrence of a default, Project Revenues shall be applied in the following order of priority: (1) Net Operating Expenses, as defined therein; (2) required payments into the sinking fund to pay principal of and interest on the Bonds and to accumulate, or to restore any deficiency in, the sinking fund reserve in respect thereof; (3) payment of general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from PGW; (4) payment of interest and sinking fund charges of other general obligation debt incurred for PGW; and (5) payment of City Charges, as defined therein. Under certain circumstances, the remaining balance may be applied to other proper purposes of the City. In the Fourteenth Supplemental Ordinance, the City has covenanted that, as long as any of the Fourteenth Series Bonds remain outstanding, all Project Revenues shall be deposited in, 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.

We have examined (a) such constitutional provisions, statutes and regulations as we deemed necessary, including the Act, the General Ordinance and the Fourteenth Supplemental Ordinance, (b) the proceedings authorizing the issuance and sale of the Fourteenth Series Bonds, and (c) such certificates, opinions, receipts and other documents as we have deemed necessary, including a non-arbitrage certificate of the City. In making the aforesaid examinations, we have assumed the authenticity of all original documents and the conformity to original documents of all conformed copies and photocopies of documents, the genuineness of all signatures, the due authorization, execution and delivery of all documents and the authority to do so of all persons executing such documents.

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On the basis of the foregoing, we are of the opinion that:

1. The City has the power to perform its obligations under the General Ordinance, the Fourteenth Supplemental Ordinance and the Fourteenth Series Bonds and is authorized to issue the Fourteenth Series Bonds.

2. The terms of the Fourteenth Series Bonds comply with the requirements of the Act, the General Ordinance and the Fourteenth Supplemental Ordinance, and the purposes for which the Fourteenth Series Bonds have been issued are lawful purposes under the Act and the General Ordinance.

3. The Fourteenth Series Bonds constitute valid, legal and binding obligations of the City, enforceable in accordance with their terms (subject to any applicable bankruptcy, insolvency, moratorium or other laws or equitable principles affecting the enforcement of creditors' rights generally).

4. Under existing statutes, regulations, rulings and court decisions, interest on the Fourteenth Series Bonds (and any original issue discount on Fourteenth Series Bonds to the extent properly allocable to each holder of such Fourteenth Series Bonds) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed upon individuals and corporations. It should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings which may subject a portion of such interest to the alternative minimum tax. Ownership of the Fourteenth Series Bonds may give rise to certain collateral federal income tax consequences as to which co-bond counsel express no opinion.

The initial public offering price of the Fourteenth Series Bonds scheduled to mature on July 1 of the years 1998, 1999, 2000, 2001, 2003, 2004, 2008, 2014 and 2026 (the "Discount Bonds") is less than the amount payable on such Fourteenth Series Bonds at stated maturity. The difference between the initial public offering price of the Discount Bonds and the principal amount payable thereon at maturity, constitutes interest. A portion of such interest (the "Original Issue Discount"), depending on the holding period of any Discount Bond by each owner, will, upon the disposition of such Discount Bond by each owner (including redemption or payment at maturity), be treated as interest excludable from gross income for federal income tax purposes. Owners of any of the Discount Bonds should consult their own tax

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advisors with respect to the consequences of owning such Discount Bonds, including the effect of such ownership under applicable state and local law.

The initial public offering price of the Fourteenth Series Bonds scheduled to mature on July 1, 2002 is greater than the amount payable on such Fourteenth Series Bonds at stated maturity. We express no opinion regarding the tax treatment or consequences of the payment of any premium in connection with the purchase of any of such Fourteenth Series Bonds.

5. Under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"), as enacted and construed on the date hereof, the Fourteenth Series Bonds, their transfer and the income therefrom (including any profits made on the sale thereof) are exempt from personal property taxes in the Commonwealth, the Commonwealth personal income tax and the Commonwealth corporate net income tax.

In providing this opinion, we advise you as follows:

(a) It may be determined in the future that interest on the Fourteenth Series Bonds, retroactive to the date of issuance thereof or prospectively, will not be excluded from gross income of the owners of the Fourteenth Series Bonds for federal income tax purposes if certain requirements of the Internal Revenue Code of 1986, as amended, are not met subsequent to the issuance of the Fourteenth Series Bonds. The City has covenanted in the bond authorization of the City relating to the Fourteenth Series Bonds to comply with these requirements.

(b) The Fourteenth Series Bonds constitute limited obligations of the City and are payable solely from the Project Revenues, as defined in the General Ordinance, and amounts in the sinking fund, including the sinking fund reserve created under the Act and the General Ordinance. The Fourteenth Series Bonds do not pledge the credit or taxing power of the City or create any debt or charge against property of the City other than the Project Revenues and amounts in such sinking fund, including the sinking fund reserve.

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(c) We do not express any opinion as to the accuracy or completeness of the preliminary or final Official Statement of the City relating to the Fourteenth Series Bonds, including the appendices thereto.

Very truly yours,

DILWORTH, PAXSON, KALISH & KAUFFMAN

RONALD A. WHITE, P.C.

Approved the fourth day of November, A.D. 1992.

EDWARD G. RENDELL,

*Mayor of Philadelphia*

\*Bill No. 245

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\*AN ORDINANCE

Constituting the Fourteenth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975, as amended to date; authorizing the Mayor, the City Controller and the City Solicitor, or a majority of them, to sell, either at public or private sale, Gas Works Revenue Bonds of the City of Philadelphia, in one or more series or subseries, in the additional maximum aggregate principal amount of four hundred million (400,000,000.00) dollars (the "Bonds"); provided, however, that the aggregate principal amount of Bonds authorized to be issued to pay the cost of certain projects shall not exceed seventy-five million (75,000,000.00) dollars and the aggregate principal amount issued to redeem or refund certain outstanding Gas Works Revenue Bonds shall not exceed three hundred twenty-five million (325,000,000.00) dollars; and provided further that, if the Bonds are sold at a discount, the aggregate principal amount may be increased to reflect such discount as long as the aggregate gross proceeds to the City from the sale of the Bonds do not exceed four hundred million (400,000,000.00) dollars; plus accrued interest, if any; designating that the Bonds are being issued to pay the

costs of certain projects and to redeem or refund all or a portion of certain outstanding series of Gas Works Revenue Bonds and the application of proceeds of the Bonds for such purpose; determining the sufficiency of Project Revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Bonds from general accounts of the City; covenanting the payment of interest and principal on the Bonds; authorizing covenants and action in order that the Bonds shall not be arbitrage bonds; and specifying the applicability of sections of the First Class City Revenue Bond Act and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date.

*The Council of the City of Philadelphia hereby ordains:*

SECTION 1. The Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, are hereby authorized, on behalf of the City, to borrow, by the issuance and sale of Gas Works Revenue Bonds of the City (the "Bonds"), in one or more series or subseries, pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, adopted by the City on May 30, 1975, as amended to date (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed the principal amount of Bonds authorized to be issued hereunder, to be expended as provided in Section 2 of this Ordinance. The Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interest of the City

and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain credit enhancement for all or a portion of the Bonds. A majority of the Bond Committee is authorized to take any and all other actions as may be necessary or appropriate in connection with the consummation of the transactions contemplated herein.

The aggregate principal amount of Bonds which are authorized to be issued hereunder shall not be more than four hundred million (400,000,000.00) dollars; provided, however, that the aggregate principal amount of Bonds authorized to be issued to pay the cost of certain projects shall not exceed seventy-five million (75,000,000.00) dollars and the aggregate principal amount issued to refund certain outstanding series of Gas Works Revenue Bonds shall not exceed three hundred twenty-five million (325,000,000.00) dollars; and provided further that, if any of the Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Bonds which may be issued hereunder shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Bonds shall not exceed four hundred million (400,000,000.00) dollars, plus accrued interest, if any.

The Bonds shall not pledge the credit or taxing power, create any debt or charge against the tax or general revenues or create any lien against any property of the City other than the revenues pledged by the General Ordinance.

SECTION 2. The Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budgets of the Gas Works, as approved by City Council, which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (ii) the refunding of all or a portion of certain series of the City's outstanding Gas Works Revenue Bonds, consisting of the Third Series, Fourth Series, Fifth Series, Eighth Series, Tenth Series, Eleventh A Series, Eleventh C Series, Twelfth A Series, Twelfth B Series and the Thirteenth Series, or such other series as shall be designated by the City's Director of Finance (the "Prior Bonds"); (iii) paying the costs of issuing the Bonds and any required deposits 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 to Project Costs.

The City covenants that proceeds of the Bonds applicable to the refunding of the Prior Bonds will be deposited in an escrow or similar account with the Fiscal Agent, as defined in the General Ordinance, separate and apart from all other accounts of the City or Gas Works, including the Sinking Fund established by the General Ordinance, to be held for the benefit of the holders of refunded Prior Bonds and applied to payment of the Prior Bonds in accordance with a certificate of the Director of Finance (as to Prior Bonds that are being currently refunded) or an escrow deposit agreement (as to Prior Bonds that are being advance refunded).

The City covenants that the proceeds of the Bonds which remain available for the payment of the costs of the capital improvements, after payment of the financing costs, the required payment into the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for Project Costs or for the funding or refunding of bond anticipation notes or other obligations as described above, shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works 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. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts. All interest and income earned on the investment of such proceeds (except for amounts to be rebated to the United States) pending expenditure for the aforesaid purposes may be transferred to and deposited in

the operating funds of the Gas Works and applied as Project Revenues in accordance with Section 4.02 of the General Ordinance.

The Director of Finance is hereby authorized to determine, on behalf of the City, the particular series and maturities of the Prior Bonds to be refunded, the amount of Bond proceeds to be applied to the refunding of the Prior Bonds and to deposit such proceeds in an escrow account for the benefit of the holders of the refunded Prior Bonds, and to take any and all other action, including the irrevocable pledge of such proceeds and/or the income or profit from the investment thereof, for the payment and redemption of the refunded Prior Bonds, and the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the refunding of the Prior Bonds and to comply with the requirements of Section 10 of the Act.

Any excess moneys in the Sinking Fund Reserve in respect of the Bonds other than Sinking Fund Reserve Earnings shall be transferred to the accounts of the Gas Works described in this Section 2 and applied to any of the purposes described in this Section 2.

SECTION 3. Based on the report of the Director of Finance of the City filed with the City Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General

Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in the order and priority stated in Section 4.02 of the General Ordinance.

SECTION 4. Subject to the provisions of Section 7.02 of the General Ordinance, the City covenants that, as long as any of the Bonds shall remain outstanding, all pledged Project Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts except as provided in Section 2 hereof or as otherwise required by the General Ordinance.

SECTION 5. The City covenants that, as long as any Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its Gas Works Revenue Bond Sinking Fund created under the General Ordinance, at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due; provided, however, that whenever the City shall be required to deposit moneys with the Fiscal Agent for the mandatory redemption of any of the Bonds, such obligation may be satisfied, in whole or in part, by the delivery by the City to the Fiscal Agent of a principal amount of Bonds of the maturity required to be redeemed for cancellation prior to the date specified for such redemption.

SECTION 6. The Director of Finance is authorized to make such elections under the Internal Revenue Code of 1986, as amended and Treasury regulations promulgated thereunder with respect to the Bonds as he deems advisable, and to take such action on behalf of the City with respect to the investment of the proceeds of the Bonds, and the Director of Finance and any member of the Bond Committee are authorized to make such covenants as may be necessary or advisable in order that the Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1986, as amended.

SECTION 7. In accordance with Section 6.04 of the General Ordinance, the City is authorized to accumulate from Project Revenues, over a period of not more than six (6) Fiscal Years from the date or dates of issuance and delivery of the Bonds, the amount required by the General Ordinance to be deposited in the Sinking Fund Reserve in respect thereof.

SECTION 8. This Ordinance is supplementary to the General Ordinance and all sections of the General Ordinance and the Act not inconsistent herewith are applicable to the Bonds. All definitions of terms contained in the Act or the General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

SECTION 9. This Ordinance shall take effect immediately.

Approved the thirteenth day of November, A.D. 1992.

EDWARD G. RENDELL,

*Mayor of Philadelphia*

\*Bill No. 339

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\*AN ORDINANCE

Explanation:  
[Brackets] indicate matter deleted.  
*Italics* indicate new matter added.

Amending Section 14-508 of The Philadelphia Code, relating to the "G-2" General Industrial District, by adding a new subsection to establish penal and correctional institutions as permitted uses and by making certain technical amendments, under certain terms and conditions.

WHEREAS, Penal and Correctional Institutions have been uses permitted in Commercial zoning classifications and therefore also permitted in General Industrial and Least Restricted zoning classifications since the first Philadelphia Zoning Code was adopted in 1932 and accordingly, over the years, such existing institutions have been zoned industrial and new institutions have been built upon land zoned industrial; and

WHEREAS, In December, 1987 City Council passed and the Mayor signed Bill No. 1442 which amended the "G-2" General Industrial zoning classification. This Bill was sponsored by the Commerce Department and the Philadelphia Industrial Development Corporation (P.I.D.C.) and was intended to remove commercial uses

from the "G-2" and "Least Restricted" zoning classifications in order to preserve industrially-zoned land for industrial uses and to stop the development of industrial land with commercial uses and shopping centers; and

WHEREAS, Bill No. 1442 accomplished this change by deleting the term "uses permitted in any Commercial ... District" from the "G-2" General Industrial District. As a result of the passage of Bill No. 1442, a number of existing commercial uses in industrial districts became non-conforming uses and as such have limited expansion and reuse rights; and

WHEREAS, Penal and Correctional Institutions were unintentionally removed as permitted uses in "G-2" and "Least Restricted" Industrial Districts by Bill No. 1442, since these were not the type of "commercial uses" that the Commerce Department and P.I.D.C. wanted to remove from these districts; now therefore

*The Council of the City of Philadelphia hereby ordains:*

SECTION 1. Section 14-508 of The Philadelphia Code, relating to the "G-2" General Industrial District, is amended as follows:

§14-508. "G-2" General Industrial District.

(1) Use Regulations — General. The specific uses permitted in this District shall be the erection, construction, alteration, or use of buildings and/or land for:

. . .