

APPENDIX E

Text of Proposed Opinion
of Co-Bond Counsel

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OHEN, SHAPIRO, POLISHER, SHIEKMAN AND COHEN

ANDRE C. DASENT, P.C.

PSFS BUILDING
12 SOUTH 12TH STREET
PHILADELPHIA, PENNSYLVANIA 19107
(215) 922-1000

785 BOURSE BUILDING
21 SOUTH FIFTH STREET
PHILADELPHIA, PENNSYLVANIA 19106
(215) 625-0333

January 27, 1994

City of Philadelphia, Pennsylvania
1650 Arch Street, Room 1760
Philadelphia, Pennsylvania 19103
Attention: Finance Department

Re: \$183,880,000 City of Philadelphia, Pennsylvania,
Gas Works Revenue Bonds, Fifteenth 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, Fifteenth Series (the "Fifteenth 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 Fifteenth Supplemental Ordinance thereto approved December 23, 1993 (the "Fifteenth Supplemental Ordinance"). The Fifteenth Series Bonds, in the aggregate principal amount of \$183,880,000, bear interest at the rates set forth in the bond authorization dated January 20, 1994 (the "Bond Authorization") of the bond committee, consisting of the Mayor, the City Controller and the Acting City Solicitor, payable each February 1 and August 1 commencing August 1, 1994. 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 (the "Refunded Bonds"), and paying the costs of issuance of the Fifteenth Series Bonds. First Fidelity Bank, National Association, Philadelphia, Pennsylvania, serves as Fiscal Agent and Sinking Fund Depository under the General Ordinance.

Capitalized terms used in this opinion and not otherwise defined herein shall have the same meanings as are set forth in the General Ordinance.

The Fifteenth Series Bonds will initially be issued in book-entry form only in the form of one certificate for the amount of Fifteenth Series Bonds maturing in each year, registered in the name of and held by Philadep & Co., as nominee of the Philadelphia Depository Trust Company, Philadelphia, Pennsylvania, which will act as securities depository

for the Fifteenth Series Bonds. The Fifteenth Series Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof. The Fifteenth Series Bonds mature on the dates and in the amounts specified in the Bond Authorization. The Fifteenth Series Bonds maturing on or after August 1, 2005 are subject to optional redemption, and the Fifteenth Series Bonds maturing on August 1, 2015, August 1, 2021 and August 1, 2024 are subject to mandatory sinking fund redemption, all in the manner specified in the Bond Authorization.

The Fifteenth Series Bonds maturing on and after August 1, 1997 (the "Discount Bonds"), will be issued at initial public offering prices which are less than the amounts payable on the Discount Bonds at maturity. The difference between the initial public offering price of the Discount Bonds of the same maturity and the principal amount payable at maturity constitutes original issue discount which, in accordance with the accrual conventions described in Section 1288 of the Internal Revenue Code of 1986, as amended (the "Code"), is treated as interest.

Fourteen series of Gas Works Revenue Bonds have heretofore been issued pursuant to the General Ordinance and, as of October 31, 1993, the City of Philadelphia (the "City") has estimated that approximately \$704,581,000 in aggregate principal amount of such bonds were outstanding (including the accreted value of capital appreciation bonds to such date). The Fifteenth Series Bonds are equally and ratably secured with all such prior bonds issued under, and will be equally and ratably secured with all bonds issued in the future under, the General Ordinance (all such prior bonds issued under the General Ordinance, the Fifteenth 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 Fifteenth Supplemental Ordinance, the City has covenanted that, as long as any of the Fifteenth 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.

In connection with the issuance of the Fifteenth Series Bonds, the City has entered into an Escrow Deposit Agreement with First Fidelity Bank, National Association, Philadelphia, Pennsylvania, as escrow agent (the "Escrow Agent") and as Fiscal Agent, dated January 27, 1994 (the "Escrow Agreement"), pursuant to which certain proceeds of the Fifteenth Series Bonds and other funds will be deposited and held uninvested as cash or invested in direct obligations of the United States of America, the maturing principal of which and interest thereon shall be used to pay the interest on the Refunded Bonds, as and when due through their respective maturity or redemption dates, and to pay the principal of, redemption premium (if any) and interest on the Refunded Bonds on such dates. Drucker & Scaccetti, P.C., Philadelphia, Pennsylvania, has, based on certain information provided to them by the underwriters, verified (i) the mathematical computation of the adequacy of the maturing principal of and interest on the investments purchased with the proceeds of the Fifteenth Series Bonds to make payments of principal of, interest on and redemption premium (if any) on the Refunded Bonds as the same become due and payable; and (ii) the calculations of (a) the yield on the Fifteenth Series Bonds, and (b) the yield on the investments held under the Escrow Agreement purchased with proceeds of the Fifteenth Series Bonds. We have relied upon the verification of the sufficiency of the amounts to be held by the Escrow Agent and the yield calculations in concluding that the Fifteenth Series Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code.

We have examined (a) such constitutional provisions, statutes and regulations as we deemed necessary, including the Act, the General Ordinance, the Fifteenth Supplemental Ordinance and the Code, (b) the proceedings authorizing the issuance and sale of the Fifteenth 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.

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 Fifteenth Supplemental Ordinance and the Fifteenth Series Bonds and is authorized to issue the Fifteenth Series Bonds. We express no opinion, however, as to the validity or enforceability of any particular category of City Charges or the application of Project Revenues therefor.

2. The terms of the Fifteenth Series Bonds comply with the requirements of the Act, the General Ordinance and the Fifteenth Supplemental Ordinance, and the purposes for

which the Fifteenth Series Bonds have been issued are lawful purposes under the Act and the General Ordinance.

3. The Fifteenth Series Bonds constitute valid, legal and binding obligations of the City, enforceable in accordance with their terms.

4. Assuming continuing compliance by the City with the provisions of the Code, and subject to certain provisions of the Code which are described below, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the Fifteenth Series Bonds, interest received by a holder of the Fifteenth Series Bonds, including accrued original issue discount with respect to the Discount Bonds, will be excludable from gross income for federal income tax purposes and will not be considered a tax preference item for purposes of the alternative minimum tax imposed by Section 55 of the Code. However, interest on the Fifteenth Series Bonds may become taxable retroactively if certain requirements relating to arbitrage and arbitrage rebate under Section 148 of the Code are not complied with. For certain corporate holders, interest on the Fifteenth Series Bonds will be taken into account in the calculation of such holders' alternative minimum tax liability and may be subject to the Environmental Tax imposed by Section 59A of the Code.

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

For purposes of this opinion, the enforceability (but not the validity) of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws now or hereafter enacted by any state or by the federal government affecting the enforcement of creditors' rights generally and by equitable principles, and the phrase "enforceable in accordance with their terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

Other than as set forth in Paragraphs 4 and 5 hereof, we express no opinion regarding other federal and state tax consequences arising with respect to the Fifteenth Series Bonds.

We express no opinion herein as to the adequacy or accuracy of any official statement, private placement memorandum or other offering material pertaining to the offering of the Fifteenth Series Bonds.

We call your attention to the fact that the Fifteenth 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 Fifteenth Series Bonds do not pledge the credit or taxing power of the City nor 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.

COHEN, SHAPIRO, POLISHER,
SHIEKMAN AND COHEN

ANDRE C. DASENT, P.C.

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APPENDIX F

**Specimen Copy of AMBAC
Municipal Bond Insurance Policy**

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Issuer: Policy Number:

Bonds: Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or expirant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

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

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.

[Signature]
President



[Signature]
Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Representative

[Signature]
Authorized Officer

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APPENDIX G

Specimen Copy of FSA
Municipal Bond Insurance Policy

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FINANCIAL
SECURITY
ASSURANCE, INC.

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee" or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall hereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest.

"Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

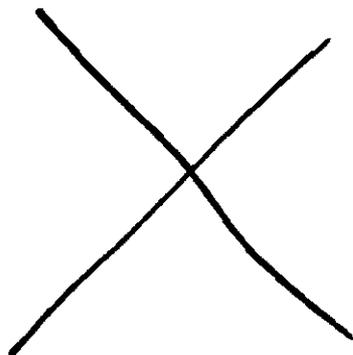
A subsidiary of Financial Security Assurance Holdings Ltd.
360 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

APPENDIX H

**Specimen Copy of MBIA
Financial Guaranty Insurance Policy**

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FINANCIAL GUARANTY INSURANCE POLICY

Municipal Bond Investors Assurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount or which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., 113 King Street, New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and tender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

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

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

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

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

**MUNICIPAL BOND INVESTORS
ASSURANCE CORPORATION**

COUNTERSIGNED:

Resident Licensed Agent

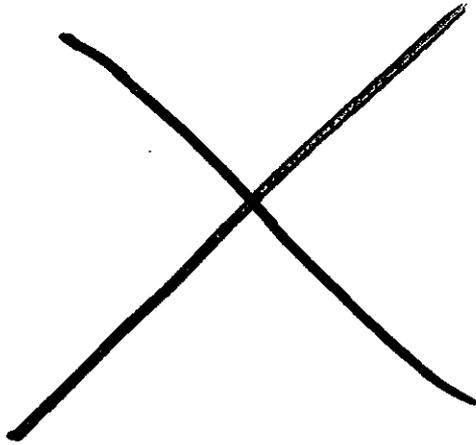
President

By: State

Attest:

Assistant Secretary

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2155633162; # 2/11

City of Philadelphia

Bill No. 980233

Certified Copy

CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on April 30, 1998 The Bill was Signed by the Mayor on May 8, 1998

Marie B. Hauser
Chief Clerk of the City Council

City of Philadelphia



(Bill No. 980233)

AN ORDINANCE

Constituting the First Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"); 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, First Series, of the City of Philadelphia, in one or more subseries, in the maximum aggregate principal amount of three hundred million (300,000,000) dollars (the "First Series Bonds"); provided, however, that the aggregate principal amount of First Series Bonds authorized to be issued to pay the cost of capital projects shall not exceed one hundred million (100,000,000) dollars, the aggregate principal amount of First Series Bonds authorized to be issued to acquire the headquarter building occupied by the Gas Works and owned by the Philadelphia Municipal Authority shall not exceed twenty-five million (25,000,000) dollars and the aggregate principal amount of First Series Bonds authorized to be issued to refund certain outstanding Gas Works revenue bonds shall not exceed one hundred seventy-five million (175,000,000) dollars; and provided further that, if the First Series 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 First Series Bonds do not exceed three hundred million (300,000,000) dollars, plus accrued interest, if any; designating that the First Series Bonds are

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City of Philadelphia

Bill No. 980233

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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 First Series Bonds for such purpose; authorizing the City to obtain credit enhancement for the First Series Bonds; determining the sufficiency of Gas Works revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the First Series Bonds from general accounts of the City; covenanting the payment of interest and principal on the First Series Bonds; authorizing covenants and action in order that the First Series Bonds shall not be arbitrage bonds; authorizing the First Series Bonds to be issued in book-entry form and providing book-entry provisions to apply in such case; and providing that this Ordinance is supplemental to the 1998 General Ordinance and that the provisions of the 1998 General Ordinance, to the extent not modified, amended or superseded by this Ordinance, are applicable.

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, First Series, of the City (the "First Series Bonds"), in one or more subseries and with such relative priorities as they deem desirable, 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 1998, Bill No. _____, adopted by the City on _____, 1998 (the "1998 General Ordinance"), a sum or sums which in the aggregate shall not exceed the principal amount of First Series Bonds authorized to be issued hereunder, to be expended as provided in Section 2 of

City of Philadelphia

Bill No. 980233

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this Ordinance. The First Series Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interests of the City and are not inconsistent with the provisions hereof, of the Act or of the 1998 General Ordinance. If a majority of the Bond Committee determines it to be in the best interests of the City, the First Series Bonds may be issued in book-entry form; and in such event a majority of the Bond Committee shall also select a securities depository (the "Depository") for the First Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain credit enhancement for all or a portion of the First Series 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 First Series Bonds are authorized to be issued hereunder in an aggregate principal amount up to three hundred million (300,000,000) dollars; provided, however, that the aggregate principal amount of First Series Bonds authorized to be issued to pay the cost of capital projects (other than the following-described building acquisition) shall not exceed one hundred million (100,000,000) dollars, the aggregate principal amount of First Series Bonds authorized to be issued to acquire a building from the Philadelphia Municipal Authority shall not exceed twenty-five million (25,000,000) dollars and the aggregate principal amount of First Series Bonds authorized to be issued to refund certain outstanding series of Gas Works revenue bonds shall not exceed one hundred seventy-five million (175,000,000) dollars; and provided further that, if any of the First Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of First Series Bonds which may be issued hereunder shall be increased to reflect such discounts, as long as the aggregate

2155633162;# 5/11

City of Philadelphia

Bill No. 980233

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gross proceeds to the City from the sale of the First Series Bonds shall not exceed three hundred million (300,000,000) dollars, plus accrued interest, if any.

The First Series Bonds shall not pledge the City's credit or taxing power, create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than the revenues pledged by the 1998 General Ordinance. The opinion of the City Solicitor required by Section 8 of the Act with respect to the matters stated in the preceding sentence is attached hereto as Exhibit A.

SECTION 2. The First Series Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) the capital projects 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 the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Thirteenth Series, Fourteenth Series and Fifteenth Series (the "Prior Bonds"), which were issued under the General Gas Works Revenue Bond Ordinance of 1975 (the "1975 General Ordinance"); (iii) the acquisition of the building currently being leased by the Gas Works from the Philadelphia Municipal Authority; (iv) paying the costs of issuing the First Series Bonds and any required deposits to the Sinking Fund Reserve; and (v) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment

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Works Revenues over the amortization period of the Bonds sufficient to meet the payment and/or deposit requirements of (a) all expenses of operation, maintenance, repair and replacement of the Gas Works; (b) all reserve or special funds required to be established and maintained out of Gas Works Revenues; (c) the principal of and interest on all revenue bonds issued under the 1998 General Ordinance and under the 1975 General Ordinance, as the same shall become due and payable; and (d) any State taxes assumed by the City to be paid on such bonds and also to provide such coverage on such bonds as prescribed by the 1998 General Ordinance.

(iv) The Gas Works Revenues forming the basis for the statements set forth in clause (iii) above comply with the requirements of the definition of "Project Revenues" contained in Section 2 of the Act.

(v) Based on their investigations, Stone and Webster have found that the Gas Works is in good operating condition and that adequate steps are being taken to maintain it in good operating condition.

For the purpose of the opinion expressed in clause (iii) above, you are advised that no State taxes on any of such bonds have been or are being assumed by the City.

Respectfully submitted,

Ben Hayllar
Director of Finance.

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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.

The City covenants that proceeds of the First Series Bonds applicable to the refunding of Prior Bonds will be deposited in one or more escrow or similar accounts with the Fiscal Agent under and as defined in the 1975 General Ordinance, separate and apart from all other accounts of the City or the Gas Works, including the Sinking Fund established by the 1975 General Ordinance, to be held for the benefit of the holders of the applicable refunded Prior Bonds and applied to payment of refunded Prior Bonds in accordance with a certificate of the Director of Finance or an escrow deposit agreement (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 First Series 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

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and deposited in the operating funds of the Gas Works and applied as Gas Works Revenues in accordance with Section 4.02 of the 1998 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 and the amount of proceeds of the First Series Bonds to be applied to the refunding of such Prior Bonds, to use such proceeds to redeem, or to deposit 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 selected for refunding and to comply with the requirements of Section 10 of the Act.

SECTION 3. Based on the report of the Director of Finance of the City required by Section 8 of the Act (the "Financial Report"), it is hereby determined that the pledged Gas Works Revenues (as defined in the 1998 General Ordinance) will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the 1998 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 1998 General Ordinance. An executed copy of the Financial Report is attached hereto as Exhibit B.

SECTION 4. The City covenants that, as long as any of the First Series Bonds shall remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the

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replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works; (b) the refunding of all or a portion of the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Thirteenth Series, Fourteenth Series and Fifteenth Series, which were issued under the General Gas Works Revenue Bond Ordinance of 1975 (the "1975 General Ordinance"), as shall be determined by the City's Director of Finance (the "Refunded Bonds"); (c) the acquisition of the headquarters building currently being leased by the Gas Works from the Philadelphia Municipal Authority; (d) paying the costs of issuing the Bonds and making any required deposits to the Sinking Fund Reserve; (e) 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.

(ii) The revenues pledged for the payment of the Bonds will be all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the Gas Works upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works (the "Gas Works Revenues").

(iii) Assuming not more than \$300,000,000 of Bonds are to be issued, amortizing no more than 30 years, at an average interest rate not exceeding 7.5 percent, I find that with the rates currently in effect and on the basis of estimated future financial operations of the Gas Works, as detailed in the Engineering Report, the Gas Works will, in my opinion, yield pledged Gas

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(iii) compile relevant data upon which to make projections to determine whether the revenues of the Gas Works are and will be sufficient to satisfy the tests of adequacy required by Act No. 234 of October 18, 1972, known as The First Class City Revenue Bond Act (the "Act"), and the 1998 General Ordinance.

The firm of Stone and Webster is an independent consulting firm having broad experience in utility systems of a similar magnitude and scope as the Gas Works and has a favorable reputation for competence in this field of work. They have conducted an in-depth examination of the Gas Works and have collaborated with the officers and employees of the Gas Works in the preparation of a report (the "Engineering Report"), a copy of which is attached hereto.

The Engineering Report forms the basis for the statements and opinions contained in this financial report. The Engineering Report has been reviewed by the Gas Works.

The following statements and opinions are made in compliance with Section 8 of the Act and Section 4.03(a) of the 1998 General Ordinance:

(i) The Bonds are to be issued in respect of capital costs of the Gas Works incurred or to be incurred for the purpose of (a) 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 (1) the acquisition of land or rights therein; (2) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (3) the acquisition, construction or replacement of pipes and pipe lines; and (4) the acquisition or

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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 1998 General Ordinance.

SECTION 5. The City covenants that, as long as any First Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its 1998 Gas Works Revenue Bond Sinking Fund created under the 1998 General Ordinance at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due; provided, however, that whenever the City shall be required to deposit moneys with the Fiscal Agent for the mandatory redemption of any of the First Series Bonds, such obligation may be satisfied, in whole or in part, by the delivery by the City to the Fiscal Agent of a principal amount of First Series 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 First Series Bonds and to take such actions on behalf of the City with respect to the investment of the proceeds of the First Series Bonds as he deems advisable, and the Director of Finance or any member of the Bond Committee is authorized to make such covenants as may be necessary or advisable in order that the First Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1986, as amended.

SECTION 7. In the event First Series Bonds are issued in book-entry form, the ownership of one fully registered First

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Series Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name(s) designated by the Depository. So long as, but only so long as, the book-entry only system is applicable to the First Series Bonds, the following provisions of this Section 7 shall govern as to matters set forth in Section 3 of the 1998 General Ordinance.

Pursuant to the book-entry only system, ownership interests in the First Series Bonds may be purchased in the manner directed by the Depository, which may be through financial institutions for whom the Depository effects book-entry transfers (the "Participants"). A person who owns such an interest in a First Series Bond, (a "Beneficial Owner") will not receive certificated First Series Bonds and will not be the registered owner thereof. Receipt by the Beneficial Owners of timely payment of principal, purchase price, redemption price and interest on the First Series Bonds, is subject to the Depository's making such timely payment, either to the Beneficial Owner or to the Participants to be forwarded to the Beneficial Owners. Neither the City nor the Fiscal Agent will have any responsibility or obligation to such Participants or to the Beneficial Owners for any failure of the Depository to act or make any payment with respect to the First Series Bonds or the providing of notices relating to redemption or mandatory tender to Participants or the Beneficial Owners of the First Series Bonds.

The Depository will receive payments from the Fiscal Agent to be remitted by the Depository to the Beneficial Owners or to the Participants for whom the Depository holds the First Series Bonds for subsequent disbursement to the Beneficial Owners. The ownership interest of each Beneficial Owner in the First Series Bonds shall be recorded on the records of the Depository or the records of the Participants, whose ownership interests

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EXHIBIT B

OFFICE OF THE
DIRECTOR OF FINANCE

April 17, 1998

To the President and Members of the
Council of the City of Philadelphia.

FINANCIAL REPORT OF THE DIRECTOR OF
FINANCE

RE: Philadelphia Gas Works Revenue Bonds,
First Series

The Mayor has transmitted to the Council the First Supplemental Ordinance (the "First Supplemental Ordinance") to the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"), authorizing the issuance and sale of a maximum principal amount of \$300,000,000 (or, if the Bonds are sold at a discount, such greater principal amount as will reflect such discount, so long as the aggregate gross proceeds to the City do not exceed \$300,000,000) of Gas Works Revenue Bonds (1998 General Ordinance), First Series (the "Bonds") of the City of Philadelphia (the "City").

In preparation for the issuance of the Bonds, the Philadelphia Gas Works, a City-owned utility (the "Gas Works") has engaged the firm of Stone and Webster Management Consultants, Inc. of New York, New York ("Stone and Webster") to (i) investigate the physical properties included in the Gas Works and the accounts and records of the Gas Works; (ii) review the capital program of the Gas Works; and

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Ordinance.

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Sincerely,

City Solicitor.

City of Philadelphia

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will be recorded on the records of the Depository.

When notices are given, they shall be sent by the Fiscal Agent to the Depository with a request that the Depository forward (or cause to be forwarded) the notice to the Participants so that such Participants may forward (or cause to be forwarded) the notices to the Beneficial Owners.

Transfers of ownership interests in the First Series Bonds will be accomplished by book-entries made by the Depositories and/or the Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the First Series Bonds, except as specifically provided herein. So long as the Depository is the Bondholder, interest, principal and redemption price of the Bonds will be paid when due by the Fiscal Agent to the Depository, then paid by the Depository to the Beneficial Owners, or by the Depository to the Participants and thereafter paid by the Participants to the Beneficial Owners. The payments to the Depository shall satisfy the City's obligations under the First Series Bonds.

For every transfer and exchange of the First Series Bonds, the Fiscal Agent, the Depository and the Participants may charge the Beneficial Owner of the First Series Bonds a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. No transfer or exchange of any First Series Bonds shall be required to be made fewer than fifteen (15) days prior to any interest payment date or fifteen (15) days prior to any mailing of notice of redemption of the First Series Bonds. No transfers shall be made of First Series Bonds previously called for redemption, except pursuant to the optional or mandatory tender provisions hereof.

The Depository may determine to discontinue providing its

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services with respect to the First Series Bonds at any time by giving notice to the City and the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the City is obligated to deliver bond certificates in such names as the City and the Fiscal Agent are directed by the Depository.

The Bondholders have no right to a depository for the First Series Bonds. If the book-entry only system is no longer utilized, bond certificates will be issued in such names as the city and the Fiscal Agent, are directed by the Depository.

Notwithstanding any other provision of the 1998 General Ordinance, so long as the Depository is the registered Bondholder of all First Series Bonds, the Depository may present notices, approvals, waivers or other communications required or permitted to be made by Bondholders under the 1998 General Ordinance on a fractionalized basis on behalf of some or all of the Beneficial Owners.

The appropriate officials of the City are authorized to execute any documentation required by the Depository in connection with book-entry registration of the First Series Bonds.

SECTION 8. This Ordinance is supplementary to the 1998 General Ordinance and all sections of the 1998 General Ordinance not modified, amended or superseded by this Ordinance are applicable to the First Series Bonds. All definitions of terms contained in the Act or the 1998 General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

SECTION 9. This Ordinance shall take effect immediately.

City of Philadelphia

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EXHIBIT A

CITY SOLICITOR

April 21, 1998

Honorable John F. Street, President
City Council of Philadelphia.

RE: Philadelphia Gas Works
Revenue Bonds, First Series

Dear Council President Street:

The office of the City Solicitor has reviewed The First Class City Revenue Bond Act, the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance") and the proposed First Supplemental Ordinance thereto (the "First Supplemental Ordinance") authorizing the issuance of Gas Works Revenue Bonds (1998 General Ordinance), First Series (the "Bonds") of the City of Philadelphia in the maximum principal amount of \$300,000,000 (or, if the Bonds are sold at a discount, such greater principal amount as will reflect such discount so long as the aggregate gross proceeds to the City do not exceed \$300,000,000).

Based on that review, it is my opinion that, under the 1998 General Ordinance and the First Supplemental Ordinance, the registered owners of the Bonds will have no claim upon the taxing power or general revenues of the City of Philadelphia, nor will they have any lien upon any property of the City of Philadelphia other than the Gas Works Revenues (as defined in the 1998 General Ordinance) and the funds properly pledged to such registered owners pursuant to the terms and conditions of the 1998 General Ordinance and the First Supplemental

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

EDWARD G. RENDELL,

Mayor of Philadelphia

*Bill No. 245

*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

*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:

In the opinion of Co-Bond Counsel, under existing law, interest on the First Series Bonds is excluded from gross income for federal income tax purposes, subject to the conditions described under "Tax Matters" herein. Interest on the First Series Bonds is not an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals and corporations; however, such interest may be taken into account in the computation of alternative minimum tax for certain corporations. See "Tax Matters" herein for further information concerning other federal tax consequences to holders of the First Series Bonds. In the opinion of Co-Bond Counsel, under existing law, interest on the First Series Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax, and the First Series Bonds are exempt from personal property taxes in Pennsylvania.

\$287,185,000
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, First Series
(1998 General Ordinance)
\$161,640,000 First Series A Bonds
\$103,550,000 First Series B Bonds
\$21,995,000 First Series C Bonds (Subordinate)

Dated: June 1, 1998

Due: July 1, as shown on inside front cover

The First Series Bonds are issuable as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof, maturing in the aggregate principal amounts and bearing interest at the rates set forth on the inside front cover hereof. The First Series Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC") which will act as securities depository for the First Series Bonds. Purchases of the beneficial ownership interests in the First Series Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interests in the First Series Bonds purchased, so long as Cede & Co. is the owner of the First Series Bonds, as nominee of DTC. References herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "DESCRIPTION OF THE FIRST SERIES BONDS — Book-Entry Only System."

The principal and redemption price of the First Series Bonds are payable at the corporate trust office of First Union National Bank, Philadelphia, Pennsylvania, Fiscal Agent and Sinking Fund Depository, at the times and in the amounts set forth herein. Interest is payable initially on January 1, 1999 and thereafter semiannually on each July 1 and January 1 by check mailed by the Fiscal Agent to the persons in whose names the First Series Bonds are registered on the fifteenth (15th) day of the month preceding each interest payment date. So long as DTC or its nominee, Cede & Co., is the registered owner of the First Series Bonds, principal of and interest on the First Series Bonds are payable directly to Cede & Co. for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of a First Series Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such First Series Bonds.

The First Series Bonds are subject to redemption prior to maturity as described herein under the heading "DESCRIPTION OF THE FIRST SERIES BONDS."

THE FIRST 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.



The scheduled payment of principal of and interest on the First Series Bonds when due will be guaranteed under insurance policies to be issued concurrently with the delivery of the First Series Bonds by FINANCIAL SECURITY ASSURANCE INC. There will be one policy issued for the First Series A Bonds and First Series B Bonds and a separate policy issued for the First Series C Bonds.

The First Series Bonds are being issued for the purpose of providing funds for any or all of the following purposes: (i) the capital projects 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 the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Fourteenth Series and Fifteenth Series (collectively, the "Refunded Bonds"), which were issued under the 1975 General Ordinance; (iii) the acquisition of the building currently being leased by the City for the Gas Works from the Philadelphia Municipal Authority ("PMA"), by making a prepayment of rent under the lease for such building; (iv) paying the costs of issuing the First Series Bonds and any required deposits to the Sinking Fund Reserve; and (v) 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.

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 First 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 First Series Bonds by Wolf, Block, Schorr and Solis-Cohen LLP and Ronald A. White, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Mesirov Gelman Jaffe Cramer & Jamieson, LLP and Singley & Associates, Co-Underwriters' Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor. Certain legal matters will be passed upon for the Philadelphia Gas Works by Obermayer, Rebmann, Maxwell & Hippel, LLP, Philadelphia, Pennsylvania. It is anticipated that the First Series Bonds will be available for delivery through the facilities of DTC in New York, New York on or about June 24, 1998.

Merrill Lynch & Co.

Legg Mason Wood Walker
IncorporatedFirst Union Capital Markets
a division of Wheat First Securities, Inc.
A.G. Edwards & Sons, Inc.

The Chapman Company

Dain Rauscher
Incorporated

Janney Montgomery Scott Inc.

M + R + Beal & Company

PaineWebber Incorporated

Pryor, McClendon, Counts & Co., Inc.

\$161,640,000
City of Philadelphia, Pennsylvania
Gas Works Revenues Bonds, First Series
First Series A Bonds

The scheduled payment of principal of and interest on the First Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the First Series A Bonds by FINANCIAL SECURITY ASSURANCE INC.

<u>Maturity (July 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (July 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
1999	\$ 400,000	4.500%	3.80 %	2008	\$10,955,000	5.500%	4.60%
2000	580,000	4.500	4.00	2009	10,820,000	5.500	4.68
2001	8,525,000	4.750	4.15	2010	10,680,000	5.250	4.75
2002	3,595,000	4.750	4.25	2011	8,965,000	5.250	4.85
2003	9,700,000	5.000	4.30	2012	5,705,000	5.375	4.95
2004	4,910,000	5.000	4.35	2013	5,265,000	5.375	5.00
2005	9,280,000	5.250	4.45	2014	4,810,000	5.375	5.05
2006	6,800,000	5.250	4.50	2015	4,335,000	5.375	5.10
2007	11,080,000	5.500	4.55				

\$18,215,000 5.00% Term Bonds due July 1, 2018, Yield 5.180%
 \$27,020,000 5.00% Term Bonds due July 1, 2026, Yield 5.250%

\$103,550,000
City of Philadelphia, Pennsylvania
Gas Works Revenues Bonds, First Series
First Series B Bonds

The scheduled payment of principal of and interest on the First Series B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the First Series B Bonds by FINANCIAL SECURITY ASSURANCE INC.

<u>Maturity (July 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
2014	\$ 665,000	5.000%	5.05%
2015	3,420,000	5.375	5.10

\$ 7,540,000 5.00% Term Bonds due July 1, 2018, Yield 5.18%
 \$91,925,000 5.00% Term Bonds due July 1, 2028, Yield 5.25%

\$21,995,000
City of Philadelphia, Pennsylvania
Gas Works Revenues Bonds, First Series
First Series C Bonds (Subordinate)

The scheduled payment of principal of and interest on the First Series C Bonds (Subordinate) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the First Series C Bonds (Subordinate) by FINANCIAL SECURITY ASSURANCE INC.

<u>Maturity (July 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (July 1)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
1999	\$ 965,000	3.850%	3.85%	2007	\$1,370,000	4.500%	4.60%
2000	1,020,000	4.050	4.05	2008	1,430,000	4.600	4.65
2001	1,065,000	4.200	4.20	2009	1,500,000	4.600	4.73
2002	1,105,000	4.300	4.30	2010	1,565,000	4.700	4.80
2003	1,155,000	4.300	4.35	2011	1,640,000	4.800	4.90
2004	1,205,000	4.300	4.40	2012	1,715,000	4.900	5.00
2005	1,255,000	4.400	4.50	2013	1,805,000	5.000	5.05
2006	1,310,000	4.500	4.55	2014	1,890,000	5.000	5.10

CITY OF PHILADELPHIA

MAYOR
HONORABLE EDWARD G. RENDELL

MAYOR'S CABINET

Ben Hayllar.....	Director of Finance
Stephanie L. Franklin-Suber, Esquire.....	City Solicitor
Joseph C. Certaine.....	Managing Director
Stephen P. Mullin.....	City Representative and Director of Commerce

City Treasurer
Thomas A. K. Queenan

City Controller
Jonathan A. Saidel

President of City Council
Honorable John F. Street

PHILADELPHIA GAS WORKS
800 W. Montgomery Avenue
Philadelphia, Pennsylvania 19122

James Hawes, III, President and Chief Executive Officer
Gregory D. Martin, Executive Vice President and Chief Operating Officer
Ramon N. Sharbutt, Senior Vice President and Chief Financial Officer
Sydney M. Avent, Senior Vice President - Deregulation
Deborah Perry Estrin, Senior Vice President - Human Resources
Lawrence J. Hoffman, Chief Accounting Officer and Controller
Babruddin Karachiwala, Vice President - Gas Management
David Lee, Vice President - Information Technology
M. Ellen Moffett, Acting General Counsel
Edward J. Reynolds, Senior Vice President - Marketing (Acting)
Dennis E. Stinson, Vice President - Operations
Peter Yaffe, Vice President - Public Policy

FINANCIAL ADVISOR
Public Financial Management, Inc.

FISCAL AGENT
First Union National Bank

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- A. Financial Statements of PGW for Fiscal Years Ended August 31, 1997 and 1996
- B. Independent Consultant's Report
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- D. Certain Information Concerning the City of Philadelphia
- E. Form of Continuing Disclosure Agreement
- F. Form of Text of Opinion of Co-Bond Counsel
- G. Specimen Municipal Bond Insurance Policy

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 order to buy, nor shall there be any sale of the First 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 the City of Philadelphia, Philadelphia Facilities Management Corporation, Stone & Webster Management Consultants, Inc. and other sources which are believed to be reliable but is not guaranteed by the Underwriters 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.

IN CONNECTION WITH THE OFFERING OF THE FIRST 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.

OFFICIAL STATEMENT

of the

CITY OF PHILADELPHIA, PENNSYLVANIA

respecting its

\$287,185,000

Gas Works Revenue Bonds, First Series
(1998 General Ordinance)

\$161,640,000 First Series A Bonds
\$103,550,000 First Series B Bonds
\$21,995,000 First Series C Bonds (Subordinate)

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 \$287,185,000 aggregate principal amount of its Gas Works Revenue Bonds, First Series (1998 General Ordinance). The First Series Bonds constitute a single series and are issued in three subseries: Series A (the "First Series A Bonds") in the aggregate principal amount of \$161,640,000, Series B (the "First Series B Bonds") in the aggregate principal amount of \$103,550,000 and Series C (Subordinate) (the "First Series C Bonds") in the aggregate principal amount of \$21,995,000 (collectively, the "First 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 1998" when used in connection with the City refers to the fiscal year ending June 30, 1998. The fiscal year of the Philadelphia Gas Works ("PGW" or the "Gas Works") begins on September 1 and ends on August 31 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the Gas Works refers to the fiscal year of the Gas Works ending August 31 of that year. For example, "Fiscal Year 1998" when used in connection with PGW refers to the fiscal year ending August 31, 1998.

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 First 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 Philadelphia Gas Works

The Gas Works presently 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" herein.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the distributor and principal supplier of gas in the City. PGW has no distribution mains and provides no service to customers outside the City limits. As of August 31, 1997, PGW served approximately 511,337 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission (the "Gas Commission") to be constituted and appointed and to exercise such powers 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" herein.

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

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

The Financial Statements of PGW for the Fiscal Years ended August 31, 1997 and 1996 are presented in APPENDIX A. For information regarding the government of and fiscal affairs of the City, see APPENDIX D - "Certain Information Concerning the City of Philadelphia."

Prior Issues of Gas Works Revenue Bonds

Since 1975, the City has issued fifteen (15) separate series of Gas Works Revenue Bonds and one Revenue Anticipation Note (collectively, together with any bonds issued under the 1975 General Ordinance, herein defined, to refund any such series or to refund any such refunding bonds, the "Prior Bonds"), all 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") and the General Gas Works Revenue Bond Ordinance of 1975, approved May 30, 1975, Bill No. 1871, as amended from time to time (the "1975 General Ordinance"). As of May 15, 1998, \$651,920,552 aggregate principal amount of Prior Bonds remained outstanding of which \$152,060,000 in principal amount will be refunded through the issuance of the First Series A Bonds. The Prior Bonds were all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1975 General Ordinance. In the 1975 General Ordinance, the City has, for the security and payment of all Prior Bonds issued under the 1975 General Ordinance, granted a security interest in all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the "Project Revenues", as such term is defined in the 1975 General Ordinance), and all accounts, contract rights and general intangibles related thereto. In the 1998 General Ordinance (herein defined), the City has covenanted that it will not issue any further bonds under the 1975 General Ordinance except to refund Prior Bonds.

Authorization to Issue the First Series Bonds

The First Series Bonds are being issued pursuant to the Act, an Ordinance enacted by the City Council ("Council") of the City of Philadelphia on April 30, 1998, and signed by the Mayor on May 8 1998, Bill

No. 980232 (the "1998 General Ordinance"), authorizing the issuance of Gas Works Revenue Bonds of the City of Philadelphia which shall be subordinate in right of payment and security to the Prior Bonds, a First Supplemental Ordinance to the 1998 General Ordinance duly adopted by City Council of the City of Philadelphia on April 30, 1998, and signed by the Mayor on May 8 1998, Bill No. 980233 (the "First Supplemental Ordinance") and a determination by the Bond Committee of the City (consisting of the Mayor, the City Controller and the City Solicitor), or a majority of them dated June 3, 1998 (the "Bond Authorization"). For purposes of the Act and the exercise of certain remedies thereunder, the First Series Bonds constitute a single series, although issued in three subseries. The First Series Bonds and all additional bonds which may hereafter be issued under the 1998 General Ordinance are herein referred to as the "Bonds." All Bonds issued under the 1998 General Ordinance shall be subordinated in right of payment and security to the Prior Bonds. Bonds issued or to be issued under the 1998 General Ordinance may be issued as Senior Bonds or Subordinate Bonds. Senior Bonds shall, subject to the right of payment and security of the Prior Bonds, be first in right of payment, and the coverage requirement for debt service on Senior Bonds under the Rate Covenant shall be 150%. Subordinate Bonds shall be subordinate to Senior Bonds in right of payment and shall have a coverage requirement under the Rate Covenant of 100%. See "SECURITY - Priority in Application of Gas Works Revenues". The First Series A Bonds and the First Series B Bonds are being issued as Senior Bonds. The First Series C Bonds are being issued as Subordinate Bonds. Senior Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in a supplemental ordinance, over any other Senior Bonds issued under the 1998 General Ordinance. Similarly, Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in a supplemental ordinance, over any other Subordinate Bonds issued under the 1998 General Ordinance. In the 1998 Ordinance, the City has pledged for the security and payment of all Bonds issued under the 1998 General Ordinance a lien on and security interest in all Gas Works Revenues (as defined in the 1998 General Ordinance), all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Such lien is subject to the prior pledge and lien on the Project Revenues created by the 1975 General Ordinance for the benefit of the Prior Bonds.

The First Series Bonds

The First Series Bonds will be dated June 1, 1998, and will bear interest from such date, payable commencing on January 1, 1999 and on each July 1 and January 1 thereafter. The First Series Bonds will be issued as fully registered bonds in the subseries and in the aggregate principal amounts set forth on the inside front cover hereof in denominations of \$5,000 or any integral multiple thereof. The principal and redemption price of the First Series Bonds will be payable at the corporate trust office of First Union National Bank (the "Fiscal Agent") in Philadelphia, Pennsylvania. Interest on the First Series Bonds will be paid by check mailed by the Fiscal Agent to the persons in whose names the First Series Bonds are registered on the fifteenth day of the month 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 First Series Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE FIRST SERIES BONDS" herein. Registered Owners of at least \$1,000,000 aggregate principal amount of First Series Bonds may elect to receive interest payments by wire transfer if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date.

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

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

Purpose of the First Series Bonds

The First Series Bonds are being issued for the purpose of providing funds for any or all of the following purposes: (i) the capital projects 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 the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Fourteenth Series and Fifteenth Series (collectively, the "Refunded Bonds"), which were issued under the 1975 General Ordinance; (iii) the acquisition of the building being leased by the City for the Gas Works from the Philadelphia Municipal Authority ("PMA"), by making a prepayment of rent under the lease for such building; (iv) paying the costs of issuing the First Series Bonds and any required deposits to the Sinking Fund Reserve; and (v) 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.

The proceeds of the First Series A Bonds, after payment of financing costs and the required payment into the Sinking Fund Reserve, will be deposited in one or more escrow or similar accounts with the Fiscal Agent under the 1975 General Ordinance separate and apart from all other accounts of the City or the Gas Works, including the Sinking Fund established by the 1975 General Ordinance, to be held for the benefit of the holders of the applicable Refunded Bonds and applied to payment of Refunded Bonds in accordance with a certificate of the Director of Finance or an escrow deposit agreement (as to Refunded Bonds that are being currently refunded) or an escrow deposit agreement (as to Refunded Bonds that are being advance refunded). See "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF PROCEEDS - Plan Of Finance."

The proceeds of the First Series B Bonds, 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, will be deposited and held in and disbursed for capital projects 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. However, the effectiveness of the separation of First Series B Bond proceeds and revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See "SECURITY" and "REMEDIES OF BONDHOLDERS" herein. Pursuant to the 1998 General Ordinance, all moneys deposited in the Sinking Fund (including the Sinking Fund Reserve), are subject to a security interest in favor of all holders of the Bonds until such moneys are properly disbursed. See "SECURITY - Pledge of Revenues and Funds" herein.

The proceeds of the First Series C Bonds, after payment of financing costs and the required payment into the Sinking Fund Reserve, will be used to acquire the building currently leased by the City for the Gas Works from PMA and such payments will be deposited in an escrow account pursuant to an escrow agreement to defease the bonds which were issued by PMA to acquire such building which are presently outstanding in the aggregate principal amount of \$20,405,000.

Security for the First Series Bonds

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

The 1998 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 Gas Works Revenues to be received in such Fiscal Year, shall be sufficient to meet debt service coverage requirements as specified in the 1998 General Ordinance, including certain debt service coverage requirements (the "Rate Covenant"). See "SECURITY - Rate Covenant and Rate Requirements" and APPENDIX C - "The 1998 General Ordinance - Rate Covenant" herein.

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

The 1998 General Ordinance establishes a Sinking Fund Reserve which is established in the Sinking Fund as a separate account and which, unless expressly stated to the contrary in any supplemental ordinance with respect to the issuance of additional Bonds, is held for the benefit of owners of all Bonds issued under the 1998 General Ordinance. See "SECURITY - Sinking Fund Reserve" herein.

The City expects that the capital improvements program of PGW will require the issuance of additional Bonds in subsequent fiscal years. See APPENDIX B - "Independent Consultant's Report."

The City is authorized to issue, from time to time, tax-exempt notes (the "Gas Works Notes") junior in priority of payment to the Prior Bonds and the Senior Bonds and on a parity with Subordinate Bonds. As of May 15, 1998, \$80,000,000 in aggregate principal amount of Gas Works Notes were outstanding and due on or before May 29, 1998. On April 30, 1998, Council enacted an Ordinance, which was signed by the Mayor on May 4, 1998, Bill No. 980234 (the "Note Ordinance") to continue authorization to issue Gas Works Notes. Pursuant to the Note Ordinance, the City issued \$80,000,000 of Gas Works Notes on May 29, 1998. See "ADDITIONAL DEBT - Subordinated Short-Term Borrowings - Gas Works Notes."

Bond Insurance

The scheduled payment of principal of and interest on the First Series Bonds when due will be guaranteed under insurance policies to be issued concurrently with the delivery of the First Series Bonds by Financial Security Assurance Inc. There will be one policy for the First Series A Bonds and First Series B Bonds and a separate policy for the First Series C Bonds. See "BOND INSURANCE" herein and APPENDIX G - "Specimen Municipal Insurance Policy."

Independent Consultant's Report

The report of Stone & Webster Management Consultants, Inc. ("Stone & Webster"), an independent consulting firm with respect to the City and PGW is appended hereto as APPENDIX B (the "Independent Consultant's Report"). In its report, Stone & Webster has concluded, based upon its investigation, inter alia, that:

- PGW is a competently managed and operated gas distribution utility. PGW and its facilities are organized, operated and maintained at a level equal to or in excess of regulatory requirements and generally accepted industry practices. PGW's facilities are in good operating condition.
- Based on its evaluation of financial forecast information covering the period 1998 through 2003, and 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 First Series Bonds which Stone & Webster believes to be reasonable, current and future project revenues which are pledged under the 1975 General Ordinance and/or the 1998 General Ordinance comply with the requirements of the definition of project revenues in Section 2 of the Act, and over the amortization period of the Bonds and the Prior Bonds, such project revenues 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 1975 General Ordinance and debt service on the First Series Bonds issued under the 1998 General Ordinance, as the same shall become due and payable, and the surplus requirements of the rate covenants contained in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
- The Project Revenues and Gas Works Revenues which are pledged as security for the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently and are projected to be sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
- The capital improvements proposed during the forecast period, 1998 through 2003, will, along with continued good operation and maintenance practices, enable PGW to maintain its system in good operating

condition. Review of present management practices indicates that this is likely to continue, provided PGW is authorized the necessary funds.

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

The Independent Consultant's Report should be read in its entirety for an understanding of the information and assumptions on which the above conclusions and other conclusions and findings contained in the Independent Consultant's Report are based.

Continuing Disclosure

In order to enable the Underwriters to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will enter into a Continuing Disclosure Agreement with the Fiscal Agent for the First Series Bonds. See "CONTINUING DISCLOSURE" herein.

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 First Series Bonds are qualified in their entirety by reference to the definitive forms of the First Series Bonds. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Act and the 1998 General Ordinance. See APPENDIX C herein. Copies of the Act, the 1975 General Ordinance, the 1998 General Ordinance and the First Supplemental Ordinance are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

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

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF PROCEEDS

Plan of Finance

The proceeds from the sale of the First Series Bonds will be used for the purpose of providing funds for any and all of the following: (i) the capital projects 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 the Refunded Bonds, which were issued under the 1975 General Ordinance; (iii) the acquisition of the building being leased by the City for the Gas Works from the PMA, by making a prepayment of rent under the lease for such building, to acquire such building; (iv) paying the costs of issuing the First Series Bonds and any required deposits to the Sinking Fund Reserve; and (v) paying any other Project Costs, 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.

The First Series A Bonds are being issued to refund the Refunded Bonds. The First Series B Bonds are being issued for capital projects of the Gas Works. The First Series C Bonds are being issued to acquire the building presently leased by the City for PGW from PMA.

The Refunded Bonds are as follows:

<u>Series of Bonds Refunded</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Par Amount to be Refunded</u>
Twelfth Series A	2012	May 15, 2000	\$29,510,000
Twelfth Series B	2001	May 15, 2000	1,555,000
Fourteenth Series	2003, 2008, 2014, 2026	July 1, 2003	88,905,000
Fifteenth Series A	2002 - 2005	August 1, 2004	2,095,000
Fifteenth Series B	1998, 2001 - 2005	August 1, 2004	15,975,000
Fifteenth Series C	2003- 2010	August 1, 2004	14,020,000

A portion of the proceeds of the First Series A Bonds, together with other moneys available to PGW for such purpose, will be deposited in a refunding escrow account (the "Escrow Account") under an Escrow Agreement between the City and First Union National Bank, as escrow agent, (the "Escrow Agreement") to purchase direct non-callable obligations of the United States of America ("Defeasance Obligations") to defease the Refunded Bonds. The portion of the First Series C Bonds proceeds paid to PMA will be deposited in a refunding escrow account (the "PMA Escrow Account") pursuant to an Escrow Agreement (the "PMA Escrow Agreement") and will be used to purchase Defeasance Obligations the interest on and maturing principal of which shall be sufficient to defease the bonds issued by PMA (the "PMA Bonds") to acquire the building currently being leased by the City for the Gas Works. The Defeasance Obligations in the Escrow Account and the PMA Escrow Account, as applicable, will bear interest and mature in such amounts and at such times so that, together with other moneys in the Escrow Account and the PMA Escrow Account, as applicable, sufficient moneys will be available therefrom to pay when due (at maturity or by optional redemption), the principal of and redemption premium and interest on the Refunded Bonds and the PMA Bonds, as applicable. Each escrow agent will hold and administer the Escrow Account and the PMA Escrow Account, as applicable, 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 and the PMA Bonds, as applicable. The Escrow Account is pledged solely for the benefit of the holders of the Refunded Bonds. The PMA Escrow Account is pledged solely for the benefit of the holders of the PMA Bonds.

Pursuant to certain provisions of the 1975 General 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.

Estimated Sources and Uses of Proceeds

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

<u>Estimated Sources of Proceeds:</u>	<u>First Series A</u>	<u>First Series B</u>	<u>First Series C</u>	<u>Total</u>
Principal Amount of First Series Bonds	\$161,640,000.00	\$103,550,000.00	\$21,995,000.00	\$287,185,000.00
Less: Original Issue Premium/(Discount)	3,600,075.50	(3,554,065.85)	(130,201.40)	(84,191.75)
Moneys from Debt Service Reserve Fund under the 1975 General Ordinance	\$16,000,000.00	---	3,469,769.39	19,469,769.39
Accrued Interest	<u>535,121.75</u>	<u>331,604.10</u>	<u>64,134.70</u>	<u>930,860.55</u>
Total	\$181,775,197.25	\$100,327,538.25	\$25,398,702.69	\$307,501,438.19

<u>Estimated Use of Proceeds:</u>	<u>First Series A</u>	<u>First Series B</u>	<u>First Series C</u>	<u>Total</u>
Capital Improvement Program	\$ ---	\$ 92,590,000.00	\$ ---	\$ 92,590,000.00
Deposit to Escrow Account	162,212,153.39	---	---	162,212,153.39
Deposit to Escrow Account for Purchase of Building for PGW	---	---	21,409,651.73	21,409,651.73
Deposit to Debt Service Reserve Fund under the 1998 General Ordinance	16,000,000.00	5,164,714.36	3,469,769.39	24,634,483.75
Accrued Interest Deposited to Sinking Fund	535,121.75	331,604.10	64,134.70	930,860.55
Costs of Issuance ¹	<u>3,027,922.11</u>	<u>2,241,219.79</u>	<u>455,146.87</u>	<u>5,724,288.77</u>
Total	\$181,775,197.25	\$100,327,538.25	\$25,398,702.69	\$307,501,438.19

¹Includes bond insurance premiums, the fees and expenses of various counsel and the Fiscal Agent, consultant's fees, fees of accountants and Underwriters' discount.

DESCRIPTION OF THE FIRST SERIES BONDS

General

The First Series Bonds will be dated June 1, 1998 and will bear interest from such date, payable initially on January 1, 1999 and on each July 1 and January 1 thereafter. The First 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 First Series Bonds, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), one bond for each maturity. Purchases of beneficial interests in the First 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 First Series Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the First Series Bonds, when due, will be paid by checks, mailed by the Fiscal Agent to the persons in whose names the First Series Bonds are registered on the fifteenth (15th) day of the month preceding each interest payment date. So long as the First Series Bonds are in book-entry form, the principal of and interest on the First Series Bonds are payable by checks mailed to or by wire transfer of funds to Cede & Co., as nominee for DTC as registered owner thereof for redistribution by DTC to the Direct Participants (as defined herein) and in turn to Indirect Participants or Beneficial Owners as described under "Book-Entry Only System" below. Registered owners of at least \$1,000,000 aggregate principal amount of the First Series Bonds may elect to receive interest payments by wire transfer, provided that notice is provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date. In the event of any default by the City in the payment of interest due on any interest payment date, such defaulted interest shall be payable to the persons in whose names the First Series Bonds are registered at the close of business on a special record date which shall be at least 15 days prior to the date set for the payment of such defaulted interest established

by notice mailed by or on behalf of the City to the registered owners of the First Series Bonds not less than fifteen (15) days preceding such special record date.

Book-Entry Only System

The following information concerning DTC and DTC's book-entry only system has been obtained from DTC. The City, the Underwriters and the Fiscal Agent make no representation as to the accuracy of such information.

Initially, the First Series Bonds will be available in book-entry form only. Purchasers of the First Series Bonds will not receive certificates representing their interests in the First Series Bonds purchased. DTC will act as securities depository for the First Series Bonds. The ownership of one fully-registered First Series Bond in the aggregate principal amount of each maturity of the First Series Bonds will be issued, registered in the name of Cede & Co., as nominee for DTC and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking law, a "banking corporation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Participants, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission (the "SEC"). So long as the First Series Bonds are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the First Series Bonds.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the First Series Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Payments of principal, interest and premium, if any, with respect to the First Series Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest, if any, with respect to the First Series Bonds to DTC is the responsibility of the Fiscal Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the First Series Bonds at any time by giving reasonable notice to the City and the Fiscal Agent. In addition, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under either of such circumstances, in the event that a successor securities depository is not obtained, First Series Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the First Series Bonds, as nominee of DTC, references herein to the bondholders or registered owners of the First Series Bonds means Cede & Co., not the Beneficial Owners of the First Series Bonds.

THE CITY, THE FISCAL AGENT AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE FIRST SERIES BONDS (I) PAYMENTS OF THE PRINCIPAL, INTEREST OR PREMIUM, IF ANY, ON THE FIRST SERIES BONDS, OR (II) CONFIRMATION OF OWNERSHIP INTERESTS IN THE FIRST SERIES BONDS, OR (III) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY, THE FISCAL AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OF THE FIRST SERIES BONDS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (II) THE PAYMENT BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, ANY FIRST SERIES BONDS, (III) THE DELIVERY OF ANY NOTICE BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE FIRST SERIES BONDS, OR (V) ANY OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.

Optional Redemption

The First Series Bonds maturing on or before July 1, 2008 are not subject to optional redemption prior to maturity. The First Series Bonds maturing on or after July 1, 2009 are subject to redemption, at the direction of the City, in whole or in part at any time on or after July 1, 2008 at the option of the City, from such subseries and in such order of maturity as may be designated by the City, at par, plus accrued interest to the redemption date.

Mandatory Redemption

The First Series A Bonds maturing on July 1, 2018 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 First Series A Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2016	\$6,495,000
2017	6,080,000
2018**	5,640,000

The First Series A Bonds maturing on July 1, 2026 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 First Series A Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2019	\$5,180,000	2023	\$3,100,000
2020	4,700,000	2024	2,505,000
2021	4,190,000	2025	1,890,000
2022	3,655,000	2026**	1,800,000

The First Series B Bonds maturing on July 1, 2018 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 First Series B Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2016	\$1,675,000
2017	2,500,000
2018**	3,365,000

** Final maturity

The First Series B Bonds maturing on July 1, 2028 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 First Series B Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2019	\$4,275,000	2024	\$ 9,565,000
2020	5,230,000	2025	10,785,000
2021	6,235,000	2026	11,505,000
2022	7,295,000	2027	13,970,000
2023	8,395,000	2028**	14,670,000

Notice of Redemption of First Series Bonds

Notice of redemption of First Series Bonds shall be made not less than thirty (30) nor more than sixty (60) days before the date fixed for redemption, by first class mail postage prepaid, to the registered owners appearing on the Bond Register of the First Series Bonds to be redeemed. Any notice of redemption mailed in accordance with the requirements set forth in the 1998 General Ordinance shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any First Series Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other First Series Bonds. A notice with respect to an optional redemption may state that it is conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and in such event, such notice shall be of no effect unless such moneys are deposited. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depository, all interest on the First Series Bonds called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the First Series Bonds called for redemption shall have no security, benefit or lien under the 1998 General Ordinance or any rights thereunder, except to receive payment of the redemption price.

Transfer of First Series Bonds

The First 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 1998 General Ordinance. The Fiscal Agent shall not be required to issue or to register the transfer of or exchange any First Series Bonds (a) during the period fifteen (15) Business Days next preceding any interest payment date for such First Series Bonds, or (b) during the period twenty (20) Business Days next preceding the first publication or mailing of any notice of redemption of such First Series Bonds.

SECURITY

Pledge of Revenues and Funds

The First Series Bonds are secured solely by Gas Works Revenues as provided in the Act, the 1998 General Ordinance and the First Supplemental Ordinance and are payable from the Gas Works Revenues and the Sinking Fund Reserve. Gas Works Revenues include all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas

** Final Maturity.

Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. At such time as there are no Prior Bonds outstanding, Gas Works Revenues shall not include any portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to the 1998 General Ordinance. See "1998 General Ordinance - Security" in APPENDIX C hereto. *The pledge of the Gas Works Revenues to secure the Bonds issued under the 1998 General Ordinance is at all times subject and subordinate to the pledge of revenues under the 1975 General Ordinance to secure the Prior Bonds.*

The First Series A Bonds and First Series B Bonds are being issued as Senior Bonds secured on a parity with respect to Gas Works Revenues. The First Series C Bonds are being issued as Subordinate Bonds. As such, the First Series C Bonds are junior in priority to the First Series A Bonds and First Series B Bonds with respect to Gas Works Revenues.

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

Covenant Against Commingling with Other City Funds

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

Priority In Application of Gas Works Revenues

The 1998 General Ordinance creates a lien on and pledge of all Gas Works Revenues for the benefit of the holders of the Bonds and creates a priority in application of Gas Works Revenues in each fiscal year as follows:

First, to Net Operating Expenses then payable;

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

Third, to debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to the PMA existing on the date of adoption of the 1998 General Ordinance (the "Prior Obligations");

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

Fifth, to debt service on Subordinate Bonds (including the First Series C Bonds and notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1998, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments other than termination payments due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds;

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

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

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

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

Tenth, to debt service on other general obligation bonds issued for the Gas Works;† and

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

Rate Covenant and Rate Requirements

The 1998 General Ordinance contains a covenant that requires the City, at a minimum, to impose, charge and collect in each Fiscal Year of the Gas Works such gas rates and charges as shall, together with all other Gas Works Revenues to be derived in such Fiscal Year equal not less than the greater of:

1. The sum of:
 - 1.1. all Net Operating Expenses payable during such Fiscal Year;
 - 1.2. all principal of and interest on Prior Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;
 - 1.3. 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;
 - 1.4. the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds (including the First Series C Bonds) and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;
 - 1.5. the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;
 - 1.6. the Rebate Amount required to be paid to the United States during such Fiscal Year; and
 - 1.7. the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

2. The sum of:
 - 2.1. all Net Operating Expenses payable during such Fiscal Year;
 - 2.2. all principal of and interest on Prior Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

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

** 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 1993-1997, City Charges (exclusive of the \$18,000,000 base payment and of rate hearing charges) have averaged approximately \$1,822,000 per year.

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

2.4. the Rebate Amount required to be paid to the United States during such Fiscal Year; and

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

For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCING" and the table "HISTORICAL REVENUES AND DEBT SERVICE COVERAGE."

Sinking Fund

Pursuant to the Act, the 1998 General Ordinance establishes a Sinking Fund for the benefit and security of the holders of all Bonds to be held in the name of the City separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then becoming due and payable. 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 of the City. The Sinking Fund shall be a consolidated fund for equal and proportionate benefit of the holders of all Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest and profits (and losses, if any) realized and investments in the Sinking Fund shall be allocated pro rata among the series of Bonds or the specific Bonds in respect of which such investments were made without distinction of priorities. Payments shall be made from the Sinking Fund in the order of priority set forth in the 1998 General Ordinance, except that moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

Sinking Fund Reserve

The 1998 General Ordinance establishes a Sinking Fund Reserve as part of the Sinking Fund. Unless otherwise provided in the applicable Supplemental Ordinance, the City is required to deposit in the Sinking Fund Reserve from the proceeds of sale of each series of Bonds issued under the 1998 General Ordinance an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. Upon the issuance of the First Series Bonds, the City shall deposit an amount of cash into the Sinking Fund Reserve and/or purchase one or more surety bonds, such that the aggregate of such cash and/or surety bonds shall be equal to the Sinking Fund Reserve Requirement for the First Series Bonds. 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 secured by the Sinking Fund Reserve, the Sinking Fund Depository is required to pay over to the Fiscal Agent, from the Sinking Fund Reserve, the amount of the deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of the Credit Facilities) within twelve (12) months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in

the Sinking Fund Reserve and on August 31st of each Fiscal Year. 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.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount, issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three (3) highest rating categories by Moody's or S&P, all in the manner described under "THE 1998 GENERAL ORDINANCE - Sinking Fund and Sinking Fund Reserve" in APPENDIX C.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the First Series Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policies for the First Series Bonds (each, a "Policy" and collectively, the "Policies"). There will be one Policy issued for the First Series A Bonds and First Series B Bonds and a separate Policy issued for the First Series C Bonds. The Policies guarantee the scheduled payment of principal of and interest on the First Series Bonds when due as set forth in the form of the Policy included as APPENDIX G to this Official Statement.

THE POLICIES ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange listed company whose major shareholders include Fund American Enterprises Holdings, Inc., The Tokio Marine and Fire Insurance Co., Ltd. and U S WEST Capital Corporation. The shareholders of Holdings are not liable for the obligations of Financial Security.

At March 31, 1998, Financial Security's total policyholders' surplus and contingency reserves were approximately \$808,603,000 and its total unearned premium reserve was approximately \$503,683,000 in accordance with statutory accounting principles. At March 31, 1998, Financial Security's total shareholders' equity was approximately \$428,158,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the First Series Bonds.

Copies of such materials incorporated by reference will be provided upon request to Financial Security: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policies do not protect investors against changes in market value of the First Series Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the First Series Bonds or the advisability of investing in the First Series Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

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 during which additional offers of the bond may be made.

The City has no present intention to issue revenue bond anticipation notes.

Subordinated Short-Term Borrowings - Gas Works Notes

The City is authorized to issue, from time to time, Gas Works Notes pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth of Pennsylvania (the "Inventory and Receivables Financing Act") and the Note Ordinance, in amounts, as approved by the Mayor, the City Controller and the City Solicitor or any two of them (the "Committee"), presently not to exceed \$100,000,000 aggregate principal amount and interest at any one time outstanding. Such amount can, in the future, be increased by action of Council. The proceeds of the Gas Works Notes may be used to finance or refund the costs of acquisition or funding of Inventory or Receivables (as such terms are defined in the Note Ordinance) of PGW or to refund Gas Works Notes. The Gas Works Notes are junior in priority of payment to the Prior Bonds and the Senior Bonds and on a parity with Subordinate Bonds. The Note Ordinance provides that the final maturity date of Gas Works Notes shall be no later than the earlier of 270 days after the date of issuance or May 8, 2003.

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

Additional Bonds

The 1998 General Ordinance permits the issuance of additional Bonds which are Senior Bonds on a parity with the First Series A Bonds and First Series B Bonds or as Subordinate Bonds which are on a parity with, the First Series C Bonds. All Bonds issued under the 1998 General Ordinance are subordinated to the Prior Bonds. In order to issue additional Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional Bonds, estimated Gas Works Revenues will be sufficient to meet the Rate Covenant. See APPENDIX C for a discussion of the provisions relating to the issuance of additional Bonds.

As a result of the defeasance of a portion of the Prior Bonds and the reduction in the principal amount of Prior Bonds which remain outstanding under the 1975 General Ordinance, the 1998 General Ordinance affords, by its terms, greater flexibility to the City and enables the City to meet the Rate Covenant and incur additional indebtedness, including Bonds, in excess of amounts which could be issued under the 1975 General Ordinance, without the necessity of having to increase Gas Works Revenues.

Lease Obligations

PGW has and in the future may, from time to time, enter into capital lease obligations. Capital leases outstanding on the date of issuance of the First Series Bonds will be on a parity with the First Series A Bonds and the First Series B Bonds. Future capital lease obligations may be issued on a parity with Subordinate Bonds or may otherwise be payable solely from Gas Works Revenues, to the extent that such Gas Works Revenues are otherwise available.

REMEDIES OF BONDHOLDERS

Remedies under the Act and the 1998 General Ordinance available to Bondholders, including the holders of the First 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. The First Series Bonds constitute a single series for this purpose. 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 Gas Works 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 1998 General Ordinance, the First Supplemental Ordinance and the First Series Bonds will depend upon the application of remedies provided in the Act, the 1998 General Ordinance, the First Supplemental Ordinance and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies that are subject to the discretion of the courts.

The following references to the Federal Bankruptcy Code, the Municipalities Financial Recovery 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 First Series Bonds. The foregoing statutory provisions have not been subject to extensive interpretation by the courts and there can be no assurance that the following discussion accurately reflects the interpretation that a court may make.

Enforcement of Bondholders' rights may be limited by and is subject to the provisions of the Federal Bankruptcy Code, as now or hereafter enacted, or to other laws or legal or equitable principles which may affect the enforcement of creditors' rights. The Intergovernmental Cooperation Authority Act for Cities of the First Class (Act No. 1991- 6, P.L. 9) (the "Intergovernmental Cooperation Act") adopted in 1991 prevents the City from filing a petition for relief under Chapter 9 of the Federal Bankruptcy Code as long as the Authority created thereunder has outstanding any bonds issued pursuant to the Intergovernmental Cooperation Act, or if no such bonds are outstanding requires approval, in writing, by the Governor, prior to a filing under Chapter 9 by the City. There are currently bonds outstanding that were issued under the Intergovernmental Cooperation Act, which bonds are scheduled to mature at various dates to and including June 15, 2023, subject to redemption prior to maturity. If the City were to obtain authorization from the Governor to file a petition under Chapter 9 of the Federal Bankruptcy Code and in fact filed such a petition, the enforcement of Bondholders' rights and remedies might be limited. See "BACKGROUND - The Pennsylvania Intergovernmental Cooperation Authority" in APPENDIX D.

The filing of a petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are used to provide utility services and the proceeds of borrowing to finance such systems and would include

the pledged Gas Works 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, Gas Works Revenues acquired by the City after the filing of a Chapter 9 petition will remain subject to the lien of the 1998 General Ordinance and the First 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 1975 General Ordinance with respect to the Prior Bonds, that, under certain circumstances, at least 50% of the Project Revenues be deposited in the sinking fund under the 1975 General Ordinance on a daily basis. If the pledged Gas Works Revenues cannot support both the debt service requirements and operating expenses of PGW, it is possible that payments to Bondholders may be reduced. The Federal Bankruptcy Code also provides that a transfer of property of a debtor to or for the benefit of a bondholder, on account of such bond, may not be avoided as a preferential transfer.

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

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

DEREGULATION

Legislation to deregulate the gas industry in the Commonwealth of Pennsylvania has been introduced and is pending in the Pennsylvania State Legislature. Such legislation, in its present form, would not apply to the Gas Works. There have, however, been indications that if a bill to deregulate the gas industry is adopted by the Pennsylvania State Legislature, it may apply to municipally-owned utilities such as the Gas Works and to the area served by the Gas Works.

It is the City's intention to seek the inclusion, in any legislation deregulating the gas industry applicable to municipally-owned gas utilities, of provisions which would (i) preserve the tax-exempt status of the Prior Bonds, the First Series Bonds and any bonds or other obligations issued by the City for the Gas Works as tax-exempt obligations, and (ii) preserve the ability of the City to comply with its covenants in the 1975 General Ordinance and the 1998 General Ordinance and in other contracts with holders of the City's bonds and notes issued for the Gas Works. The City has brought its request for the inclusion of such provisions to the attention of the office of the Governor of the Commonwealth of Pennsylvania and members of the General Assembly. Officials within the Governor's Office have met with representatives of the City to discuss the City's intentions and the

parties have agreed to proceed with good faith discussions to address the issues raised by the City in any proposed natural gas deregulation legislation. The Governor's Office acknowledges the implications natural gas deregulation legislation may have to the City and its bondholders if these issues are not addressed.

It is impossible to predict, at this time, whether any legislation to deregulate the gas industry in Pennsylvania will be adopted, the form of such legislation or its effect on the Gas Works or its revenues and expenses. No assurance can be given to purchasers of First Series Bonds that deregulation of the gas industry in Pennsylvania will not occur or that, if it occurs it would not apply to the Gas Works and/or adversely affect the Gas Works Revenues or the ability of the Gas Works to pay the principal of and interest on the First Series Bonds.

Potential purchasers of First Series Bonds should be aware that the Independent Consultant's Report has not taken into account the effect, if any, which deregulation might have on the Gas Works or its operations.

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 liquefied petroleum gas ("LPG") plant.

Of total gas revenues for the twelve month period ended August 31, 1997, approximately 71% was derived from residential customers, approximately 25% was derived from commercial and industrial customers and approximately 4% was derived from municipal and housing authority customers.

Operating results for PGW and debt service coverage for PGW for the five fiscal years ended August 31, 1997 are shown below under the heading "PGW BUDGET, RATES AND FINANCING - Debt Service Coverage Ratio." For a further explanation of revenues and expenses, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY STATEMENTS OF INCOME" and APPENDIX B. See also the table entitled "Historical Revenues and Debt Service Coverage" 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 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 slightly more than a half million customers. The mix of sales to PGW's customers, net of transportation sales, during each of the five Fiscal Years ended August 31, 1997 is shown in the following table:

	<u>Percent of Gas Sales for the</u> <u>Years Ended August 31</u>				
	1993	1994	1995	1996	1997
Residential	65.3	68.4	64.5	67.7	67.0
Commercial and Industrial	30.1	27.4	31.2	28.1	29.0
Municipal and Housing Authority	<u>4.6</u>	<u>4.2</u>	<u>4.3</u>	<u>4.2</u>	<u>4.0</u>
TOTAL	100	100	100	100	100

For a discussion of PGW's sales, see "GAS SUPPLY AND REGULATION - Five Year Summary of Gas Sales."

Management Agreement

PFMC has operated PGW pursuant to a Management Agreement since January 1, 1973 (the "Management Agreement"). 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. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the Director of Finance of the City oversees certain financial practices of PGW and the operations of its pension plan; and the City's Law Department is the designated legal advisor to the Gas Commission and PGW. See "THE GAS COMMISSION" and "PGW BUDGET, RATES AND FINANCING " for discussions 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. Certain PFMC personnel, including the chief executive officer, chief operating officer and the chief financial officer, provided to PGW are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

The following brief resumes provide pertinent information on the management of PFMC and PGW:

James Hawes, III, President and Chief Executive Officer

Mr. Hawes joined PGW in 1996 and currently serves as President and Chief Executive Officer of PGW. Mr. Hawes also serves as Vice Chair of PFMC. Prior to joining PGW, Mr. Hawes served as Vice President and Chief Executive Officer for US West Communications. Prior to his role as senior officer, he served as Executive Director - Finance and Marketing for the same firm. While at US West, Mr. Hawes managed the deregulation process in Nebraska for that firm. He was also instrumental in designing and implementing market driven strategies to reposition US West from a monopoly culture to a market driven competitive enterprise over a ten year period. Mr. Hawes received a B.B.A. from Morehouse College, an M.B.A. from Atlanta University, and an M.S. from the Massachusetts Institute of Technology (MIT). While a Sloan Fellow at MIT he toured major cities in China, in a managerial strategy information exchange and advisory role.

Gregory D. Martin, Executive Vice President and Chief Operating Officer

Mr. Martin is Executive Vice President and Chief Operating Officer of PGW. In this capacity, Mr. Martin manages the gas operations, customer service and systems technology activities. Prior to his appointment to PGW, Mr. Martin was Vice President, Gas Management at Equitable Gas Company in Pittsburgh, Pennsylvania. There, he directed and managed the gas supply purchasing, planning, off-system marketing and sales, federal regulatory, retail transportation and gas measurement functions. He also held the position of Vice President, Consumer Products at Equitable Gas - Energy, a non-regulated marketing affiliate of Equitable Gas Company. Mr. Martin has also held positions as Gas Procurement Administrator with the Charlottesville Gas Utility Division in Charlottesville, Virginia, Special Assistant to Commissioner Wesley Long at the District of Columbia Public Service Commission and Special Assistant to Commissioner Matthew Holder at the Federal Energy Regulatory Commission. Mr. Martin holds an M.A. and a B.A. in Political Science from the University of Wisconsin and University of New Orleans, respectively.

Sydney M. Avent, Esq., Senior Vice President - Deregulation

Ms. Avent served for fourteen (14) years in PGW's Legal Department progressing to Senior Vice President and General Counsel prior to her appointment as Senior Vice President of Deregulation in March 1998. Before joining PGW, she was Associate General Counsel for Gulf Oil Corporation. She is responsible for the crafting of PGW policy and legislative recommendations based on a compilation of economic, political and market intelligence with respect to industry deregulation, and providing the company with external information required and recommendations for the development and implementation of plans to meet the anticipated new business conditions. Ms. Avent received her J.D. from UCLA School of Law and her B.A. from the University of North Carolina at Chapel Hill. She has served as Chair of A Hearing Committee for the Disciplinary Board of the Supreme Court of Pennsylvania, President of the Philadelphia Bar Foundation, Director of Women's Way and Director of the Philadelphia Child Guidance Center.

Ramon N. Sharbutt, Senior Vice President and Chief Financial Officer

Mr. Sharbutt joined PGW in 1996 and currently is the Senior Vice President and Chief Financial Officer of PGW. In this capacity, Mr. Sharbutt is responsible for the departments of Risk Management, Treasury, Tariffs and Regulatory Affairs, and Budget and Financial Forecasting. Prior to joining PGW, Mr. Sharbutt was Vice President and Chief Financial Officer of the Resources Group at Pacific Enterprises, a Los Angeles, California based holding company, the parent firm of Southern California Gas Company. Mr. Sharbutt holds a Bachelor of Science degree in Accounting and Economics from the University of Alabama, and has completed course work toward an M.B.A. He has attended Advanced Executive Management Programs at Harvard Business School ('91), Stanford University ('94) and the University of Michigan ('85). He is a Certified Financial Manager (CFM) and a Certified Management Accountant (CMA).

Deborah Perry Estrin, Senior Vice President of Human Resources

Ms. Estrin joined PGW in October, 1996 and serves as Senior Vice President of Human Resources. She is responsible for Employee Relations, Human Resources, Performance and Rewards, Staffing and Diversity, and Employee Health and Safety. Ms. Estrin came to PGW from the New York Power Authority where she served as Vice President of Human Resources. She previously held the same position with the USPCI subsidiary of the Union Pacific Corporation and with the Geneva Pharmaceuticals subsidiary of Ciba-Geigy Corporation. Ms. Estrin received a B.A. from the University of Tennessee and an M.B.A. from Fairleigh Dickinson University. She is member of the Advisory Board of the Salvation Army in Philadelphia and serves as a Trustee of the ENS Chacan Foundation for Global Management Studies in Paris, France.

Lawrence J. Hoffman, Chief Accounting Officer and Controller

Mr. Hoffman is responsible for General Accounting, Financial Reporting, Accounts Payable, Inventory Accounting, Internal Auditing and Property Records. Since commencing employment with PGW in 1995, he has served on various standing and special project committees and teams including the Information Systems Steering Committee, the Compensation Committee, Senior Team, Gas Deregulation Team and a year-end billing task force. Mr. Hoffman came to PGW from AAMCO Transmissions, Inc., Bala Cynwyd, PA where he served as the senior financial officer with responsibility for all financial functions including budgeting, treasury, benefits, information systems, taxes, auditing and risk management. His prior experience includes public accounting with Coopers and Lybrand in New York City with work in the insurance, utility and manufacturing sectors; international manufacturing and accounting with the semiconductor division of General Instrument in Hicksville, NY; and construction accounting with Jerrold Electronics in Hatboro, PA. Mr. Hoffman is a Certified Public Accountant (NY 1971). He has an M.B.A. in Finance, cum laude, from Temple University (1989) and a B.S. in Commerce with a major in Accounting, cum laude, from Rider College (1970).

M. Ellen Moffett, Esq., Acting General Counsel

Ms. Moffett joined PGW in June 1997, as Assistant General Counsel - Commercial, and in March 1998 was named Acting General Counsel. Her principal practice areas encompass financings, acquisitions, computer and internet technologies, intellectual property, energy and general commercial law. Ms. Moffett was previously with Wolf, Block, Schorr and Solis-Cohen and Montgomery, McCracken, Walker and Rhoads, two Philadelphia law firms, and Fillmore Mercantile Incorporated, a private investment company, where she served as General Counsel and Chief Operating Officer. Ms. Moffett holds a B.A. from New York University, a Masters in Sociology from the University of Pennsylvania, and received her J.D. from Rutgers University Law School in 1982, where she was a member of the Rutgers Law Review. She is presently a member of the American, Pennsylvania and Philadelphia Bar Associations.

Employee Relations

In March, 1998, PGW employed 1,997 people. Presently, approximately 76% of PGW's employees are represented by the Gas Works Employees' Union Local 686, approximately 1% are represented by the United Plant Guard Workers of America, Local 506 and 23% are unaffiliated management. The current agreement with the Gas Works Employees' Union Local 686 will expire on May 15, 2001.

Facilities

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

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

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

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

The Richmond LNG plant has facilities for liquefaction in addition to storage and vaporization. During the non-heating season, PGW uses the Richmond LNG plant to liquefy and store natural gas from the pipelines. The LNG plant has the capacity to liquefy and store approximately 23,500 Mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid is accomplished with six vaporizers having a total output of 480,000 Mcf per day. Both LNG plants combined require a minimum inventory level of 315,000 Mcf due to seismic and cryogenic considerations.

The Passyunk LPG plant has the air compression and propane vaporization capacity to produce 60,000 dekatherms ("Dth") of LPG mix per day and has a liquid propane storage capacity of approximately 662,250 gallons. This facility is idle and it is not presently-anticipated to be used.

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

Distribution Facilities - The principal gas distribution facilities consist of approximately 3,071 miles of main, 509,000 service pipes, 205 regulator stations, 598,000 active meters, miscellaneous valves, instruments and other appurtenances. These are five different operating pressure systems; each system is connected to the others by control regulators. The high pressure systems operate at approximately 110, 60 and 35 pounds per square inch gauge ("psig"); the intermediate pressure systems operates at 5 psig; and 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 59% of the mains are cast iron pipe, 33% are steel pipe, 5% are ductile iron pipe and 3% are plastic pipe. Approximately 56% of the service laterals are steel and approximately 44% are plastic.

Other Facilities - PGW's executive and operating offices are located at 800 West Montgomery Avenue which is a 150,000 square foot office building which was completed in 1988. The former office building at that site houses a distribution and customer service dispatch center, operating stations and warehouse, management information systems, a metal fabrication shop and a meter repair shop. Additional facilities include eight district offices and three operating stations for customer service and distribution crews. There are also a warehouse facility and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 1,000 vehicles and equipment. PGW also maintains minor automobile repair facilities at its operating stations. The First Series C Bonds will be used to purchase the 800 West Montgomery Avenue property.

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 City Controller holds office during his incumbency. The members appointed by the City Council and the Mayor each serve for terms of four years and hold office until their successors are appointed and qualified. The current members of the Gas Commission are listed below:

Marian B. Tasco

Chairwoman - Mrs. Tasco currently represents the Ninth District in Philadelphia City Council. Mrs. Tasco was appointed to the Gas Commission by City Council on August 2, 1992.

Jonathan A. Saidel

Mr. Saidel is the City Controller of the City. Mr. Saidel's current term of office as Controller and his position on the Gas Commission commenced on January 1, 1998.

Joan L. Krajewski

Mrs. Krajewski currently represents the Sixth District in Philadelphia City Council. Mrs. Krajewski was appointed to the Gas Commission by City Council on April 7, 1998.

Barbara Adams, Esq.

Mrs. Adams was appointed to the Gas Commission by the Mayor on January 1, 1995. Mrs. Adams is an attorney at the law firm of Duane Morris and Heckscher, LLP located in Philadelphia, Pennsylvania.

Royal E. Brown

Mr. Brown was appointed to the Gas Commission by the Mayor on August 8, 1996. Mr. Brown is Senior Director, Treasury Services, Independence Blue Cross.

The Management Agreement grants 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 the 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 PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans, access to and review of all books, records and accounts of PGW, proscription 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

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

PGW Budget Process and Rate Changes

The Management Agreement, requires PGW to prepare an annual operating budget and an operating forecast for the three years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for the five years following the budget year. The capital budget and forecast are reviewed by the Director of Finance of the City and the Gas Commission and are forwarded to the City Council for approval.

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 to support 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's orders regarding rates may be appealed by PGW and other interested parties to the Court of Common Pleas of Philadelphia County with further right to 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 1975 General Ordinance, the 1998 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 1998 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 (as defined in the Management Agreement), 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 \$750,000 in

1998, 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 dollars;

(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 authorized the Gas Works to grant 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 determined 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 are funded by the sale of revenue bonds, use of capital leases 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 bonds. For use of the proceeds of the First Series B 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 "1997 Capital Budget and Forecast" below and APPENDIX B - "Independent Consultant's Report."

The Gas Works' operating and capital plans contain provisions for compliance with year 2000 ("Year 2000") readiness requirements for PGW's major applications. Commencing in 1997, the Gas Works entered into three initiatives consisting of a full review, evaluation and eventual remediation of potential Year 2000 problems in its computer network systems (software and hardware) and other embedded programs at its main offices, and all plant and other company locations. Additionally, certification is being requested from significant vendors as to their compliance with Year 2000 readiness requirements. PGW has identified as its most vulnerable areas the SCADA system, which is used to measure, supervise and control the flow of gas from the transmission lines, and the computer legacy system. PGW is in the process of replacing both of these systems with Year 2000 compliant components. It is anticipated that this process will be fully implemented by December 31, 1999. If

necessary modifications and conversions by PGW and those with which it conducts business are not completed timely, the Year 2000 issue may have a material adverse effect on PGW's operations.

The following table represents information regarding actual net capital expenditures for each of the five Fiscal Years 1993-1997:

	<u>FISCAL YEAR</u>				
	<u>NET CAPITAL EXPENDITURES</u>				
	<u>(Dollar Amounts in Thousands)</u>				
	<u>(August 31)</u>				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Gas Supply	\$ 7,047	\$ 5,979	\$ 4,585	\$ 126	\$ 858
Distribution	33,044	35,398	34,657	31,205	37,719
Field Services	6,870	5,738	11,365	13,159	8,132
Other	<u>3,930</u>	<u>5,452</u>	<u>2,022</u>	<u>619</u>	<u>5,793</u>
Total ⁽¹⁾	<u>\$ 50,891</u>	<u>\$ 52,567</u>	<u>\$ 52,629</u>	<u>\$ 45,109</u>	<u>\$ 52,502</u>
Internally Generated Funds To Fund Capital Expenditures	<u>\$ 12,100</u>	<u>\$ 0</u>	<u>\$ 9,600</u>	<u>\$ 24,300</u>	<u>\$ 47,100</u>

⁽¹⁾ Net of reimbursements, contributions and salvage.

Internally Generated Funds

PGW provides for a portion of capital costs to be funded through the use of IGF. IGF consists of 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 issuance of bonds or other indebtedness or the incurrence of capital leases. In Fiscal Years 1993-1997, PGW generated approximately \$93.0 million in IGF or 37% of actual capital expenditures in such five year period.

Gas Cost Rate

PGW's biggest expense item is generally the cost of the natural gas delivered into its distribution system. These costs are recovered on a dollar for dollar basis through the operation of the Gas Cost Rate ("GCR") as authorized by the Gas Commission.

PGW is required to make an annual gas cost recovery filing with quarterly updates to the Gas Commission. Prior to industry restructuring mandated under FERC Order No. 636, the cost of bundled pipeline sales service was reviewed and approved by FERC. Because of reduced review by FERC, local distribution companies face greater accountability and risks related to their purchasing practices for gas supply, transportation and storage. The purchasing practices of PGW are reviewed by the Gas Commission. The Gas Commission establishes procedures for determining appropriate gas purchasing costs and a GCR factor applicable to firm service customers.

The base rate established from time to time by the Commission in its rate proceedings includes a fuel component cost. The GCR is designed to permit PGW, on an annual or quarterly basis, to adjust its gas cost charge to firm sales customers to approximate its actual cost of natural gas. PGW calculates its anticipated annual cost for natural gas and allocates that cost to its customers on a level basis for payment during the fiscal year. GCR

collections are then matched against actual costs for the year to date, and the GCR is adjusted annually or quarterly if necessary, to credit or charge customers in the upcoming period for overpayment or underpayment of natural gas costs to date. In 1997, PGW proposed a Purchased Gas Adjustment ("PGA") to adjust the GCR gas cost component on a monthly basis. The PGA would allow more accurate market pricing signals for customers and would significantly reduce the annual gas cost over/under collections which have varied between ten and twenty million dollars in recent years.

For Fiscal Year 1997, the base cost of fuel included in PGW's base rate was \$3.18 per Mcf, and the GCR rate was \$1.4272 per Mcf. The Gas Commission has approved a GCR rate of \$1.4272 per Mcf for Fiscal Year 1998, effective for all applicable natural gas usage during Fiscal Year 1998. The annual GCR reconciliation amounts (which reflect the difference between the GCR collections and the actual costs of the natural gas delivered into PGW's distribution system) was an undercollection of \$17,323,871 in Fiscal Year 1996 and an undercollection of \$11,001,276 in Fiscal Year 1997. These amounts were included by the Gas Commission in establishing the GCR rates for Fiscal Year 1997 and Fiscal Year 1998 respectively.

Fiscal Year 1997 Operating Budget

On May 15, 1996, PGW filed its 1997 Operating Budget with the Gas Commission. The filing did not include a request for an increase in base rates. On September 24, 1996 the Gas Commission granted interim approval of PGW's 1996-1997 Operating Budget that included the impact of strategic initiatives. PGW filed a revised 1996-1997 Operating Budget on December 20, 1996 which included information on the impact of strategic initiatives on the Operating Budget. On April 9, 1997, the Gas Commission approved PGW's revised 1996-1997 Operating Budget.

Fiscal Year 1998 Operating Budget

On June 17, 1997, PGW filed its 1998 Operating Budget (the "1998 Operating Budget") with the Gas Commission. This budget was prepared on base rate levels then in effect as approved by the Gas Commission on December 19, 1991. The filing did not present a request for an increase in base rates. On July 9, 1997, PGW filed revisions to the Operating Budget impacted by revisions of the Gas Cost Rate previously filed on June 30, 1997. On September 19, 1997, PGW filed further revisions to its Operating Budget based on a revised GCR for Fiscal Year 1998. PGW filed the last revision to its Fiscal Year 1998 Operating Budget on October 3, 1997, which included an updated financing plan which proposed a \$75.0 million revenue bond issue. On October 29, 1997, the Gas Commission approved the 1998 Operating Budget.

1998 Capital Budget and Forecast

PGW's proposed Capital budget for Fiscal Year 1998 and its five year forecast were filed with the Gas Commission on June 17, 1997. On September 18, 1997 PGW filed a revised 1998 Capital Budget and Forecast that included the impact of strategic initiatives and capital leases. On October 29, 1997 the Gas Commission forwarded the proposed Capital Budget to the City Council with a favorable recommendation for approval. City Council approved PGW's 1998 Capital Budget on December 10, 1997.

The Fiscal Year 1998 Capital Budget and Forecast in the net amounts of \$79.6 million and \$277.0 million, respectively, provide funds for the customary maintenance, construction and replacement items necessary to continue service to PGW's customers. Over 53% of the gross Fiscal Year 1998 Capital Budget and approximately 85% of the five year forecast expenditures are for replacement of facilities to ensure continuing safe, reliable and adequate service. The largest portion of the 1998 Capital Budget is allocated to the Distribution Department and the second largest portion is represented by the "Other" category, which is primarily for Information Technology ("IT"). Unlike the Distribution Department budget which recurs in similar amounts annually, the IT budget includes one-time expenditures and does not recur in a similar magnitude throughout the forecast years. Most mainframe systems at PGW are budgeted for replacement during 1998. The balance of the projected Capital Budget expenditures are included to provide new and expanded gas service to present and future customers. For a discussion of the Fiscal Year 1998 Capital Budget and Forecast, see APPENDIX B - "Independent Consultant's Report-Capital Improvement Program."

SUMMARY OF STATEMENTS OF INCOME

Information for the Fiscal Years ended August 31, 1997 and 1996 should be read in conjunction with and was derived from the audited financial statements and notes in APPENDIX A hereto. The financial information presented below for the seven months ended March 31, 1998 and 1997, are unaudited and were prepared by the management of PGW on the same basis as the audited financial statements included elsewhere herein. In the opinion of management, the financial information includes all adjustments necessary to present fairly the information set forth therein.

	(DOLLAR AMOUNTS IN THOUSANDS)					Seven Months Ended	
	Fiscal Years Ended August 31					March 31 (unaudited) (1)	
	1993	1994	1995	1996	1997	1997	1998
Operating Revenues	\$ 526,977	\$ 573,919	\$ 478,950	\$ 576,048	\$ 550,970	\$422,351	\$388,503
Operating Expenses							
Natural Gas & Raw Material	243,274	274,103	213,645	276,856	271,631	223,022	200,741
Gas Processing	21,458	21,822	18,645	14,846	14,238	9,194	9,063
Field Services	20,100	23,036	17,448	18,492	18,883	12,490	12,139
Distribution	20,674	25,003	19,561	22,817	20,454	13,182	12,025
Customer Activities	61,672	76,821	78,593	73,029	69,722	51,037	51,191
Administrative & General	39,960	36,793	44,593	44,997	45,200	27,307	32,899
Pensions	12,469	12,712	4,462	7,337	4,591	2,668	2,603
Taxes, other than income	8,127	11,615	5,999	6,532	6,517	3,886	3,926
Depreciation	<u>23,010</u>	<u>23,776</u>	<u>24,277</u>	<u>33,769</u>	<u>31,848</u>	<u>18,578</u>	<u>19,615</u>
Total Operating Expenses	<u>\$ 450,744</u>	<u>\$ 505,681</u>	<u>\$ 427,223</u>	<u>\$ 498,675</u>	<u>\$ 483,084</u>	<u>\$ 361,364</u>	<u>\$ 344,202</u>
Operating Income (Loss)	\$ 76,233	\$ 68,238	\$ 51,727	\$ 77,373	\$ 67,886	\$ 60,987	\$ 44,301
Interest and Other Income	<u>11,203</u>	<u>6,989</u>	<u>29,293</u>	<u>7,668</u>	<u>7,514</u>	<u>2,225</u>	<u>1,548</u>
Income before interest expense	87,436	75,227	81,020	85,041	75,400	63,212	45,849
Interest Expense	<u>53,967</u>	<u>55,516</u>	<u>55,746</u>	<u>53,736</u>	<u>51,429</u>	<u>29,992</u>	<u>30,343</u>
Net Income (Loss) (2)	<u>\$ 33,469</u>	<u>\$ 19,711</u>	<u>\$ 25,274</u>	<u>\$ 31,305</u>	<u>\$ 23,971</u>	<u>\$ 33,220</u>	<u>\$ 15,506</u>

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

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

Debt Service Coverage Ratio

The annual operating budget approved by the Gas Commission estimates the level of revenues required to reach at least the minimum debt service coverage ("DSC") ratio mandated by the 1975 General Ordinance and the 1998 General Ordinance. The following table presents historical revenue and debt service coverage calculated under the 1975 General Ordinance.

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Operating Revenues	\$526,977	\$573,919	\$478,950	\$576,048	\$550,970
Interest and Other Income	11,203	6,989	29,293	7,668	7,514
AFUDC (Interest)	608	731	301	173	45
Total Revenues	\$538,788	\$581,639	\$508,544	\$583,889	\$558,529
Adjustments	762	(1,606)	1,128	(1,061)	(1,045)
Project Revenues	\$539,550	\$580,033	\$509,672	\$582,828	\$557,484
Operating Expenses	450,744	505,681	427,223	498,675	483,084
Less:					
Depreciation	27,185	27,913	28,755	39,062	36,652
Other Adjustments	(1,640)	(1,502)	728	1,277	875
Net Operating Expenses	\$425,199	\$479,270	\$397,740	\$458,336	\$445,557
Net Revenues	\$114,351	\$100,763	\$111,932	\$124,492	\$111,927
Debt Service Requirements:					
Revenue Bonds	69,189	67,140	74,518	74,518	74,523
PMA/Capital Leasing	2,250	1,775	2,243	4,249	6,193
Commercial Paper Notes			2,641	2,103	1,230
Total Debt Service	\$71,439	\$68,915	\$79,402	\$80,870	\$81,946
Net Project Revenues	\$42,912	\$31,848	\$32,530	\$43,622	\$29,981
Available for other purposes					
Debt Service Coverage:	1.65	1.50	1.50	1.67	1.50
Revenue Bonds					

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations Fiscal Year 1997 Compared with Fiscal Year 1996

Operating Revenues - Operating Revenues were \$551.0 million, \$25.0 million or 4% lower than the 1996 level. This decrease was primarily attributable to the much warmer weather experienced in 1997 compared to the record breaking conditions of 1996. Degree days in 1997 totaled 4,622, a decrease of 547 degree days or 11% from the 5,169 degree days experienced in 1996. Sales volume in 1997 declined by 8.1 bcf or 10% from 1996 levels. This decline in sales volume impacted all categories of sales, including Residential, Commercial, Industrial, Interruptible and Transportation service.

Cost of Fuel - The cost of gas utilized decreased by \$5 million or 2% to \$271.6 million in 1997 compared with \$276.6 in 1996. The volumes of gas sold decreased by 10% as a result of the warmer weather, partially offset by an increase in the unit cost of PGW's gas supply. Variations in the cost of purchased gas are

passed through to customers under the Gas Cost Rate ("GCR") provision of PGW's rate schedules. Over recoveries or under recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in current assets or liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

Other Operating Expenses - Total operating and maintenance expenses decreased by \$8.7 million or 4.6% from 1996. Resources were reallocated during 1997, from field services and distribution activities to customer service improvements, marketing, infrastructure improvements and bad debt reductions. Costs of infrastructure, marketing and service improvements were more than offset by reductions in all other categories of expenses, especially bad debt expense which declined by \$4.9 million or 12.7%.

Bad debt expense in 1997 totaling \$33.5 million was 12.7% below the 1996 level based on the latest accounts receivable collectibility evaluation. As a result of the continuation of successful collection programs, the accumulated provision for uncollectible accounts at August 1997 reflects a balance of \$77.1 million, compared with \$83.2 million in 1996.

Depreciation expense decreased \$2 million in 1997 compared with 1996 primarily due to the implementation of a lower composite depreciation rate resulting from the completion of a comprehensive depreciation study. The composite straight-line depreciation rate was 3.2% in 1997 compared to 3.5% in 1996.

Interest Expense - Total interest expense decreased \$2.3 million in 1997 compared with 1996 primarily due to scheduled maturities of long-term debt and reduced interest costs on PGW's Tax-Exempt Commercial Paper program reflecting both lower rates and lower outstanding balances.

Net Income - Net income before distribution to the City for 1997 was \$24.0 million, compared with \$31.3 million in 1996. This decline resulted primarily from decreased margins due to substantially warmer weather in 1997 when compared to 1996.

Ratios and Coverages - PGW's bond debt capitalization ratio was 72% in 1997, compared to 73% in 1996. PGW has a mandatory debt service coverage ratio of 1.50 times on bonds issued under the 1975 General Ordinance. In 1997, the debt service coverage ratio was 1.50 times bond debt service compared to a debt service coverage ratio of 1.67 times bond debt service in 1996.

Long-Term Debt - During fiscal year 1997, PGW entered into Capital Equipment Leases of \$23 million to partially fund capital expenditures. No new revenue bonds were issued in 1997. Total long-term debt outstanding including the current portion was \$728.1 million in 1997, compared with the \$739.4 million in 1996.

Short-Term Debt - Due to the highly seasonal nature of PGW's business, short-term debt is used to meet working capital requirements. PGW, pursuant to the provisions of certain Ordinances and Resolutions of the City, may sell short-term notes in a principal amount which, together with interest, may not exceed \$100,000,000 outstanding at any one time. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. The notes outstanding at August 31, 1997 had an average weighted interest rate of approximately 3.68% and an average term to maturity of 34 days. The principal amounts outstanding at August 31, 1997 and 1996 were \$30.0 million and \$15.0 million respectively.

Capital Expenditures - Capital expenditures for construction of distribution facilities, purchase of equipment and other general improvements were \$52.5 million in 1997 compared to \$45.1 million in 1996. During 1997, PGW funded \$47.1 million or 90% of its capital expenditures through internally generated funds, compared to \$24.3 million or 54% in 1996.

Results of Operations and Financial Condition - Fiscal Year 1998

Fiscal Year 1998 has been one of the warmest in the City's history. Based on six months of actual results (September 1997 through February 1998), actual weather conditions of March and April 1998 and projections based upon other current information, PGW currently estimates that the number of degree days for

Fiscal Year 1998 will be 4,000, which is 600 fewer days or 13% less than budgeted. This 13% decrease has affected PGW's sales. Management projects a drop in firm sales, compared to budgeted amounts, of approximately 6,500 MMcf, a decrease of 10.5%. Firm sales, which primarily consist of heating load, tend to be directly affected by changes in the weather. Residential and commercial categories of firm sales are estimated to fall 10.5% and 10.0%, respectively. Sales to interruptible customers are estimated to increase slightly (2.5%), to 9,800 MMcf due to the availability of gas which was not required for firm customers due to the warmer weather. Transportation service volumes are projected to be down substantially, 2,200 MMcf or 27% from budgeted volumes, primarily due to the apparent financial/contractual difficulties being experienced at the Grays Ferry cogeneration facility for which PGW transports, but does not supply, gas.

The foregoing decline in sales and transportation service has a significant effect on income currently projected to be received in Fiscal Year 1998 as compared to budgeted income. Total operating revenues are estimated to decline from the budgeted level of \$562.8 million to about \$515.1 million, a decrease of \$47.7 million (8.5%). In order to offset that decline and meet the rate covenant under the 1975 General Ordinance, PGW has initiated a series of expense reductions, as budgeted, and other initiatives. Total reductions and savings from initiatives are projected to be approximately \$48.7 million. At May 1, 1998, approximately \$14.0 million of such reductions had been realized. The remaining \$34.3 million of reductions and initiatives are expected to be realized by August 31, 1998. The reductions and initiatives consist of (1) a reduction in the reserve for bad debts (savings of \$3 million); (2) a reduction in labor costs for overtime associated with normal winter and routine operations, and personnel reductions achieved through a hiring freeze (savings of \$5.5 million); (3) restricted spending (savings of \$2.25 million); (4) a reduction in point of sale expense resulting from lowered sales and the delayed roll out of new products and services (savings of \$1.5 million); (5) reduction in pension actuarial expense as a result of overfunding (savings of \$2.7 million); and (6) a recognition of the ahead of schedule ten-year amortization of the customer responsibility program arrearage (savings of \$3.75 million). In addition, the refunding of certain outstanding Gas Works revenue bonds will result in \$ 7.6 million in debt service savings.

PGW expects to meet the rate covenant under the 1975 General Ordinance for Fiscal Year 1998 as a result of these expenditure reductions and other initiatives.

Regulatory Matters

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

The required filing on hedging authority was made on February 1, 1993. Subsequent thereto, the Gas Commission instituted a number of additional hedging/risk management investigations. As a result, on May 5, 1998 the Gas Commission closed the proceedings without taking any action on the proposal.

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

In August 1997, PGW filed with the Gas Commission a weather normalization adjustment ("WNA") proposal with respect to PGW Gas Service Tariff No. 10. The WNA was intended to stabilize PGW's non-gas margins from variations in weather. A revised proposal was filed by PGW on March 10, 1998. Following the recommendation of the hearing officer, and exceptions filed thereto, on May 5, 1998, the Gas Commission denied PGW's request to add the WNA clause, but instructed PGW to undertake a cash flow stabilization review and file a report no later than three weeks prior to the Gas Commission's October 1998 meeting. The Gas Commission has instructed PGW to consider during its review: (A) restructuring rates to (i) incorporate more of PGW's fixed non-fuel costs in the customer charge, (ii) unbundle charges for bundled services such as billing and

meter reading and (iii) move additional non-fuel costs out of the GCR; (B) establishing a cash reserve in colder-than-normal years to provide more flexibility in warmer-than-normal years; (C) using insurance or other financial products to limit exposure to weather variations; and, (D) restructuring PGW's gas management function, including, but not limited to, the use of third party procurement and/or management services for all or part of PGW's supply and/or transportation requirements. Following a review of the report, the Gas Commission will provide PGW with direction as to which option or combination of options, which may include WNA, the Gas Commission is likely to support.

PGW is involved in several other proceedings before the Gas Commission, including the proposed tariff modifications for (i) a PGA clause (see "PGW BUDGET, RATES AND FINANCING - Gas Cost Rate" above) and (ii) a conversion to billing on a dekatherm basis. The PGA is intended to minimize annual over/under recoveries of gas costs via a monthly adjustment of rate during the winter period. The conversion to a dekatherm billing was intended to allow all billing to be done in dekatherms other than MCFs so as to bring PGW's billing in line with industry practices. The Gas Commission denied PGW's request for dekatherm billing at its June 2, 1998 meeting. However, PGW was granted the right to resubmit its request for dekatherm billing at a later date.

GAS SUPPLY AND REGULATION

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

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

The two interstate pipelines delivering natural gas to PGW have limited delivery capacity and cannot meet PGW's peak-day or winter season requirements. Therefore, PGW owns and operates supplemental LNG and Propane-air facilities to meet incremental demand in excess of flowing gas and underground storage supplies. PGW's supplies of natural gas and LNG are adequate to meet its projected demand under either normal or design (colder than normal) conditions in the future. The use of the propane-air facility, however, is not anticipated under current requirements and it is therefore, at present, temporarily maintained in an inactive mode of operation.

Competition

PGW competes to supply natural gas to interruptible customers who are capable of switching to alternative fuels, including fuel oil, propane and electricity. PGW also competes to supply natural gas to transportation customers who might seek to buy gas from any supplier and use PGW's distribution system for transportation of that gas. PGW has negotiated contracts with such customers. In addition, PGW's rate schedules offer gas transportation service, firm and interruptible, to potential customers. PGW also has Boiler and Power Plant Services (BPS) and Load Balancing Service (LBS) sales rates that permit discounts to compete with alternative fuels, provided that the rate per Mcf is not less than 110% of the avoided gas costs for gas sold under these rate schedules. PGW is currently reviewing all rate schedules and will be proposing a new rate schedule with expanded choices, to allow PGW to compete in a deregulated market place. If proposed legislation of customer choice becomes law in the Commonwealth of Pennsylvania, and if it applies to PGW, then all other classes of

PGW's customer base will be subject to competitive threat. PGW is aggressively implementing improved customer service initiatives, cost reductions, efficiency improvement programs, and pricing options to improve its ability to compete.

Natural Gas

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

Natural gas expense for the 1994 Fiscal Year increased by \$29.7 million or 12% from the previous year to a total of \$272.9 million. This was the result of greater sendout requirements reflecting the colder winter heating season and higher pipeline supplier prices. In addition, a decline in the level of natural gas refunds received from pipeline suppliers further contributed to the added expense.

In Fiscal Year 1995, natural gas costs declined by \$59.4 million or 22% from the prior year's level to a total of \$213.5 million. The substantially warmer winter heating season was principally responsible for reduced sendout requirements combined with lower pipeline supplier prices. Natural gas refunds received from pipeline suppliers were higher than the previous period further reducing natural gas expenses.

Natural gas expenses for Fiscal Year 1996 increased by \$63.1 million or nearly 30% over the previous year's level, to a total of \$276.6 million. A 23% rise in degree days compared to the previous year resulted in greater sendout requirements during the winter heating season, while higher prices from pipeline suppliers added to the natural gas cost. A decline in refunds received from pipeline suppliers further contributed to the additional costs in Fiscal Year 1996.

In Fiscal Year 1997, natural gas expenses decreased by \$4.9 million or 2% from the prior year to a level of \$271.7 million. Sendout requirements were substantially less reflecting a relatively normal winter period compared to Fiscal Year 1996 and refunds received from pipeline suppliers were slightly higher. These reductions were offset, in part, by higher pipeline supplier prices.

Status of Richmond LNG Plant Air Pollution Permitting Process

The "Air Pollution Permitting Process" requires that a plan (the "Plan"), describing PGW's strategy for compliance, be submitted for approval. After approval of the Plan, an application has to be submitted with procedures and timetables for implementing the items in the approved Plan such as construction, start-up and testing.

The Plan was submitted on time and is awaiting final action by Philadelphia Air Management Services Department ("Air Management"). Based on informal discussions with Air Management officials and also based on the fact that the Plan was established with significant input and negotiations involving these same officials, PGW anticipates a favorable response.

Five Year Summary of Gas Sales

Total gas sales for PGW are comprised of sales to firm and interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in the delivery of natural gas. Firm service is sold to residential, commercial and industrial customers depending on the type of service required and represented 85.5% of total gas sales by volume in Fiscal Year 1997. Interruptible sales service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible service is sold to high volume commercial and industrial customers and represented 14.5% of total gas sales in Fiscal Year 1997. (See "OPERATING DATA" below for a five year summary of gas sales).

Gas sales in Fiscal Year 1993 totaled 75.3 billion cubic feet ("bcf"), an increase of 3.5 bcf from the prior year. Temperatures during the Fiscal Year 1993 heating season were lower than normal (a "normal year" is 4,600 degree days) resulting in 4,731 degree days, an increase of 131 degree days from normal and 189 degree days or 4% more than experienced in the previous fiscal year. Sales to firm customers of 63.0 bcf were 1.9 bcf higher than the previous year. Associated interruptible revenues increased by 25% to \$46.7 million.

Gas sales in Fiscal Year 1994 totaled 74.9 bcf, a decrease of 0.5 bcf from the prior year. Temperatures during the Fiscal Year 1994 heating season were lower than normal resulting in 4,998 degree days, an increase of 398 degree days from normal and 267 degree days or 5.6% more than experienced in the previous fiscal year. Sales to firm customers of 65.3 bcf were 2.3 bcf higher than the previous year. Associated interruptible revenues decreased by 22% to \$36.3 million as competition from lower fuel oil prices lowered demand for gas.

Gas sales for Fiscal Year 1995 totaled 67.8 bcf, a decrease of 7.1 bcf from the prior year. Temperatures during the Fiscal Year 1995 heating season were higher than normal resulting in 4,200 degree days, an decrease of 400 degree days from normal and 798 degree days or 16% less than experienced in the previous fiscal year. Sales to firm customers of 56.2 bcf were 9.1 bcf lower than the previous year. Associated interruptible revenues increased by 12% to \$40.5 million as competition from lower fuel oil prices lowered demand for gas.

Gas sales in Fiscal Year 1996 totaled 75.8 bcf, an increase of 8.0 bcf from the prior year. Temperatures during the Fiscal Year 1996 heating season were lower than normal resulting in 5,169 degree days, an increase of 569 degree days from normal and 969 degree days or 23% more than experienced in the previous fiscal year. Sales to firm customers of 65.4 bcf were 9.2 bcf higher than the previous year. Associated interruptible revenues increased by 7% to \$43.3 million.

Gas sales in Fiscal Year 1997 totaled 69.9 bcf, a decrease of 5.9 bcf from the prior year. Temperatures during the Fiscal Year 1997 heating season were lower than normal resulting in 4,622 degree days, an increase of 22 degree days from normal and 547 degree days or 11% less than experienced in the previous fiscal year. Sales to firm customers of 59.8 bcf were 5.6 bcf lower than the previous year. Associated interruptible revenues increased by 2% to \$44.2 million.

Accounts Receivable

Gas accounts receivable as of March 31, 1998 were \$25 million less than the balance for the previous twelve months. This 13% decline is due primarily to a weather related reduction in revenues. Delinquent gas accounts receivable as of March 31, 1998 were \$21 million less than the balance for the comparable period. This 16% decline is due in part to an increase in customer accounts written off, a weather related reduction in revenues and improved collections.

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

Fiscal Years Ended August 31,

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Billed Gas Revenues During the Year	\$526,723	\$554,212	\$477,601	\$539,119	\$548,455
Accounts Receivable at August 31,	132,574	171,730	140,002	143,303	132,560
Reserve For Bad Debt	54,565	73,772	79,195	83,214	77,100
Net Accounts Receivable at August 31,	78,009	97,958	60,807	60,089	55,460
Reserve For Bad Debt as a Percentage of Accounts Receivable	41.2%	43.0%	56.6%	58.1%	58.2%
Net Write-Offs during the Year	\$28,355	\$23,927	\$37,518	\$33,975	\$39,149
Receivable as a Percentage of Billed Gas Revenues	25.2%	31.0%	29.3%	26.6%	24.2%
Delinquent Customers (Annual Average)	145,092	143,613	112,712	119,806	120,901
Delinquent Customers at August 31,	145,298	121,317	114,179	115,618	118,925

AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE
(Dollar Amounts in Thousands)

As of March 31, 1998

<u>Customer Classifications</u>	<u>Current*</u>	<u>30 Days</u>	<u>60 Days</u>	<u>90 Day & Over</u>	<u>Total</u>	<u>Delinquent Accounts</u>
Residential & Small Commercial	\$ 42,434	\$ 26,152	\$ 18,793	\$ 47,804	\$ 135,183	\$ 92,749
Industrial & Large Commercial	9,163	3,823	1,244	1,270	15,500	6,337
Final Billings (a)	<u>757</u>	<u>855</u>	<u>979</u>	<u>12,830</u>	<u>15,421</u>	<u>14,664</u>
Total (b)	\$ 52,354	\$30,830	\$ 21,016	\$ 61,904	\$ 166,104	\$ 113,750

As of March 31, 1997

<u>Customer Classifications</u>	<u>Current*</u>	<u>30 Days</u>	<u>60 Days</u>	<u>90 Day & Over</u>	<u>Total</u>	<u>Delinquent Accounts</u>
Residential & Small Commercial	\$ 43,363	\$ 29,822	\$ 21,791	\$54,065	\$ 149,041	\$ 105,678
Industrial & Large Commercial	9,557	3,518	2,376	906	16,357	6,800
Final Billings (a)	<u>712</u>	<u>1,228</u>	<u>1,359</u>	<u>9,425</u>	<u>12,724</u>	<u>12,012</u>
Total (b)	\$ 53,632	\$ 34,568	\$25,526	\$64,396	\$ 178,122	\$ 124,490

(a) Gas service on these accounts has been terminated. These accounts include both voluntary and involuntary terminations.

(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.

SELECTED OPERATING DATA

The following data are based upon the records of PGW. For further information, see
"APPENDIX A - Financial Statements of PGW for Fiscal Years Ended August 31, 1997 and 1996."

SELECTED OPERATING DATA
(Dollars in Thousands)

FISCAL YEARS ENDED AUGUST 31,

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Degree Days	4,731	4,998	4,200	5,169	4,622
% of normal (4,600) degree days	103%	109%	91%	112%	100%
Maximum 24-Hour Sendout (Mcf)	591,425	752,707	641,343	620,873	661,715
Peak-day Avg. Temperature (Degrees)	20	2	16	11	12
Gas Revenues & Sales By Customer Classification					
Gas Operating Revenues					
Residential:					
Heating	\$347,665	\$378,815	\$312,886	\$360,820	\$367,113
Non-Heating	25,421	25,747	22,806	21,754	22,112
Industrial and Commercial					
Firm	81,321	88,887	78,132	88,320	90,047
Interruptible	46,556	36,253	40,502	43,266	44,247
Gas Transportation	621	380	1,307	1,108	1,441
Other gas revenues (Municipal, Phila. Housing Authority ("PHA"), Unbilled revenues, and the GCR Adjustment	16,051	31,819	17,347	53,592	18,822
Total Gas Revenues	<u>\$517,635</u>	<u>\$561,901</u>	<u>\$472,980</u>	<u>\$568,860</u>	<u>\$543,782</u>
Other Operating Revenues	9,342	12,018	5,970	7,188	7,188
Total Operating Revenues	<u>\$526,977</u>	<u>\$573,919</u>	<u>\$478,950</u>	<u>\$576,048</u>	<u>\$550,970</u>
Other Income	11,203	6,989	29,293	7,668	7,514
Total Revenues and Other Income	<u><u>\$538,180</u></u>	<u><u>\$580,908</u></u>	<u><u>\$508,243</u></u>	<u><u>\$583,716</u></u>	<u><u>\$558,484</u></u>

SELECTED OPERATING DATA (Cont'd.)
(Dollars in Thousands)

	<u>FISCAL YEARS ENDED AUGUST 31,</u>				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Summary of Customers At End of Period					
Residential	499,189	493,606	492,601	490,614	486,716
Industrial and Commercial:					
Firm	23,898	23,930	24,066	23,909	24,165
Interruptible	416	413	423	441	454
Municipal and PHA	2	2	2	2	2
Total Customers	<u>523,505</u>	<u>517,951</u>	<u>517,092</u>	<u>514,966</u>	<u>511,337</u>
Gas Sales By Classification (Mmcf)					
Residential:					
Heating	46,327	48,355	41,240	48,917	44,556
Non-Heating	2,883	2,833	2,506	2,413	2,253
Industrial and Commercial:					
Firm	10,383	10,976	9,609	10,977	10,190
Interruptible	12,324	9,519	11,563	10,153	9,816
Other	3,437	3,177	2,891	3,365	3,066
Total Gas Sales & Transport	<u>75,354</u>	<u>74,860</u>	<u>67,809</u>	<u>75,825</u>	<u>69,881</u>
Supply & Disposition Of Gas (Mmcf)					
Natural Gas Purchased	79,363	81,294	69,971	77,882	74,069
Liquefied Petroleum	0	134	0	0	0
Liquefied Natural Gas	3,330	4,230	2,282	4,287	4,062
Total Gas Supply	<u>82,693</u>	<u>85,658</u>	<u>72,253</u>	<u>82,169</u>	<u>78,131</u>
Deduct:					
Additions to (Withdrawals) from					
Gas Storage	1,974	3,337	(1,128)	(899)	394
PGW's Use and Other	5,365	7,461	5,572	7,243	7,856
Total Gas Sales	<u>75,354</u>	<u>74,860</u>	<u>67,809</u>	<u>75,825</u>	<u>69,881</u>
Average Monthly Usage of Residential Customers (Mcf):					
Heating	9.1	9.8	8.3	9.8	9.0
Non-Heating	2.7	2.9	2.7	2.7	2.6
Average Monthly Bill Of Residential Customers:					
Heating	\$72.50	\$76.60	\$63.00	\$72.42	\$74.33
Non-Heating	\$24.32	\$26.28	\$24.12	\$24.10	\$25.50

Risk Management

PGW has begun the process of implementing a risk management program. Draft policy and procedures have been developed, information systems are being installed, and in-house training has been completed. PGW plans to conduct a simulation program and thereafter finalize its risk management policy and procedures.

Insurance

PGW is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PGW is principally insured through insurance carriers. PGW's property is insured against the risk of loss or damage, in the amount of \$250,000,000 per occurrence with a \$100,000 deductible subject, however, to an annual aggregate limit of \$100,000,000 for earthquake and an annual aggregate limit of \$50,000,000 for flood, generally, and to lower flood limits as to the Richmond Plant. A deductible of \$250,000 applies to specific storage tanks at the Passyunk Plant. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance. With respect to incidents arising between October 1, 1986 and August 13, 1991 and between September 1, 1994, and August 31, 1996, PGW maintained policies of liability insurance insuring against the risk of damage or injury to the public for \$25,000,000 in excess of \$500,000 for any one incident, generally without aggregate limits. Effective September 1, 1996 PGW increased its policies of liability insurance against risk of damage or injury to the public to \$35,000,000. Effective September 1, 1991 through August 31, 1994, the liability insurance retention level was increased from \$500,000 to \$2,000,000 for any one incident. Where PGW and PFMC have potential liability, PGW will defend against the actions and make settlements on behalf of PGW and PFMC with respect to losses incurred by PFMC and

PGW up to \$500,000. PFMC and PGW are insured under the same liability policy insuring against risk of damage or injury to the public. PGW also maintains \$25,000,000 of workers' compensation insurance in excess of \$500,000 per incident for on-duty injuries to employees. During the last three fiscal years, no claim settlements have exceeded the level of insurance coverage. None of PGW's losses have been settled with the purchase of annuity contracts.

LITIGATION

In the normal course of their business operations, PGW and/or PFMC are from time to time sued or threatened with litigation. Most frequently such litigation alleges property damage or personal injury to third parties. However, other forms of litigation also arise from time to time. PGW is aware of no litigation pending or threatened which alone or in the aggregate would have a material adverse effect on PGW's operations or financial condition. PGW believes it has set aside sufficient reserves to meet liabilities arising out of litigation to the extent not covered by insurance.

UNDERWRITING

Pursuant to a Purchase Contract, the Underwriters have jointly and severally agreed, subject to certain terms and conditions, to purchase the First Series Bonds from the City for a purchase price of \$285,034,661.19, which is equal to the par amount of \$287,185,000.00, less the underwriters' discount of \$2,066,147.06 and original issue discount of \$84,191.75, plus accrued interest. The Underwriters' obligations pursuant to the Purchase Contract are subject to certain conditions precedent. The Underwriters are obligated to purchase all of the First Series Bonds, if any are purchased.

RATINGS

It is expected that Moody's Investors Service, Inc. and Standard and Poor's Ratings Group will assign ratings of "Aaa" and "AAA", respectively, to the First Series Bonds subject to their issuance, based upon the issuance of the Policies. Any explanation of these ratings may only be obtained from the rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. No assurance is given that such ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of any of such ratings may have an adverse effect on the market price of the First Series Bonds.

TAX MATTERS

Federal Tax Exemption

In the opinion of Co-Bond Counsel, under existing law, interest on the First Series Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the First Series Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the First Series Bonds to be so included in gross income retroactive to the date of issuance of the First Series Bonds. The City has covenanted to comply with all such requirements.

In the opinion of Co-Bond Counsel, under existing law, interest on the First Series Bonds is not an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals and corporations. The Code, however, also includes in the computation of the alternative minimum tax applicable to certain corporations (as defined for federal income tax purposes) a tax preference item computed with respect to the corporation's adjusted current earnings. Because adjusted current earnings of a corporation would generally include tax-exempt interest received, a corporation may be subject to an alternative minimum tax upon receipt of interest on the First Series Bonds.

The Superfund Amendments and Reauthorization Act of 1986 includes, among other things, a provision which imposes an environmental tax (the "Environmental Tax") on corporations based on the excess of "modified alternative minimum taxable income" over \$2,000,000 for taxable years beginning before January 1, 1996. Since modified alternative minimum taxable income is generally defined in the same manner as alternative minimum taxable income, to the extent that interest on the First Series Bonds is included in adjusted current earnings, such interest may subject a corporation to the Environmental Tax. On the date hereof, the Environmental Tax has not been reauthorized with respect to taxable years beginning on or after January 1, 1996, and holders of the First Series Bonds should consult their tax advisors with respect to a possible reauthorization of the Environmental Tax.

Prospective purchasers of the First Series Bonds should be aware that certain federal income tax consequences may apply to certain holders of the First Series Bonds, including the following:

(i) The Code denies a deduction for all of the interest on indebtedness incurred or continued to purchase or carry the First Series Bonds or, in the case of a financial institution, all of that portion of a holder's interest expense allocated to interest on the First Series Bonds.

(ii) With respect to property and casualty insurance companies, the Code reduces the deduction for losses incurred by 15% of the sum of certain items, including interest on the First Series Bonds.

(iii) *Interest on the First Series Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax.*

(iv) Passive investment income, including interest on the First Series Bonds, may be subject to federal income taxation for S corporations that have Subchapter C earnings and profits at the close of the taxable year, if more than 25% of the gross receipts of such S corporations are passive investment income.

(v) The Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account receipts or accruals of interest on the First Series Bonds in determining whether such benefits may be included in gross income.

Except as expressly stated above to be their opinion, Co-Bond Counsel does not express any opinion as to any other federal income tax consequences of acquiring, carrying, owning or disposing of the First Series Bonds, and the prospective purchasers of the First Series Bonds should consult their tax advisers as to the applicability of these and any other collateral consequences of ownership of the First Series Bonds.

No assurance can be given that amendments to the Code or other federal legislation will not be introduced and/or enacted which would cause the interest on the First Series Bonds to be subject, directly or indirectly, to federal income taxation or adversely affect the market price of the First Series Bonds or otherwise prevent the holders of the First Series Bonds from realizing the full current benefit of the status of the interest thereon.

The form of the text of the approving opinion of Co-Bond Counsel is included as APPENDIX F hereto.

Tax Accounting Treatment of Original Issue Discount and Bond Premium

The initial public offering price of certain First Series Bonds listed on the inside front cover of the Official Statement (the "OID Bonds") is less than the amount payable at maturity of such First Series Bonds. The difference between the initial public offering price at which each maturity of OID Bonds is sold and the amount payable at maturity is original issue discount ("OID"), which constitutes interest which is excluded from gross income of an owner of OID Bonds for federal income tax purposes.

Owners of OID Bonds should consult their own tax advisers with respect to the determination for federal income tax purposes of interest accrued upon sale or redemption of OID Bonds, with respect to the owners' basis for determining gain or loss for federal income tax purposes upon a disposition of OID Bonds, with respect to the collateral federal tax consequences of an accrual of OID and with respect to state and local tax consequences of owning OID Bonds. Collateral tax consequences and the application of state and local taxes may be deemed to apply to OID in the year of accrual even though there will not be a corresponding cash payment until a later year.

The initial public offering price of certain First Series Bonds listed on the inside cover of the Official Statement is in excess of the amount payable at maturity of such First Series Bonds. An amount equal to the excess of the purchase price of a First Series Bond over its stated redemption price at maturity constitutes premium on such First Series Bond. The purchaser of such a First Series Bond must amortize any premium over the First Series Bond's term using constant yield principles. The amount of amortized bond premium (i) reduces the holder's basis in the First Series Bonds for purposes of determining gain or loss for federal income tax purposes upon the sale or other disposition of the First Series Bond and (ii) is not allowed as a deduction for federal income tax purposes to the holder. Purchasers of First Series Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisers with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such First Series Bonds.

Pennsylvania Tax Exemption

In the opinion of Co-Bond Counsel, under existing law, interest on the First Series Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax, and the First Series Bonds are exempt from personal property taxes in Pennsylvania.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the First Series Bonds is subject to approval of the legality of the issuance of the First Series Bonds by Wolf, Block, Schorr and Solis-Cohen LLP and Ronald A. White, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. The proposed form of such opinion is included herein as APPENDIX E. Certain legal matters will be passed upon for the Underwriters by Mesirov Gelman Jaffe Cramer & Jamieson, LLP and Singley & Associates, Co-Underwriters' Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor. Certain legal matters will be passed upon for PGW by Obermayer Rebmann Maxwell & Hippel, LLP, of Philadelphia, Pennsylvania.

FINANCIAL ADVISOR

Public Financial Management, Inc., of Philadelphia, Pennsylvania, has served as financial advisor (the "Financial Advisor") to the City in respect to the sale of the First 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 First Series Bonds, and has provided other advice. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

INDEPENDENT AUDITORS

The financial statements of PGW for the fiscal years ended August 31, 1997 and 1996, and for the years then ended, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report included in APPENDIX A to this Official Statement.

INDEPENDENT CONSULTANT'S REPORT

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

NO LITIGATION OPINION

There is no controversy or litigation of any nature now pending or threatened in writing seeking to restrain or enjoin the issuance, sale, execution or delivery of the First Series Bonds, or in any way contesting or affecting the validity of the First 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 First Series Bonds or the existence or powers of the City.

Upon delivery of the First Series Bonds, the Office of the City Solicitor shall furnish a certificate, in form satisfactory to Co-Bond Counsel, to the effect, among other things, that, except for litigation which in the opinion of the Office of the City Solicitor is without merit, and except as disclosed in this Official Statement, no litigation or other legal proceedings are pending, or, to the best of its knowledge, threatened in writing to restrain or enjoin the issuance or delivery of the First Series Bonds or the collection or pledge of any moneys provided for the payment of the First Series Bonds or contesting or affecting the validity of the First 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 in the Escrow Accounts 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 First 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 First Series Bonds and the security therefor, the Act, the 1998 General Ordinance and the First 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.

CONTINUING DISCLOSURE

In order to enable the Underwriters to comply with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Fiscal Agent for the First Series Bonds which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the First Series Bonds. See APPENDIX E - "FORM OF CONTINUING DISCLOSURE AGREEMENT" for the detailed provisions of the Continuing Disclosure Agreement.

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, 1997, and the audited combined financial statements of the City for the Fiscal Year ended June 30, 1997, will be made available, as well as other pertinent information. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The City will provide copies of the foregoing documents to one or more nationally recognized municipal securities information depositories. The City will provide financial and other information regarding the Gas Works from time to time to Standard & Poor's Ratings Group, Moody's Investors Service, Inc. and Fitch IBCA, Inc. in connection with securities ratings issued by those rating agencies of obligations of the Gas Works. The City will continue these practices in future years on an annual basis on behalf of the Gas Works as well as all bonds issued for the Gas Works.

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

CITY OF PHILADELPHIA, PENNSYLVANIA

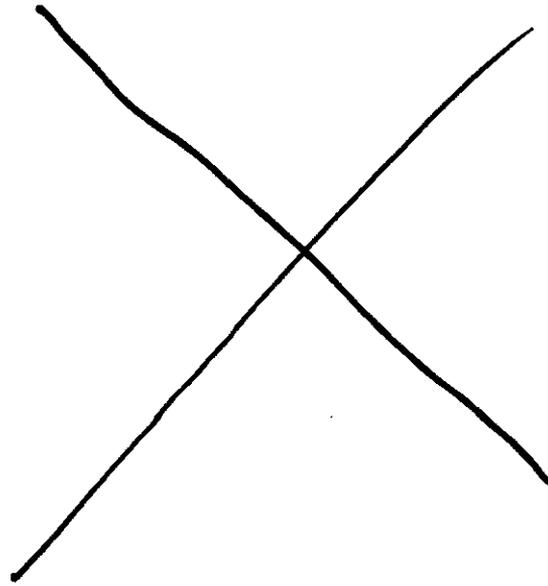
By: _____
Mayor

City Controller

City Solicitor

Approved:

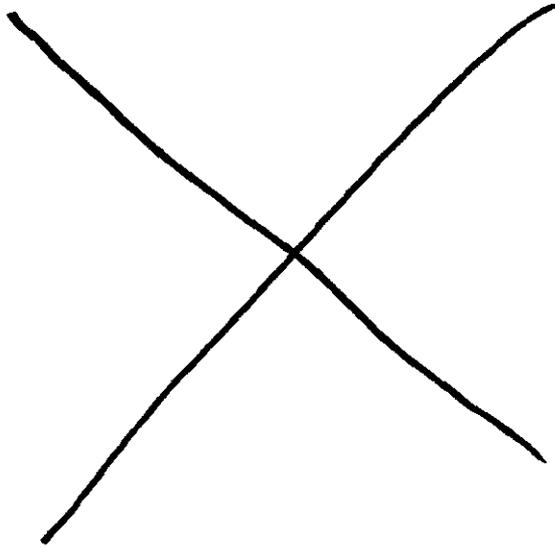
Director of Finance



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Appendix A

Financial Statements of PGW
for Fiscal Years Ended August 31, 1997 and 1996

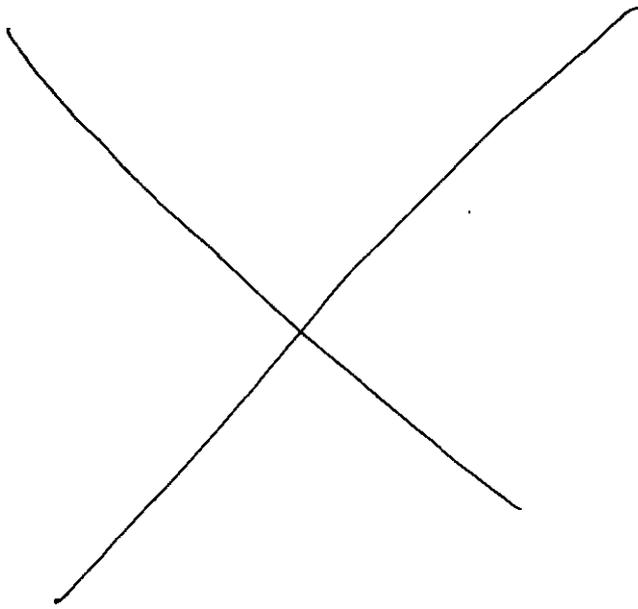


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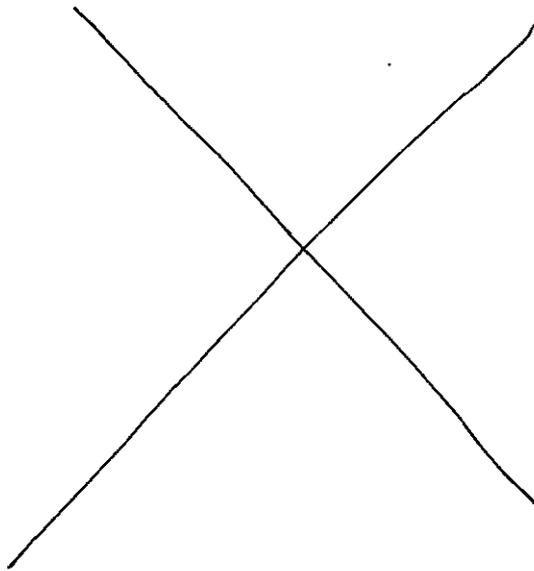


PHILADELPHIA GAS WORKS

Financial Statements for the Years Ended
August 31, 1997 and 1996, 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 Chairwoman and Members of
the Philadelphia Gas Commission
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of the Philadelphia Gas Works (the "Company") as of August 31, 1997 and 1996 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, 1997 and 1996, 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 in the schedules of funding progress and employer contributions on pages 20 and 21 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

December 24, 1997

PHILADELPHIA GAS WORKS
BALANCE SHEETS
August 31, 1997 and 1996

ASSETS	Notes	(Thousands of Dollars)		EQUITY AND LIABILITIES	Notes	(Thousands of Dollars)	
		1997	1996			1997	1996
Utility plant, at original cost:				City equity	2	\$ 268,987	\$ 263,016
In service	1,8	\$ 1,178,450	\$ 1,131,941	Long-term debt:	8,9		
Under construction		<u>25,270</u>	<u>24,260</u>	Revenue bonds		637,885	665,777
Total		1,203,720	1,156,201	Subordinate lease obligations		<u>64,026</u>	<u>35,995</u>
Less accumulated depreciation		<u>414,941</u>	<u>383,259</u>	Total long-term debt		<u>691,911</u>	<u>701,772</u>
Utility plant, net		<u>788,779</u>	<u>772,942</u>	Current liabilities:			
Restricted investment funds:				Notes payable	6	30,000	15,000
Sinking fund, revenue bonds	2,3,8	<u>79,679</u>	<u>78,442</u>	Current portion of long-term debt:	8,9		
Capital improvement fund	3,8	<u>21,657</u>	<u>4,439</u>	Revenue bonds		31,250	34,167
Current assets:				Subordinate lease obligations		4,969	3,469
Cash and cash equivalents	1,3	<u>1,284</u>	<u>10,794</u>	Accounts payable		36,524	31,951
Accounts receivable:				Customer deposits		1,705	2,090
Customers	1,4	109,867	114,463	Other current liabilities and deferred credits	1,11,12	11,462	12,768
Others	2	959	1,770	Accrued accounts:			
Accrued gas revenues	1	8,700	7,050	Interest, taxes and wages		9,364	9,709
Accumulated provision for uncollectible accounts	1,4	<u>(77,100)</u>	<u>(83,214)</u>	Distribution to the City	2	<u>3,000</u>	<u>3,000</u>
Accounts receivable, net		42,426	40,069	Total current liabilities		<u>128,274</u>	<u>112,154</u>
Materials and supplies	1	54,212	56,720	Employees' deferred compensation plan	5	<u>31,656</u>	<u>23,216</u>
Other current assets and deferred debits	1,4,7,12	<u>29,203</u>	<u>31,156</u>	Other liabilities and deferred credits	1,11,12	<u>21,373</u>	<u>21,153</u>
Total current assets		<u>127,125</u>	<u>138,739</u>	Commitments and contingencies	12		
Unamortized bond issuance costs	1,8	<u>7,509</u>	<u>8,047</u>	Total equity and liabilities		<u>\$ 1,142,201</u>	<u>\$ 1,121,311</u>
Unamortized losses on reacquired debt	1,8	<u>37,137</u>	<u>40,409</u>				
Employees' deferred compensation plan	5	<u>31,656</u>	<u>23,216</u>				
Deferred CRP arrearages	4	<u>22,693</u>	<u>28,840</u>				
Other assets and deferred debits	1,4,11,12	<u>25,966</u>	<u>26,237</u>				
Total assets		<u>\$ 1,142,201</u>	<u>\$ 1,121,311</u>				

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PHILADELPHIA GAS WORKS
STATEMENTS OF INCOME
For the Years Ended August 31, 1997 and 1996

(Thousands of Dollars)

	Notes	1997	1996
Operating revenues:	1,4,6,7,8		
Nonheating		\$ 90,451	\$ 91,146
Gas transport service		1,441	1,108
Heating		450,241	475,956
Unbilled gas adjustment		1,650	650
Total gas revenues		<u>543,783</u>	<u>568,860</u>
Other operating revenues		7,187	7,188
Total operating revenues		<u>550,970</u>	<u>576,048</u>
Operating expenses:			
Natural gas	1,12	271,627	276,574
Other raw material		4	282
Gas processing		14,238	14,846
Field service		18,883	18,492
Distribution		20,454	22,817
Collection		9,460	10,131
Meter reading		3,844	6,078
Provision for uncollectible accounts		33,474	38,340
Customer services		13,205	11,669
Customer accounting		5,898	3,357
Marketing		3,841	3,454
Administrative and general	11	45,200	44,997
Pensions	10	4,590	7,337
Taxes		6,517	6,532
Total operating expenses except undistributed depreciation		<u>451,235</u>	<u>464,906</u>
Depreciation	1,8	36,652	39,062
Less depreciation distributed through clearing accounts	1,8	4,804	5,293
Total depreciation		<u>31,848</u>	<u>33,769</u>
Total operating expenses		<u>483,083</u>	<u>498,675</u>
Operating income		67,887	77,373
Interest and other income	1	7,514	7,668
Income before interest expense		<u>75,401</u>	<u>85,041</u>
Interest expense:			
Long-term debt	1,8	44,887	46,367
Other		6,587	7,542
Allowance for funds used during construction	1	(44)	(173)
Total interest expense		<u>51,430</u>	<u>53,736</u>
Net Income		23,971	31,305
Distribution to the City of Philadelphia	2	18,000	18,000
Transferred to City equity		<u>\$ 5,971</u>	<u>\$ 13,305</u>

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
STATEMENTS OF CHANGES IN CITY EQUITY
For the Years Ended August 31, 1997 and 1996

(Thousands of Dollars)

	<u>1997</u>	<u>1996</u>
Balance, beginning	\$ 263,016	\$ 249,711
Transferred from statements of income	<u>5,971</u>	<u>13,305</u>
Balance, ending	<u>\$ 268,987</u>	<u>\$ 263,016</u>

PHILADELPHIA GAS WORKS
STATEMENTS OF CASH FLOWS
For the Years Ended AUGUST 31, 1997 AND 1996

	(Thousands of Dollars)	
	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Operating income	\$ 67,887	\$ 77,373
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	41,879	44,328
Other income (expense)	4,549	2,487
Changes in assets and liabilities:		
(Increase) in accounts receivable	(2,357)	(1,835)
Decrease (increase) in materials and supplies inventories	2,508	(3,158)
Decrease (increase) in other current assets	475	(23,236)
(Increase) decrease in other assets	(5,772)	4,329
Increase in accounts and construction contracts payable	4,573	10,875
(Decrease) in other current liabilities	(2,036)	(11,631)
Increase (decrease) in other liabilities and deferred credits	8,661	(5,193)
Net cash provided by operating activities	<u>120,367</u>	<u>94,339</u>
Cash flows from noncapital financing activities:		
Interest income on temporary investments	1,287	3,481
Interest payments on notes payable	(1,350)	(1,996)
Increase (decrease) in notes payable	15,000	(38,222)
Distribution to the city of Philadelphia	(18,000)	(18,000)
Net cash used in non-capital financing activities	<u>(3,063)</u>	<u>(54,737)</u>
Cash flows from capital & related financing activities:		
Capital spending activities:		
Net construction expenditures	(52,107)	(44,763)
Drawdowns on capital improvement fund	5,806	21,227
Net cash used in capital spending activities	<u>(46,301)</u>	<u>(23,536)</u>
Other capital financing activities:		
Long-term debt issued	23,000	20,100
Capital improvement fund deposits	(22,831)	(20,471)
Long-term debt issuance expenses	(169)	(202)
Interest income on capital improvement fund	203	572
Interest income on sinking fund	1,238	865
Sinking fund deposits	(1,238)	(865)
Principal payments on long-term debt	(38,805)	(35,640)
Interest payments on long-term debt	(41,911)	(43,126)
Withdrawals from sinking fund	0	189
Net cash used in capital financing activities	<u>(80,513)</u>	<u>(78,578)</u>
Net cash used in capital & related financing activities	<u>(126,814)</u>	<u>(102,114)</u>
Net Increase in cash and cash equivalents	<u>(9,510)</u>	<u>(62,512)</u>
Cash and cash equivalents at beginning of the year	10,794	73,306
Cash and cash equivalents at end of the year	<u>\$ 1,284</u>	<u>\$ 10,794</u>

Supplemental Disclosure of Non-Cash Capital and Related Financing Activities

The company incurred non-cash interest expense as follows for the years ended August 31, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Accreted interest	\$ 3,371	\$ 3,145
Amortization of discount	1,145	1,142
Amortization of bond issuance costs	538	524
Amortization of losses on reacquired debt	3,272	3,496

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 1997 and 1996

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 are, in all material respects, in conformity with generally accepted accounting principles. Such statements include *informed estimates and judgments of management for those transactions that are not yet complete or for which the ultimate effects cannot be precisely determined*. Actual results may differ from these estimates. The principal accounting policies within this framework are described as follows:

Regulation

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

On May 15, 1996, the Company filed with the PGC its 1997 Operating Budget which was based upon existing rate levels. On September 24, 1996, the PGC approved the 1997 Operating Budget.

On June 17, 1997, the Company filed with the PGC its 1998 Operating Budget which was again based on existing rate levels. The 1998 Operating Budget was approved on October 29, 1997.

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, 1997 and 1996, the net book value of the SNG Plant was \$21,869,000 and \$27,336,000 respectively, and the net book value of the L.P. Plant was \$4,527,000 and \$5,659,000 respectively.

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. The AFUDC rate applied to construction work in progress was 6.1% in both the 1997 and 1996 fiscal years.

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. Normal repairs, maintenance and the cost of minor property items are charged to operating expenses as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Depreciation

Historically, depreciation is provided on a straight-line method using rates applied to each asset category. In 1997, the composite rate was 3.2% based on a depreciation study completed that year. In 1996, on the authorization of the PGC, depreciation was calculated on a composite rate of 3.5%. In a previous rate order, the PGC disallowed the accrual of the net salvage component in depreciation. Consequently, cost of removal is charged against the reserve when incurred.

Accrued Gas Revenues

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

Customers

The Company's service territory encompasses the City of Philadelphia. Of the Company's approximately 511,000 customers, over 95 percent are residential.

Customer Receivables

The Company's tariffs provide for various agreements under which residential customers may pay arrearages with extended terms. Certain of such agreements, if adhered to, provide for forgiveness of arrearages. At August 31, 1997 and 1996, the number of customers with agreements providing for forgiveness of arrearages approximated 3,000 in each fiscal year.

In November 1993, the Gas Service Tariff was amended to discontinue offering new forgiveness agreements. In its place, the Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in five years. The total number of customers with discounted payment plans as of August 31, 1997 and 1996 was approximately 55,000 and 57,000, respectively.

Gas Cost Rate

PGW's single greatest operating expense is the cost of natural gas and raw materials. This cost, as well as certain other specific costs, including earned Customer Responsibility Program ("CRP") discounts and conservation program costs, are recovered through the operation of the Gas Cost Rate ("GCR") which is approved by the PGC. The base rate approved by the Gas Commission includes a fuel component. PGW calculates its anticipated annual cost for fuel and allocates the excess of that cost over the base rate component, and certain other specific costs to its customers on a levelized basis for payment during the fiscal year, using the GCR. At the end of the fiscal year, costs recovered through the GCR and base rate are compared to the actual cost of fuel and other specific costs and customers can be credited or charged for over-recovery or under-recovery. An over-recovery is a liability at the end of the fiscal year in which it occurs, while an under-recovery is a deferred debit until billed. The GCR is adjusted in the subsequent fiscal year to reflect the under-recovery or over-recovery. Changes in the GCR impact the reported amounts of gas revenues and operating expenses, but do not affect operating income or net income. (Also, see Note 7).

In February 8, 1996, the PGC approved a GCR charge of \$.6540 per/Mcf to be effective September 1, 1995.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)*

Gas Cost Rate (Cont'd)

On August 2, 1996, the Company filed its GCR Tariff proposal for the 1997 fiscal year at a charge of \$1.6517 per/Mcf to be effective September 1, 1996. On September 24, 1996, the PGC authorized a temporary GCR rate, a charge of \$1.6517 per/Mcf to be effective October 1, 1996, while the PGC continued its ongoing review of the Company's filing.

On November 12, 1996, the PGC completed its GCR review and authorized a charge of \$1.4272 per/Mcf to be effective December 1, 1996.

On August 1, 1997, the Company filed with the PGC its GCR tariff for the 1998 fiscal year at a charge of \$1.2231 per/Mcf to be effective on September 1, 1997. While the PGC is currently reviewing this proposal, the current rate of \$1.4272 per/Mcf continues to be effective.

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 Recquired Debt

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

Pensions

The Company has a noncontributory pension plan (the "Pension Plan") covering all employees and providing for retirement payments at age sixty-five or earlier under various options. In accordance with Resolutions of the PGC, Ordinances of City Council and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by the Company to the Sinking Fund Commission of the City.

Statements of Cash Flow

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

Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, the Company is required to cover settlement of claims which are excluded under the provisions of such insurance policies. A reserve has been established, in accordance with PGC regulations, in an amount which estimates settlements to be paid by the Company in the next fiscal year.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)*

Reserve for Injuries and Damages (Cont'd).

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year have been accrued and deferred. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Charges against the reserve are made as claims are settled. (Also, see Note 11).

Adoption of New Accounting Standards

For the years ended August 31, 1997, the Company adopted Government Accounting Standards Board (GASB) Statements No. 27, *Accounting for Pensions by State and Local Governmental Employees* and No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Company's adoption of GASB No. 27 had no significant effects on its financial statement. See Note 10 for further information.

In 1997, the Company elected to early adopt Governmental Accounting Standards Board Statement No. 31, (GASB No. 31) *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement establishes fair value standards for investments held by governmental entities, except for certain money market investments, as defined, which are recorded at amortized cost. The statement also establishes new reporting standards for investment income. See Note 3 for related information.

In preparing its financial statements, the Company retroactively applied the provisions of GASB No. 31 by restating interest income for the fiscal year ended August 31, 1996 by \$236,000 and by restating the beginning City Equity as of August 31, 1996 as follows:

	<u>City Equity</u>
Beginning fund balance, as previously reported	\$263,252,000
Adoption of GASB No. 31	<u>(236,000)</u>
Beginning fund balance, as restated	<u>\$263,016,000</u>

The Company did not restate its 1996 City Equity as of August 31, 1995 for the adoption of this standard, because such adoption would have had an insignificant effect on the account.

The Company's investments consist of money market investments that have a remaining maturity at time of purchase of one year or less.

Presentation

Certain 1996 amounts have been reclassified to conform with the 1997 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 canceled 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 a total of \$875,000 and \$850,000 in fiscal year 1997 and 1996, respectively. (Also, see Note 11). The agreement requires the Company to make annual payments of \$18,000,000 to the City.

In 1995, the City granted the Company \$21,135,000 to be utilized as "project revenues". Such amounts are non-refundable, and accordingly, were recorded by the Company as non-operating revenues in 1995. The City received the related funds by entering into a Forward Purchase Agreement, linked to expected future earnings in the Sinking Fund (see Note 8). Under its arrangement with the Company, the City has traditionally granted such earnings to the Company. In conjunction with the Forward Purchase Agreement, the City has agreed to withhold such grants for seven (7) years on balances in the Sinking Fund up to approximately \$61,000,000.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$8,281,000 in 1997 and \$8,179,000 in 1996 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$776,000 in 1997 and \$870,000 in 1996. Amounts receivable from or (payable to) the City were (\$654,000) and \$848,000 at August 31, 1997 and 1996 respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled \$1,167,000 in 1997 and \$1,438,000 in 1996.

3. CASH AND INVESTMENTS:

A. Cash

Cash consists primarily of bank deposits. Bank balances of such deposits at August 31, 1997 and 1996 were \$2,727,000 and \$1,395,000, respectively. Book balances of such deposits at August 31, 1997 and 1996 were \$1,284,000 and (\$1,106,000), 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, 1997 and 1996 was \$437,000 and \$444,000, respectively. The composition of the Company's deposits throughout the year ended August 31, 1997 was not significantly different from that at the balance sheet date.

B. Investments

Statutes authorize the Company to invest in obligations of the US Treasury, U.S. Government Agencies and Instrumentalities, and repurchase agreements (collateralized by obligations of the U.S. Treasury and Government Agencies). In the opinion of Management, for the years ended August 31, 1997 and 1996, 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

3. *CASH AND INVESTMENTS (Cont'd)*

B. Investments (Cont'd)

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. Repurchase agreements with a carrying amount (at market value) of \$0 and \$11,900,000 at August 31, 1997 and 1996, respectively, were classified as Category 1 Investments.

The Company's Sinking Fund and Capital Improvement Fund deposits, consisting primarily of U.S. Treasury and government agency obligations, are maintained by the City or in the Company's name by its agent and are considered Category 1 Investments. At August 31, 1997 and 1996, \$21,657,000 and \$4,439,000 was restricted to the purchase of utility plant.

The amount of the Company's investments in the various categories of credit risk during the year ended August 31, 1997 and 1996 was not significantly different from the categorization at the balance sheet date.

4. *DEFERRED EXPENSES:*

In compliance with rate orders issued by the PGC, the cost of projects which produce benefits over an extended period are deferred. Such costs are being amortized to expense over a period matching their useful lives which range from two to ten years. The unamortized expenses included in other current assets and deferred debits as of August 31, 1997 and 1996 were \$2,250,000 and \$1,478,000, respectively. The unamortized expenses included in other assets and deferred debits as of August 31, 1997 and 1996 were \$5,270,000 and \$5,044,000, respectively.

On November 9, 1995, the PGC, as part of the approval of the 1996 Operating Budget, allowed the Company to defer and recover \$37,500,000 of outstanding accounts receivable deemed to be not collectible, due to anticipated restrictions on CRISIS grants, in rates over a ten year period beginning in 1995. Any subsequent grants received have been used to reduce this regulatory asset. At August 31, 1996, accumulated amortization of \$7,500,000 and subsequent grants of \$1,160,000 reduced the balance to \$28,840,000. At August 31, 1997, accumulated amortization of \$11,250,000 and subsequent grants of \$3,557,000 reduced the balance to \$22,693,000. (Also see Note No. 12)

5. *DEFERRED COMPENSATION PLAN:*

The Company offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees, 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 Plan's 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.

5. *DEFERRED COMPENSATION PLAN (Cont'd):*

The following is a summary of the increases and decreases in Plan assets:

	<u>Thousands of Dollars</u>	
	<u>1997</u>	<u>1996</u>
Plan Assets, September 1	\$23,216	\$19,398
Contributions	3,297	2,879
Return on Investment	6,250	2,272
Payments to Eligible Participants And Beneficiaries	<u>(1,107)</u>	<u>(1,333)</u>
Plan Assets (at estimated Market Value), August 31	<u>\$31,656</u>	<u>\$23,216</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 \$100,000,000 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, 1997 had an average weighted interest rate of approximately 3.68% and remaining time to maturity of 2 days to 58 days. The principal amount outstanding at August 31, 1997 and 1996 was \$30,000,000, and \$15,000,000, respectively.

7. *GCR TARIFF RECONCILIATION:*

During the year ended August 31, 1997, the Company's actual gas costs under the GCR Tariff exceeded its billed gas costs by \$11,001,000. During the year ended August 31, 1996, the Company's actual gas costs under the GCR Tariff exceeded its billed gas costs by \$17,324,000. According to the procedure described in Note 1, the Company recognized this amount as revenue and as a deferred debit at August 31, 1997 and 1996. In each instance, the GCR Tariff mechanism amortizes the expense through increased rates during the following fiscal year.

8. *LONG-TERM DEBT:*

The following summary of long-term debt consists primarily of bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances:

	<u>(THOUSANDS OF DOLLARS)</u>					
	<u>AUGUST 31, 1997</u>			<u>AUGUST 31, 1996</u>		
	<i>Current Portion</i>	<i>Long-Term Portion</i>	<i>TOTAL</i>	<i>Current Portion</i>	<i>Long-Term Portion</i>	<i>TOTAL</i>
Revenue Bonds	\$32,325	\$649,241	\$681,566	\$35,290	\$678,194	\$713,484
Unamortized Debt Disc.	<u>(1,075)</u>	<u>(11,356)</u>	<u>(12,431)</u>	<u>(1,123)</u>	<u>(12,417)</u>	<u>(13,540)</u>
Total Revenue Bonds	<u>\$31,250</u>	<u>\$637,885</u>	<u>\$669,135</u>	<u>\$34,167</u>	<u>\$665,777</u>	<u>\$699,944</u>
Subordinate Lease Obligations	\$5,013	\$54,447	\$59,460	\$3,515	\$36,460	\$39,975
Unamortized Debt Discount	<u>(44)</u>	<u>(421)</u>	<u>(465)</u>	<u>(46)</u>	<u>(465)</u>	<u>(511)</u>
Subordinate Lease Obligations	<u>4,969</u>	<u>54,026</u>	<u>58,995</u>	<u>3,469</u>	<u>35,995</u>	<u>39,464</u>
TOTAL	<u>\$36,219</u>	<u>\$691,911</u>	<u>\$728,130</u>	<u>\$37,636</u>	<u>\$701,772</u>	<u>\$739,408</u>

8. *LONG-TERM DEBT (Cont'd)*

Principal maturities and scheduled interest payments for revenue bonds and total payments related to the subordinate lease obligations during the next five fiscal years are as follows:

YEAR ENDING AUGUST 31	THOUSANDS OF DOLLARS			TOTAL
	REVENUE BONDS PRINCIPAL	REVENUE BONDS INTEREST	SUBORDINATE LEASE OBLIGATIONS	
1998	32,325	37,160	8,213	77,698
1999	33,225	35,469	10,128	78,822
2000	30,940	37,756	10,231	78,927
2001	31,157	37,528	10,223	78,908
2002	30,817	36,441	8,199	75,457

Under the authority of the General Ordinance, the City has issued fifteen series of Gas Works Revenue Bonds consisting of serial and term bonds with interest rates ranging from 4.40% to 8.70%, maturing at various dates through 2026. 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 projects by deposits in the Capital Improvement Fund 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. (Also, see Note 2 re: Sinking Fund.)

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.

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 reported as long-term debt.

Subordinate Lease Obligations

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.

8. *LONG-TERM DEBT (Cont'd)*

Subordinate Lease Obligations (Cont'd)

("PMA"), an agency of the City, and its leaseback to the Company under a lease which expires June 1, 2014 at which time title transfers to the Company. As part of the indenture, the Company has guaranteed lease payments in an amount equal to the scheduled debt service on the bonds issued by PMA to finance the facility purchase. This lease obligation is subordinate to the Gas Works Revenue Bonds, other general obligation debt and notes payable. Proceeds from the refinancing of the building were utilized in the Company's capital program. The total amount financed was \$25,000,000.

The gross amount of assets under such lease obligation is approximately \$22,807,000 at August 31, 1997 and 1996 while accumulated amortization approximated \$4,418,000 and \$3,951,000, respectively, at August 31, 1997 and 1996. The amortization of such assets is included in depreciation expense in the statements of income.

Aggregate future minimum lease payments at August 31, 1997 approximated \$38,163,000 which includes imputed interest of \$17,103,000.

In January 1996, the Company entered into a refinancing of the net book value of existing and to be installed equipment. The installed equipment, worth approximately \$12.7 million and \$7.4 million of equipment to be installed, is owned by the City for use by the Company. Pursuant to the Lease and Leaseback Agreements, the equipment is leased by PMA to the investor and the investor leases the equipment back to PMA. Payments made by the City under the Sublease are made solely from the revenues of the Company and are subordinate to certain other payments from the Company's revenues. Accordingly, these assets and corresponding lease obligations are included in the Company's financial statements.

The gross amount of assets under such lease obligation is approximately \$15,900,000 and \$19,100,000 at August 31, 1997 and 1996 while accumulated amortization approximated \$837,000 and \$278,000, respectively, at August 31, 1997 and 1996. The amortization of such assets is included in depreciation expense in the statements of income.

Aggregate future minimum lease payments at August 31, 1997 approximates \$17,783,000 which includes imputed interest of \$2,383,000.

In August, 1997, the City entered into a contract with PMA to have PMA provide certain capital equipment to the Company. The equipment value cannot exceed \$32,000,000. The equipment is owned by PMA and leased to the City for the exclusive use of PGW. PMA will issue revenue bonds to provide funding to purchase the equipment. On August 22, 1997, PMA issued \$23,000,000 of revenue bonds with terms to October 1, 2004. Payments made by the City under the contract are made solely from the revenues of the Company and are subordinate to certain other payments from the Company's revenues. Accordingly, these assets and corresponding lease obligations are included in the Company's financial statements.

The gross amount of assets under such lease obligation is approximately \$2,557,000 at August 31, 1997 and the unexpended balance of the \$23,000,000 is restricted to the purchase of additional utility plant (see Note 3). There was no amortization in 1997. Future amortization of such assets will be included in depreciation expense in the statements of income.

Aggregate future minimum lease payments at August 31, 1997 approximated \$27,982,000 which includes imputed interest of \$4,982,000.

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, 1997 was as follows:

<u>Revenue Bond Issue and Scheduled Final Maturity</u>		<u>Interest Rate</u>	<u>Thousands of Dollars</u>
7th	March 15, 2012	6.0	\$10,675
11C	January 1, 2015	6.75 - 7.25%	15,330
12B	May 15, 2020	6.6 - 7.1%	66,420
13th	June 15, 2021	7.7%	65,005

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. Government Securities, had a market value of \$165,538,000 at August 31, 1997 bearing interest on face value at 0% to 13.125%.

10. *ACCOUNTING FOR PENSION COSTS:*

A. Plan Description

The Company sponsors a public employee retirement system ("PERS"), a single employer defined benefit plan to provide pension benefits for all of its employees, whose annual covered payroll (which was substantially equal to total payroll) at August 31, 1997 and 1996 was \$98,549,000 and \$96,290,000, respectively.

At September 1, 1996, 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>2,231</u>
Current employees:	
Vested	1,375
Non-vested	<u>619</u>
TOTAL CURRENT EMPLOYEES:	<u>1,994</u>
TOTAL MEMBERSHIP:	<u>4,225</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:

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,

10. ACCOUNTING FOR PENSION COSTS (Cont'd)

A. Plan Description (Cont'd)

- 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 five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

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.

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

B. Annual Pension Cost, Contributions Required and Contributions Made

The Company's annual pension cost is equal to its annual required contribution. The annual required contribution for the current year was determined as part of an actuarial valuation at September 1, 1996 using the projected unit credit method. Significant actuarial assumptions used for the above valuation include: a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually, b) projected salary increases of 3%, and c) 62 as the assumed retirement age. Both a) and b) included an inflation component of 3%. The assumptions did not include post retirement benefit increases.

The actuarial asset value is equal to the value of the fund assets as reported by the City of Philadelphia with no adjustments. The unfunded actuarial accrued liability is being amortized over eleven (11) years.

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method.

Contributions totaling \$4,590,000 were made in 1997. These contributions consisted of the net of: a) \$4,694,000 normal cost and b) \$104,000 amortization of the excess of the plan assets over the pension benefit obligation. In 1996, contributions of \$7,337,000 consisted of: a) \$4,704,000 normal cost and b) \$2,633,000 amortization of the unfunded pension benefit obligation. In 1995, contributions of \$4,462,000 consisted of: a) \$5,760,000 normal cost and b) \$1,298,000 amortization of the excess of the plan assets over the pension benefit obligation.

10. ACCOUNTING FOR PENSION COSTS (Cont'd)

B. Annual Pension Cost, Contributions Required and Contributions Made (Cont'd)

Fiscal year 1997 contributions were made in accordance with actuarial recommendations determined through an actuarial study performed in September, 1996. Fiscal 1996 and 1995 contributions were made in accordance with actuarial recommendations determined through the actuarial studies/updates performed in November 1996 and April 1995.

Historically, payments to beneficiaries are made by the Company and not from the assets of the Pension Plan. In recent years, payments to beneficiaries exceeded the Company's actuarially computed pension contribution. Withdrawals from pension assets of \$23,380,000 in 1997 and \$20,391,000 in 1996 were necessary to meet beneficiary payment obligations.

C. Historical Trend Information (unaudited)

Historical trend information reflecting funding progress and contributions made by the Company are presented on pages 20 and 21.

D. Post Employment Benefit Information

In addition to providing pension benefits, the Company also provides health care and life insurance benefits to Pension Plan beneficiaries and their dependents. Such benefits are funded on a pay-as-you-go basis. The Company recognizes the cost of providing health care benefits for the 2,027 and 2,052 beneficiaries and their dependents for the 1997 and 1996 fiscal years, respectively, and the cost of providing such benefits for 1,990 and 1,986 active employees and their dependents for the 1997 and 1996 fiscal years, respectively, by charging the annual insurance premiums to expense. Total premiums incurred for health care amounted to \$19,438,000 in 1997 and \$19,123,000 in 1996, of which approximately 45% and 41% respectively, represents payments on behalf of retired employees and their dependents. Total premiums for group life insurance were \$1,184,000 in 1997 and \$1,511,000 in 1996; approximately 29% and 32%, respectively, is attributable to retired employees.

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 \$250,000,000 per occurrence with a \$100,000 deductible; subject, however, to an annual aggregate limit of \$100,000,000 for earthquake and an annual aggregate limit of \$50,000,000 for flood, generally, and to lower flood limits as to the Richmond Plant. A deductible of \$250,000 applies to specific storage tanks at the Passyunk Plant. In addition, 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 and between September 1, 1994, and August 31, 1996, the Company maintains policies of liability insurance insuring against the risk of damage or injury to the public for \$25,000,000 in excess of \$500,000 for any one incident, generally without aggregate limits. Effective September 1, 1996, the Company increased its policies of liability insurance against risk of damage or injury to the public to \$35,000,000. Effective September 1, 1991 through August 31, 1994, the liability insurance retention level was increased from \$500,000 to \$2,000,000 (see below) for any one incident in

11. *RISK MANAGEMENT (Cont'd):*

accordance with instructions from the PGC. In the instance in which the Company and PFMC have potential liability, the Company will defend against the actions and make settlements on behalf of the Company and PFMC with respect to losses incurred by PFMC and the Company up to \$500,000. PFMC and the Company are insured under the same liability policy insuring against risk of damage or injury to the public. The retention level for coverage under this policy was reduced to \$500,000 effective September 1, 1994. The Company also maintains \$25,000,000 of workers' compensation insurance in excess of \$500,000 per incident for on-duty injuries to employees. During the last three fiscal years, no claim settlements have exceeded the level of insurance coverage. None of the Company's losses have been settled with the purchase of annuity contracts. Director's and officer's liability is the responsibility of the City.

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

<i>THOUSANDS OF DOLLARS</i>					
YEAR ENDED AUGUST 31	BEGINNING OF YEAR CLAIMS	CURRENT YEAR		END OF YEAR CLAIMS	CURRENT RESERVE AMOUNT
		CLAIMS AND ESTIMATE ADJUSTMENTS	CLAIMS SETTLED		
1996	10,852	4,370	(3,178)	12,044	6,759
1997	12,044	2,599	(4,368)	10,275	4,982

Also, the Company has entered into several one year contracts to provide health care for both active and retired employees which are experience rated, and premiums are adjusted annually; in addition, the Company has acquired approximately \$167,500,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis.

12. *COMMITMENTS AND CONTINGENCIES:*

Commitments for major construction and maintenance contracts were approximately \$2,782,000 as of August 31, 1997.

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

Year Ending <u>August 31</u>	<u>Thousands of Dollars</u>
1998	276
1999	134
2000	67
2001	27

Rent expense for the years ended August 31, 1997 and 1996 amounted to \$2,724,000 and \$1,174,000, respectively.

12. *COMMITMENTS AND CONTINGENCIES (Cont'd):*

On April 16, 1992, the Federal Energy Regulatory Commission ("FERC") issued Order No. 636 which requires the Company's pipeline suppliers, among other things, to unbundle all services performed and to implement a straight fixed-variable rate design. FERC Order No. 636 also requires the Company to pay transition costs. At August 31, 1993, the pipelines had received FERC authorization to commence billing a portion of their transition costs. The Company's total exposure to transition costs stemming from FERC Order No. 636 is not fully determinable until pipeline suppliers file for cost recovery. Based on their approved filings and in anticipation of future filings for known costs, it is estimated that the Company's liability for transition rates costs on August 31, 1997 and 1996 is approximately \$18,000,000 and \$24,050,000 respectively. Therefore, the Company has recorded both a deferred debit and a deferred credit on the balance sheet of \$18,000,000 and \$24,050,000 at August 31, 1997 and 1996, respectively. As of August 31, 1997, the Company has paid approximately \$18,000,000 of principal and interest for FERC Order No. 636 transition costs to its pipeline suppliers. Such amounts have been 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 \$6,200,000 per month.

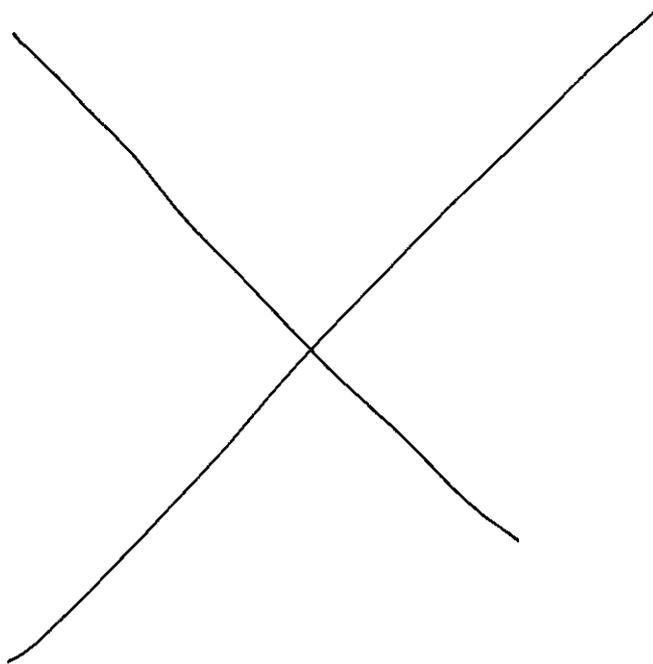
The Company has entered into contracts to purchase \$66.2 million of natural gas at firm prices ranging from \$2.00 to \$2.32 per mcf during the period September, 1997 through August, 1998.

PHILADELPHIA GAS WORKS
SCHEDULE OF PENSION FUNDING PROGRESS

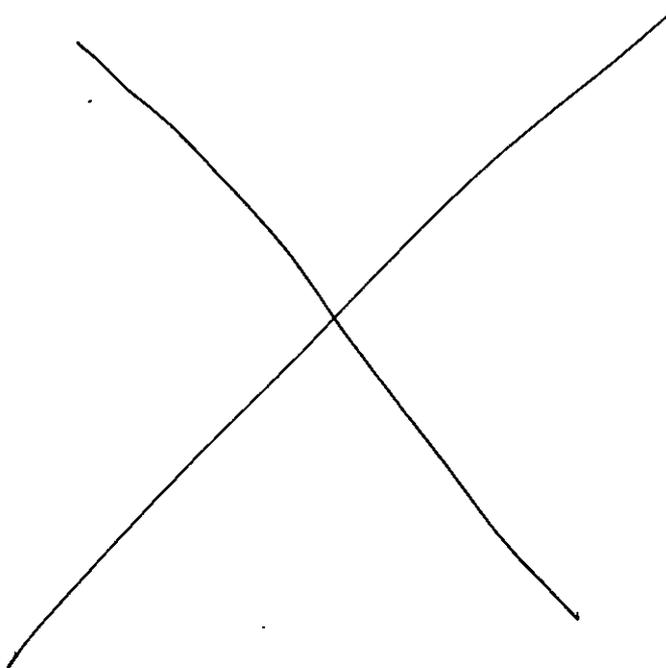
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded)/ Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
9/1/91	238,415	319,903	81,488	74.53%	100,003	81.49%
9/1/92	259,911	299,484	39,573	86.79%	100,512	39.37%
9/1/93	277,370	310,775	33,405	89.25%	109,036	30.64%
9/1/94	300,824	288,420	(12,404)	104.30%	101,409	-12.23%
9/1/95	330,829	327,420	(3,409)	101.04%	96,290	-3.54%
9/1/96	349,675	301,883	(47,792)	115.83%	98,549	-48.50%

PHILADELPHIA GAS WORKS
SCHEDULE OF PENSION PLAN EMPLOYER CONTRIBUTIONS

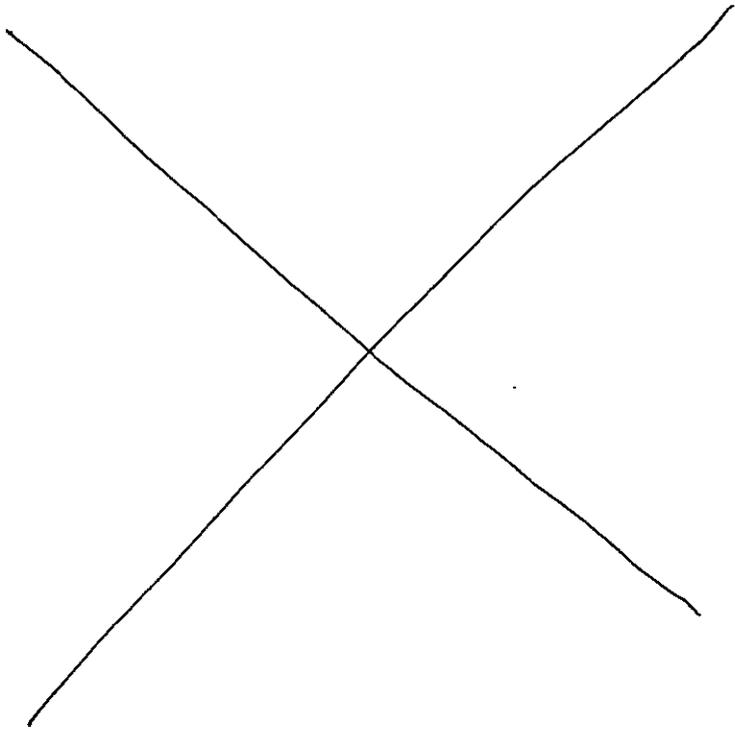
Fiscal Year Ended	Annual Contribution	Percent Required/Contributed
8/31/92	14,245	100%
8/31/93	12,469	100%
8/31/94	12,712	100%
8/31/95	4,462	100%
8/31/96	7,337	100%
8/31/97	4,590	100%



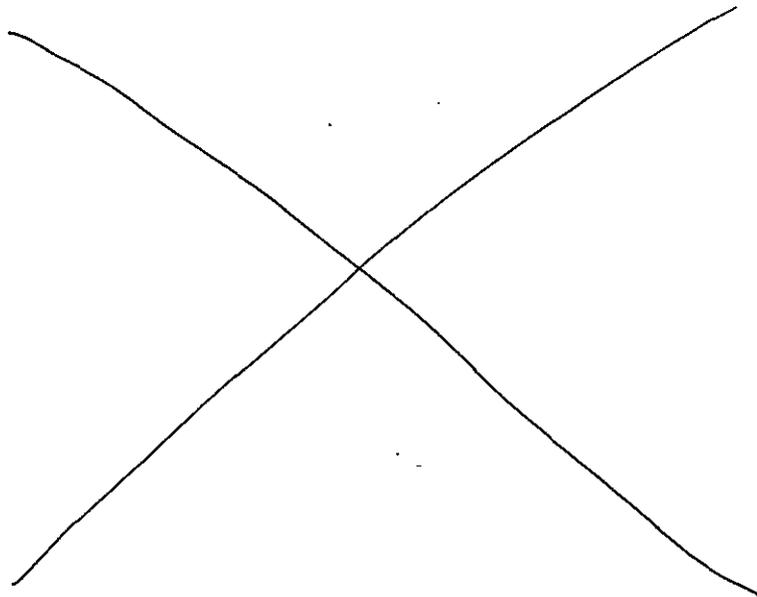
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Appendix B
Independent Consultant's Report



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INDEPENDENT CONSULTANT'S REPORT

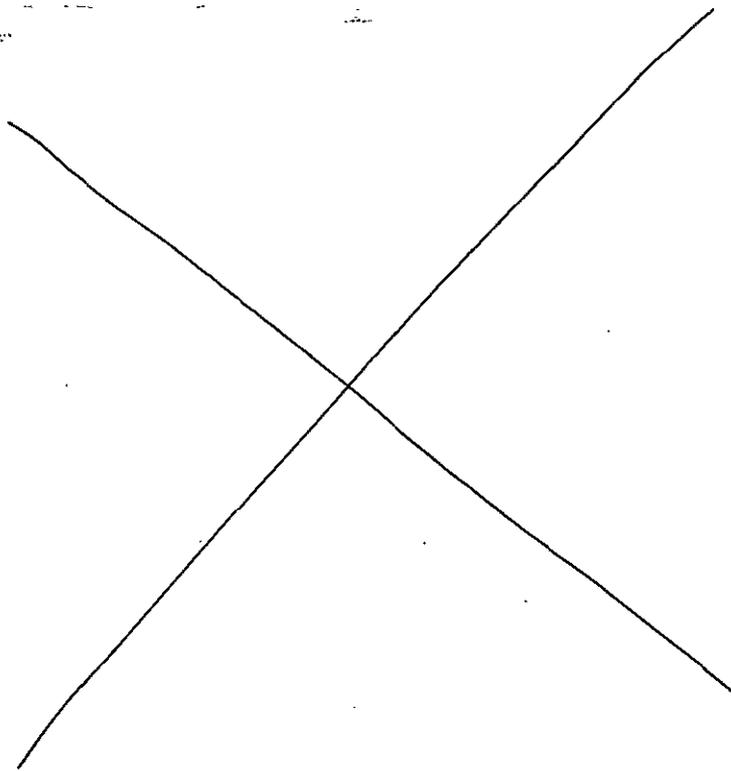
PHILADELPHIA GAS WORKS

**Gas Works Revenue Bonds,
(1998 General Ordinance), First Series**

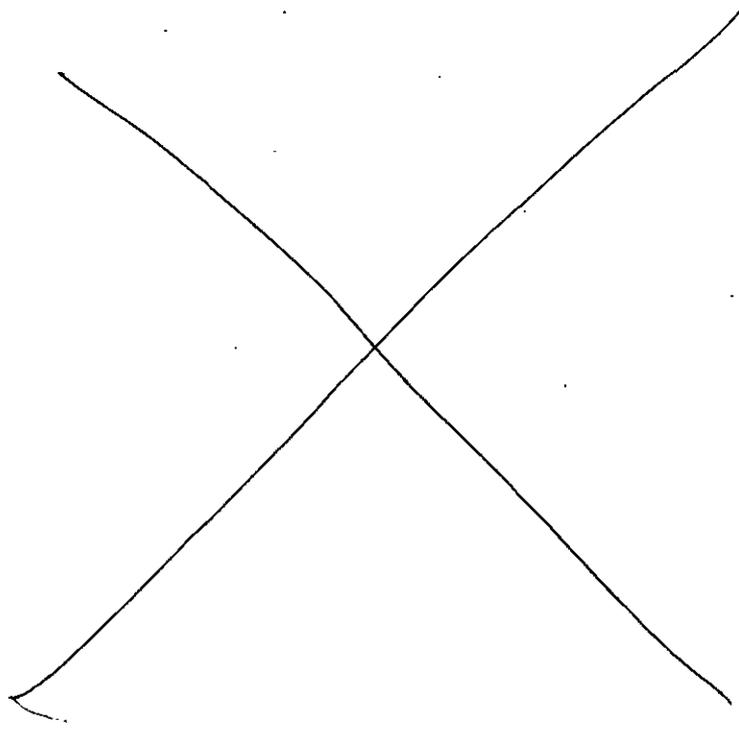
April, 1998



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



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STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

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212-290-7000 FAX: 212-290-7033

April 16, 1998

Honorable Ben Hayllar
Director of Finance
City of Philadelphia
1401 J F Kennedy Boulevard
1330 Municipal Services Building
Philadelphia, Pennsylvania 19102

**Subject: Independent Consultant's Report
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds (1998 General Ordinance), First Series**

Dear Mr. Hayllar:

The attached report contains the findings and conclusions of Stone & Webster Management Consultants, Inc., (Stone & Webster) with respect to the issuance of up to \$300,000,000 of Gas Works Revenue Bonds (1998 General Ordinance), First Series (the Bonds). Up to \$100,000,000 of these Bonds are being issued in order to fund a portion of the Philadelphia Gas Works' (PGW) capital improvement program, fund a sinking fund reserve and pay the costs of issuance.

Up to \$175,000,000 of these Bonds are being issued to refund all or a portion of the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Fourteenth Series and Fifteenth Series as well as fund a sinking fund reserve and pay costs of issuance. In addition up to \$25,000,000 of these bonds are being issued to acquire from the Philadelphia Municipal Authority (PMA) PGW's headquarters building at 800 W. Montgomery Avenue in Philadelphia by prepayment of the amounts due under the lease for such building, to fund a sinking fund reserve and to pay costs of issuance (such bonds to be issued as Subordinate Bonds under the 1998 General Ordinance¹ hereinafter defined).

The Bonds will constitute the first debt issued under the 1998 General Ordinance, all previous Gas Works Revenue Bonds having been issued under the 1975 General Ordinance.

Stone & Webster has broad experience in the technical and financial analysis of the operation of a gas distribution system of the magnitude and scope of the Philadelphia Gas Works and has a favorable reputation for competence in such field and is qualified to do such work (see Appendix for Stone & Webster qualifications).

¹ The 1998 General Ordinance and a Supplemental Ordinance as each hereinafter defined have been introduced to City Council and are awaiting enactment. This report assumes that both the General Ordinance and Supplemental Ordinance will be enacted.



SCOPE OF WORK

Stone & Webster has prepared a detailed report including historic and forecast schedules. The basis for the report is our review of PGW's operations, facilities, and its customer, sales, and financial forecasts. As the basis for our report, we have conducted an independent investigation of such physical properties and books and records that we deemed necessary in order to make the findings and conclusions contained herein. In this regard, we have reviewed PGW's operations, facilities and customer, sales and financial forecasts. The report also provides an assessment of the condition of the physical plant including PGW's existing production, storage and distribution facilities, among others, based upon on-site inspections of facilities. It reviews and evaluates existing and planned natural gas transport and supply contracts with respect to volumes of gas to be delivered and evaluates the adequacy of present inventory, current and future gas supplies, pipeline transportation capacity, and supplemental gas production capabilities. Furthermore, an evaluation and description of PGW's capital improvement program for fiscal years 1998 through 2003 is addressed with the objective of judging the consistency and reasonableness of the major replacements, improvements and benefits which will be made to the gas system.

The report provides an overview of PGW's long-term capital program and an assessment of the regulatory and rate setting environment under which the imposition and collection of rates and charges will occur. This financial assessment, based on PGW's 1998 through 2003 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 governs 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:

Operations

- PGW is a competently managed and operated gas distribution utility. PGW and its facilities are organized, operated and maintained at a level equal to or in excess of regulatory requirements and generally accepted industry practices. Based upon our investigation, we believe PGW's facilities are in good operating condition.

Finance

- Based on our investigation and evaluation of financial forecast information covering the period 1998 through 2003, and 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 First Series Bonds, which assumptions we believe are reasonable, current and future project revenues which are pledged under the General Ordinances (hereinafter defined) comply with the requirements of the definition of project revenues in section 2 of The First Class City Revenue Bond Act (the "Act") and, over the amortization period of the Bonds, 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 Ordinances as the same shall become due and payable 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 1871, as amended (the "1975 General Ordinance") and in section 4.03(b) of the General Gas



Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance") (collectively the "General Ordinances").

- Fiscal year 1998 is turning out to be warmer than most years. PGW's current estimate (based on actual data through February 1998 and estimates utilizing actual degree days through April 14) is that fiscal year 1998 will have 10.9% fewer degree days than an average year. This has led to a number of management control initiatives to reduce expenses and refund certain outstanding revenue bonds to compensate for the expected revenue shortfall in order to meet bond coverage requirements.
- The project revenues which are pledged as security for the bonds issued under the General Ordinances are currently and are projected to be sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the General Ordinances.
- Achievement of the forecasted results, 1999 through 2003, is premised on additional funds amounting to \$185 million during fiscal years 1999-2003. It is anticipated that this will be financed by revenue bonds in fiscal years 2001 and 2003, and by capital leases in fiscal years 1999, 2000, 2001, and 2002. It is assumed for purposes of this report that all revenue bonds will be tax exempt and the 2001 and 2003 bonds will be issued at an interest rate no greater than 6.5%.

Capital Expenditures

- The capital improvements proposed during the forecast period, 1998 through 2003, 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 PGW is authorized the necessary funds. (Detailed engineering quality assurance inspections and testing were not performed.)

Gas Supplies

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

Sales

- 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, as assumed by PGW in its forecast.
- PGW firm sales volumes over the forecast period (1999 to 2003) are expected to decline by 0.2 percent per year after weather normalization. Interruptible sales volumes however are forecasted to increase (5.0 percent per year) as are transportation volumes (0.9 percent per year) over the same time period.



- In addition to traditional gas sales, new types of appliance and service sales are being instituted throughout the forecast period through an expanded marketing program and staff.

Potential Legislation

- Legislators of the Commonwealth of Pennsylvania are in the process of developing new legislation concerning deregulation of gas utilities in the Commonwealth. The final form of any such legislation, should it be enacted, is unknown at this time. It is also unclear to what extent the legislation, if it is enacted into law, may affect municipal utilities such as PGW, or its customers. Due to the uncertainty of the final form of the legislation no analysis on its effect has been taken into account in this report.

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. Based on current information, we believe that the assumptions are reasonable.

These assumptions may be affected by future events and, therefore, the actual results that will be achieved may vary from the forecast.

Sincerely,

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

Richard F. Morrow
Vice President
(Responsible Officer)

Edward A. McGee
Assistant Vice President
(Project Manager)

INDEPENDENT CONSULTANT'S
REPORT ON THE PHILADELPHIA GAS WORKS

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Notes * Figures, Tables and Exhibits are based on data supplied by PGW.

** Figures 3 and 4 are based on data supplied by the Delaware Valley Regional Planning Commission and the PA Department of Labor & Industry, respectively.

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 \$300,000,000 Gas Works Revenue Bonds, (1998 General Ordinance), First Series (the Bonds). Stone & Webster was asked to investigate, evaluate and state conclusions regarding:

- The adequacy of PGW gas supplies and their transport capacity on feeder pipelines;
- 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 certain leased assets, and the requirements of the General Ordinances rate covenants; and,
- The appropriateness of the capital improvements (being financed with the proceeds of the Bonds as well as through leases and 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 1-10, 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, management, and overall strategic plan.

During the first quarter of 1998, a review and evaluation, based upon on-site inspections, was made of production, storage, distribution and general plant facilities. The adequacy of gas supply and transport resources to meet forecast requirements was determined. The capital improvements program was evaluated as to the appropriateness of quantities and estimates of material and labor prices, and justification of improvements and benefits to the gas physical system. An evaluation was also conducted of the four major computer mainframe systems being purchased and customized during the early years of the forecast, since they also represent a major portion of the capital program. 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.

Fiscal year 1998 is turning out to be warmer than most years. PGW's most recent estimate (based on six months of actual results through February and actual degree days through April 14) is that the year will produce 4,100 degree days, a decrease of 10.9% from average weather. On this basis a "Current Estimate" of operations and financial results was compiled. The Current Estimates calls for a decrease in firm sales volumes of 6,477 MMcf or 10.5%. The full impact of the change in weather is identified through tables and exhibits at the end of this report which contain both the original budget figures for 1998 and the Current Estimate for the year.

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

- Based on our financial analyses, continuing GCR (gas cost rate recovery) adjustments will be required in order for PGW to meet the financial forecasts included herein and the terms of its bond covenants.
- Revenue Bonds - Additional revenue bond issues will be required in the year 2001 and the year 2003. Capital leasing proceeds are also required in the first four of the five forecast years. All revenue bond issues are assumed to be tax exempt and the additional bond issues to have no greater than a 6.5% interest rate.
- Legislation - No change in current legislation has been factored into these forecasts, since various Commonwealth of Pennsylvania proposals concerning open access on distribution systems are still unresolved and since there is no clear indication regarding which, if any, portions of such legislation might apply to a municipal utility such as PGW.

- Sales - In addition to more traditional natural gas revenues, revenues from new gas-related products and services are expected to be an increasing component of total revenues .
- Accounts Receivable - The decline in Accounts Receivable observed over the four year period from 1994 through 1997 is assumed to continue over the forecast period, as a result of continuing and increasing emphasis on collections.

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, transport, delivery and sale of natural gas within the City.¹

In March 1835 a City Ordinance was passed authorizing private ownership and operation of a public gas utility under trustee management. This Ordinance also contained an option clause permitting the City to take ownership of 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 162 years of service to the citizens of Philadelphia.

During its 162 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 incorporated by the City 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:

¹For the first time in its history PGW is also test marketing to a small percentage of its customers a second energy commodity, electricity, under the one-year pilot program of the neighboring utility, PECO Energy ("PECO"). Depending on the outcome of this test, PGW may decide to participate in a broader program; however this would require a specific Ordinance and therefore the enclosed forecasts do not reflect any additional activities in this market.

- 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 a Board Member of PFMC and all of PGW's officers: its President, Executive Vice President, each of the four Senior Vice Presidents, and each of the four Vice Presidents. We also interviewed PGW's Controller, and a number of its Managers and Directors. 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 March 31, 1998 was 1,997. The Gas Works Employees' Union of Philadelphia, Local #686, Service Employees' International Unit (an AFL-CIO affiliated union) represents 1,530 employees. The Amalgamated Plant Guard Workers of America, Local # 506, represents 10 security personnel. These figures represent a substantial decrease from personnel levels a decade ago in accordance with the Gas Commission's order of October, 1988, directed at reduction of expenses, and recommendations contained in the revitalization plan of 1995 by a turnaround consulting/management firm.

On August 6, 1993 there was a work stoppage by the Gas Works Employees' Union over a number of issues, including salary issues, in the proposed contract. This work stoppage lasted 85 days until it was settled in October, 1993 with a five-year agreement. It was the third work stoppage in the history of PGW. The first two which occurred in 1971 and 1989 were of shorter duration. The current contract expires May 15, 1998 and PGW is preparing for contract renegotiation. If a work stoppage should occur, PGW has made preparations to enable the continuation of essential activities. The contract with the Amalgamated Plant Guard Workers expires on June 30, 1998.

In 1996 PGW hired its current Chief Executive Officer, its current Chief Operating Officer, and its current Chief Financial Officer. These individuals were selected with due consideration to the possibility that deregulation might come to the gas industry and possibly to PGW. For instance, the Chief Executive Officer was selected from the telecommunication industry, one of the earliest industries deregulated.

The new executives have formulated and instituted at PGW strategic plans which envision positioning PGW to be able to compete in a deregulated environment, should it occur. PGW's 1998 Budget and 1999-2003 Forecast contain the result of ambitious, multifaceted goals consistent with the strategic plans. As part of the strategic plans and resulting forecasts, PGW's marketing department has been greatly expanded with most new hires coming from non-regulated industries such as oil refining. PGW's Senior Vice President of Marketing was replaced as of February 1, 1998. His duties have been assumed on a temporary basis by Mr. Edward J. Reynolds, Director of Commercial and Industrial Sales in PGW's Marketing Department.

All major computer systems are being revamped or replaced with systems having capabilities and flexibilities to expand in areas such as additional products and services, additional customers, and more immediate productivity and cost information. PGW embarked on a Year 2000 compliance program in the 4th quarter of 1997. This is a formal program with a formal project structure. Engaged in this initiative are Unisys Corporation, Stone & Webster, and Viasoft Corporation (contract in finalization stages). This approach is expected to provide the strategic coverage needed in critical areas of PGW including all Information Technology Assets, embedded systems, and Business System Applications on the mainframe computer. Financial coverage of this initiative for 1998 is budgeted under Information Technology Revitalization.

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

James Hawes III, President and Chief Executive Officer

Mr. Hawes joined PGW in 1996 and currently serves as President and Chief Executive Officer of PGW. Mr. Hawes also serves as Vice Chair of the Philadelphia Facilities Management Corporation.

Prior to joining PGW, Mr. Hawes served as Vice President and Chief Executive Officer in the State of Nebraska for US West Communications. Prior to his role as senior officer, he served as Executive Director - Finance and Marketing for the same firm. While at US West, Mr. Hawes managed the deregulation process in Nebraska for that firm. He was also instrumental in designing and implementing market driven strategies to reposition US West from a monopoly culture to a market driven competitive enterprise over a ten year period.

Mr. Hawes received a B.B.A. from Morehouse College, an M.B.A. from Atlanta University, and an M.S. from the Massachusetts Institute of Technology. While a Sloan Fellow at M.I.T. he toured major cities in China, in a managerial strategy information exchange and advisory role.

Gregory D. Martin, Executive Vice President and Chief Operating Officer

Mr. Martin is Executive Vice President and Chief Operating Officer of the Philadelphia Gas Works (PGW). In this capacity, Mr. Martin manages the gas operations, customer service and systems technology activities.

Prior to his appointment to PGW, Mr. Martin was Vice President, Gas Management at Equitable Gas Company in Pittsburgh, Pennsylvania. There, he directed and managed the gas supply purchasing, planning, off-system marketing and sales, federal regulatory, retail transportation and gas measurement functions. He also held the position of Vice President, Consumer Products at Equitable Gas - Energy, a non-regulated marketing affiliate of Equitable Gas

Company. Mr. Martin has also held positions as Gas Procurement Administrator, with the Charlottesville Gas Utility Division in Charlottesville, Virginia, Special Assistant to Commissioner Wesley Long at the District of Columbia Public Service Commission and Special Assistant to Commissioner Matthew Holder at the Federal Energy Regulatory Commission.

Mr. Martin holds an M.A. and B.A. in Political Science from the University of Wisconsin and University of New Orleans, respectively.

Ramon N. Sharbutt, Senior Vice President and Chief Financial Officer

Mr. Sharbutt joined PGW in 1996 and currently is the Senior Vice President and Chief Financial Officer of Philadelphia Gas Works. In this capacity, Mr. Sharbutt is responsible for the departments of Risk Management, Treasury, Tariffs and Regulatory Affairs and Reporting, and Budget and Financial Forecasting.

Prior to joining PGW, Mr. Sharbutt was Vice President and Chief Financial Officer of the Resources Group at Pacific Enterprises, a Los Angeles, California based holding company, the parent firm of Southern California Gas Company.

Mr. Sharbutt holds a Bachelor of Science degree in Accounting and Economics from the University of Alabama, and has completed course work toward an MBA. He has attended Advanced Executive Management Programs at Harvard Business School ('91), Stanford University ('94) and the University of Michigan ('85). He is a Certified Financial Manager (CFM) and a Certified Management Accountant (CMA).

Sydney M. Avent, Esq., Senior Vice President of Deregulation

Sydney M. Avent, Esq. has recently been appointed Senior Vice President - Deregulation of the Philadelphia Gas Works. In this capacity, she is responsible for the crafting of PGW policy and legislative recommendations with regard to industry deregulation and assisting PGW's President and CEO in the development, implementation and monitoring of corporate initiatives in this area.

Prior to her current position, Ms. Avent served for fourteen (14) years in PGW's Legal Department, progressing to Senior Vice President and General Counsel. In addition to her PGW responsibilities, Ms. Avent has served as Chair of the Hearing Committee for the Disciplinary Board of the Supreme Court of Pennsylvania; President of the Philadelphia Bar Foundation; President of the National Bar Association, Women Lawyers Division, Philadelphia Chapter; Vice President of the National Coalition of 100 Black Women, Inc., Pennsylvania Chapter; Vice Chair of the Bright Hope Baptist Church Board of Trustees; Director of Womens Way and Director of the Philadelphia Child Guidance Center.

Prior to her employment with PGW, Ms. Avent served as a marketing attorney and litigator for five (5) years with Gulf Oil Corporation. She received her J.D. degree from UCLA School of Law, and received her undergraduate degree in Psychology from the University of North Carolina in Chapel Hill.

Deborah Perry Estrin, Senior Vice President of Human Resources

Ms. Estrin joined PGW in October, 1997 and serves as Senior Vice President of Human Resources. She is responsible for the Labor and Employee Relations, Human Resources, Staffing and Diversity, and Safety sections at PGW.

Ms. Estrin came to PGW from the New York Power Authority where she served as Vice President of Human Resources. She previously held the same position with the USPCI subsidiary of the Union Pacific Corporation and with the Geneva Pharmaceuticals subsidiary of Ciba-Geigy Corporation.

Ms. Estrin received a B.A. degree from the University of Tennessee and an M.B.A. from Fairleigh Dickinson University. She is a member of the Advisory Board of the Salvation Army in Philadelphia and serves as Trustee of the ENS Chacran Foundation for Global Management Studies in Paris, France.

Lawrence J. Hoffman, Chief Accounting Officer and Controller

Mr. Hoffman is responsible for General Accounting, Financial Reporting, Accounts Payable, Inventory Accounting, Internal Auditing and Property Records. Since commencing employment with PGW in 1995, he has served on various standing and special project committees and teams including the Information Systems Steering Committee, the Compensation Committee, Senior Team, Gas Deregulation Team and a year-end billing task force.

Mr. Hoffman came to PGW from AAMCO Transmissions, Inc., Bala Cynwyd, PA, where he served as the senior financial officer with responsibility for all financial functions including budgeting, treasury, benefits, information systems, taxes, auditing and risk management. His prior experience includes public accounting with Coopers and Lybrand in New York City with work in the insurance, utility and manufacturing sectors; international manufacturing and international accounting with the semiconductor division of General Instrument in Hicksville, NY; and construction accounting with Jerrold Electronics in Hatboro, PA.

Mr. Hoffman is a Certified Public Accountant (NY 1971). He has an M.B.A. in Finance from Temple University (1989) and a B.S. in Commerce with a major in Accounting from Rider College (1970).

M. Ellen Moffett, Esq., Acting General Counsel

Ms. Moffett joined PGW in June 1997, as Assistant General Counsel - Commercial, and in March 1998 was named Acting General Counsel. Her principal practice areas encompass financings, acquisitions, computer and internet technologies, intellectual property, energy and general commercial law.

Ms. Moffett was previously with Wolf, Block, Schorr and Solis-Cohen and Montgomery, McCracken, Walker and Rhoads, two Philadelphia law firms, and Fillmore Mercantile Incorporated, a private investment company, where she served as General Counsel and Chief Operating Officer.

Ms. Moffett holds a B.A. from New York University, a Masters in Sociology from the University of Pennsylvania, and received her J.D. from Rutgers University Law School in 1982, where she was a member of the Rutgers Law Review. She is presently a member of the American, Pennsylvania and Philadelphia Bar Associations.

J. Gregory Driscoll serves as Chairman of the Board of PFMC. Other members of the Board, most of whom have been appointed since 1995 include Andre L. Dennis, Esq., Kathryn Engebretson, Ben Hayllar, William J. Marrazzo, Rev. William B. Moore, and Helen Pudlin, Esq.

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 511,000 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. The DVRPC's latest population estimate (for 1996) reflects a further decrease of 7.3% to 1,478,002 inhabitants (see Figure 3). The region is comprised of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania, and Burlington, Camden, Gloucester, and Mercer counties in New Jersey. Seven of these nine counties (all except Philadelphia and Delaware) are estimated to have increased their population in 1996 over their 1990 census figures.

Philadelphia's economic orientation has been shifting steadily towards service-related activities. Whereas Government and most private sectors are estimated to have declined in employment statistics, service sector jobs within the City are estimated to have increased to 278,000 in 1996, an increase of 5.5% since 1992 (see Figure 4). This increase is on top of an increase of 8.5% from 1986 through 1992. The main service industries in the City of Philadelphia are law, 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 helps assure Philadelphia a continuing capacity to attract and retain a dynamic private sector.

The City of Philadelphia has formulated a number of aggressive plans to counteract recent trends of jobs and residents transferring from the City to the Suburbs. Statistics indicate most Philadelphians that migrated between tax record periods of 1992 and 1993 went to the three Pennsylvania neighboring counties of Montgomery, Bucks, and Delaware, as well as to the three neighboring New Jersey counties of Camden, Burlington, and Gloucester.

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.

The recently constructed Convention Center is attracting many visitors and businesses to the Philadelphia area. PGW has already secured the Center as a heating and air-conditioning customer; and the new Convention Center has become one of PGW's largest customers.

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 somewhat counter-balanced by continuing out-migration by other City residents and the concentration of residential growth outside the City limits. Only slight declines have occurred in customer counts, since increases in commercial and industrial customers have partially offset residential losses. (See Table 1.)

Table 2 shows the historical pattern of PGW's sales. In fiscal year 1997, PGW sold 60.1 billion cubic feet (Bcf) to firm customers. Firm sales volumes have varied due to changes in the number of heating degree days and the number of firm customers. Total PGW interruptible sales have varied up and down between 9.5 Bcf and 12.5 Bcf over recent years, with 1997 sales at 9.8 Bcf. Gas transportation, a new service provided to PGW's largest commercial and industrial customers whereby the customer arranges his own gas supply and PGW only delivers it, has grown from zero in 1990 to as high as 6.4 Bcf in 1995 and most recently 2.3 Bcf in 1997.

An explanation of abbreviations used throughout this report for gas volume and energy units as well as for heating units is provided in the Appendix at the end of this report.

SALES AND TRANSPORT FORECAST

Gas Sales Volume

PGW's anticipated sales for fiscal 1998-2003 are shown in Table 3. In this table, and in succeeding ones, two columns are displayed for 1998. One shows the original budget for 1998, based on normally expected weather conditions. The other column represents the current estimate of how 1998 will turn out, since the weather for the critical winter months, which cover the time period when PGW sells most of its product, is now mostly known. This current estimate contains six months of actual known data (September 1997 through February 1998) and six months of best projections based upon currently available information. The original budget figures for 1998 are included in order to provide continuity of figures throughout all forecast years using an assumption of normal, or average, weather conditions. The 1998 Budget year and all five forecast years, 1999 through 2003, are based on the expectation of 4,600 degree days of cold weather. The current 1998 estimate shown in Table 3 envisions a significantly warmer-than-normal year in which 4,100 degree days will occur, a reduction of 500 degree days (10.9%) from normal weather.

The sales forecast excluding Load Balancing Service (LBS) sales for 1998 - 2003 is based on an analysis of historical usage patterns and utilizes a normal (average) weather pattern containing 4,600 degree days. Factors considered in the forecast include the historical growth or decline in number of customers, a number of new PGW marketing programs (e.g. oil heat conversions, appliance warranty) promoted through a greatly enlarged marketing staff, 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 decrease by 0.1 Bcf, or 0.1 percent from fiscal years 1998 through 2003, as gains in interruptible sales nearly compensate for presumed losses in firm sales. The forecast assumes continued closure of the Philadelphia Naval Base (once PGW's largest customer) and associated industries. Recent news articles concerning possible new tenants at this site may portend additional sales volumes.

Annual firm sales for fiscal 1998 are budgeted at 61.8 Bcf and, under normal weather conditions, are expected to decline to 60.8 Bcf by the end of the forecast period. Much of the decrease is anticipated in the Residential sales class. The current estimate for firm sales for fiscal 1998 is 55.3 Bcf, a shortfall of 6.5 Bcf (10.5%) from budgeted firm sales, and is consistent with the decrease expected in degree days.

Interruptible sales are expected to rise to 10.5 Bcf in fiscal 2003, representing an increase of 0.9 Bcf or 9.6 percent over the budget year, 1998. Much of the increase is forecasted to occur in a newly designated customer category identified as Air Conditioning load for Boiler & Power Service customers (BPS-A/C). Results to date for 1998 indicate the 1998 budget for interruptible sales will be exceeded by about 0.2 Bcf, 2.5%, due to the availability of additional gas volumes not required for firm customers, due to the warmer weather.

Gas Transport Volume

The most significant change in PGW's sales forecast involves the Gas Transportation Service. The current estimate for 1998 shows gas transport volumes at 9.2 Bcf, an increase of 300% over 1997 actual transport volumes of 2.3 Bcf.

Transport volumes had been budgeted to rise even faster than those shown in the current estimate. A sales level of 18.1 Bcf was expected in the 1998 budget year as shown in Table 3, and further growth of 2.8 Bcf was expected to occur by 2003, a 15.4% increase over 1998 budget volumes. The majority of the increase was expected from sales to the Trigen Energy Corporation's Grays Ferry cogeneration project. This 150-Mw (megawatt) combined-cycle gas turbine facility will supply electricity to a neighboring electric utility and steam for use in the downtown Philadelphia steam system. At the time of this writing the plant had completed its testing procedures and had recently begun commercial operation. The shortfall in 1998 transport volumes is anticipated due to the plant's delayed start-up, however revenues should be more on budget due to contract terms. This single customer is forecasted to transport in excess of 10.0 Bcf per year throughout the forecast period. The remainder of the increase is attributable to several other large customers.

Other Sales

In addition to its traditional gas sales and transport PGW is now launching "point-of-sale" marketing programs to produce sales of associated services such as repair or replacement of gas appliances.

PGW is currently in the first year of a comprehensive pro-active residential space heating replacement/conversion marketing program. This program, "Customer Plus", includes equipment procurement, installation and finance, and removal of old equipment. It targets both current non-heating customers and residences with oil heat. Over three hundred replacement/conversions have been accomplished in the first months of this program.

PGW's market share of the residential heating market within its service territory is approximately 80 percent, with oil holding approximately 18 percent of the market and the remaining 2 percent utilizing other energy sources. PGW's potential for residential customer, end-use growth within its service territory is estimated as follows: 150,000 space heating customers; 50,000 water heating customers, and 400,000 clothes drying customers. Within the residential market share held by PGW end-use saturations are as follows:

Space heating:	90%
Water Heating:	80%
Cooking:	76%
Clothes Drying:	47%

It is estimated that PGW's market share of the light commercial market (establishments of less than 50 employees) is 46 percent. PGW has also recently commenced a targeted marketing program for this market sector in selected SICs (standard industry classification codes). This program also is comprehensive in that it includes equipment procurement, financing, installation and removal. In both the residential and commercial programs PGW is actively developing industry alliances which not only support its gas marketing efforts within the City, but also have the potential to be useful in new marketing ventures both within and outside of the City. It is currently developing marketing programs for water heaters and carbon-monoxide (CO) detectors.

PGW has built up a significant marketing organization over the last two years which now includes approximately 80 employees with a pro-active targeted-marketing approach. PGW is committed to retaining and growing its traditional gas market and at the same time opening new, but related, marketing opportunities such as those cited above within its service territory.

Customer Counts

Table 4 presents PGW's budgeted average number of customers for 1998 and a five-year customer forecast on the same average billings basis. Between 1998 and 2003, the total number of customers is forecast to decrease by 34,329 or 6.5 percent. The number of residential customers will decrease by 7.4 percent for a net decrease of 36,515 customers by 2003, accounting for most of the customer drop. Commercial customers are expected to increase by 2,996 customers, or 12.4 percent. Transportation customers will increase by 15 which amounts to a 68.2 percent increase on a small base. The total numbers of PHA (Philadelphia Housing Authority) and municipal accounts are projected to decline throughout the period 1998 to 2003.

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. Of course it is highly dependent on winter weather conditions which have not been as cold as normal in the two most recent years.

FACILITIES

PROCESSING 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 two pipelines also own facilities and land at the eight gate stations. PGW's 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 smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons (i.e., the equivalent of 253,300 Mcf (thousand cubic feet) of natural gas) and three LNG vaporizers, each having a capacity of 45,000 Mcf per day.

The Richmond LNG plant is 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 pipelines. The plant has the capacity to liquefy and store approximately 23,500 Mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid is accomplished with six vaporizers having a total output of 480,000 Mcf per day.

d) **Propane/Air Facilities**

The Passyunk propane/air plant has the air compression and propane vaporization capacity to produce 60,000 Dth (Dekatherms) 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 has been idle since 1994 and its use is not anticipated in the current five-year gas supply forecast.

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 3,017 miles of main, 509,000 services, 205 regulator stations, 598,000 active meters, miscellaneous valves, instruments and other appurtenances. There are five different operating pressure systems, each system is connected to the other by control regulators. The high pressure systems operate at approximately 110, 60, and 35 psig; the intermediate pressure system operates at 5 psig; the low pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low pressure system.

Approximately 59 percent of the gas mains are cast iron pipe, 33 percent are steel pipe, 5 percent are ductile iron pipe and 3 percent are plastic pipe. Approximately 56 percent of the service lines are steel and 44 percent plastic.

OTHER FACILITIES

PGW has its executive and operating offices located at 800 W. Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The adjacent former general office building now houses distribution and customer service dispatch centers, a customer information center, operating stations, and warehousing, as well as management information systems, a meter repair shop, and a metal fabrication shop. Additional facilities include eight district offices and three operating stations for customer service and distribution crews. There are also 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 approximately 1,000 vehicles and related equipment. PGW also maintains minor automotive repair facilities at its operating stations.

CONDITION OF FACILITIES

In November, 1997 and January and March, 1998 Stone & Webster conducted site inspections of certain PGW facilities as deemed appropriate. During the inspections Stone & Webster emphasized three evaluation criteria:

- 1) Were facilities in place and fully operational in order to provide dependable service to PGW customers,
- 2) Were the facilities in good condition and operated by trained personnel, and
- 3) Were any conditions evident that might indicate that the facilities were not designed, constructed, operated or maintained in accordance with either current regulatory standards or generally accepted industry practices.

In the course of these inspections the following facilities were visited:

- 800 W. Montgomery
 - General Offices
 - Network Analysis Work Stations
- 1800 N. 9th Street (former general office building)
 - Meter Repair Shop
 - Meter Warehouse
 - Distribution and Customer Service Dispatch Centers
 - Distribution and Customer Service Work Stations
- 1849 North 9th Street
 - Vehicle Maintenance Facilities
 - Vehicle Refueling Station
 - General Offices

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- 5138 Belfield (Distribution Satellite Operations Center)
 - Distribution Facilities
- Passyunk Plant
 - Boiler & Water Treatment Facilities
 - LNG Facilities
 - Propane/Air Facilities (idle)
 - Gas Holder Facilities
- Richmond Plant
 - LNG Plant
 - Gas Control Center
 - Gas Holder
- City Gate Stations
 - Whitman (TRANSCO)
- District Regulator
 - Underground regulator pit
- Large Volume Meters
 - High rise Housing Authority apartment complex

Additionally, the following job sites were visited in order to observe first-hand PGW's operating procedures:

- 5000 Springfield Avenue
 - Installation of new 3" and 4" O.D. (outside diameter) polyethylene pipe by PGW crew. Installation of new 5/8" services to each individual housing unit.
- 2400 N. Myrtlewood Street
 - Installation of seven - 1 1/2" service lines as part of main replacement at 2400 N. Myrtlewood Street and vicinity.
- Napa and Huntingdon Streets
 - Replacement of 8" steel with 6" O.D. polyethylene pipe by PGW construction crew using insertion method of construction.
- Shunk Street at 3rd and 4th Streets
 - Replacement of 8" steel with 6" O.D. polyethylene pipe by PGW construction crew using insertion method of construction.
- 1000 South 8th Street
 - Replacement of 6" cast iron main with 4" O.D. polyethylene pipe by PGW construction crew using plastic insertion method.
- 400 North Redfield Street
 - Mains replacement and service line rebuilds due to City Water & Sewer construction.
- Cantrell Street between 10th and 11th Streets
 - Installation of 4" plastic main and service tie-ins due to City water system construction. Pressure test of main segment at 90 pounds for approximately 1 hour and performance of a leak test on each service for approximately 15 minutes.

- 6715 Regina and Stevens Streets - North Philadelphia and Vicinity and
6756 Rennard and Kelvin Streets - North Philadelphia and Vicinity
 - Corrosion mitigation efforts on initial portion of approximately 4 to 5 miles of coated and wrapped steel main containing coating damage reported via earlier surveys.

On the above job sites visited all observed facilities, vehicles, equipment and warehouse stock were maintained in good working condition and operated and maintained in accordance with generally accepted gas industry practices. Employees appeared to be knowledgeable of their job requirements and well trained.

In addition to the site inspections, Stone & Webster interviewed the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President and General Counsel, the Senior Vice President of Marketing and Business Development, the Senior Vice President of Human Resources, Vice Presidents of Operations, Gas Management, Information Technology, and Public Policy; and the directors of the Planning and Federal Regulatory Affairs, Gas Processing, Collection, Customer Service, Application Services, Field Services, Engineering and Building Services, Distribution, Budget and Financial Forecasting, Residential Sales, Commercial and Industrial Sales, and Business and Economic Development Departments. On this or on previous inspections we have reviewed construction, maintenance and operating practices, system design criteria, inventory levels, material and construction standards, safety, regulatory compliance and maps and records.

PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. PGW maintains maps and other records of the distribution system in good order, and has comprehensive written construction, operating and maintenance standards and procedures. Its personnel 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. Reasonable security measures are provided at the major facilities visited such as the two production facilities, the city gate stations and the headquarters building.

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

GAS MANAGEMENT

SUPPLY SERVICES

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

As shown in Table 5, PGW has two existing transportation contracts on the TRANSCO system and another two transportation contracts on the TETCO system for direct service. These firm transportation agreements are used to move gas to the Philadelphia city gates either directly from producers or from storage facilities. The FT, FT-1 and CDS contracts are for 365 days per year, whereas the smaller PSFT contract is a winter-peaking service available for 90 days per year. Additional transportation contracts are in place to move storage gas; these contracts work in conjunction with storage services as described below.

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

On the TRANSCO system, PGW has five storage contracts (GSS, S-2, WSS, ESS and LGA), with a total daily deliverability from storage of 124,946 DTh. The LGA contract (10,495 Dth) is leased to an outside company.

PGW also owns supplemental LNG 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 Propane/air (LPG) plant at Passyunk has been mothballed since 1995 and its usage is not contemplated over the forecast period or beyond.

Figure 5A pictorially depicts the peak day gas supply delivery sources available to PGW.

SUPPLY/DEMAND BALANCE

Table 6 presents PGW's forecast of supply and demand under normal weather conditions (4,600 HDD(Heating Degree Days)) for fiscal years 1998-2003. Over this fiscal period it is expected that daily pipeline deliveries (including storage deliveries) will account for about 96% of PGW's requirements on a current receipt basis, with the balance supplied from inventories of LNG.

Table 7 restates PGW's forecast of supply and demand under design weather (5,280 degree days) conditions for fiscal years 1998-2003. Daily pipeline deliveries through Texas Eastern and Transco from gas producers/marketers account for approximately 78 to 80 percent of total requirements; and storage gas accounts for approximately 16 to 17 percent of demand throughout the forecast period. Remaining demand is met with LNG.

Figure 5B pictorially depicts normal and design year annual gas requirements for 1997-98 by delivery sources to PGW.

As shown in Table 5, the pipeline transportation contracts provide PGW with up to 109.7 million Dth annually. To the extent practicable and most prudent, PGW intends to maintain flexibility on both pipelines by continuing to contract gas supplies from both marketers and producers.

Table 8 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) (equivalent to 65 Heating Degree Days) and an hourly peak temperature of minus five degrees Fahrenheit. Under these conditions interruptible sales are planned to be suspended in accordance with provisions in the contracts for such rates. Under peak day conditions, projected firm demand could be met throughout the forecast period by pipeline deliveries and the use of PGW's LNG capacity. Figures 6 and 7 compare peak day and peak hour demand to PGW's maximum sendout capability for each of the forecast years. Figure 7 shows a small sendout safety factor exists for peak hour demand, even in fiscal year 2003.

The maximum daily sendout during the winter of 1996-97 was 661.7 MMcf on January 18. The average daily temperature on that date was 12 degrees Fahrenheit. Demand was satisfied with 434.2 MMcf of pipeline gas, and 227.5 MMcf of LNG. During the latest winter the peak sendout to date occurred on January 1 when an average temperature of 30°F was recorded. Sendout totaled 458.5 MMcf and was derived primarily from pipeline gas (447.1 MMcf) and a small amount (11.4 MMcf) of LNG. No LPG was used.

In summary, based upon our review of PGW's gas supply acquisition policies, proposed budget, and the analyses described herein, it is our opinion that transportation, storage and supplies of natural gas under contract, along with LNG normally available to PGW, are adequate to meet PGW's forecast of peak hour, peak day and peak year demand through the 2003 fiscal year.

CAPITAL IMPROVEMENT PROGRAM

BUDGET PROCESS

PGW's capital budget and five-year forecast are the result of a formal process starting when a list of budgeting and operating assumptions is developed to provide overall direction and is circulated to all departments. Individual departments use these assumptions as well as certain agreed upon economic parameters to prepare the capital requirement estimates that form the basis for departmental budgets. These budget requirements and forecasts are based on meeting PGW's design hour and design day forecasts that are prepared by the Gas Management Department. The major operating departments determine their capital requirements by identifying the capital improvements necessary to safely and reliably meet the system-wide conditions calculated for a design day of zero degrees Fahrenheit average temperature, a minus five degrees Fahrenheit design hour, and a normal annual weather pattern producing 4,600 annual degree days.

All capital projects and requests are assigned a priority: the highest priorities (priorities 1 and 2) are reserved for expenditures required to maintain the integrity (safety and reliability, respectively) of PGW's system. The next priority (priority 3) signifies expenditures for enforced relocations which are based on city, state, or federal mandated projects. The fourth priority relates to expenditures for load growth, and the lowest priority category (priority 5) covers expenditures for improved operating efficiencies and/or discretionary items.

PGW's capital budget and forecasts incorporate several changes which reflect improvements to internal policies, procedures and the level of detail information. The most significant changes include:

- Approved capital budget work orders have a defined life span and adjustments must be approved by the Sr. Vice President and Chief Financial Officer.
- Multi-year capital projects are divided into phases and submitted for the budget years when funds will be required.
- Approved projects not adequately progressing are reviewed as to whether they are still necessary.
- Capital project priorities and needs are presented within a matrix format which highlights the relationship between priorities and project needs (e.g. Table 10 for budget year 1998).

CAPITAL BUDGET AND FORECAST

Proposed capital expenditures for both the fiscal 1998 capital budget and the five-year capital forecast (fiscal 1999 through fiscal 2003) total \$357.5 million on a net basis (after reimbursements, contributions, and salvage). The Capital Improvement Programs for fiscal years 1998 - 2003 are summarized in Table 9 and shown graphically in Figures 8, 9 and 10. The projected expenditures against these authorizations are summarized in Exhibit IV.

The fiscal 1998 capital budget totals \$81.2 million on a gross basis (\$79.6 million net), an increase of \$22.6 million (38.5%) over the 1997 Capital Budget of \$58.6 million. The 1998 budget is comprised of \$45.4 million (55.9%) of replacements and \$35.8 million (44.1%) of additions. As shown on Table 9 and pictured in Figure 10, the largest portion of the 1998 budget is allocated as usual to the Distribution Department, which will receive \$33.0 million, 40.7% of the budget. The second largest portion (\$31.8 million or 39.2% of the budget) is represented by the "Other" category, which is primarily the Information Technology (IT) Department. Unlike the Distribution budget which recurs in similar amounts annually, the IT budget is more of a one-time expenditure and does not recur in a similar magnitude throughout the forecast years. Most mainframe systems at PGW are budgeted for replacement during 1998.

Table 10 lists nineteen of the largest items in the fiscal 1998 capital budget. These are all of the items budgeted at over one million dollars each in either the 1998 or 1997 capital budgets. Together these nineteen major projects account for \$68.2 million or 84.1% of the total gross budget. These same nineteen project categories (thirteen of which are annual recurring items) also accounted for \$49.0 million of last year's budget. This indicates that both the largest projects and the majority of PGW's 1998 budget are accounted for by annual recurring activities.

This year's five-year (1999-2003) capital forecast totals \$285.4 million gross, an increase of \$48.6 million (20.5%) over last year's five-year forecast of \$236.8 million. This year's five-year forecast is comprised of \$221.0 million of replacements (77.5%) and \$64.3 million of additions (22.5%). The Distribution Department accounts for \$179.2 million or 62.8% of this year's five-year capital forecast.

GAS PROCESSING

Proposed investments for additions and replacements to PGW's gas processing plant total \$0.8 million for the 1998 budget period. The 1998 Gas Processing Budget is 3.51% less than the budget filed in 1997. The primary reason for the decrease (1998 versus 1997) is the completion of the demolition work at the Passyunk compressor building.

The expenditure breakdown in the 1998 gas supply budget is \$100,000 for Natural Gas Measurement and Control Facilities, \$500,000 for Supplemental Gas Facilities, and \$221,000 for Building and Grounds. No large capital expenditures have been included in this year's budget for specific gas processing projects.

DISTRIBUTION

The proposed expenditures for capital improvements to PGW's distribution system in the fiscal 1998 budget period total \$33.0 million before credits of \$1.4 million for salvage and reimbursement to yield a net total of \$31.6 million. Distribution replacements amounting to \$26.7 million and additions of \$6.3 million account for 80.9 percent and 19.1 percent respectively of the total gross capital expenditures.

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 \$12.3 million of the FY 1998 proposed capital budget. These expenditures are scheduled for the renewal of services based on customer complaints, leak surveys, and city and state work.

Prudent main replacements for intermediate and low pressure mains of small diameter (8 inches or less) amount to \$5.8 million of the FY 1998 budget. In addition to the prudent replacements, replacement of these same diameter and pressure level mains due to anticipated city and state construction activities involve \$5.2 million of proposed expenditures for the FY 1998 budget.

FIELD SERVICE

PGW's planned field service related investments total \$9.1 million net in the FY 1998 budget after consideration of \$0.1 million for contributions and salvage. The bulk of the field service budget represents a continuation of PGW's aggressive program for installation of electronic transmitting devices on customer meters. These devices are used to read gas usage and transmit it to PGW for billing purposes without the need to send meter readers to a customer's premise. This multi-year installation program is now well underway with about 400,000 of the devices installed. The remainder of PGW's customers are forecasted to be converted over to this automated meter reading system in about two years. Benefits to date include a marked decrease in the number of manual meter readings required and a consequent reduction in personnel in this area.

TRANSPORTATION

Capital expenditures budgeted for transportation by PGW total \$6.2 million with no salvage anticipated during the 1998 budget year due to a new policy to lease vehicles rather than purchase them. Vehicle replacements/additions will account for 84.0 percent of the total with the remainder budgeted for replacement of mobile equipment as well as replacement and addition of shop equipment.

OTHER DEPARTMENTS

Budgets for PGW's departments other than the four departments specifically mentioned above have historically been grouped together under the miscellaneous category "Other Departments" since they are typically too small to warrant a separate category. For the 1998 budget however a number of large Information Technology (IT) items which fall into this category have been budgeted simultaneously. Software systems for customer information (\$8.7 million), work and asset management (\$5.3 million), financial and materials information (\$2.0 million), and new mainframe hardware (\$4.3 million), combined with a new warehouse and a number of smaller items account for a 1998 budget of \$31.8 million. This figure amounts to a \$22.1 million increase (227.9%) over the 1997 capital budget figure of \$9.7 million for "Other Departments". In our opinion the IT expenditures are appropriate, implementable within the short time frame envisioned, and cost estimated in a reasonable manner.

CONCLUSIONS

Based on discussions with PGW's management and our review and evaluation of PGW's proposed fiscal 1998 capital budget and forecast capital expenditures for fiscal 1999 through 2003, 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 and records to ensure PGW has the capability to deliver safe, reliable service that is cost effective for existing and future customers.

RATES AND REGULATION

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 Commissioners provide such service to the City on a part-time, or as-needed basis. However, a permanent staff provides day-to-day administrative and oversight functions.

Request for rate and tariff changes are initiated by PGW based upon 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. has been appointed 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 interests of PGW, the City and its customers. PGW staff are in constant communication with the Commission staff in a concerted effort to keep them abreast of industry issues and specific conditions at PGW.

Base Tariff Proceedings

PGW's last Base Rate Case was concluded in 1992. However, PGW initiated a Tariff Revision Proceeding in 1995 which provided language amending the PGW Gas Service Tariff in order to improve customer service and accountability while clarifying the obligations of customers, to facilitate more effective management of accounts receivable and collections, and to provide consistency and conformity within the Tariff. Significant improvements were made within the Tariff which were authorized in 1996 and 1997 and made effective in 1996 and 1998. In general, these improvements reduce the potential for customer fraud, strengthen collection procedures and move customer service charges and fees to more accurately reflect costs incurred as well as widespread industry practices.

In the past PGW has experienced problems with the customer application for service process which have led to delinquent accounts due to fraud. This process has been revised so as to significantly reduce the potential for deception. Additional *quantitative changes have been made which include the following*. Returned check charges were increased from \$5.00 to a progressive scale of from \$8.00 to \$34.00 for repeat returns so as to reflect industry standards. Customer service call charges were increased from \$30.00/hour to a schedule of charges which reflect actual costs. And, field collection charges were instituted. Tables 11, 12, and 13 display PGW's previous and current industry benchmark positions. Additionally, service turn-on charges were established and finance charges for past due balances in excess of \$300.00 were increased from a 15% to an 18% annual rate.

PGW proposed in 1997 and is currently reviewing with the Commission a Weather Normalization Adjustment (WNA) to the Tariff. This adjustment is intended to reduce PGW's exposure to weather induced revenue fluctuations such as have occurred in fiscal 1998. The proposed WNA would apply to firm, fixed-rate schedules and adjust various gas and non-gas components on a monthly basis throughout the heating season (November 1 through April 30). The revenue neutral proposal covers the establishment of a new rider to the GCR, called the "WNA rider". It would apply only to customers in rate schedules GS and PHA. The proposed WNA rider is revenue neutral and PGW would track revenue recoveries or credits made pursuant to the rider. Once a year (on August 1) PGW's GCR filing would contain a special report entitled "Prior Year's WNA Reconciliation" which would contain this information.

Gas Cost Recovery Proceedings

In addition to base rates, PGW has a gas cost recovery (GCR) adjustment designed to permit PGW to adjust its charge on firm, fixed-rate rate schedules on a quarterly basis in order to recover its actual cost of purchased gas. The GCR mechanism also recovers costs which are in support of PGW's low-income weatherization and payment programs. 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 base rates, are matched against actual costs for the year. Any differences are then charged or credited to applicable expenses in the next annual forecast period.

The Commission performs an annual review of the GCR procedure. These reviews, which may be technically comprehensive, can include an investigation into fuel planning and gas purchasing practices of PGW. The Commission has concluded in the past that PGW's gas procurement has fulfilled applicable regulatory requirements by utilizing least-cost gas supplies while maintaining overall system reliability. The Commission has stated its position that it is receptive to proposals by the Company for PGW to utilize various financial instruments in the gas futures market in order to minimize its gas costs.

PGW proposed in 1997 and is currently reviewing with the Commission a Purchased Gas Adjustment (PGA) to the GCR. The proposed PGA would adjust the GCR gas cost component on a monthly basis. This would allow more accurate market pricing signals for customers and would significantly reduce the annual gas cost over/under collections which have varied between ten and twenty million dollars in recent years.

Regulatory Jurisdiction

Municipal ownership of PGW provides that all rate regulation authority is held by the Philadelphia Gas Commission and not by the Commonwealth of Pennsylvania Public Utility Commission. House Bill 1068 and Senate Bill 943 which have been introduced in the Pennsylvania Legislature, do not apply to municipally owned gas distribution utilities. The proposed Bills intend that investor-owned gas distribution utilities in Pennsylvania fully open their systems to access by third-party gas merchants and that such utilities no longer participate (or possibly reduce their participation) in the gas merchant function. PGW management is continuously evaluating potential impacts of this legislation and has assigned a Senior Vice President to follow its progress.

Based upon the initiatives of PGW management, the local regulatory outlook is much improved over past years. PGW management does not foresee the need for a base rate case in the near future. Legislative actions which have been proposed in Pennsylvania, if applied to municipal gas distributors, may cause PGW to make changes to its tariff structure; however, the likely nature of these changes is unknown at this time.

ENERGY ASSISTANCE PROGRAMS

High accounts receivable balances and a larger than normal number of delinquent accounts have occurred at PGW for a number of years. In response PGW has taken a pro-active position in assisting customers in meeting energy costs. PGW works closely with community and legislative groups at the city, state and federal levels to increase funding for energy assistance programs.

LIHEAP Program

The Federally-funded Low Income Home Energy Assistance Program (LIHEAP) provides payments to households in order to ensure continued utility service. Philadelphia's residential gas consumers make application through PGW's eight neighborhood offices, Department of Public Welfare or at one of many community sites with the funds obtained going directly to PGW for crediting to the customer's account. LIHEAP is PGW's single most important source of low income assistance funding.

Table 14 details PGW's LIHEAP participation in recent years and provides a forecast for fiscal year 1998. In recent years, PGW has increased its share of LIHEAP funds allocated to the state of Pennsylvania from approximately 15 to 19 percent through a vigorous educational and outreach program among its low income residential population.

Vendor Payment Program

PGW continues to support 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 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.

Utility Emergency Services Fund

PGW also continues to participate in the Utility Emergency Services Fund (UESF) which is a private fund set up with the assistance of the City of Philadelphia Water Department, PECO Energy 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 customer 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.

Dollar Plus Program

PGW also continues to support 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.

Payment Plans

PGW maintains a number of residential customer payment plans which are tailored to the customer's ability to pay in order to allow them the opportunity to pay down past arrearages and budget future usage and payments.

Energy Assurance Program

In prior years PGW's primary low income energy assistance program had been its Energy Assurance Program (EAP) pilot. Customers at or below 150 percent of the Federal poverty level were permitted to enroll in this program and, thereby, reduce their required monthly utility payments to a specified percentage of their income (5, 7, or 8 percent depending on income level) plus a fixed amount to be applied to past arrearages. This program was evaluated as not being particularly cost effective and was discontinued in 1994.

Customer Responsibility Program

In 1994 the Philadelphia Gas Commission approved a new low income customer assistance program which was termed the "Customer Responsibility Program" (CRP). This is a low income payment plan that is designed to increase cash flow to PGW and decrease accounts receivable, the related appropriation for uncollectible reserve and the accumulated provision for uncollectible accounts. Existing EAP participants were automatically transferred to the CRP. The CRP is open to any customer who is at or below 150% of the Federal poverty level. Participants are asked to pay the greater of \$30 or 7.35% of their income towards their gas bills, and are required to apply for the LIHEAP Grant program and assign that grant to PGW. The LIHEAP Cash Grants offset the customer's Earned Discount, and the LIHEAP Crisis Grants offset the customer's pre-program debt. For CRP participants who have excess consumption (defined as consumption in excess of 90% of average consumption for their type of household) the payment cap is increased to 12% of the customer's income. New customers are asked to pay 5% of their arrearage as a down payment, although exceptions are provided if warranted. CRP customers are also required to receive conservation measures if they are offered to them. CRP customers are required to recertify for the program each year and are considered in default when they are two full payments past due. A formula is developed to forgive past arrearages after successful completion of five years on the program. Provisions are made in the regulations to allow exceptions to rules if customers show that they are making a good-faith effort to meet program responsibilities. Approximately 61,000 customers, or 12 percent of PGW's total residential customer base are enrolled in the CRP.

An evaluation of the Customer Responsibility Program was completed in late 1997 by an outside firm. The results of that evaluation were mixed and inconclusive, but did outline adjustments for various areas of the program which should provide

for improved customer performance and program cost effectiveness. Those recommendations are currently under review by PGW and the Commission. In general, it is believed that meaningful improvements in the financial performance of the CRP can be obtained through adjustments in PGW's internal procedures and a redefinition of customer eligibility requirements. Some adjustments are currently underway, such as establishing closer coordination with state welfare agencies. Various adjustments to the program are expected to be implemented in 1998 and computer related improvements, such as upgrading of PGW's Customer Information System are scheduled to be completed in 1999.

The CRP revenue shortfall spread across other customers in fiscal year 96-97 was \$17.76 million. The gas cost rate for fiscal year 97-98 has been approved by the Commission at a level sufficient to provide for this year's revenue shortfall which is expected to be between \$13.6 and \$15.5 million.

Conservation Works Program

PGW has also been active in promoting the Conservation Works Program (CWP) which was the weatherization energy conservation segment of EAP. This program provides energy conservation education and customer workshops and selected weatherization measures for eligible residential customers, both in single and multi-family homes.

An evaluation of the Conservation Works Program was completed in 1996 in which a number of areas for improvement were identified. The overall cost effectiveness of the program during the previous five years was indicated as marginal. A significant deficiency noted was excessive overhead cost. This deficiency has been corrected by permitting multiple program administrators into the program through a competitive bid process. Currently, the program is operating with about one-half of the level of administrative cost as was experienced prior to the evaluation. Further improvements in the program are underway as well as further evaluation efforts. Current improvement activities are focused on stressing the most cost effective conservation measures, which have been identified as education, air sealing, and set-back thermostats. Currently, about 3,000 PGW customers are receiving conservation related installations each year, which is almost a 100% increase over previous years activities. The current level of annual CWP funding is \$2.2 million, which is funded through the GCR.

Senior Citizen Discount Program

PGW offers a senior citizen discount program to residential customers age 65 or older. The discount is approximately 20 percent of the total gas bill. Approximately 100,000 PGW customers are taking advantage of this program.

Educational Programs

PGW also has many programs which it utilizes to inform the community about energy assistance programs that are available to them. PGW 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 round-tables, speakers bureaus in different Philadelphia communities and individual telephone calls. PGW has an extensive telephone and field visit outreach program which is conducted in both English and Spanish.

Low income energy assistance and uncollectibles are a significant issue at PGW. Management of this issue is a top priority of both PGW management and the Commission. Meaningful progress has been made in this area in recent years and further progress is anticipated.

RATE SCHEDULES AND DEVELOPMENTS

PGW offers a range of rate schedules which are offered on a non-discriminatory basis. Rate offerings are based on suitable and reasonable classifications which appear to meet the needs of customers and are competitive with alternative energy sources.

PGW's tariff offers both firm and interruptible sales and transportation services. Firm sales service provides gas under rate schedules for which PGW does not anticipate any interruptions. Interruptible sales 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 1997, 86.0 percent of PGW's gas volumes were provided as firm

service to residential, commercial and industrial customers, including municipal and housing authority customers. Interruptible sales accounted for 14.0 percent of total sales.

Firm Sales Tariffs

Most firm sales 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 sales rate schedules (MS and PHA) and represented 4.0 percent of PGW's total sales for the fiscal year 1997.

Interruptible Sales Tariffs

Interruptible sales customers are served under various rate schedules including: Boiler and Power Plant Service (BPS), Load Balancing Services (small, large and extra-large) (LBS-S, LBS-L, LBS-XL), Cogeneration Service (CG). 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. The LBS series of rate schedules are also flex rates which are set monthly in reference to the posted price of No. 6 (industrial) fuel oil. LBS customers have the lowest priority of service. In recent years PGW has made significant progress in developing the sophistication of its alternative fuel based, flex-rate monthly price offering procedures such that their procedures are above average for the industry. This progress has facilitated the retention of the interruptible sales market and has strengthened associated margins. CG service gas is priced at a rate which is a fixed margin above PGW's average cost of gas and which may be a negotiated margin for very large customers that will utilize more than one million Mcf of gas per year.

Air Conditioning Provision

PGW also has an Air-Conditioning special provision included within rate schedules GS, MS, PHA, and BPS which provides for gas service to separately metered gas powered cooling equipment at a discount throughout the billing months of May through September. This provision, which is applicable to equipment installed after 1 September 1990 with a minimum cooling capacity of 15 R-tons, provides a benefit to PGW by increasing the system load factor, thereby lowering overall costs to all firm sales customers. PGW has a well focused program to develop the gas cooling market and has added over 10,000 R-tons of load during the last two years.

Economic Development Discount

PGW continues to offer an Economic Development Discount of up to 15% for qualifying rate BPS customers for up to three years. It is available to new or expanding large commercial or industrial customers who, through significant investments in gas burning equipment, can increase their gas consumption by more than 1,500 Mcf per month.

Natural Gas Vehicle Tariffs

An additional set of sales rate schedules offered by PGW are for Natural Gas Vehicle (NGV) service. PGW offers uncompressed gas for firm service via a multi-part demand-commodity rate and interruptible service via a rate which is adjusted monthly in relation to the published "PAD 1 Report" price for regular unleaded gasoline. The NGV market is new to PGW and PGW is gaining practical knowledge through the recent introduction of 70 NGV vehicles to its own fleet. PGW has recently invested in the development of two new NGV refueling stations in the City. The market potential for NGVs in the greater Philadelphia area could be significant and PGW's ownership by the City may facilitate PGW's efforts in pursuit of that market.

Gas Transportation Tariff

PGW also offers a Gas Transportation Service (GTS) rate, both as firm and interruptible service. 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. Standby services and balancing provisions are also provided within the rate schedules. In fiscal year 1997, 2,310 MMcf was transported under the GTS rate, which was 3.2 percent of the combined total of gas sales and transportation volumes. Current estimates for 1998 are for transport volumes of 9,248 Mmcf, an increase of 300% over 1997 volumes.

FINANCIAL CONSIDERATIONS

The 1975 and 1998 General Ordinances impose rate covenants on the City. Currently estimated 1998 results are such that without managerial or other actions, which are now planned, Fiscal Year 1998 would end with less than required coverage on the debt service for bonds issued under the 1975 General Ordinance.

REVENUE BOND FINANCING

Rate Covenants

All outstanding bonds issued prior to 1998 were issued under the 1975 General Ordinance of the City of Philadelphia. The rate covenant in the 1975 General Ordinance requires that the City, at a minimum, impose, charge and collect in each Fiscal Year, such gas rates and charges as shall, together with all other Project Revenues (as defined in the Act) 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 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 under the 1975 General Ordinance; and
 - (iii) The amount, if any, required to be paid into the sinking fund reserve under the 1975 General Ordinance 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 issued under the 1975 General Ordinance 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 under the 1975 General Ordinance.

Commencing in 1998 revenue bonds (except possibly bonds issued to refund bonds issued under the 1975 General Ordinance) are planned to be issued under the 1998 General Ordinance. The rate covenant in the 1998 General Ordinance requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

- 1. The sum of:
 - (i) all Net Operating Expenses payable during such Fiscal Year,
 - (ii) all principal of and interest on bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 General Ordinance during such Fiscal Year,
 - (iii) 150% of the amount required to pay sinking fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds (as defined in the 1998 General Ordinance) and 100% of the amounts payable in respect of the Prior Obligations (as defined in the 1998 General Ordinance) during such Fiscal Year,

- (iv) the amount required to pay sinking fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds (as defined in the 1998 General Ordinance) and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year,
 - (v) the amount, if any, required to be paid into the Sinking Fund Reserve under the 1998 General Ordinance during such Fiscal Year,
 - (vi) the Rebate Amount required to be paid to the United States during such Fiscal Year, and
 - (vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements (as such terms are defined in the 1998 General Ordinance) during such Fiscal Year, or
2. The sum of:
- (i) all Net Operating Expenses payable during such Fiscal Year,
 - (ii) all principal of and interest on bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 General Ordinance during such Fiscal Year,
 - (iii) all sinking fund deposits required during such Fiscal Year in respect of all Outstanding Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the bonds issued under the 1998 General Ordinance and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the sinking fund reserve under the 1998 General Ordinance,
 - (iv) the Rebate Amount required to be paid to the United States during such Fiscal year, and
 - (v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

The Gas Commission is authorized and directed by the 1975 and 1998 General Ordinances 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 Covenants.

Bond Proceeds

We have been informed by PGW that the proceeds from the sale of the Bonds, will be used to:

- Finance the capital projects 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.
- Refund all or a portion of the City's outstanding Gas Works Revenue Bonds, Twelfth Series, Fourteenth Series and Fifteenth Series which were issued under the 1975 General Ordinance.
- Acquire the building being leased by the Gas Works from the Philadelphia Municipal Authority by making a prepayment under the lease for such building.
- Pay any other Project Costs (as defined in the Act).

The bonds will be secured solely by the revenues of PGW received from all Gas System users.

The \$100 million of the First Series Bonds to be issued in 1998, and the projected \$75 million each of the Second and Third Series Bonds to be issued in 2001, and 2003 respectively, are projected to 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	\$250,000
Proceeds from Capital Leasing	35,000
Capital Improvement Fund Balance (8/31/97)	21,637
Less Deposits for Sinking Fund Reserve and Issue Expenses	<u>16,880</u>
Balance Available to PGW as applied 8/31/03	<u>\$289,757</u>
Capital Improvement Fund Drawdown	\$239,636
Capital Improvement Fund Balance (8/31/03)	<u>50,121</u>
Balance Accounted for (8/31/03)	<u>\$289,757</u>

CURRENT ESTIMATE OF 1998 RESULTS

Weather Results to Date

Fiscal year 1998 is turning out to be warmer than most years. This will have a major effect on budgeted 1998 income. PGW's current estimate of financial results is based on fiscal year 1998 containing 4,100 degree days, which is 500 degree days (10.9%) fewer degree days than the average weather which was assumed for budget purposes. The current estimate for fiscal year 1998 is based on six months of actual results (September, 1997 through February, 1998), actual weather through April 14, and projections based upon other currently available information for the remaining six months.

We consider the weather results for the winter of 1997-1998 to be atypical. We believe that average weather is the correct basis for PGW to use for budget and forecast plans.

Impact on PGW

The 10.9% decrease in degree days in the current estimate for fiscal 1998 has affected PGW's sales and consequently affected its estimated financial results (Exhibit II). Table 3 projects a drop in firm sales, compared to budgeted amounts, of 6,477 MMcf, amounting to a decrease of 10.5%. Firm sales, which primarily consist of heating load, tend to be most directly affected by changes in weather. Residential and Commercial categories of firm sales are estimated to fall 10.5% and 10.0% respectively.

Sales to interruptible customers are estimated to increase slightly (2.5%) to 9,800 MMcf. Increased interruptible sales occur due to the availability of gas which was not required for firm customers due to the warmer weather. Transportation service volumes are down substantially (48.9%) from budget primarily due to the late start-up of the Grays Ferry cogeneration facility.

Total gas revenues, due to the effects cited above, are estimated to decline from the budgeted level of \$555.6 million to about \$507.5 million, a drop of \$48.1 million (8.7%), as shown on Exhibit II. Offsetting this significant drop are planned reductions in operating expenses (\$31.0 million). With other smaller expected adjustments, PGW is currently estimating a drop in net income of \$14.5 million compared with the 1998 budget. Bond coverage is planned to be maintained above

the 1.50 requirement in the 1975 General Ordinance through savings attributable to a combination of reduced expenses and refunding of certain outstanding bonds.

Planned Responses by PGW

To accomplish the \$31.0 million savings in operating expenses noted above, PGW's management has planned a number of initiatives, over and above savings which would occur from reduced gas purchases (\$9.2 million as shown in Exhibit II) and a reduction in reserve for bad debt (\$3.0 million as shown in Exhibit III) which is associated with reduced billings.

Planned expense reductions include a reduction from budget in labor costs (\$5.5 million) as the overtime requirements, associated with normal winter and routine operations, and personnel levels are reduced. Non-labor cost savings (\$2.0 million) related to restricted spending, marketing savings (\$5.0 million) due to a \$3.5 million reduction in point of sale expense resulting from lowered sales and \$1.5 million due to delayed roll-out of new products and services, and other savings in operating and maintenance expenses as shown in Exhibit III are also planned. Exhibit IV indicates that a \$5.0 million reduction in capital expenditures is also anticipated for 1998, related primarily to slower spending on Information Technology and other capital spending projects. Further expense reductions are planned through a reduction in the actuarial pension expense of the pension plan, through a recognition of the ahead-of-schedule, 10-year amortization of the Customer Responsibility Program arrearage (\$3.75 million), and a refunding of certain outstanding PGW revenue bonds that provide at least \$7.5 million of gross budget savings in Fiscal Year 1998.

We believe the responses of PGW's management are appropriate.

STATEMENT OF INCOME

We have reviewed the Philadelphia Gas Works budget and forecast of revenues, operating expenses, and annual amounts of internally generated funds needed to satisfy its capital improvement program, its debt service, payments to the City of Philadelphia, and working capital requirements. (Reference Tables 15 through 18 and Exhibits I through VI at the back of this report.) Recognizing current regulatory and economic conditions under which PGW operates, we believe that PGW has developed a reasonable financial plan for the currently estimated and the budgeted fiscal year 1998 and for the forecasted fiscal years 1999-2003 assuming normal weather conditions for the forecasted years. The 1998 Current Estimate is also shown in these Tables and Exhibits; we consider this estimate to be atypical due to a warmer-than-normal winter.

Financial Plan

PGW's projections for gas revenues and expenses are based on historical data and assumptions which we consider reasonable. Other components of PGW's Projected revenues and expenses have less of a historical basis, but are also based on assumptions which we consider reasonable. For instance in Exhibit II's Operating Revenues section, Sales are shown to increase from \$543.8 million in 1997 to a level of \$600.5 million in 2003. Of the \$600.5 million of sales in fiscal 2003, about \$557 million or 93% is derived from gas sales per se. About \$38.6 million, or 6.4% is attributed to new "point-of-sale" marketing products and service contracts on residential and commercial appliances. These anticipated sales are foreseen to grow from a budgeted level of \$8.2 million in fiscal 1998. Similarly improved attention to fraud and theft is forecasted to increase billings in fiscal 1998 by \$3.9 million growing to \$5.1 million in 2003.

The budget and forecast contemplate no base rate increases over the six-year period and a rate decrease in the amount of \$10.0 million in 2003.

Debt Service Coverage

As detailed previously, PGW's rate covenant in the 1975 General Ordinance requires the debt service coverage ratio to be at least 1.50. PGW's applicable rate covenant in the 1998 General Ordinance requires a debt service coverage ratio of (i) 1.00 for debt service on all outstanding Bonds issued under the 1975 General Ordinance, (ii) 1.50 for debt service on all outstanding Senior Bonds issued under the 1998 General Ordinance, and 1.00 for debt service on outstanding obligations to the Philadelphia Municipal Authority existing on the date of adoption of the 1998 Ordinance, and (iii) 1.00 for debt service on (a) all outstanding Subordinate Bonds issued under the 1998 General Ordinance and (b) all other obligations on a parity

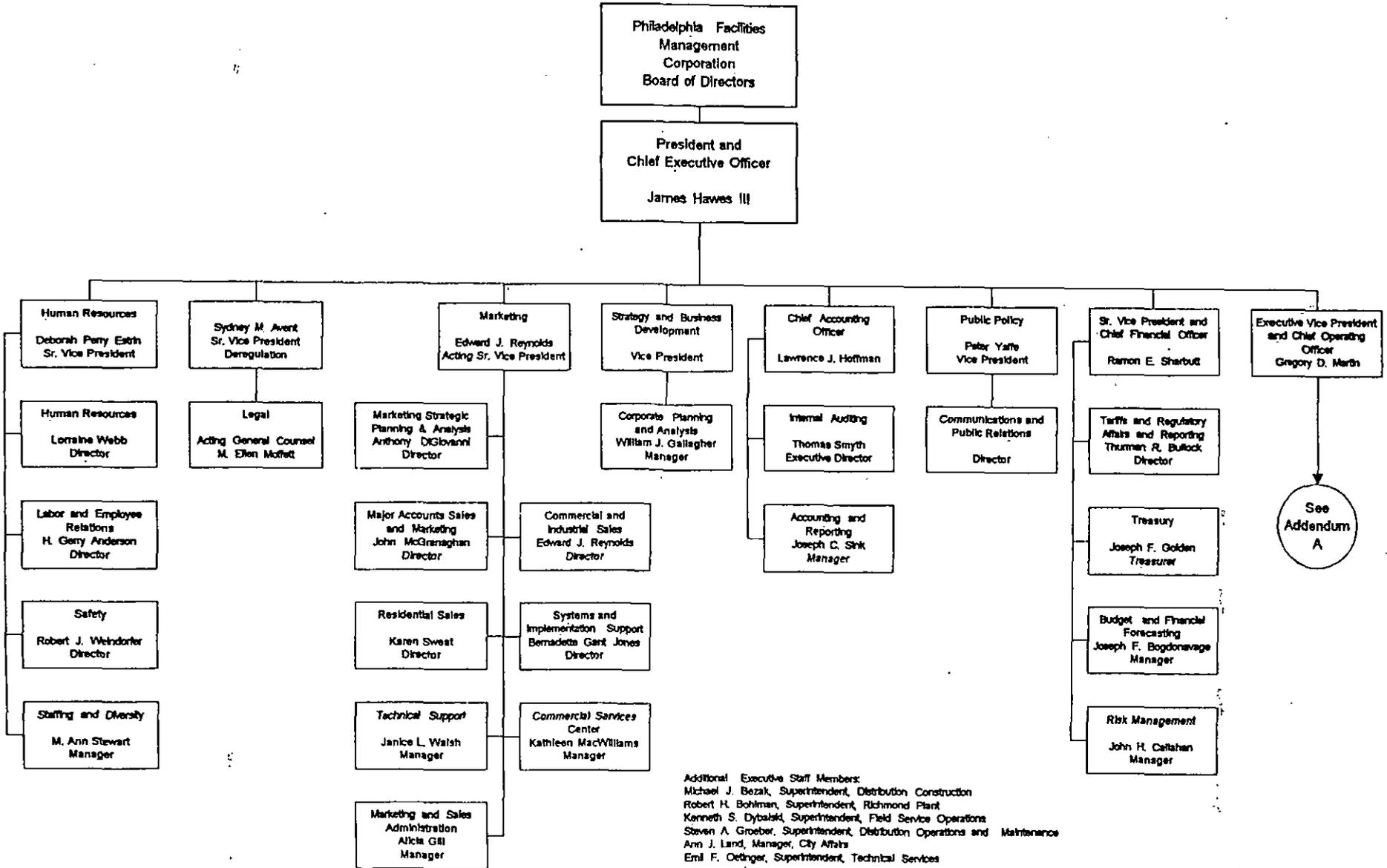
with such Subordinate Bonds. In PGW's rate proceeding before the Commission in 1988 all parties agreed that there should be some cushion above the 1.50 level to allow PGW to retain its bond rating. PGW's current projection (6 months actual plus 6 months projections) results in sufficient coverage ratios under the 1975 General Ordinance; and sufficient funds above requirements under the 1998 General Ordinance.

	<u>Fiscal Years Ended August 31.</u>					
	<u>Current Estimate 1998</u>	<u>Forecast 1999</u>	<u>Forecast 2000</u>	<u>Forecast 2001</u>	<u>Forecast 2002</u>	<u>Forecast 2003</u>
Bonds						
1975 Ordinance	1.53	2.04	2.41	2.56	2.31	2.77
Senior Bonds						
1998 Ordinance	-	3.21	2.64	2.52	2.66	2.42
Subordinate Bonds						
1998 Ordinance	-	18.31	19.87	19.83	19.34	21.48

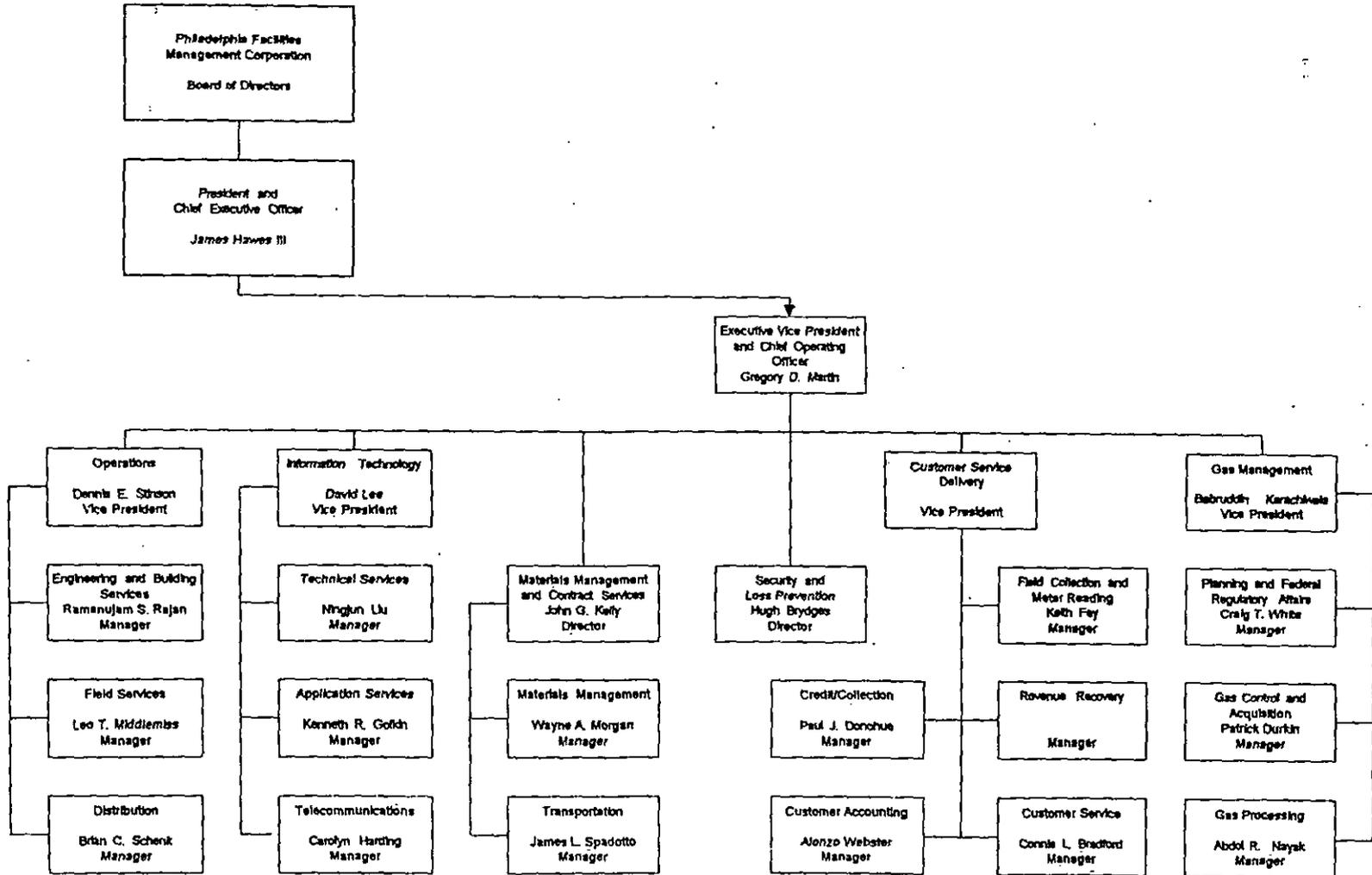
Bond coverage under the 1998 General Ordinance has been calculated as shown in Table 15. This table indicates that sufficient funds are estimated to exist in each year of the forecast to provide the required coverages for each type of debt as specified under the terms of the 1998 General Ordinance. All of our tests made under the 1975 General Ordinance and the 1998 General Ordinance show that sufficient funds to provide the required coverages can reasonably be expected to be available during the forecast period.

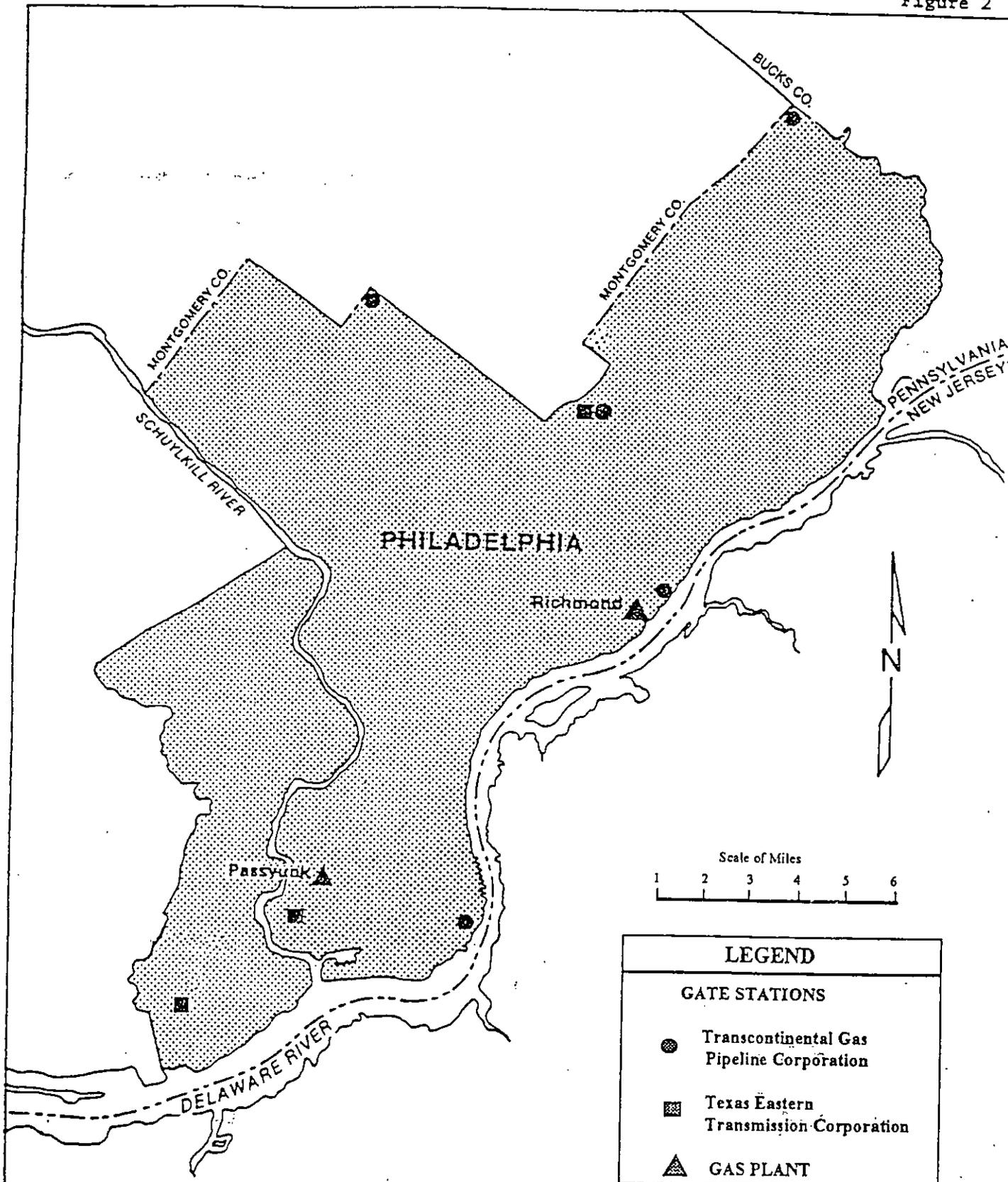
PHILADELPHIA GAS WORKS ORGANIZATION

April 6, 1998



**PHILADELPHIA GAS WORKS
ORGANIZATION - ADDENDUM A
April 6, 1998**





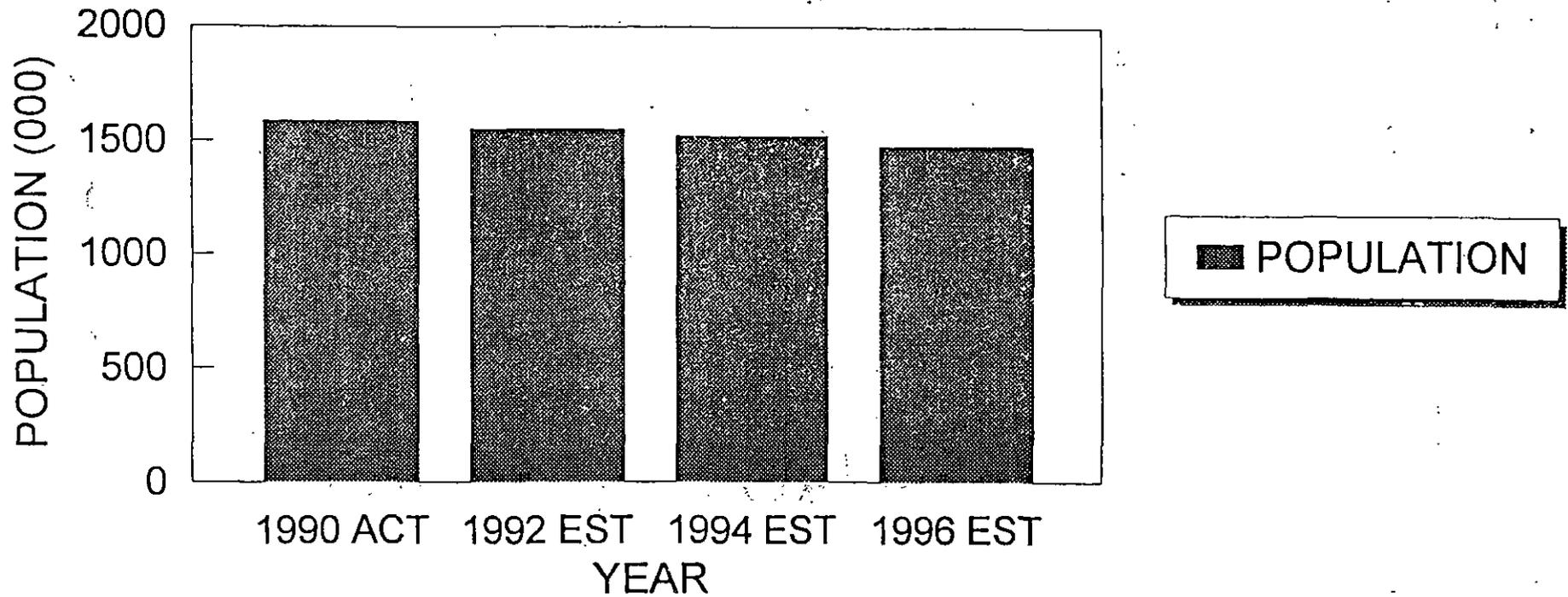
LEGEND	
GATE STATIONS	
●	Transcontinental Gas Pipeline Corporation
■	Texas Eastern Transmission Corporation
▲	GAS PLANT

**PHILADELPHIA GAS WORKS
SERVICE AREA**

FIGURE 3

PHILADELPHIA POPULATION STATISTICS

1990 - 1996, (000)

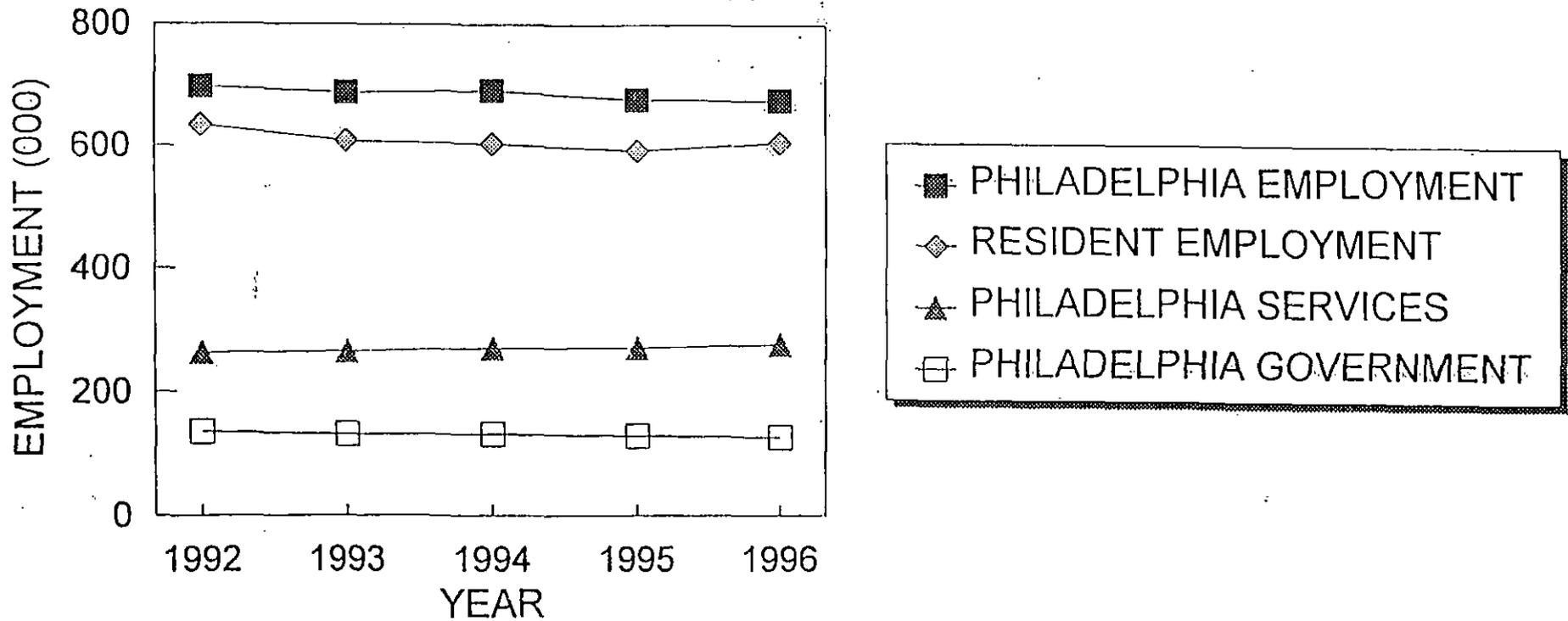


Source: Delaware Valley Regional Planning Commission.

FIGURE 4

PHILADELPHIA EMPLOYMENT STATISTICS

1992 -1996, (000)



Source: PA Dept. of Labor & Industry, Bureau of Research & Statistics

Figure 5A

Philadelphia Gas Works
1997-98 Peak Day Availability
By Delivery Source

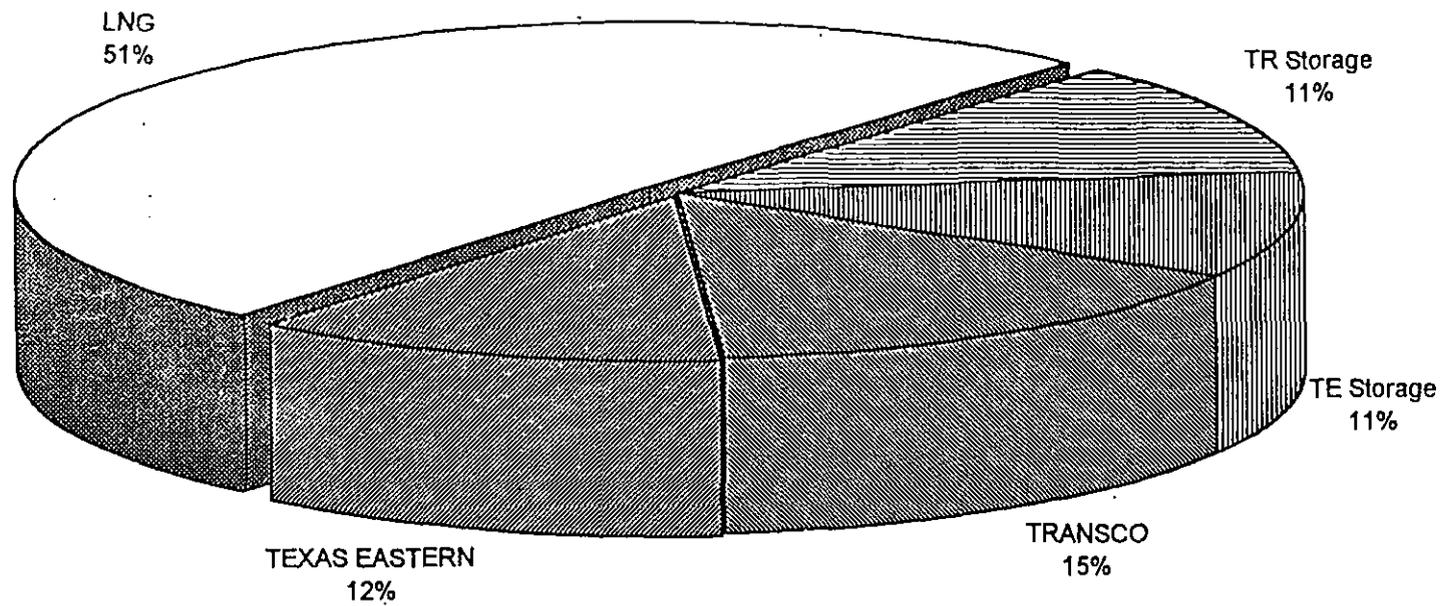


FIGURE 5B

PHILADELPHIA GAS WORKS
1997- 98 Budget Year
Annual Requirements by Delivery Source
 (Dth)

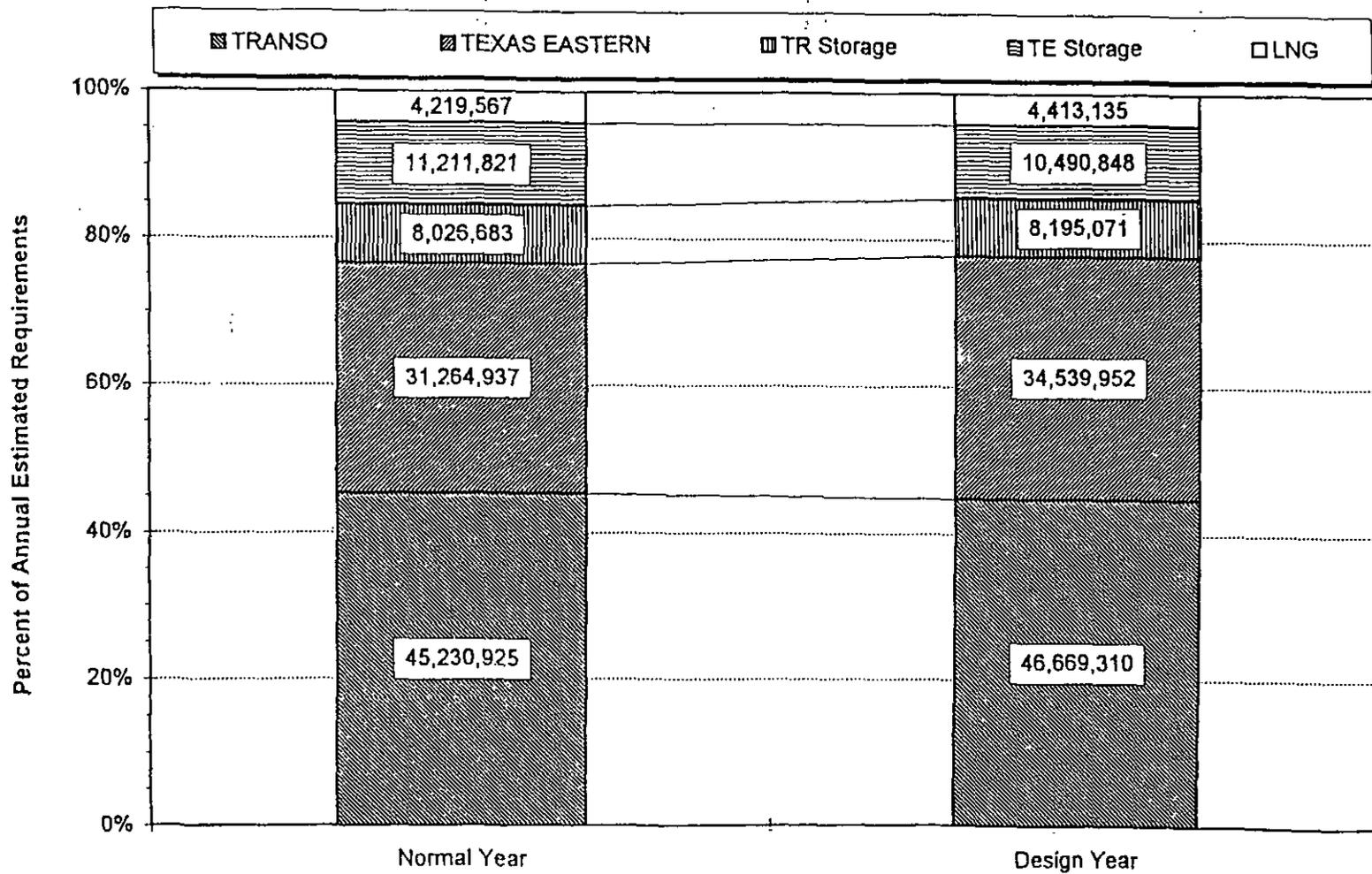


Figure 6

PEAK DAY DEMAND vs AVAILABILITY

(Based on 0 degree F Day)

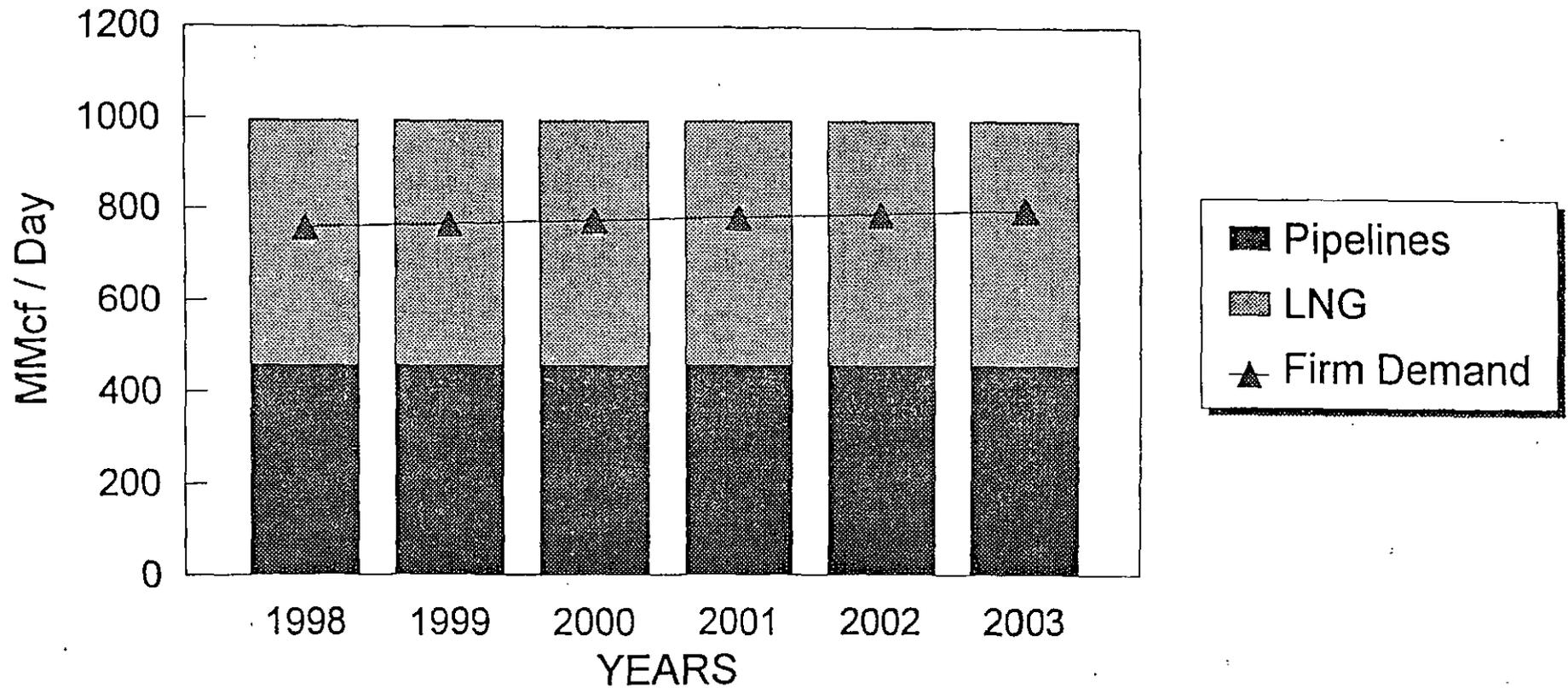


Figure 7

PEAK HOUR DEMAND vs AVAILABILITY

(Based on -5 degree F Hour)

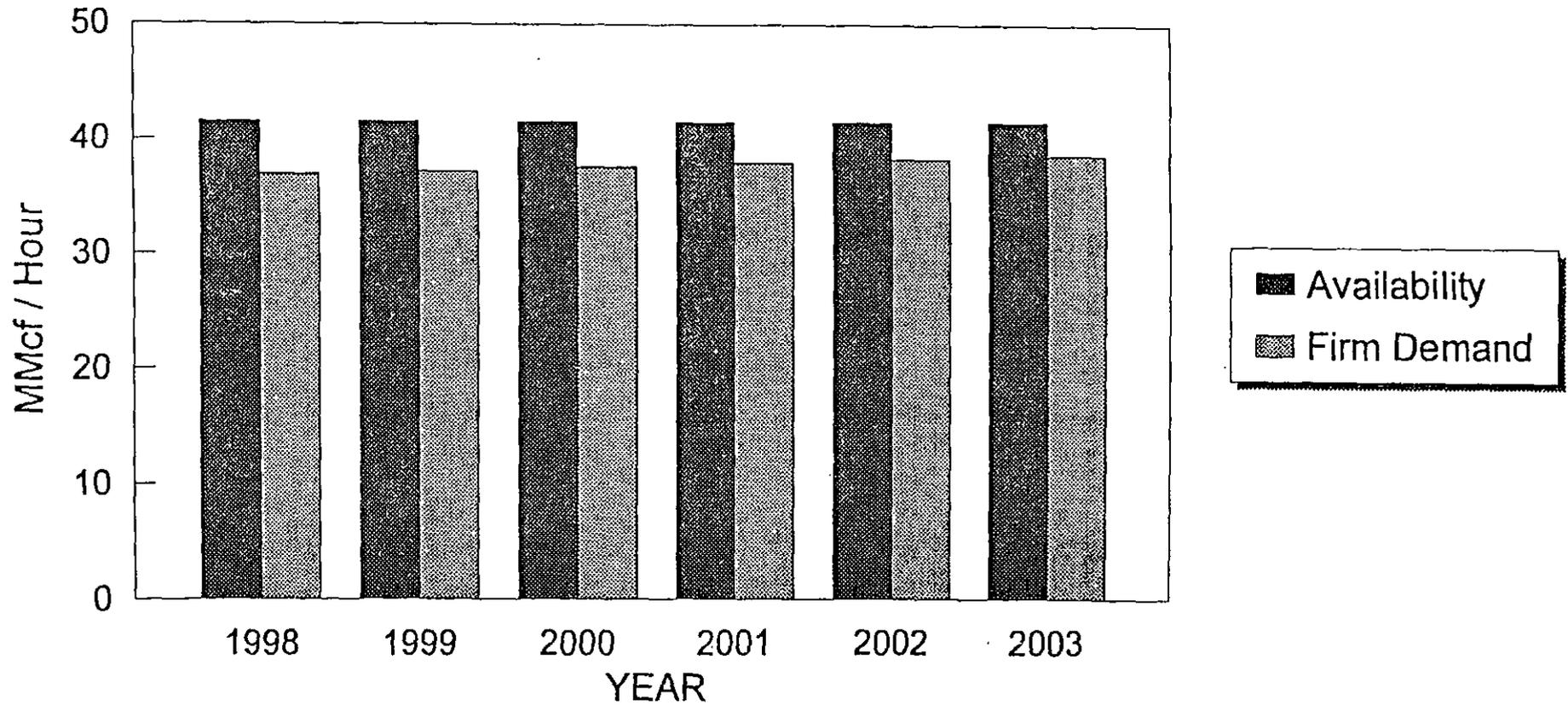
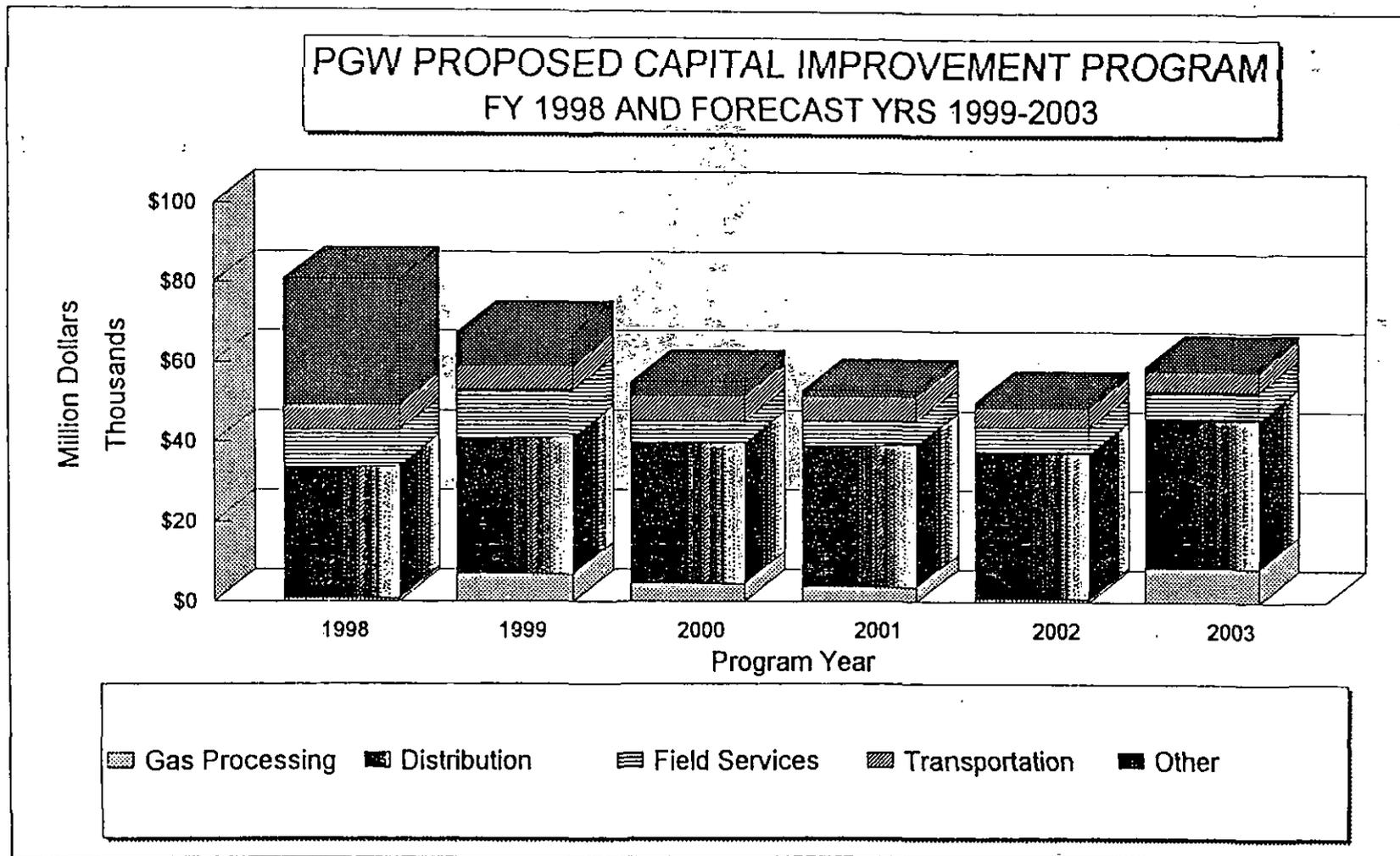
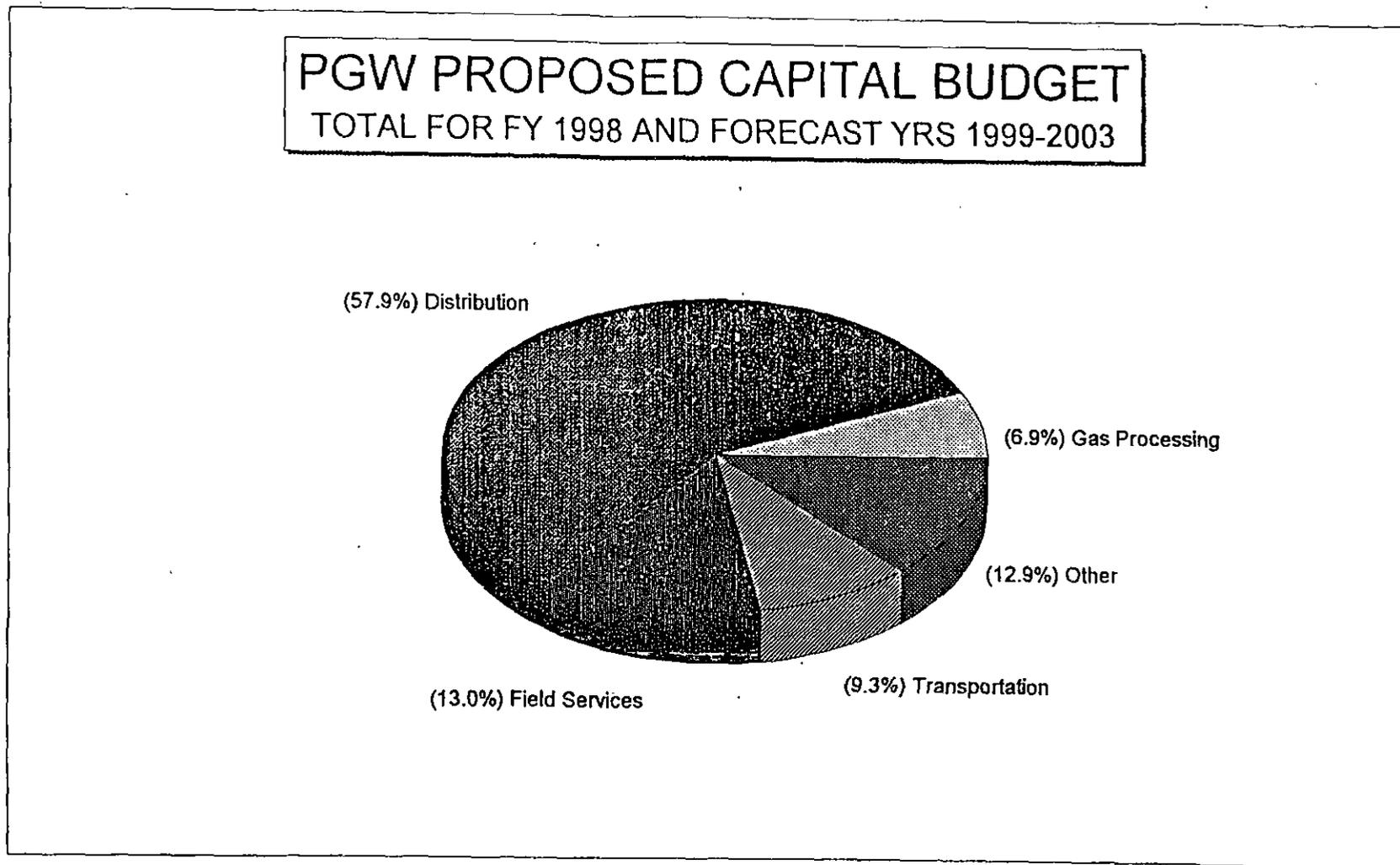


Figure 8



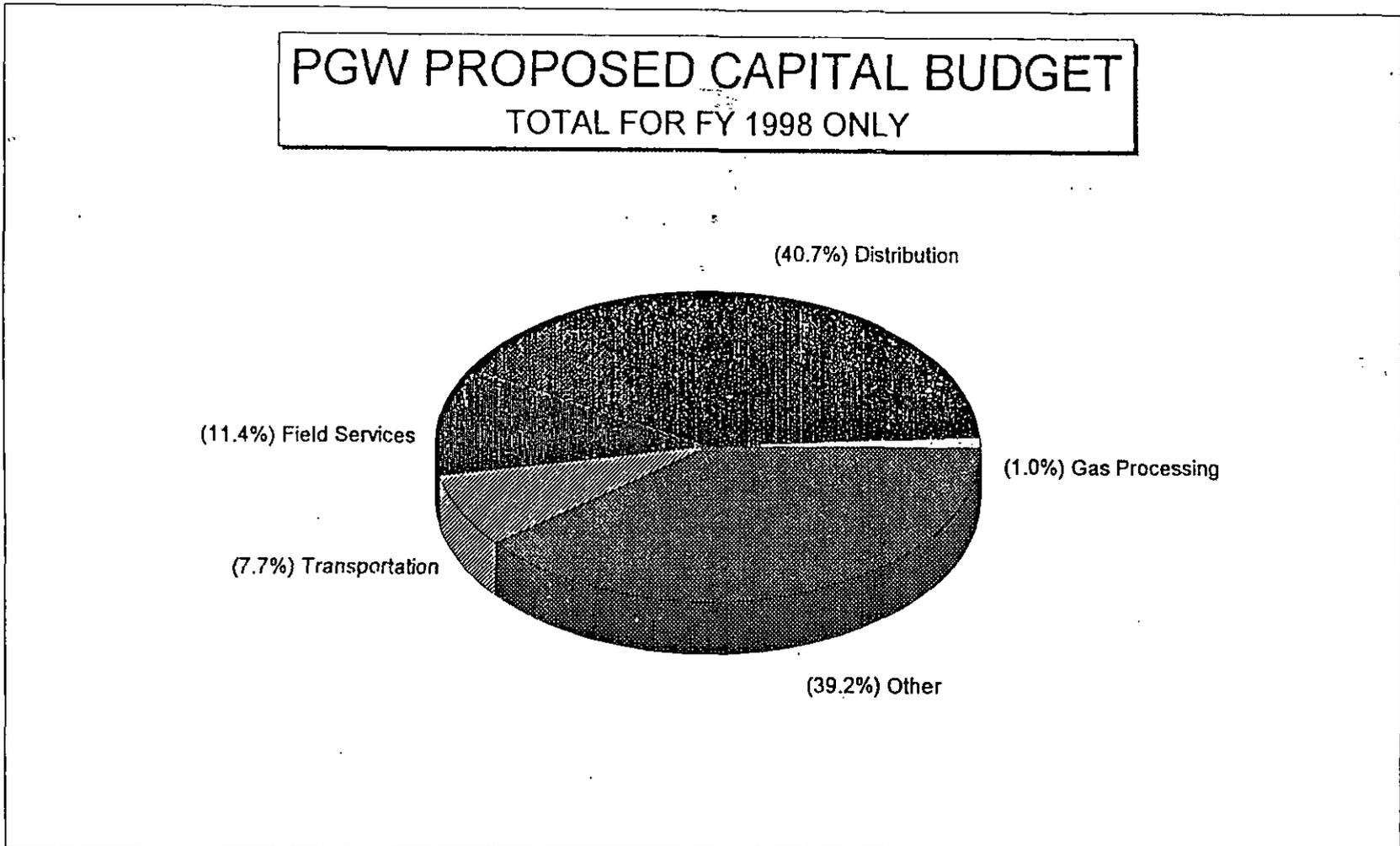
Notes: All values are prior to reimbursement, contributions, and salvage.

Figure 9



Notes: All values are prior to reimbursements, contributions, and salvage.

Figure 10



Notes: All values are prior to reimbursements, contributions, and salvage.

TABLE 1
PHILADELPHIA GAS WORKS
HISTORICAL NUMBER OF CUSTOMERS

	<u>Fiscal Years Ended August 31,</u>									<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1985</u>	<u>1980</u>
Residential	486,716	490,614	492,601	493,606	499,189	495,176	497,696	494,253	500,378	516,683
Comm'l. & Industrial										
Firm	24,165	23,909	24,066	23,930	23,898	24,236	24,788	24,614	18,482	20,328
Interruptible	454	441	423	413	416	410	348	337	135	81
Municipal & Housing										
Authority	2	2	2	2	2	2	2	2	2	2
Total	<u>511,337</u>	<u>514,966</u>	<u>517,092</u>	<u>517,951</u>	<u>523,505</u>	<u>519,824</u>	<u>522,834</u>	<u>519,206</u>	<u>518,997</u>	<u>537,094</u>

TABLE 2
PHILADELPHIA GAS WORKS
HISTORICAL GAS SALES
(MMcf)

	<u>Fiscal Years Ended August 31,</u>						<u>Fiscal Year Ended June 30,</u>			
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1985</u>	<u>1980</u>
Firm:										
Residential	46,809	51,330	43,746	51,188	49,210	47,432	43,325	47,898	46,104	51,520
Commercial	8,672	9,234	7,913	8,862	8,412	8,226	7,710	7,792	6,419	6,510
Industrial	1,518	1,743	1,696	2,114	1,971	2,096	2,046	2,334	2,524	3,809
Municipal	1,348	1,516	1,310	1,441	1,443	1,554	1,270	1,394	1,355	1,641
Housing Authority	1,468	1,648	1,581	1,717	1,994	1,832	1,829	1,971	1,993	2,818
Sales for Resale	250	201	0	19	0	168	49	96	19	0
Total Firm	60,065	65,672	56,246	65,341	63,030	61,308	56,229	61,485	58,414	66,298
Interruptible:										
Boiler & Power Service	3,943	3,548	3,220	2,477	3,319	2,898	3,282	3,251	1,681	10,085
Load Balancing Service	4,378	4,807	6,104	5,639	7,026	6,174	8,934	6,987	9,756	10,945
Co-Generation	279	392	452	343	433	335	162	0	0	0
Natural Gas Vehicle Serv.	6	8	6	0	0	0	0	0	0	0
Gas Transportation- Retail	1,210	1,398	1,781	1,060	1,546	1,128	110	0	0	0
Total Interruptible	9,816	10,153	11,563	9,519	12,324	10,535	12,488	10,238	11,437	21,030
Total Sales	69,881	75,825	67,809	74,860	75,354	71,843	68,717	71,723	69,851	87,328
Gas Transportation Service	2,310	4,484	6,408	2,575	2,848	3,928	632	0	0	0
Total Sales & Transport.	72,191	80,309	74,217	77,435	78,202	75,771	69,349	71,723	69,851	87,328
Degree Days (a)	4,622	5,169	4,200	4,998	4,731	4,542	3,900	4,431	4,428	4,692

Note:

(a) PGW's normal heating season (September 1 - May 31) contains 4,600 Degree Days.

TABLE 3

**PHILADELPHIA GAS WORKS
PROJECTED GAS SALES
FISCAL YEARS 1998 THROUGH 2003
(MMcf)**

	Fiscal Years Ended August 31.						
	Current	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	Estimate(a) 1998	1998	1999	2000	2001	2002	2003
Firm:							
Residential	42,981	48,041	47,751	47,240	46,773	46,331	45,903
Commercial	8,167	9,074	9,146	9,591	10,022	10,466	10,910
Industrial	1,455	1,592	1,412	1,307	1,199	1,093	986
Municipal	1,146	1,269	1,512	1,509	1,507	1,505	1,503
Housing Authority	1,296	1,546	1,532	1,517	1,501	1,485	1,470
Sales for Resale	250	250	0	0	0	0	0
Total Firm	55,295	61,772	61,353	61,164	61,002	60,880	60,772
Interruptible:							
Boiler & Power Service	3,514	3,586	3,617	3,455	3,326	3,180	3,036
Load Balancing Service	4,976	4,369	2,294	2,244	2,427	2,463	2,591
BPS - A/C	263	452	810	1,265	1,719	2,171	2,700
Grays Ferry	103	175	171	169	169	167	175
Co-Generation	309	439	313	291	270	248	231
Natural Gas Vehicle Serv.	10	48	116	195	274	352	436
Gas Transportation- Retail	625	495	1,299	1,297	1,298	1,295	1,311
Total Interruptible	9,800	9,564	8,620	8,916	9,483	9,876	10,480
Total Sales	65,095	71,336	69,973	70,080	70,485	70,756	71,252
Gas Transportation Service	9,248	18,088	20,177	20,931	20,659	20,770	20,876
Total Sales & Transport(b)	74,343	89,424	90,150	91,011	91,144	91,526	92,128
Degree Days	4,100	4,600	4,600	4,600	4,600	4,600	4,600

Note:

(a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

(b) Totals may vary due to rounding.

TABLE 4

**PHILADELPHIA GAS WORKS
CUSTOMER BILLINGS(a)
FISCAL YEARS 1998 THROUGH 2003**

	<u>Fiscal Years Ended August 31,</u>					
	<u>Budget 1998</u>	<u>Forecast 1999</u>	<u>Forecast 2000</u>	<u>Forecast 2001</u>	<u>Forecast 2002</u>	<u>Forecast 2003</u>
Residential	496,074	488,045	480,487	473,248	466,405	459,559
Commercial	24,181	24,253	24,984	25,715	26,446	27,177
Industrial	1,091	928	862	824	786	748
Interruptible	472	469	475	487	496	505
Transportation	22	27	29	32	34	37
Municipal	743	741	740	739	738	737
Housing Authority	<u>4,581</u>	<u>4,479</u>	<u>4,377</u>	<u>4,275</u>	<u>4,173</u>	<u>4,071</u>
Total(b)	<u>527,162</u>	<u>518,942</u>	<u>511,954</u>	<u>505,320</u>	<u>499,078</u>	<u>492,833</u>

Note:

(a) Average Number of Customer Billings.

(b) Totals may vary due to rounding.

**PHILADELPHIA GAS WORKS
CONTRACTS FOR TRANSPORTATION,
STORAGE AND SUPPLY SERVICES**

TABLE 5

	Contract Name	Contract Quantity (Dth)		Expiration Date
		Annual	Daily	
Transportation Contracts				
<i>Direct Service</i>				
Transco	FT	60,302,380	165,212	March 31, 2005
	PSFT	177,030	1,967	July 31, 2011
Texas Eastern	CDS	27,375,000	75,000	October 31, 2003
	FT-1	21,835,030	59,822	October 31, 2003
<i>Storage Related</i>				
Transco	GSS (a)		61,567	March 31, 2013
	S-2 (a),(b)		5,193	October 31, 1974
	LGA (a),(b),(c)		10,495	March 3, 2002
Texas Eastern	SS-1 (a)		64,965	April 30, 2012
	FTS-2		5,394	March 31, 2002
	FTS-7		7,788	April 15, 2000
	FTS-8		25,709	March 31, 2006
Storage Contracts				
<i>Direct Service</i>				
Transco	GSS (a)	4,123,733	61,567	March 31, 2013
	S-2 (a),(b)	466,554	5,193	October 31, 1974
	WSS (b)	3,335,909	39,246	March 31, 1998
	LGA (a),(b),(c)	52,475	10,495	March 3, 2002
	ESS	84,971	8,446	Contract Pending
Texas Eastern	SS-1 (a)	5,109,200	64,965	April 30, 2012
<i>Off-System Storage</i>				
Delivery via Texas Eastern	ANR	1,902,546	13,266	March 31, 2013
	Equitrans	522,500	4,998	April 1, 2002
	CNG-GSS-TE	3,918,971	34,047	March 31, 2006
Supply Contracts				
<i>Firm Long Term</i>				
Transco	Pipeline	FS (b),(d)	15,022,140	March 31, 2002
	3rd Party	Multiple (d)	13,011,506	Various
	Texas Eastern	Multiple (d)	15,928,146	Various
<i>Storage</i>				
Transco	(d)	8,026,683		
Texas Eastern	(d)	11,211,821		
<i>Spot</i>				
Transco	(d)	19,575,044		
Texas Eastern	(d)	12,959,027		

Notes:

- (a) Bundled storage and transportation service
- (b) Extended on a year-to-year basis
- (c) Volume leased to outside company for peaking service
- (d) Based on the 1997-98 10&2 Budget Run Normal Year

PHILADELPHIA GAS WORKS
Supply/Demand Balance
Fiscal Years 1998-2003
Normal Year - 4,600 HDD
(1,000 Dth)

	1998	1999	2000	2001	2002	2003
Demand^(a)						
Firm	66,039	66,272	66,144	66,046	66,000	65,955
Boiler and Power Service	4,270	4,670	4,910	5,184	5,440	5,770
Load Balancing Service	4,585	2,438	2,385	2,581	2,621	2,758
Cogeneration	391	262	239	216	193	173
GTS	524	1,397	1,394	1,396	1,393	1,410
Natural Gas Vehicles	51	125	210	295	378	470
Trigen	72	72	71	71	70	72
Grays Ferry	174	178	175	175	173	181
<i>Sub-Total Sales</i>	<i>76,106</i>	<i>75,414</i>	<i>75,528</i>	<i>75,964</i>	<i>76,268</i>	<i>76,789</i>
Plant Use	1,391	1,452	1,484	1,490	1,499	1,471
Storage Injection	18,430	18,446	19,551	19,572	19,598	19,639
Liquefaction	4,027	4,573	4,607	4,605	4,667	4,377
<i>Total Demand^(b)</i>	<i>99,954</i>	<i>99,885</i>	<i>101,170</i>	<i>101,631</i>	<i>102,032</i>	<i>102,276</i>
Supplies						
Transco ^(c)	45,231	48,264	49,582	53,338	53,727	50,821
Texas Eastern ^(c)	31,265	27,526	27,504	24,101	24,151	27,367
Storage Withdrawal	19,239	19,488	19,480	19,530	19,575	19,571
LNG	4,220	4,607	4,605	4,663	4,580	4,518
<i>Total Supplies^(b)</i>	<i>99,955</i>	<i>99,885</i>	<i>101,171</i>	<i>101,632</i>	<i>102,033</i>	<i>102,277</i>

Notes:

- (a) Includes Unaccounted-for Gas
- (b) Totals may vary due to rounding
- (c) Gas Delivered to City Gate

PHILADELPHIA GAS WORKS
Supply/Demand Balance
Fiscal Years 1998-2003
Design Year - 5,280 HDD
(1,000 Dth)

	1998	1999	2000	2001	2002	2003
Demand^(a)						
Firm	73,193	73,467	73,338	73,244	73,210	73,175
Boiler and Power Service	3,745	4,362	4,680	4,913	5,142	5,422
Load Balancing Service	2,506	1,504	1,436	1,611	1,630	1,713
Cogeneration	251	167	153	139	125	110
GTS	334	874	871	871	866	874
Natural Gas Vehicles	34	83	137	192	244	303
Trigen	25	25	25	25	25	25
Graysferry	70	72	72	72	73	74
<i>Sub-Total Sales</i>	<i>80,158</i>	<i>80,554</i>	<i>80,712</i>	<i>81,067</i>	<i>81,315</i>	<i>81,696</i>
Plant Use	1,379	1,439	1,471	1,469	1,478	1,469
Storage Injection	18,741	18,418	19,523	19,503	19,524	19,558
Liquefaction	4,029	4,573	4,607	4,505	4,667	4,580
Total Demand^(b)	104,307	104,984	106,313	106,544	106,984	107,303
Supplies						
Transco ^(c)	46,669	48,456	49,796	53,470	53,863	51,191
Texas Eastern ^(c)	43,540	33,079	33,116	29,872	29,836	32,924
Storage Withdrawal	18,685	18,717	18,692	18,596	18,595	18,533
LNG	4,413	4,733	4,709	4,707	4,691	4,656
Total Supplies^(b)	113,307	104,985	106,313	106,645	106,985	107,304

Notes:

- (a) Includes Unaccounted-for Gas
- (b) Totals may vary due to rounding
- (c) Gas Delivered to City Gate

TABLE 8

PHILADELPHIA GAS WORKS
Peak Day and Peak Hour Capacity (MMcf)
Fiscal Years 1998-2003

(Design Peak Day Weather = 0°F)
 (Design Peak Hour Weather = -5°F)

Source of Supply (a)	(Mmcf @ 1.030 Btu/cf)					
	1998	1999	2000	2001	2002	2003
Transco						
FT						
FS	92.2	92.2	92.2	92.2	92.2	92.2
PSFT	68.2	68.2	68.2	68.2	68.2	68.2
S-2(b)	1.9	1.9	1.9	1.9	1.9	1.9
GSS(b)	4.4	4.4	4.4	4.4	4.4	4.4
LGA	52.3	52.3	52.3	52.3	52.3	52.3
WSS(c)	10.2	10.2	10.2	10.2	10.2	10.2
ESS(c)	19.4	19.4	19.4	19.4	19.4	19.4
	10.2	10.2	10.2	10.2	10.2	10.2
Total Transco	229.2	229.2	229.2	229.2	229.2	229.2
Texas Eastern						
CDS						
FT-1	72.8	72.8	72.8	72.8	72.8	72.8
SS-1	58.1	58.1	58.1	58.1	58.1	58.1
CNG/FTS-7(b)	63.1	63.1	63.1	63.1	63.1	63.1
CNG/FTS-8(b)	6.6	6.6	6.6	6.6	6.6	6.6
Equitable/FTS-2(d)	21.8	21.8	21.8	21.8	21.8	21.8
ANR(c)	4.9	4.9	4.9	4.9	4.9	4.9
	12.9	12.9	12.9	12.9	12.9	12.9
Total Texas Eastern	227.3	227.3	227.3	227.3	227.3	227.3
Sub-Total Pipelines	456.5	456.5	456.5	456.5	456.5	456.5
Supplemental Gas						
LNG	540.0	540.0	540.0	540.0	540.0	540.0
Total Peak Day Supply	996.5	996.5	996.5	996.5	996.5	996.5
Total Peak Hour Supply	41.5	41.5	41.5	41.5	41.5	41.5
Note:						
Firm Peak Day Demand	760.9	767.9	775.3	782.7	790.1	797.6
Firm Peak Hour Demand	36.9	37.2	37.6	38.0	38.3	38.7

Footnotes:

- (a) All volumes reflect delivered volumes after fuel use for withdrawal.
- (b) Reflects 87.5% contract limitation on maximum monthly storage withdrawal.
- (c) These services do not contain a transport component and are therefore not included in totals.
- (d) Equitable storage MDWQ=4,998DTH; Tetco FTS-2 transport has MDQ=5,394DTH.

TABLE 9
PHILADELPHIA GAS WORKS
PROPOSED CAPITAL IMPROVEMENT PROGRAM
(\$000)

Category	1998	1999	2000	2001	2002	2003	Total \$	Total %
Gas Processing	\$821	\$6,833	\$4,457	\$3,645	\$804	\$8,579	\$25,139	6.9%
Distribution	33,042	34,322	35,328	35,667	36,509	37,378	212,246	57.9%
Field Services	9,237	12,166	5,764	6,267	6,718	7,338	47,490	13.0%
Transportation	6,237	5,863	6,137	6,087	4,877	5,021	34,222	9.3%
Other	31,819	8,147	3,575	1,375	1,413	1,115	47,444	12.9%
	\$81,156	\$67,331	\$55,261	\$53,041	\$50,321	\$59,431	\$366,541	100%
Less:								
Reimbursements(a)	(1,381)	(1,279)	(1,317)	(1,317)	(1,317)	(1,317)	(7,928)	-2.2%
Contributions(b)	(116)	(119)	(122)	(126)	(130)	(133)	(746)	-0.2%
Salvage(c)	(80)	(60)	(57)	(58)	(59)	(62)	(376)	-0.1%
	(\$1,577)	(\$1,458)	(\$1,496)	(\$1,501)	(\$1,506)	(\$1,512)	(\$9,050)	-2.5%
Total:	\$79,579	\$65,873	\$53,765	\$51,540	\$48,815	\$57,919	\$357,491	

Notes:

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

TABLE 10
 PHILADELPHIA GAS WORKS
 MAJOR CAPITAL BUDGET ITEMS
 FISCAL 1998 BUDGET (\$MM)
 (COMPARISON OF ITEMS OVER \$1 MM)

CODE	DESCRIPTION	PRIORITY	DEPT.	1998 - 1997					
				1998 AMOUNT	% OF BUDGET	1997 AMOUNT	% OF BUDGET	AMOUNT DIFFERENCE	PERCENT DIFFERENCE
52-24-2-01	Renewal of 1-1/4" and smaller services.	1	Distribution	\$12.3	15.1%	\$14.2	24.3%	(\$1.8)	-13.6%
52-21-2-02	Prudent main replacements.	1	Distribution	\$5.8	7.2%	\$7.8	13.4%	(\$2.0)	-25.4%
52-21-2-01	Enforced relocations caused by city, state and other work and enlargements that may be required.	3	Distribution	\$5.2	6.4%	\$3.7	6.4%	\$1.5	38.9%
52-24-1-01	Installation of new 1-1/4" and smaller services.	4	Distribution	\$2.0	2.5%	\$1.9	3.2%	\$0.1	6.7%
52-24-1-02	Installation of new 2" and larger services.	4	Distribution	\$2.0	2.5%	\$1.1	1.8%	\$1.0	94.2%
52-24-2-02	Renewal of 2" and larger services.	1	Distribution	\$1.4	1.7%	\$1.0	1.7%	\$0.4	39.2%
52-21-1-01	Local mains to supply new houses and to provide for increased capacity.	4	Distribution	\$1.3	1.6%	\$1.1	2.0%	\$0.1	10.2%
52-20-1-01	Installations to provide for ahead-of-paving and extensions to supply additional loads.	4	Distribution	\$0.3	0.3%	\$1.7	3.0%	(\$1.5)	-84.8%
SUBTOTAL DISTRIBUTION				\$30.3	37.3%	\$32.6	55.9%	(\$2.3)	-7.0%
50-36-1-01	Purchase and installation of ERT devices for AMR.	5	Field Services	\$6.6	8.1%	\$6.7	11.5%	(\$0.1)	-1.5%
50-30-1-01	Purchase and installation of meters to provide for new customers.	4	Field Services	\$0.9	1.2%	\$2.0	3.4%	(\$1.1)	-53.1%
50-30-2-01	Purchase meters to support automatic meter reading.	1	Field Services	\$0.8	1.0%	\$1.4	2.4%	(\$0.6)	-45.5%
50-36-2-01	Replace AMR devices where batteries failed.	5	Field Services	\$0.4	0.5%	\$3.6	6.1%	(\$3.1)	-87.9%
SUBTOTAL FIELD SERVICES				\$8.7	10.8%	\$13.7	23.5%	(\$4.9)	-36.1%
73-01-2-02	Vehicle Replacement.	2	Transportation	\$5.2	6.4%	\$0.0	0.0%	\$5.2	INF
SUBTOTAL TRANSPORTATION				\$5.2	6.4%	\$0.0	0.0%	\$5.2	INF
10-01-2-01	Replace customer information system (Phase II).	5	Info Technology	\$8.7	10.7%	\$1.0	1.7%	\$7.7	770.0%
56-01-1-01	Work & asset management system (Phase II).	5	VP Operations	\$5.3	6.5%	\$0.0	0.0%	\$5.3	INF
47-01-1-13	Unix infrastructure.	5	Info Technology	\$4.3	5.3%	\$0.0	0.0%	\$4.3	INF
72-01-1-05	Materials management warehouse.	3	Building Services	\$2.6	3.2%	\$0.0	0.0%	\$2.6	INF
40-01-1-01	Implementation of Oracle software for financial and materials information system.	2	Sr VP & CFO	\$2.0	2.5%	\$0.7	1.2%	\$1.3	185.7%
47-01-1-06	Implementation of IT strategy (Phase II).	5	Info Technology	\$1.1	1.4%	\$1.0	1.7%	\$0.1	12.0%
SUBTOTAL OTHER DEPARTMENTS				\$24.0	29.6%	\$2.7	4.6%	\$21.3	789.6%
TOTAL MAJOR PROJECTS				\$68.2	84.1%	\$49.0	84.0%	\$19.3	39.4%
COMPARISON WITH ALL BUDGETED PROJECTS				\$81.2	100.0%	\$68.3	100.0%	\$22.8	39.2%

Notes:

(a) All values are prior to reimbursements, contributions, and salvage.

TABLE 11

**PHILADELPHIA GAS WORKS BENCHMARK FOR
RETURNED CHECK CHARGES MAINTAINED BY GAS DISTRIBUTION UTILITIES
(SURVEY OF 1995)**

	COMPANY	PRIMARY CITY	CHARGE	
				<== PGW'96(3)
1	National Fuel Gas	Buffalo/Erie	\$20.00	
2	Atlanta Gas Light	Atlanta	\$20.00	
				<== PGW'96(2)
3	Public Service Electric & Gas	Newark	\$15.00	
4	Baltimore Gas & Electric	Baltimore	\$15.00	
5	Delmarva	Wilmington	\$15.00	
6	Boston Gas	Boston	\$15.00	
7	Washington Gas - VA	Washington	\$15.00	
8	Elizabethtown Gas	Union	\$15.00	
9	Dayton Power & Light	Dayton	\$15.00	
10	Cincinnati Gas & Electric	Cincinnati	\$13.50	
11	Peoples Gas Light & Coke	Chicago	\$10.00	
12	Wisconsin Gas	Milwaukee	\$10.00	
13	Washington Gas - DC	Washington	\$8.50	
14	Brooklyn Union	New York	\$8.50	
15	Connecticut Natural Gas	Hartford	\$8.00	
16	Washington Gas - MD	Washington	\$8.00	
17	Minnegasco	Minneapolis	\$8.00	<== PGW'96(1)
18	Southern Connecticut Gas	New Haven/Bridgeport	\$8.00	
19	Rochester Gas & Electric	Rochester	\$7.50	
20	Southern California Gas	Los Angeles	\$7.50	
21	Pacific Gas & Electric	San Francisco	\$5.00	
22	MichCon	Detroit	\$5.00	<== PGW'95

OF 22 COMPANIES WHICH HAVE SUCH A CHARGE

HIGHEST:		\$20.00
MODE: (7 occurrences)	Most Frequent:	\$15.00
MEAN:	Simple Average:	\$11.48
MEDIAN:	Middle of List:	\$10.00
LOWEST:		\$5.00

Philadelphia Gas Works: re. 1995 \$5.00

Philadelphia Gas Works: re. 1996
(for occurrences within a 24 month period)
\$8.00 first
\$18.00 second
\$34.00 third

TABLE 12

**PHILADELPHIA GAS WORKS BENCHMARK FOR
CUSTOMER SERVICE CALL CHARGES MAINTAINED BY GAS DISTRIBUTION UTILITIES
(Weekday, Normal Hours, Hourly Average Charge, not including parts)
(SURVEY OF 1995)**

COMPANY	PRIMARY CITY	CHARGE	
1 Atlanta Gas Light	Atlanta	\$100.00	
2 Minnegasco	Minneapolis	\$90.00	
3 MichCon	Detroit	\$88.00	<== PGW'96 commercial
4 Wisconsin Gas	Milwaukee	\$82.00	
5 Peoples Natural Gas	Pittsburgh	\$80.50	
6 Elizabethtown Gas	Union	\$80.00	
7 Delmarva	Wilmington	\$78.00	
8 Baltimore Gas & Electric	Baltimore	\$78.00	
9 Consolidated Edison	New York	\$72.00	
10 Providence Gas	Providence	\$70.00	
11 Rochester Gas & Electric	Rochester	\$67.00	
12 Boston Gas	Boston	\$63.00	
13 Southern Connecticut Gas	New Haven/Bridgeport	\$54.00	<== PGW'96 residential
14 Peoples Gas Light & Coke	Chicago	\$53.00	
15 Connecticut Natural Gas	Hartford	\$53.00	
16 Washington Natural Gas	Seattle	\$53.00	
17 National Fuel Gas	Buffalo/Erie	\$41.00	<== PGW'95

OF 17 COMPANIES WHICH PROVIDE SERVICE AND CHARGE CUSTOMER

HIGHEST:		\$100.00
MEDIAN:	Middle of List:	\$72.00
MEAN:	Simple Average:	\$70.74
MODE: (3 occurrences)	Most Frequent:	\$53.00
LOWEST:		\$41.00

Philadelphia Gas Works:	re. 1995	\$30.00	
Philadelphia Gas Works:	re. 1996	\$53.33 - \$66.67	Residential
		\$80.00 - \$110.00	Commercial

TABLE 13

**PHILADELPHIA GAS WORKS BENCHMARK FOR
FIELD COLLECTION CHARGES MAINTAINED BY GAS DISTRIBUTION UTILITIES
(Residential, Weekday, Normal Hours)
(SURVEY OF 1995)**

	COMPANY	PRIMARY CITY	CHARGE	
1	Delmarva	Wilmington	\$15.00	
2	Baltimore Gas & Electric	Baltimore	\$15.00	
3	Elizabethtown Gas	Union	\$15.00	
4	Consolidated Edison	New York	\$11.00	
5	Pacific Gas & Electric	San Francisco	\$10.00	← PGW'96
6	Washington Gas - MD	Washington	\$8.50	
7	Washington Gas - DC	Washington	\$7.00	← PGW'95

OF 7 COMPANIES WHICH CHARGE FOR FIELD COLLECTION

HIGHEST:		\$15.00
MODE: (3 occurrences)	Most Frequent	\$15.00
MEAN:	Simple Average:	\$11.64
MEDIAN:	Middle of List:	\$11.00
LOWEST:		\$7.00

Philadelphia Gas Works:	re. 1995	No Charge
Philadelphia Gas Works:	re. 1996	\$10.00

TABLE 14
PHILADELPHIA GAS WORKS
PGW LIHEAP PARTICIPATION

		Fiscal '95		Fiscal '96		Fiscal '97		Fiscal '98	
		Actual	Percent	Actual	Percent	Actual	Percent	Forecast	Percent
GRANT MONEY \$									
<i>State of Pennsylvania</i>									
	Cash	59,391,908	68.63%	34,094,179	66.50%	50,344,451	79.68%	50,300,000	79.97%
	Crisis	27,142,485	31.37%	17,173,363	33.50%	12,839,510	20.32%	12,600,000	20.03%
	Total	86,534,393		51,267,542		63,183,961		62,900,000	
<i>PGW</i>									
	Cash	8,351,376	62.05%	5,639,326	74.59%	10,000,911	83.21%	9,752,789	83.09%
	Crisis	5,108,750	37.95%	1,921,022	25.41%	2,017,269	16.79%	1,984,500	16.91%
	Total/(PGW % of State)	13,460,126	15.55%	7,560,348	14.75%	12,018,180	19.02%	11,737,289	18.66%
	Supplemental Benefit (a)	0		6,500,000		0		0	
	Grand Total	13,460,126		14,060,348		12,018,180		11,737,289	
NUMBER OF GRANTS									
<i>State of Pennsylvania</i>									
	Cash	330,505	73.19%	244,461	77.57%	234,521	83.57%	250,110	83.23%
	Crisis	121,064	26.81%	70,703	22.43%	46,109	16.43%	50,400	16.77%
	Total	451,569		315,164		280,630		300,510	
<i>PGW</i>									
	Cash	47,451	69.90%	46,606	87.99%	47,966	85.60%	50,022	85.01%
	Crisis	20,435	30.10%	6,361	12.01%	8,069	14.40%	8,820	14.99%
	Total/(PGW % of State)	67,886	15.03%	52,967	16.81%	56,035	19.97%	58,842	19.58%
AVG. VALUE OF GRANTS									
<i>State of Pennsylvania</i>									
	Cash	\$179.70		\$139.59		\$215.00		\$201.00	
	Crisis	\$224.20		\$242.89		\$278.46		\$250.00	
<i>PGW</i>									
	Cash	\$176.00		\$121.00		\$208.50		\$194.97	
	Crisis	\$250.00		\$302.00		\$250.00		\$225.00	

(a) one time supplemental benefit, not included in any other calculations

TABLE 15
PHILADELPHIA GAS WORKS
COVERAGE OF DEBT SERVICE FROM OPERATIONS

	<u>Fiscal Years Ended August 31.</u>					
	<u>Current</u>					
	<u>Estimate(a)</u> <u>1997-98</u>	<u>Forecast</u> <u>1998-99</u>	<u>Forecast</u> <u>1999-00</u>	<u>Forecast</u> <u>2000-01</u>	<u>Forecast</u> <u>2001-02</u>	<u>Forecast</u> <u>2002-03</u>
Funds Available For Debt Service Calculation (Exhibit V)	\$94,632	\$121,775	\$125,421	\$127,883	\$129,875	\$133,514
<u>1975 Ordinance Bonds</u>						
Debt Service Bonds	\$61,913	\$59,827	\$51,944	\$50,008	\$56,239	\$48,209
Debt Service Coverage	1.53	2.04	2.41	2.56	2.31	2.77
Net Available After Prior Debt Service	\$32,719	\$61,948	\$73,477	\$77,875	\$73,636	\$85,305
Capital Lease for Building	\$2,242					
Other Capital Leases	5,971	8,115	10,924	13,377	12,936	13,447
Total	\$8,213	\$8,115	\$10,924	\$13,377	\$12,936	\$13,447
Net Available After Capital Leases	\$24,506	\$53,833	\$62,553	\$64,498	\$60,700	\$71,858
<u>1998 Ordinance Senior Bonds (b)</u>						
Debt Service Existing	\$0	\$16,762	\$23,709	\$25,633	\$17,973	\$23,908
Debt Service Proposed	0	0	0	0	4,875	5,815
Total	\$0	\$16,762	\$23,709	\$25,633	\$22,848	\$29,723
Debt Service Coverage	-	3.21	2.64	2.52	2.66	2.42
Net Available Debt Service on Sr. Bonds	\$24,506	\$37,071	\$38,844	\$38,865	\$37,852	\$42,135
<u>1998 Ordinance Subordinate Bonds</u>						
Debt Service	\$0	\$2,025	\$1,955	\$1,960	\$1,957	\$1,962
Debt Service Coverage	-	18.31	19.87	19.83	19.34	21.48

Notes:

(a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

(b) Assumes tax-exempt interest rate of 6.5% for Senior new money issues in 2001 and 2003 (\$75 million in each).

TABLE 16

PHILADELPHIA GAS WORKS
SOURCES AND USES OF CASH FOR
CAPITAL IMPROVEMENT EXPENDITURES
FISCAL YEARS 1993 THROUGH 2003
 (000's)

	A C T U A L					Budget 1998	Current (a) Estimate 1998	F O R E C A S T				
	1993	1994	1995	1996	1997			Revised 1999	Revised 2000	Revised 2001	Revised 2002	Revised 2003
Sources:												
Bond Proceeds @ Par	\$376,550	\$183,880	\$0	\$0	\$0	\$75,000	\$105,010	\$0	\$0	\$75,000	\$0	\$75,000
Proceeds From Capital Leasing	0	0		20,100	23,000			10,000	10,000	5,000	10,000	
PGW Internally Generated Funds	12,891	27	9,568	24,306	47,081	38,424	33,424	27,362	7,893	11,985	14,360	16,098
Total Sources	<u>\$389,441</u>	<u>\$183,907</u>	<u>\$9,568</u>	<u>\$44,406</u>	<u>\$70,081</u>	<u>\$113,424</u>	<u>\$138,434</u>	<u>\$37,362</u>	<u>\$17,893</u>	<u>\$91,985</u>	<u>\$24,360</u>	<u>\$91,098</u>
USES:												
Changes in Capital Improvement Fund	\$29,890	\$18,303	(\$43,061)	(\$905)	\$17,410	\$29,195	\$62,636	(\$32,272)	(\$35,000)	\$31,560	(\$25,000)	\$26,560
Discount & Issuance Exp.	10,915	7,553		202	169	2,625	5,010			2,625		2,625
Deposit to Sinking Fund	(369)	(28)				5,815				5,815		5,815
Funds Deposited in Escrow Capital Expenditures	298,114	105,512	52,629	45,109	52,502	75,788	70,788	69,634	52,893	51,985	49,360	56,098
Total Uses	<u>\$389,441</u>	<u>\$183,907</u>	<u>\$9,568</u>	<u>\$44,406</u>	<u>\$70,081</u>	<u>\$113,423</u>	<u>\$138,434</u>	<u>\$37,362</u>	<u>\$17,893</u>	<u>\$91,985</u>	<u>\$24,360</u>	<u>\$91,098</u>
Capital Improvement Fund												
Deposit	\$67,890	\$70,843	\$0	\$19,898	\$22,831	\$66,560	\$100,000	\$10,000	\$10,000	\$71,560	\$10,000	\$66,560
Drawdown	(38,000)	(52,540)	(43,061)	(20,803)	(5,421)	(37,365)	(37,364)	(42,272)	(45,000)	(40,000)	(35,000)	(40,000)
Changes in Fund	\$29,890	\$18,303	(\$43,061)	(\$905)	\$17,410	\$29,195	\$62,636	(\$32,272)	(\$35,000)	\$31,560	(\$25,000)	\$26,560
Balance End of Period	<u>\$29,890</u>	<u>\$48,193</u>	<u>\$5,132</u>	<u>\$4,227</u>	<u>\$21,637</u>	<u>\$50,832</u>	<u>\$84,273</u>	<u>\$52,001</u>	<u>\$17,001</u>	<u>\$48,561</u>	<u>\$23,561</u>	<u>\$50,121</u>

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

TABLE 17

PHILADELPHIA GAS WORKS
ACCOUNTS RECEIVABLE, RESERVE FOR BAD DEBT,
WRITE-OFF EXPENSES, DELINQUENT CUSTOMERS,
AND REVENUE STATISTICS
(\$000)

	<u>Fiscal Years Ended August 31,</u>				
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Billed Gas Revenues	\$526,723	\$554,212	\$477,601	\$539,119	\$548,455
Accounts Receivable	132,574	171,730	140,002	143,303	132,560
Reserve for Bad Debt	54,565	73,772	79,195	83,214	77,100
Reserve as a Percentage of Accounts Receivable	41.2%	43.0%	56.6%	58.1%	58.2%
Write-Off Expenses	28,355	23,927	37,518	33,975	39,149
Receivables as a Percentage of Sales Revenues	25.2%	31.0%	29.3%	26.6%	24.2%
Delinquent Customers (Annual Average)	145,092	143,613	112,712	119,806	120,901

TABLE 18

**PHILADELPHIA GAS WORKS
FORECAST OF ACCOUNTS RECEIVABLE, RESERVE
 FOR BAD DEBT, WRITE-OFF EXPENSES,
 AND REVENUE STATISTICS
 (\$000)**

	<u>Fiscal Years Ended August 31,</u>						
	<u>Current Estimate 1998</u>	<u>Budget 1998</u>	<u>Forecast 1999</u>	<u>Forecast 2000</u>	<u>Forecast 2001</u>	<u>Forecast 2002</u>	<u>Forecast 2003</u>
Billed Gas Revenues	\$519,584	\$566,157	\$554,557	\$562,370	\$575,036	\$585,029	\$590,569
Accounts Receivable	126,302	132,302	123,362	113,729	106,904	99,059	90,713
Reserve for Bad Debt	72,628	75,628	69,252	58,107	49,121	38,897	28,125
Reserve as a Percentage of Accounts Receivable	57.5%	57.2%	56.1%	51.1%	45.9%	39.3%	31.0%
Write-Off Expenses	38,744	38,744	37,640	37,589	35,398	37,047	37,047
Receivables as a Percentage of Sales Revenues	24.3%	23.4%	22.2%	20.2%	18.6%	16.9%	15.4%

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

EXHIBIT I

**PHILADELPHIA GAS WORKS
SELECTED OPERATING STATISTICS**

Fiscal Data	Fiscal Years Ended August 31,									
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of Customers	517,001	518,143	519,206	522,834	519,824	523,505	517,951	517,092	514,966	511,337
Miles of Distribution Mains	3,018	3,031	3,014	3,008	3,014	3,021	3,017	3,015	3,023	3,021
Utility Plant (\$000) (a)	787,601	840,248	892,970	940,267	987,437	1,031,592	1,077,975	1,124,757	1,156,201	1,203,720
Total Gas Sales (MMcf) (b)	75,426	72,533	71,723	69,349	75,771	78,202	77,435	74,217	80,309	72,191
Operating Revenues (\$000)										
Heating	372,007	379,673	376,006	356,150	393,336	422,998	472,326	385,545	475,956	450,240
Non-Heating	93,115	87,607	90,245	98,347	86,494	95,416	88,895	85,678	91,146	90,451
Gas Transportation	0	0	0	460	2,354	621	380	1,307	1,108	1,441
Other Operating Revenues	4,445	5,426	5,921	6,615	8,030	7,942	12,318	6,420	7,838	8,838
Total Operating Revenues	469,567	472,706	472,172	461,572	490,214	526,977	573,919	478,950	576,048	550,970
Other Income	15,940	12,858	11,880	12,636	10,238	11,203	6,989	29,293	7,667	7,514
Operating Expenses (\$000)										
Natural Gas & Raw Material	229,833	237,932	231,399	208,825	211,625	243,274	274,103	213,645	276,856	271,631
Gas Processing	24,062	24,565	24,353	21,939	21,494	21,458	21,822	18,645	14,846	14,238
Field Services	20,786	20,382	19,229	17,835	21,387	20,100	23,036	17,448	18,492	18,883
Distribution	16,562	16,244	20,588	18,519	19,422	20,674	25,003	19,561	22,817	20,454
Collection & Meter Reading (c)	35,010	32,383	37,241	42,963	41,498	44,613	58,718	60,315	54,549	46,778
Administrative & General	28,413	27,185	26,989	28,687	35,357	39,960	36,793	44,593	40,282	40,485
Other Operating Expenses (d)	60,745	60,612	56,676	58,115	59,262	60,665	66,206	53,016	70,833	70,615
Total Operating Expenses	415,411	419,303	416,475	396,883	410,045	450,744	505,681	427,223	498,675	483,084
Interest Expense	48,575	47,736	49,007	52,871	55,555	53,967	55,516	55,746	53,736	51,429
Net Income	21,521	18,525	18,570	24,454	34,852	33,469	19,711	25,274	31,304	23,971

(a) Gross Utility Plant at Original Cost

(b) Includes Gas Transportation in years 1991 through 1997

(c) Includes Appropriation for Bad Debt Expense

(d) Includes Customer Service, Customer Accounting, Marketing, Pensions, Taxes & Net Depreciation and Amortization.

EXHIBIT II

**PHILADELPHIA GAS WORKS
FORECAST STATEMENT OF INCOME
FISCAL YEARS 1997 THROUGH 2003
(\$000)**

	Fiscal Years Ended August 31,							Revised Forecast
	Actual	Current	Budget	Revised	Revised	Revised	Revised	
	1997	Estimate(a) 1998	1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	
Operating Revenues								
Sales (Current Rates & Changes to GCR)	\$543,782	\$507,507	\$555,605	\$554,257	\$562,320	\$575,086	\$584,979	\$600,519
Projected Rate Decrease - Current								(10,000)
Other Operating Revenues	7,188	8,010	7,160	6,684	6,648	6,757	6,784	6,775
Total Operating Revenues	\$550,970	\$515,517	\$562,765	\$560,941	\$568,968	\$581,843	\$591,763	\$597,294
Operating Expenses								
Natural Gas & Raw Material	\$271,631	\$252,198	\$261,369	\$246,487	\$249,220	\$254,984	\$259,296	\$261,322
Gas Processing	14,238	14,856	14,856	14,868	15,013	15,256	15,354	15,688
Other Operating & Maintenance (Exhibit III)	165,367	167,952	189,734	192,679	192,134	196,479	200,127	203,225
Operating Expenses Excl. Depreciation	\$451,236	\$435,006	\$465,959	\$454,034	\$456,367	\$466,719	\$474,777	\$480,235
Depreciation	31,848	38,145	38,145	39,539	40,995	42,384	43,742	45,092
Total Operating Expenses	\$483,084	\$473,151	\$504,104	\$493,573	\$497,362	\$509,103	\$518,519	\$525,327
Net Operating Income	\$67,886	\$42,366	\$58,661	\$67,368	\$71,606	\$72,740	\$73,244	\$71,967
Other Income	7,514	6,332	6,781	8,667	6,949	7,263	7,774	11,640
Net Income Before Interest	\$75,400	\$48,698	\$65,442	\$76,035	\$78,555	\$80,003	\$81,018	\$83,607
Interest Expense								
Long-Term Debt Interest:								
Revenue Bonds	\$42,262	\$40,131	\$42,859	\$43,645	\$41,774	\$42,492	\$43,025	\$43,253
PMA Bonds	1,616	1,400	1,572	0	0	0	0	0
Capital Leases	1,009	1,985	1,985	2,005	2,348	2,371	2,659	2,815
Subordinate Bonds	0	0	0	1,026	970	930	887	842
Discount & Expenses	1,863	1,859	1,857	1,567	1,489	1,473	1,453	1,344
Total Long-Term Interest	\$46,750	\$45,375	\$48,373	\$48,243	\$46,581	\$47,266	\$48,024	\$48,254
Other Interest								
Short-Term Debt	\$1,350	\$2,775	\$2,100	\$2,475	\$2,475	\$2,475	\$2,475	\$2,475
Loss From Extinguishment of Debt	3,272	3,156	3,046	3,590	3,462	3,326	3,177	3,018
Interest on Customer Deposits	56	97	97	70	72	74	76	76
Miscellaneous	6	0	0	0	0	0	0	0
Total Other Interest	\$4,724	\$6,028	\$5,243	\$6,135	\$6,009	\$5,875	\$5,728	\$5,569
AFUDC	(45)	(298)	(293)	(332)	(353)	(314)	(274)	(314)
Total Interest Expense	\$51,429	\$51,105	\$53,323	\$54,046	\$52,237	\$52,827	\$53,478	\$53,509
Net Income	\$23,971	(\$2,407)	\$12,119	\$21,989	\$26,318	\$27,176	\$27,540	\$30,098
Payment To City of Philadelphia	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Net Earnings / (Loss) Transferred to Retained Earnings	\$5,971	(\$20,407)	(\$5,881)	\$3,989	\$8,318	\$9,176	\$9,540	\$12,098

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

EXHIBIT III

**PHILADELPHIA GAS WORKS
FORECAST OTHER OPERATING AND MAINTENANCE EXPENSES
FISCAL YEARS 1997 THROUGH 2003
(\$000)**

	<u>Fiscal Years Ended August 31.</u>							
		<u>Current</u>						
	<u>Actual</u>	<u>Estimate(a)</u>	<u>Budget</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	
	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Other Operating & Maintenance Expenses								
Administrative & General	\$40,485	\$52,053	\$51,303	\$48,398	\$49,951	\$51,534	\$52,835	\$53,484
Appropriation to Reserve for Bad Debt	33,474	34,093	37,093	31,264	26,444	26,412	26,823	26,275
Field Services	18,883	16,623	16,623	16,663	16,551	16,351	16,113	15,806
Distribution	20,454	18,233	18,233	18,630	18,871	19,098	19,302	19,392
Collection	9,460	8,421	8,421	8,566	8,608	8,702	8,798	8,893
Meter Reading	3,844	2,815	2,815	2,284	2,221	2,100	1,971	1,938
Customer Service	13,205	14,821	14,821	15,113	15,310	15,510	15,585	15,736
Customer Accounting	5,898	7,042	7,042	7,180	7,366	7,512	7,661	7,551
Marketing	3,841	11,489	16,489	30,161	32,861	35,804	39,095	42,777
Pensions	4,591	2,649	5,298	5,335	5,359	5,392	5,412	5,441
Taxes	6,517	6,498	6,881	6,925	6,944	6,956	6,958	6,957
Amortization	4,715	965	4,715	4,715	4,715	4,715	3,750	3,750
Labor Cost Savings	0	(5,500)	0	0	0	0	0	0
Non-Labor Cost Savings	0	(2,250)	0	(2,555)	(3,067)	(3,607)	(4,176)	(4,775)
Total Other Operating & Maint. Expense	\$165,367	\$167,952	\$189,734	\$192,679	\$192,134	\$196,479	\$200,127	\$203,225

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

EXHIBIT IV
PHILADELPHIA GAS WORKS
CAPITAL EXPENDITURES
FISCAL YEARS 1997 THROUGH 2003
(\$000)

	<u>Actual</u> <u>1997</u>	<u>Current</u> <u>Estimate(a)</u> <u>1998</u>	<u>Budget</u> <u>1998</u>	<u>Fiscal Years Ended August 31,</u>				
				<u>Forecast</u> <u>1999</u>	<u>Forecast</u> <u>2000</u>	<u>Forecast</u> <u>2001</u>	<u>Forecast</u> <u>2002</u>	<u>Forecast</u> <u>2003</u>
Additions & Replacements								
Supply Plant	\$811	\$901	\$901	\$5,715	\$4,760	\$3,765	\$1,350	\$6,946
Distribution Plant	36,026	33,955	34,945	32,332	36,208	35,270	36,009	36,869
Field Services Plant	8,157	11,320	11,815	10,310	6,711	6,151	6,612	7,201
Other Plant	5,732	25,623	29,108	22,188	6,294	7,892	6,508	6,154
Sub-Total	\$50,726	\$71,799	\$76,769	\$70,545	\$53,973	\$53,078	\$50,479	\$57,170
Less: Contributions in Aid of Construction	(1,068)	(1,497)	(1,497)	(1,398)	(1,439)	(1,443)	(1,447)	(1,450)
Net Additions & Replacements	\$49,658	\$70,302	\$75,272	\$69,147	\$52,534	\$51,635	\$49,032	\$55,720
Allowance for Funds Used During Construction								
Supply Plant	\$42	\$47	\$47	\$93	\$52	\$42	\$22	\$76
Distribution	310	339	349	345	338	332	334	337
Field Services and Other Plant	64	179	199	109	25	34	31	27
Sub-Total	\$416	\$565	\$595	\$547	\$415	\$408	\$387	\$440
Removal Costs (Net)								
Removal Costs	\$2,524	0	\$0	\$0	\$0	\$0	\$0	\$0
Salvage	(96)	(80)	(80)	(60)	(57)	(58)	(59)	(62)
Sub-Total	\$2,428	(\$80)	(\$80)	(\$60)	(\$57)	(\$58)	(\$59)	(\$62)
Total	\$52,502	\$70,787	\$75,787	\$69,634	\$52,892	\$51,985	\$49,360	\$56,098

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

EXHIBIT V

**PHILADELPHIA GAS WORKS
ANALYSIS OF INTERNALLY GENERATED FUNDS
AVAILABLE TO COVER DEBT SERVICE
FISCAL YEARS 1997 THROUGH 2003
(\$000)**

	<u>Fiscal Years Ended August 31</u>							
		Current						
	Actual 1997	Estimate(a) 1998	Budget 1998	Forecast 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003
Funds Provided:								
Operating Revenues (Exhibit II)	\$550,970	\$515,517	\$562,765	\$560,941	\$568,968	\$581,843	\$591,763	\$597,294
Other Income	6,469	7,260	6,472	8,292	6,554	6,863	7,364	11,220
AFUDC (Interest)	45	298	293	332	353	314	274	314
Total Funds Provided	\$557,484	\$523,075	\$569,530	\$569,565	\$575,875	\$589,020	\$599,401	\$608,828
Funds Applied To Operations:								
Operating Expenses Excluding Depreciation (Exhibit II)	\$451,236	\$435,006	\$465,959	\$454,034	\$456,367	\$466,719	\$474,777	\$480,235
Less: Expenses Not Requiring Expenditure of Funds	5,679	6,563	6,563	6,244	5,913	5,582	5,251	4,921
Total Funds Applied	\$445,557	\$428,443	\$459,396	\$447,790	\$450,454	\$461,137	\$469,526	\$475,314
Internally Generated Funds Available To Cover Revenue Bond Debt Service	\$111,927	\$94,632	\$110,134	\$121,775	\$125,421	\$127,883	\$129,875	\$133,514
Funds Applied To Debt Service:								
Revenue Bonds - Issued Under 1975 Ordinance	\$74,523	\$61,913	\$69,485	\$59,827	\$51,944	\$50,008	\$58,239	\$48,209
Revenue Bonds - Issued Under 1998 Ordinance								
Senior Bonds	0	0	0	16,762	23,709	25,633	17,973	23,908
Additional Senior Bonds	0	0	0	0	0	0	4,875	5,815
Subordinate Bonds	0	0	0	2,025	1,955	1,960	1,957	1,962
Total Revenue Bonds	\$74,523	\$61,913	\$69,485	\$78,614	\$77,608	\$77,601	\$81,044	\$79,894
Capital Lease for Building	2,246	2,242	2,242	0	0	0	0	0
Other Capital Leases	3,947	5,971	5,971	8,115	10,924	13,377	12,936	13,447
Temporary Financing	1,230	2,775	2,100	2,475	2,475	2,475	2,475	2,475
Total Funds Applied To Debt Service	\$81,946	\$72,901	\$79,798	\$89,204	\$91,007	\$93,453	\$96,455	\$95,816
Internally Generated Funds Available For City Payment	\$29,981	\$21,731	\$30,336	\$32,571	\$34,414	\$34,430	\$33,420	\$37,698
City Payment	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Internally Generated Funds Available	\$11,981	\$3,731	\$12,336	\$14,571	\$16,414	\$16,430	\$15,420	\$19,698
Debt Service Coverage								
Bonds Issued under 1975 Ordinance	1.50	1.53	1.59	2.04	2.41	2.56	2.31	2.77
Senior Bonds Issued under 1998 Ordinance	-	-	-	3.21	2.64	2.52	2.66	2.42
Subordinate Bonds Issued under 1998 Ordinance	-	-	-	18.31	19.87	19.83	19.34	21.48

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

EXHIBIT VI
PHILADELPHIA GAS WORKS
ANALYSIS OF CASH AND ANNUAL CASH BALANCES
FISCAL YEARS 1997 THROUGH 2003
(\$000)

	Fiscal Years Ended August 31.							
	Actual 1997	Estimate(a) 1998	Budget 1998	Forecast 1998	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003
Beginning Cash Balance	\$10,794	\$1,284	\$1,284	\$319	\$632	\$9,000	\$9,798	\$7,843
Sources of Funds:								
Internally Generated:								
Net Income (Exhibit II)	\$23,971	(\$2,407)	12,119	21,989	26,318	27,176	27,540	30,098
Items in Net Income Not Requiring Funds	36,652	42,847	42,847	43,822	44,859	45,829	46,769	47,701
Interest Expenses Included in Net Income (Exhibit II)	51,429	51,105	53,323	54,046	52,237	52,827	53,478	53,509
Total Internal Funds	\$112,052	\$91,545	108,289	119,857	123,414	125,832	127,787	131,308
Externally Generated:								
Revenue Bond Proceeds	\$0	100,000	66,560	0	0	66,560	0	66,560
Capital Improvement Fund Drawdown	5,421	37,365	37,365	42,272	45,000	40,000	35,000	40,000
Capital Lease Proceeds	22,831	0	0	10,000	10,000	5,000	10,000	0
Temporary Borrowings	15,000	20,000	20,000	10,000	0	0	0	0
Total External Funds	\$43,252	\$157,365	\$123,925	\$62,272	55,000	111,560	45,000	106,560
Total Sources of Funds	\$155,304	\$248,910	232,214	182,129	178,414	237,392	172,787	237,868
Uses of Funds:								
Debt Service Coverage (Exhibit V)	\$74,523	61,913	69,485	76,589	75,653	75,641	79,087	77,932
PMA Bond Debt Service (Exhibit V)	2,246	2,242	2,242	0	0	0	0	0
Capital Lease Debt Service	0	5,971	5,971	8,115	10,924	13,377	12,936	13,447
Subordinate Bonds (Exhibit V)	0	0	0	2,025	1,955	1,960	1,957	1,962
Working Capital Increases	(5,288)	(9,039)	(13,181)	(2,547)	10,621	4,073	13,400	3,689
Construction Requirements	52,502	70,788	75,788	69,634	52,893	51,985	49,360	56,098
Payment to City of Philadelphia (Exhibit II)	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Deposit of Capital Improvement Fund (Table 16)	22,831	100,000	66,560	10,000	0	71,560	0	66,560
Repayment of Temporary Borrowings	0	0	0	0	0	0	0	0
Total Uses of Funds	\$164,814	\$249,875	224,865	181,816	170,046	236,596	174,740	237,688
Ending Cash Balance	\$1,284	\$319	\$8,833	\$632	\$9,000	\$9,798	\$7,843	\$8,023

Note: (a) Current Estimate is based on six months actual data and six months projections based upon currently available information.

APPENDIX

A NOTE ON SALES/SUPPLY/DEMAND UNITS

Sales/supply/demand in this report are reported in volume or energy units. PGW purchases gas in energy units but, usually sells them in volume units because that is what gas meters measure. There is a fundamental relationship between the energy and volume units used for reporting purposes... - one cubic foot of gas (volume) equals approximately 1,030 Btu (energy). More complex measures evolve from this relationship as follows:

Energy Units

Btu	-	British thermal unit - the amount of energy required to raise the temperature of one pound of water by one degree Fahrenheit.
Therm	-	100,000 Btu
Dekatherm	-	10 Therms (1,000,000 Btu)

Volume Units

Scf	-	Standard cubic foot - the amount of gas contained in one cubic foot at 60°F and standard pressure of 14.73 pounds per square inch absolute (normal atmospheric pressure)
Mcf	-	Thousand cubic feet, 1,000 Scf
MMcf	-	Million cubic feet, 1,000 Mcf (1,000,000 Scf)
Bcf	-	Billion cubic feet, 1,000 MMcf (1,000,000,000 Scf)

For the reader's ease in reading/understanding the report the following approximations may be useful:

- One Dekatherm equals one Mcf,
- One thousand Dekatherms equals one MMcf.

Heating Units

HDD	-	Heating Degree Days
HDH	-	Heating Degree Hours

INTRODUCING

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Stone & Webster Management Consultants, Inc. provides practical responses to the challenges of today's volatile market and regulatory environment and changing operating conditions. We furnish management with tools, knowledge, and skills to respond effectively to problems in every facet of utility operations. For industrial clients and public and institutional entities, we provide a wide range of management consulting services.

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Quality • Service • Integrity

Service

Our services take many forms: verbal consultation, research or analysis, review or verification of work performed by others, expert testimony, and complete studies with written reports. A Stone & Webster report provides clear guides for management action and is often used as a communication and implementation tool. We provide a check of decisions, procedures, and programs that is independent and objective. Our testimony and reports provide the credible evidence necessary to confirm the prudence of decisions before regulators, stockholders, and boards of directors.

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Stone & Webster's tradition of professional consultation reaches back to the nineteenth century and draws on state-of-the-art, comprehensive utility experience and resources. Year after year a significant portion of our assignments comes from repeat clients – clients who return to Stone & Webster because they have had first-hand experience with our record of unbiased work performed to the client's specifications, on time, within budget. We believe that the most convincing evidence of the quality, integrity, and value of our services is the confidence and loyalty of our repeat clients.

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Re-engineering

Management Audits & Pre-audit Planning

System and Capacity Planning

Electric Utility Operations

Gas Utility Operations

Gas Supply Planning

Rate & Regulatory Services

Financial, Accounting, Tax, & Depreciation Service

Forecasting Services

Financial and Economic Feasibility Evaluations

Appraisal and Valuation

Risk Management

Management Information Systems

Profit & Loss Systems

Human Resource Management

Advisory Services

Utility Management Development Program

Productivity and Performance Improvement

Materials Management

Marketing

Cogeneration

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GAS INDUSTRY

Alabama Gas Corporation
Alabama-Tennessee Natural Gas Company
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Alberta Natural Gas Co.
ALGAS, S.A.
Algonquin Gas Transmission Co.
Allied New Hampshire Gas Company
American Gas Association
Arkansas-Louisiana Gas Company
Arkansas-Missouri Power Company
Arkansas Western Gas Company
Association Gas District of Florida, Inc.
Atlanta Gas Light Company
Australian Gas Light Company

B. C. Gas Company
Baltimore Gas and Electric Company
Battle Creek Gas Company
Bay State Gas Company
Berkshire Gas Company (The)
BHP Petroleum (Americas) Inc.
BHP Petroleum (New Ventures) Inc.
Boston Gas Company
Brazos River Gas Company
Bridgeport Gas Company
Brisbane Gas Company, Ltd.
British Gas PLC
Brockton Taunton Gas Company
Brooklyn Union Gas Company
Buzzards Bay Gas Company

CP National Corp.
Carmody & Torrance
Canadian Western Natural Gas Co., Ltd.
Cape Cod Gas Company
Cascade Natural Gas Corporation
Catalana de Gas y Electricidad S. A.
Centra Gas Alberta, Inc.
Centra Gas Manitoba, Inc.
Central Hudson Gas & Electric Corp.
Central Illinois Electric & Gas Co.
Central Illinois Light Company
Central Illinois Public Service Co.
Central Indiana Gas Company
Central Telephone & Utilities Corp.

Champlain Pipeline Project
Chesapeake Utilities
Chinese Petroleum Corporation
Cincinnati Gas & Electric Company
Cities Service Gas Company
Citizens Gas Fuel Company
Citizens Gas & Coke Utility
Citizens Utilities Company
City of Danville, Virginia
City of Hamilton, Ohio
City of Holyoke, Massachusetts Gas and Electric
City of Mesa, Arizona
City of Norwich, Connecticut
 Department of Public Utilities
City of Pensacola, Florida
City of Petersburg, Virginia
City of St. Petersburg, Florida
City of Westfield, Massachusetts
City of Winfield
Coastal States Gas Corporation
Cody Gas Company
Colonial Gas Association, Ltd.
Colonial Gas Company
Colonial Gas Holdings, Ltd.
Colorado Interstate Gas Co.
Colorado Springs Gas Department
Columbia Gas of Kentucky, Inc.
Columbia Gas of Maryland, Inc.
Columbia Gas of New York, Inc.
Columbia Gas of West Virginia, Inc.
Columbia Gas System, Inc.
Commonwealth Gas Company
Commonwealth Gas Distribution Corp.
Commonwealth Natural Gas Corp.
Community Public Service Company
Companhia Municipal
 de Gas de Sao Paulo
Concord Natural Gas Corporation
Connecticut Light & Power Company
Connecticut Natural Gas Corporation
Conoco Pipeline Co.
Consolidated Edison Company of New York, Inc.
Consolidated Natural Gas Company
Consumers' Gas Company

Coming Natural Gas Corporation
Cumberland Gas Company

Dayton Power & Light Company
Delaware Power & Light Company
Delta Natural Gas Company
Distrigas Corporation
Dome Petroleum Limited

Eastern Shore Natural Gas Co.
Eastern Utilities Associates
East Midland Gas Board
East Ohio Gas Company
Elizabeth City, North Carolina
Elizabethtown Gas Company
El Paso Natural Gas Company
Empressa Nacional del Petroleo (Chile)
EnergyNorth Inc.
Energy Services of Pensacola
Equitable Gas Company
Essex County Gas Company

Falcon Seaboard Oil Co.
Fall River Gas Company
Fitchburg Gas and Electric Co.
Flo-Gas Corporation
Florida Gas Company
Florida Public Utilities Company
Fremantle Gas and Coke Company

Gainesville Gas Company
Gas and Fuel Corporation of Victoria
Gas Company of New Mexico
Gas del Estado (Argentina)
Gas Light Company of Columbus
Gas Natural, S.A. (Chile)
Gas Service Company
Gas Service Inc.
Gaz Inter-Cite Quebec
Gaz Metropolitan, Inc.
Geelong Gas Company
Granite State Gas Transmission, Inc.
Greater Winnipeg Gas Company
Great Falls Gas Company
Great Northern Gas Utilities, Ltd.
Greenwich Gas Company
Gulf Coast Natural Gas Company
Gulf States Utilities Company

Hartford Electric Light Company
Hastings Utilities
Hindustan Petroleum Corporation
Hobbs Gas Company

Honolulu Gas Company
Hope Natural Gas Corporation
Houston Natural Gas Corporation
Houston Industrial Gas System

ICG Canadian Propane
Idaho Natural Gas Company
Industrial Gas Supply Corporation
Inland Natural Gas Company, Ltd.
Inter-City Gas Corp., Inc.
Intermountain Gas Company
Interprovincial Pipe Line Limited
Interstate Power Company
Iowa Electric Light & Power Company
Iowa-Illinois Gas & Electric Company
Iowa Public Service Company
Iroquois Gas Corporation

Kansas Power & Light Co. (The)
KPL-Gas Service
KN Energy, Inc.

Laclede Gas Company
Lake Shore Gas Company
Lea County Gas Company
Lone Star Gas Company
Long Island Lighting Company
Louisiana Gas Interstate, Inc.
Louisville Gas & Electric Co.
Lowell Gas Company

Madison Gas & Electric Company
Main Gas Werke (Germany)
Manchester Gas Company
Manila Gas Corporation
Memphis Light, Gas & Water Division
Metropolitan Utilities District of Omaha
Michigan Consolidated Gas Company
Michigan Gas & Electric Company
Michigan Gas Utilities Company
Michigan-Wisconsin Pipe Line Company
Mid-American Pipeline Company
Midland Cogeneration Venture

Midwest Energy Corp.
Midwestern Gas Transmission Company
Mississippi Valley Gas Company
Missouri Utilities Company
Mobile Gas Service Corporation
Montana-Dakota Utilities Company
Montana Power Company
Mountain Fuel Supply Company
Mustang Fuel Corporation

Nantucket Gas & Electric Company
Nashville Gas Company
National Fuel Gas Company
National Fuel Gas Supply Corp.
National Fuel Gas Distribution Corp.
National Gas & Oil Corporation
National Utilities & Industries Corp.
Natural Gas Pipeline Co. of America
New Bedford Gas & Edison Light Co.
New Britian Gas Light Company
New England Gas Association
New Haven Gas Company
New Jersey Natural Gas Company
New York Gas Group
New York State Electric & Gas Corp.
New York State Natural Gas Corp.
New Zealand Gas Association
North Carolina Natural Gas Corp.
North Shore Gas Company
Northeast Utilities Service Company
Northern and Central Gas Corp., Ltd.
Northern Illinois Gas Company
Northern Indiana Public Service Co.
Northern Minnesota Utilities
Northern Natural Gas Company
Northern States Power Company
Northern Utilities Inc.
Northwest Pipeline SGS Customer Group
Northwestern Public Service Company
Northwestern Utilities, Ltd.
Northwest Natural Gas Company

Ohio Fuel Gas Corporation
Ohio Gas Company
Ohio Public Utility Commission
Okaloosa County Gas District
Oklahoma Gas & Electric Company

Oklahoma Natural Gas Company
Orange and Rockland Utilities, Inc.

Pacific Lighting Service & Supply Co.
Pacific Power & Light Company
Panhandle Eastern Pipe Line Company
Pecos Valley Gas Company
Penn Fuel Gas Co.
Pennsylvania Gas Company
Pennsylvania Gas & Water Company
Pennsylvania Gas Association
Pennzoil United, Inc.
Peoples Gas Light & Coke Company
Peoples Gas System
Peoples Natural Gas Company
Peoples Natural Gas Company of South Carolina
Permian Basin Pipeline Company
Philadelphia Gas Commission
Philadelphia Gas Works
Piedmont Natural Gas Company
Pioneer Natural Gas Company
Plains-Western Gas, Ltd.
Polar Gas / McKenzie Delta
Producers Gas Company
Providence Gas Company
Public Service Company of North Carolina, Inc.
Public Service Electric & Gas Company
Puerto Rico Gas Co., Inc.

Quebec Natural Gas Corporation

Richmond Gas Corporation
Roanoke Gas Company
Rochester Gas & Electric Corporation

St. Lawrence Gas Company, Inc.
San Diego Gas & Electric Co.
San Juan Gas Company
Shreveport Intrastate Gas Transmission, Ltd.
Sierra Pacific Power Company
Societe Gazifere de Hull, Inc.
South Australia Gas Company
South Brisbane Gas & Light Company, Ltd.
South Carolina Electric & Gas Company
South County Gas Company
South Eastern Gas Board
South Jersey Gas Company
Southeastern Michigan Gas Company

Southeastern Public Service Company	Union Gas Limited
Southern California Gas Company	United Cities Gas Company
Southern Connecticut Gas Company	United Fuel Gas Company
Southern Indiana Gas & Electric Co.	United Gas Corporation
Southern Natural Gas Company	United Gas Pipe Line Company
Southern Union Gas Company	United Natural Gas Company
Southwest Gas Corporation	United Suburban Gas Company, Ltd.
Southwestern Energy Co.	United Texas Transmission Co.
Springfield Gas Light Company	Valero Energy Company
Stadtwerke Dusseldorf	Valley Gas Company
Stadtwerke Wiesbaden Ag.	Vermont Gas Systems, Inc.
Suffolk Gas Company	Virginia Electric & Power Company
Sugar Bowl Gas Company, Inc.	Volunteer Natural Gas Company
Sultanate of Oman	Wales Gas Board
Syracuse Suburban Gas Company, Inc.	Washington Gas Light Company
Technischen Werke der Stadt Stuttgart	Washington Natural Gas Company
Tenneco Inc.	West Ohio Gas Company
Tennessee Gas Transmission Company	West Virginia Power Gas Service
Texas Gas Transmission Corporation	Westfield Gas & Electric Light Company
Town of Citronelle, Alabama	Western Kentucky Gas Company
TransCanada Pipeline Ltd.	Western Resources, Inc.
Transco Companies, Ltd.	Williston Basin Interstate Pipeline Co.
Transok Pipeline Company	Wilmut Gas & Oil Company
Transcontinental Gas Pipe Line Corp.	Wisconsin Distributor Corp.
Trans Quebec & Maritimes Pipelines, Inc.	Wisconsin Gas Company
Tropical Gas Company	Wisconsin Public Service Corp.
Tucson Gas & Electric Company	Wisconsin Southern Gas & Appliance Corp.
T. W. Phillips Gas & Oil Company	World Bank (IBRD)
Union Gas of Canada	Wyoming Gas Company
Union Gas & Electric Power Company	York County Gas Company

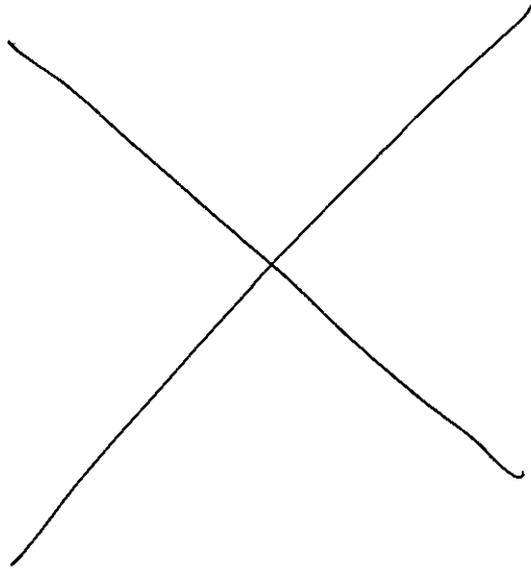
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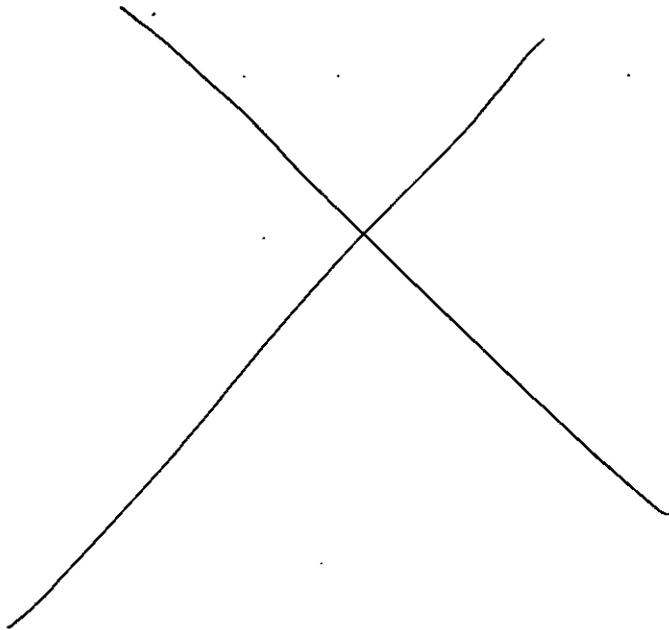
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Appendix C

Summaries of Legislation
Authorizing the Issuance of the First Series 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 1998 (the "1998 General Ordinance"), which authorize the issuance of Gas Works Revenue Bonds generally, and the First Supplemental Ordinance (the "First Supplemental Ordinance"); which authorizes the issuance of the Gas Works Revenue Bonds, First Series (the "First 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 1998 General Ordinance and the First Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1300 Municipal Services Building, 1401 J.F.K. Boulevard, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the 1998 General Ordinance and the First Supplemental Ordinance and, unless otherwise stated, shall have the meanings set forth therein.

THE FIRST CLASS CITY REVENUE BOND ACT

(Act 234 of the General Assembly of the Commonwealth
approved October 18, 1972, P.L. 955; 53 P.S. §§ 15901-24)

General Authorization; Definitions; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to The City of Philadelphia, Pennsylvania (the "City") and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects or to refund previously issued Bonds and certain other bonds, as more fully described herein under "Refunding."

"Project" is defined to include, inter alia, any building, structure, facility or improvement of a public nature, the related land and rights or leasehold estates therein and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof; the City's share of the cost of any of the foregoing undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a "project" by the City for financing purposes and in respect of which the City may reasonably be expected to receive Project Revenues.

"Project Revenues" mean, in respect of a Project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the Project to the ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of the Project, or the payment of the principal of or

interest on moneys borrowed to finance the cost of the Project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

Bonds issued under the Act are required to be payable solely from Project Revenues and to be secured solely by such revenues and by any reserve funds which may be created or funded in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property other than the Project Revenues pledged therefor and against the reserve funds established in respect of the Bonds. The obligations represented by the Bonds do not constitute a debt of the City, and are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimate of Future Revenues

In order to establish that Project Revenues will be sufficient to amortize all Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the City may be based on the final report of the head of the department or agency of the City having jurisdiction over the project involved or on a certificate of registered engineers engaged by the City to compile relevant data.

For the purpose of calculating projected annual Project Revenues for each year, the Act provides that: (i) only those rents, rates, tolls or charges to the general public shall be included which, under existing authorizations, are or will be in effect and will be reasonably collectible in such year under the schedule or rate of rents, rates, tolls or charges which are or will be in effect during such year, or which may be imposed by administrative action without further legislation; (ii) only those bulk payments shall be included which may be imposed under 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) only those governmental subsidies or payments shall be included which, under existing legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annual or more frequently recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amount of Bonds to be issued from time to time and determine, or designate officers of the City to determine; the form and details of the Bonds. Subject to

applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the segregation, custody, investment and disbursement of construction funds, the imposition, collection and disbursement of Project Revenues, the operation and maintenance of the Project, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds, the rights and remedies of bondholders upon default, and such other provisions as the City deems necessary or desirable in the interest of or for the protection of the City or of such bondholders. Under the Act, such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification, with such limitations as may be specified in the bond ordinance, by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

Sinking Fund

The Act requires that the bond ordinance shall provide for the establishment and maintenance of a sinking fund or shall designate a previously established sinking fund for the payment of the principal of and interest on the Bonds when due and payable or upon redemption and for the payment of State taxes, if any, assumed by the City to be paid on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established and all State taxes, if any, assumed by the City to be paid on such Bonds, as and when the same shall become due and payable. The sinking fund and any other funds or accounts established by the bond ordinance shall be managed by the chief fiscal officer of the City and moneys therein, to the extent not currently required, shall be invested, subject to limitations established by the bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund and other funds shall be added to such fund and may be applied in reduction of or to complete required deposits to the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or as otherwise provided in the bond ordinance. All moneys deposited in the sinking fund are subject to a perfected security interest for the Bonds for which the sinking fund is established until properly disbursed.

Refunding

Bonds outstanding under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Bonds issued under the Act and such refunding Bonds are subject to the same protections and provisions required for the issuance of an original issue of Bonds, provided that the maturity date of the refunding Bonds is not later than ten years after the last stated maturity date of the bonds to be refunded. The principal of and interest to payment or redemption date and redemption premium payable, if any, in respect of bonds to be refunded will no longer be deemed to be outstanding obligations of

the City when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit or specified obligations of the United States or of the Commonwealth of Pennsylvania (which, in each case, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof), 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 Bonds, the City must file with the Court of Common Pleas of Philadelphia County (the "Court") a transcript of the proceedings authorizing the issuance of such Bonds. If no action asserting the invalidity of such proceedings is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue such Bonds, the lawful nature of the purpose of which such Bonds are issued, and the validity and enforceability of such Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally, except where a constitutional question is involved.

Negotiable Instruments

The Act provides that Bonds issued thereunder shall have all the qualities and incidents of securities under Article 8 of the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, their transfer and the income therefrom shall at all times be free from taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to any gains made on the sale of obligations issued on or after February 1, 1994, 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 or cause to be paid the principal of or interest on any Bond as the same shall become due, the remedy provisions of the Act permit the holder of any such Bond, subject to the limitations described below, to recover the amount due in an action in the Court. However, a judgment rendered in favor of the bondholder in such an action is collectible only from the assessments, revenues, rates, rents, tolls and

charges from the Project which are pledged for the payment of such Bond. The holders of 25% in aggregate principal amount of any series of Bonds then outstanding which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance; may appoint a trustee to represent the holders of all such Bonds, and such representation shall be exclusive for the purposes provided in the Act. Such trustee may and, upon written request of the holders of 25% in aggregate principal amount of such Bonds then outstanding, and on being furnished with indemnity satisfactory to it, shall take one or more of the following actions which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds: (1) enforce, by proceedings at law or in equity, all rights of the holders of the Bonds; (2) bring suit on the Bonds, including the right to require the City to impose and collect pledged rents, rates, tolls and charges or to require the City to carry out any other agreements with the holders of such Bonds; (3) bring suit on the Bonds with the same effect as a suit by any holder of the Bonds; (4) bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of any Bonds; and (5) after 30 days' written notice to the City and subject to any limitations in the bond ordinance, declare the unpaid principal of all 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 and its consequences. The Court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the Bonds. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, the fees and expenses of a trustee, including operating costs of a Project and reasonable counsel fees, which are allowed by the Court, shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. (The 1998 General Ordinance limits any such recovery to Project Revenues.) The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City without limitation as to rate of interest and in such principal amount as may be required, together with other available funds, to pay and redeem such Bonds, including principal, interest to the date fixed for redemption or payment and redemption premium, if any.

THE 1998 GENERAL ORDINANCE
(Ordinance of City Council approved May 8, 1998 – Bill No. 980232
(the “1998 General Ordinance”))

Pursuant to the authorization contained in the Act, the City has adopted the 1998 General Ordinance. The City has made a pledge of, and has granted a security interest in, all Gas Works Revenues and all accounts, contract rights and general intangibles representing Gas Works Revenues for the security and payment of all Bonds issued under the 1998 General Ordinance.

Definitions

Accreted Value means, with respect to any Capital Appreciation Bond as of any specified date, the Original Value of such Bond plus interest accreted on such Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in the 1998 General Ordinance.

Bond or Bonds means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under the 1998 General Ordinance and any Supplemental Ordinance.

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or Holder means the registered owner of any Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any Bonds issued hereunder which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues.

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issuer or *issuer of a Credit Facility* means each issuer of a Credit Facility then in effect, and its successors. References to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of Bonds or each issuer of a Credit Facility, as the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements

for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b) of the 1998 General Ordinance; and (iii) Debt Service Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b) of the 1998 General Ordinance.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of Bonds or any portion thereof, to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterpart.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof and all activities ancillary and related thereto, and also means, as the context may require, the business entity managed by the Manager.

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the 1998 General Ordinance. Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

Government Obligations means any of the following which are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed

securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under the 1998 General Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating

agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means the 1998 General Ordinance, as from time to time amended.

Original Value, with respect to a Series of Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the Bonds, means, as of any particular date, all Bonds which have been authenticated and delivered under the 1998 General Ordinance, except:

(a) Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to

the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) Bonds in lieu of which or in substitution for which others have been authenticated and delivered under Section 3.04 of the 1998 General Ordinance.

Bonds paid with the proceeds of any Credit Facility shall be Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665 §1 et seq. (53 P.S. §13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, mature or are payable at the option of the holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to

the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Swap or *Swap Agreement* means, with respect to a Series of Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the rate on the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such Bonds.

Qualified Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1998 General Ordinance.

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding Bonds.

Rebate Amount means the amount with respect to a Series of Bonds, which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(f) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Senior Bonds means Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

Series, when applied to Bonds, means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV of the 1998 General Ordinance and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of Bonds.

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1998 General Ordinance.

Sinking Fund Depositary means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1998 General Ordinance.

Sinking Fund Reserve Requirement means, with respect to all Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such Bonds), determined as of any particular date.

Subordinate Bonds means those Bonds which shall be subordinate in right of payment to Senior Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

Supplemental Ordinance means an ordinance supplemental to the 1998 General Ordinance enacted pursuant to the Act and the 1998 General Ordinance by the Council of the City authorizing the issuance of a Series of Bonds.

Uncertificated Bond means any Bond which is fully registered as a to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

Concerning the Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (each a "Supplemental Ordinance"). The 1998 General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The 1998 General Ordinance sets forth the general form and content of Bonds, the manner of making payment of principal, interest and premium, the requirements governing such payments, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The 1998 General Ordinance authorizes the issuance of definitive and temporary Bonds, provides for the execution of the Bonds and provides for the issuance of Bonds to replace mutilated, destroyed, lost or stolen Bonds. The 1998 General Ordinance authorizes the issuance of Bonds in book-entry form.

Purposes For Which Bonds May Be Issued, Conditions of Issuance, Engineering Report

Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any bonds of the City issued for the foregoing purposes under the Act, (5) refund any general obligation bonds of the City issued for the foregoing purposes, or (6) finance anything else relating to the Gas Works permitted under the Act.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued unless the financial report of the City's chief fiscal officer, required by the Act, is filed with the City Council in connection with such issuance. Such report may be given in reliance of an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must set forth the qualifications of the engineers and must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works, as they deemed necessary. On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City

Council supported by appropriate schedules and summaries, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying the sources from which the pledged revenues are to be derived; (3) a statement that, on the basis of actual, if appropriate, and estimated future annual financial operations of the project or projects from which the pledged project revenues are derived, the project or projects will, in the opinion of the engineers, yield pledged project revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of operating expenses, reserve requirements, debt service of all Bonds outstanding for which project revenues are pledged, any State taxes assumed by the City to be paid on such Bonds and surplus requirements fixed by the 1998 General Ordinance or the Supplemental Ordinance authorizing the issuance of any Series of Bonds, and (4) that the project revenues upon which the preceding statements are based comply with the definition of "Project Revenues" contained in the Act. The 1998 General Ordinance also requires that the engineering report state that the Gas Works rents, rates and charges on the basis of which the foregoing statements are made are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Prior to the issuance of the Bonds, a transcript of the proceedings authorizing the issuance of the Bonds, including the engineering report, if any, shall be filed with the Fiscal Agent.

Security

The Bonds are and will be equally and ratably secured by a pledge of and a security interest in all Gas Works Revenues and the Sinking Fund, including the Sinking Fund Reserve (except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds).

Subordinate Bonds shall be subordinate to Senior Bonds in right of payment of principal, premium, if any, and interest. Senior Bonds and Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in the 1998 General Ordinance or in a Supplemental Ordinance, over any other Senior Bonds or Subordinate Bonds, respectively.

Priority in Application of Gas Works Revenues

The 1998 General Ordinance provides that all Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable,

First: to Net Operating Expenses then payable:

Second: to debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance;

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

Fourth: to payments due to issuers of Credit Facilities related to Senior Bonds;

Fifth: to debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds;

Sixth: to payments due to issuers of Credit Facilities related to Subordinate Bonds;

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

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

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

Tenth: to debt service on other general obligation bonds issued for the Gas Works; and

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

The 1998 General Ordinance does not require the segregation of revenues upon their collection.

Rate Covenant

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;
- (iii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;
- (iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;
- (v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;
- (vi) the Rebate Amount required to be paid to the United States during such Fiscal Year; and
- (vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

B. The sum of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during each Fiscal Year;
- (iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;
- (iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

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

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds Outstanding under the 1998 General Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

Notwithstanding the requirements of Section 4.03(b) of the 1998 General Ordinance and the pledge under Section 4.02 thereof, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) of the 1998 General Ordinance applied as if the percentage in subsection A(iii) thereof were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

Additional Covenants

The City further covenants that (1) it will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all Bonds as the same

shall become due and payable; (2) it will continuously maintain in good condition and continuously operate the Gas Works; and (3) it will not in any Fiscal Year pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenant and requirements of the 1998 General Ordinance and all 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 improvements to the Gas Works by issuing (1) its general obligation bonds or (2) under authorization other than the 1998 General Ordinance and Supplemental Ordinances, obligations for the payment of which Gas Works Revenues may be pledged, subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under the 1998 General Ordinance.

Sinking Fund and Sinking Fund Reserve

The Sinking Fund is established for the benefit and security of all Bonds issued under the 1998 General Ordinance. The Sinking Fund shall be held in an account or accounts separate and apart from all other accounts of the City. The City covenants to deposit in the Sinking Fund from Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits on investments held therein, be sufficient to accumulate therein (exclusive of amounts in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then becoming due and payable. The 1998 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of

Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository. Unless otherwise provided in the applicable Supplemental Ordinance, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued thereunder and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the above requirements.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is hereby authorized and directed to withdraw from

the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserved or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

Remedies; Limitations on Liabilities of City

If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the Bonds or with any covenant of the City contained in the 1998 General Ordinance or an applicable Supplemental Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds. Any decree or judgment for the payment of money against the City by reason of default under the 1998 General Ordinance shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and investments thereof and no decree or judgment against the City upon an action brought under the 1998 General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Amendments

The 1998 General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law

or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

Closure of the 1975 Ordinance

After the adoption of the 1998 General Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from Bonds issued under the 1998 General Ordinance.

THE FIRST SUPPLEMENTAL ORDINANCE

(First Supplemental Ordinance of City Council
approved May 8, 1998, Bill No. 980233 (the "First Supplemental
Ordinance"))

The First Supplemental Ordinance authorizes the Mayor, City Controller and City Solicitor (the "Bond Committee"), or a majority of them, to sell, in one or more series, Gas Works Revenue Bonds in the maximum aggregate principal amount of \$300,000,000 provided that such aggregate principal amount may be increased to reflect sales of such Bonds at discounts which are in lieu of periodic interest, so long as the aggregate gross proceeds to the City from the sale of such First Series Bonds do not exceed \$300,000,000, and authorizes a majority of the Bond Committee to establish the terms and provisions of such First Series Bonds.

The First Supplemental Ordinance states that the First Series Bonds are to be issued for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of PGW as from time to time included in

the capital budgets of PGW, as approved by City Council; (ii) refunding of all or a portion of certain series of the City's outstanding Gas Works Revenue Bonds, as designated by the City's Director of Finance (the "Refunded Bonds"); (iii) acquiring the headquarter building currently being leased by the City for the Gas Works from the Philadelphia Municipal Authority, by making a prepayment of rent under the lease for such building; (iv) paying the costs of issuing the First Series Bonds, and making any required deposit to the Sinking Fund Reserve; and (v) 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 First Supplemental Ordinance determines that the pledged Gas Works Revenues (as defined in the 1998 General Ordinance) will be sufficient to comply with the Rate Covenant contained in the 1998 General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in their order of priority as set forth in the 1998 General Ordinance.

The City covenants in the First Supplemental Ordinance that the proceeds of the First 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 1998 General Ordinance), separate and apart from all other accounts of the City or the Gas Works.

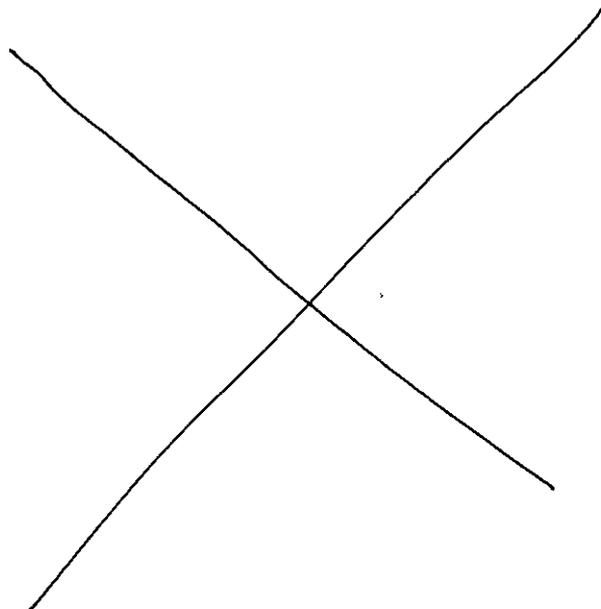
The City covenants in the First Supplemental Ordinance that the proceeds of the sale of the First Series Bonds which remain available for payment of costs of capital improvements shall be deposited in, held in and disbursed from one or more unsegregated accounts of PGW which shall be separate and apart from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes.

The City covenants in the First Supplemental Ordinance that, so long as any First Series Bonds issued thereunder remain unpaid, it shall make payments or cause payments to be made out of the Sinking Fund created under the 1998 General Ordinance at such times and in such amounts as shall be sufficient to pay interest on and principal of any First Series Bonds when due.

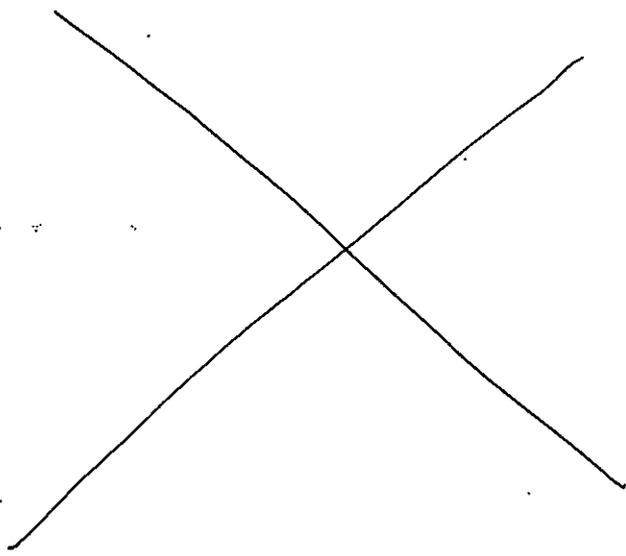
The First Supplemental Ordinance authorizes the Director of Finance and any member of the Bond Committee to make such covenants as may be necessary or advisable to insure that interest on the First Series Bonds shall be excludible from gross income for purposes of federal income taxation.

Appendix D

Certain Information
Concerning the City of Philadelphia



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THE GOVERNMENT OF PHILADELPHIA

General

The City of Philadelphia (the "City") was founded in 1682 and merged with the County of Philadelphia in 1854. There are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education. The court system in Philadelphia, consisting of Common Pleas, Municipal, and Traffic Courts, is part of the Commonwealth of Pennsylvania (the "Commonwealth") Judicial System. Although judges are paid by the Commonwealth, all other court costs are paid by the City, with partial reimbursement from the Commonwealth.

The City is governed primarily under the Home Rule Charter, which provides for the election, organization, powers, and duties of the legislative branch (the "City Council"); the powers and duties of the executive and administrative branches; and the City's fiscal and budgetary matters, contracts, procurement, property, and records.

The School District is governed primarily under the 1965 Educational Supplement to the Home Rule Charter. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. The School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, both the City and the School District are governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

Among his primary responsibilities, the City Controller audits and reports upon the combined financial statements of the City. In the performance of the City Controller's Home Rule Charter mandated pre-audit functions, the City Controller, who has a staff of approximately 150 employees, reviews each transaction involving a disbursement of funds of the City. This review is limited by the Home Rule Charter to a verification of the certification by the Director of Finance that the proposed disbursement is made for the purpose contemplated by the appropriation upon which it is drawn and is in the correct amount. The City Controller has investigatory authority to carry out this responsibility.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), who is the chief financial and budget officer and is selected from three names submitted to the Mayor by a Finance Panel, the City Solicitor (the "City Solicitor"), who is head of the Law Department, the Director of Housing (the "Director of Housing"), and the City Representative and Director of Commerce (the "City Representative" and "Director of Commerce"). These officials form the Mayor's Cabinet, which, together with the Mayor, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the departments and agencies of the City that render the City's various municipal services. The City Solicitor acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction to City Council, and for the conduct of litigation involving the City. The City Representative and Director of Commerce is charged with the responsibility of giving wide publicity to any items reflecting the activities and accomplishments of the City, its inhabitants, and commerce and industry, and is charged with the responsibility of promoting and developing commerce and industry.

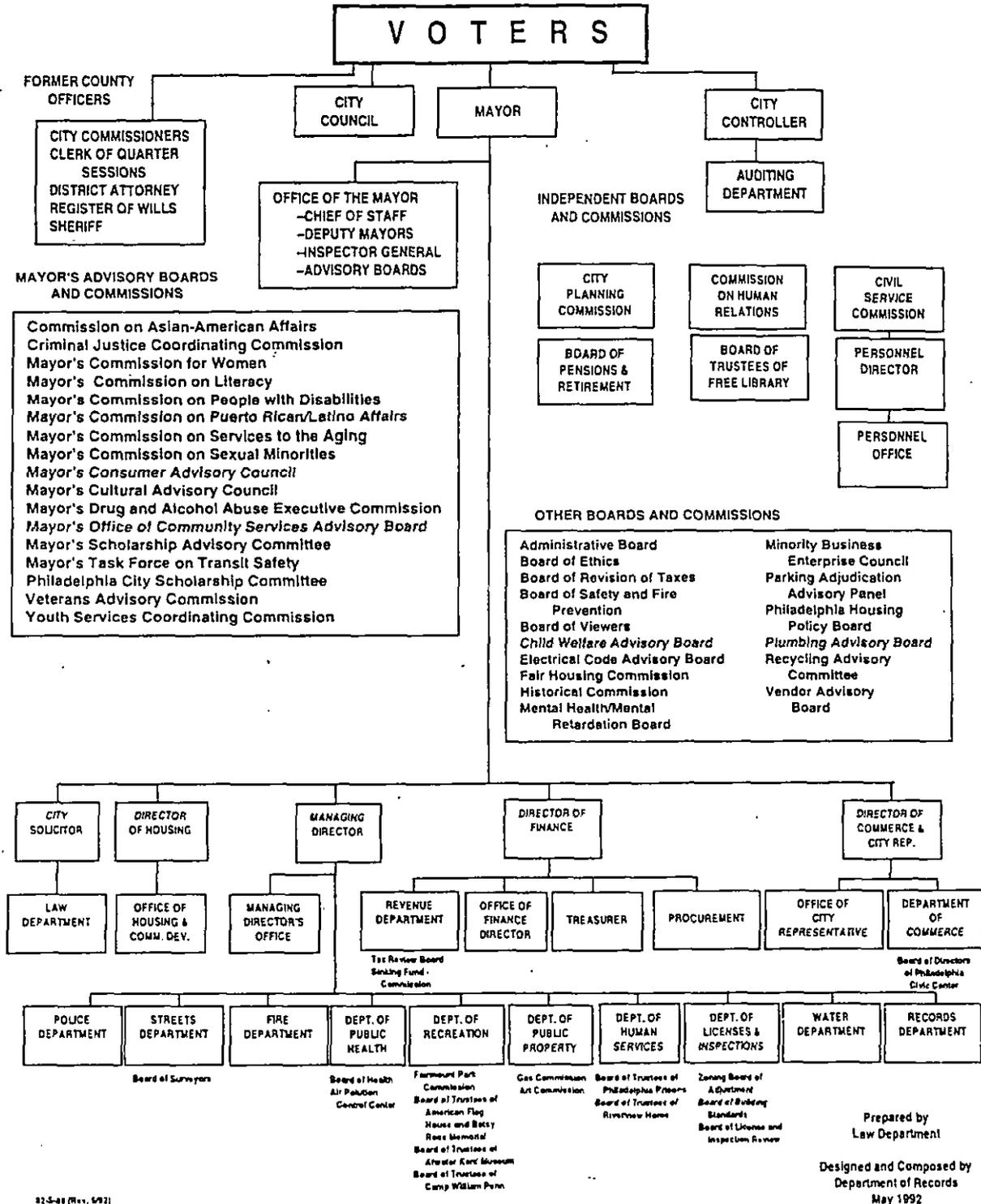
The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution, the collection of revenues through the Department of Revenue, purchasing, and some aspects of property management through the Procurement Department; oversight of pension administration as Chairperson of the Board of Pensions and Retirement; and the appointment and supervision of the City Treasurer.

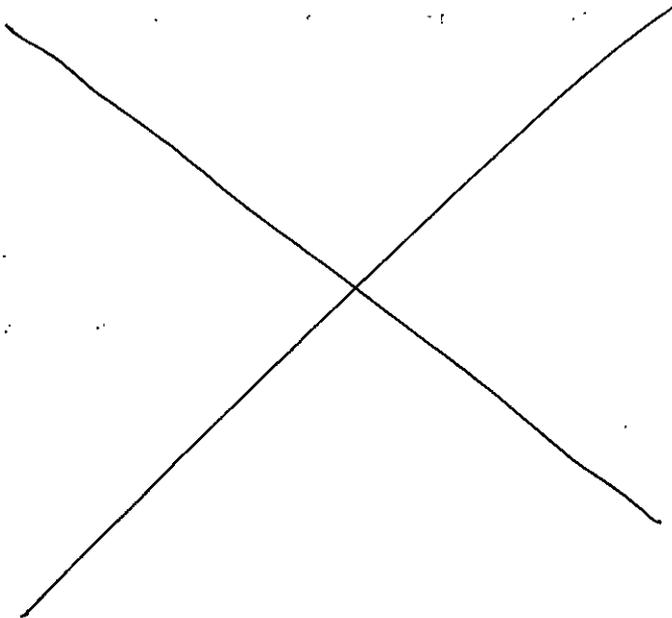
The Director of Housing is responsible for the coordination of City housing policy and programs and serves informally as a member of the Mayor's Cabinet.

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.

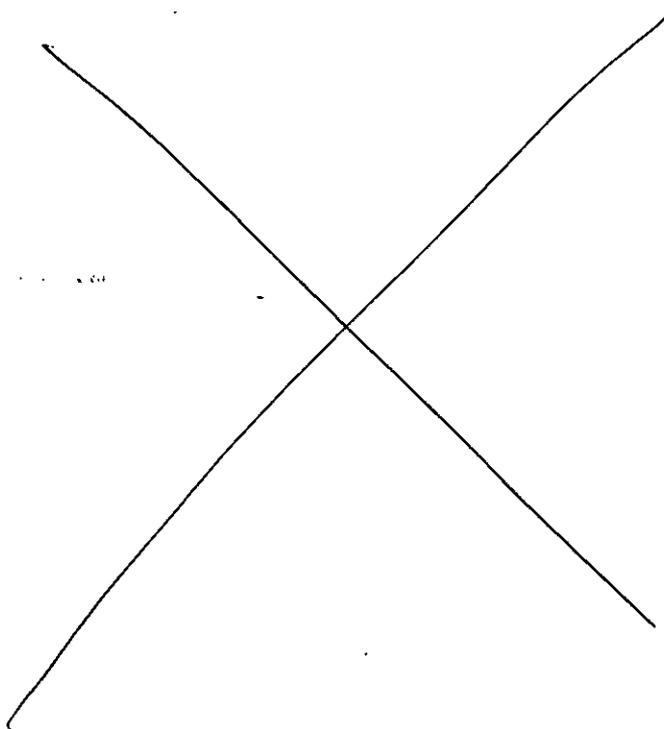
The chart on the following page summarizes the organization of the City's government.

ORGANIZATION OF PHILADELPHIA'S CITY GOVERNMENT





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The following are brief biographies of the Mayor, his chief of staff, and his cabinet:

Edward G. Rendell, Mayor, was elected in November 1991 and re-elected in November 1995. 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 LLP. Mayor Rendell received his B.A. from the University of Pennsylvania and a J.D. from Villanova University School of Law.

Gregory S. Rost, Chief of Staff, served as Mayor Rendell's Deputy Mayor for Policy and Planning for four years prior to assuming his current position in April 1997. Prior to that, he served as Assistant Deputy Mayor for Policy and Planning from 1992 to 1993, and as Deputy Director of the Fels Center of Government at the University of Pennsylvania from 1989-1992. He holds an MGA from the University of Pennsylvania and was previously a doctoral candidate in Government and Politics at the University of Maryland, College Park.

Stephanie L. Franklin-Suber, City Solicitor, was a partner in the law firm of Schnader, Harrison, Segal & Lewis before coming to the Law Department in 1994 to assume the position of Chair of the Corporate Group. She served from 1983 until 1985 as Law Clerk to the Honorable A. Leon Higginbotham, Jr. of the United States Court of Appeals, Third Circuit, and from 1985 to 1986 as Law Clerk to the Honorable Clifford Scott Green of the United States District Court, Eastern District of Pennsylvania. She also served as a research associate, teaching assistant and lecturer at the University of Pennsylvania and has taken an active role in various bar associations. She received a B.A. from Vassar College and a J.D. from the University of Pennsylvania Law School in 1982.

Joseph C. Certaine, Managing Director, has worked in City government for over a decade. Before assuming his present position, he was Deputy Managing Director for Municipal Operations from 1992 to 1994. Prior to that, Mr. Certaine served as Deputy Commissioner of the Department of Public Property and Assistant Managing Director in Charge of Emergency Operations. He has also functioned as Special Assistant to the Mayor responsible for neighborhood service delivery issues.

Ben Hayllar, Director of Finance, served as the Director of Finance of the City of Pittsburgh for four years beginning in October 1989. Prior to that he served as a Vice President and Division Manager of Equibank. From 1977-1985, Dr. Hayllar was the Assistant Executive Secretary to Pittsburgh's Mayor Richard Caligiuri. He holds a B.A. in Literature and a Ph.D. in Communications and Urban Affairs from the University of Pittsburgh.

Stephen P. Mullin, City Representative and Director of Commerce, served as Director of Finance for the City for two years prior to assuming his current position. Prior to that, he 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 Deputy Director of the St. Louis Economic Development Corporation, St. Louis' main economic development agency. He holds an A.B. from Harvard University and an M.A. in Economics from the University of Pennsylvania.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; 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 wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and

permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works (the "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 that is coterminous with the geographical limits of the City. The Gas Works is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate the Gas Works for the benefit of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. As of January 1, 1983, SEPTA's Regional High Speed Line Division assumed direct operation of the commuter rail system.

The Philadelphia Parking Authority is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include the construction of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and/or administer low and moderate income rental units and housing in the City. The Redevelopment Authority, supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas.

The Hospitals and Higher Education Facilities Authority of Philadelphia, formerly The Hospitals Authority of Philadelphia, (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes.

The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") maintains, manages, and operates the Pennsylvania Convention Center which opened on June 25, 1993.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is currently the only city of the first class in the Commonwealth. The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. PICA has the power, subject to satisfaction of certain requirements in the PICA Act, to issue bonds and grant or lend the proceeds thereof to the City. PICA also has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan. Under the PICA Act, such certification would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "Source of Payment of PICA Bonds" below.

On June 16, 1992, PICA, at the request of the City, issued \$474,555,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992 (the "1992 PICA Bonds"). The proceeds of the 1992 PICA Bonds were used (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit (\$153.5 million) and the then-projected Fiscal Year 1992 General Fund deficit (\$71.4 million); (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; and (iii) to make a grant to the City to provide it with financial assistance to enhance productivity in the operation of City government. It had been anticipated that the proceeds of the 1992 PICA Bonds would also be used to fund the City's projected Fiscal Year 1993 General Fund deficit, however, because no deficit occurred, a grant from PICA for this purpose was not required. These proceeds, in the amount equal to \$23.5 million, were instead used to fund the City's Indemnity Fund and the "Day Backward/Day Forward Program".

On July 29, 1993, PICA, at the request of the City, issued \$643,430,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1993, the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City and to make a grant to the City to provide for the refunding of certain outstanding general obligation bonds of the City in the aggregate amount of \$336,225,000.

On September 14, 1993, PICA issued \$178,675,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1993A, the proceeds of which were used to advance refund \$136,670,000 principal amount of the 1992 PICA Bonds.

On December 15, 1994, PICA, at the request of the City, issued \$122,020,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program) Series of 1994 (the "1994 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City.

On May 30, 1996, PICA issued \$343,030,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1996 (the "1996 PICA Bonds"), the proceeds of which were used to advance refund \$304,160,000 principal amount of the 1992 PICA Bonds and \$120,180,000 principal amount of 1994 PICA Bonds.

As of the beginning of Fiscal Year 1999, the principal amount of PICA bonds outstanding will be \$1,055,000,000.

Source of Payment of PICA Bonds

The PICA Act authorized the City to impose a tax for the benefit of PICA. In connection with the adoption of the Fiscal Year 1992 budget, the City reduced the wage, earnings, and net profits tax on City residents by 1.5% and enacted a 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA and are not subject to appropriation by the Commonwealth or the City. The PICA Tax, collected by the Commonwealth Department of Revenue, is deposited in the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing the rate of the PICA Tax while any bonds secured by the PICA Tax are outstanding.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established pursuant to the PICA Act exclusively for the benefit of the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, but are subject to withholding if PICA certifies the City's non-compliance with the then-current Five-Year Plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account, the debt service reserve fund created for bonds issued by PICA and the City Account. The amount of PICA Tax remitted to PICA by the Commonwealth in Fiscal Years 1992, 1993, 1994, 1995, 1996 and 1997 totaled \$159.5 million, \$187.9 million, \$205.5 million, \$209.6 million, \$218.8 million, and \$220.8 million, respectively.

PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

Five-Year Plans of the City

One of the conditions precedent to the issuance of bonds by PICA was the development by the City and approval by PICA of a five-year financial plan. The original Five-Year Plan (the "Original Five-Year Plan"), which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992.

In each subsequent year, the City updated the previous year's five-year plan, each of which was adopted by City Council, signed by the Mayor and approved by PICA. The following table provides information on each Five-Year plan.

PLAN	PLAN FISCAL YEARS
Original Five-Year Plan	1993-1997
Second Five-Year Plan	1994-1998
Third Five-Year Plan	1995-1999
Fourth-Year Plan	1996-2000
Fifth Five-Year Plan	1997-2001
Sixth Five-Year Plan	1998-2002
Seventh Five-Year Plan	1999-2003

The seventh Five-Year Plan was presented to City Council by the Mayor on January 27, 1998 and approved by City Council on March 26, 1998. The anticipated date for PICA approval of the Seventh Five-Year Plan is June 2, 1998. In the Seventh Five-Year Plan, the City projects a balanced budget in each of the five years covered by the plan through a continued strategy based upon implementation of management initiatives, productivity improvements, cost containments, certain workforce restructurings, and revenue enhancements. See "DISCUSSION OF FINANCIAL OPERATIONS - Quarterly Report to PICA" for information relating to the status of the City's compliance with the Sixth Five-Year Plan.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information contained in this Official Statement have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the Comprehensive Annual Financial Reports.

Independent Audit and Opinion of the City Controller

The combined financial statements of the City for the Fiscal Year ended June 30, 1997 have been audited and reported upon by the City Controller. The City Controller has also examined and expressed opinions on the combined financial statements of the City contained in the Comprehensive Annual Financial Report of the Director of Finance for all prior years.

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement.

Fund Structure

The major operations of the City are conducted through the Principal Operating Funds (Debt Related) which include the General Fund. In addition, the City has three other Principal Operating Funds that are not debt related ("Non-Debt Related Funds"), two of which are financed solely from grants from the Commonwealth and Federal governments. Collectively, the Principal Operating Funds (Debt Related) and the Non-Debt Related Funds are referred to herein as the "Principal Operating Funds".

Principal Operating Funds

The Unrestricted Debt Related Funds include the General Fund, the resources of which are available for any City purpose, and the County Liquid Fuels Tax Fund and the Special Gasoline Tax Fund, the resources of which are available only for servicing general obligation debt issued for construction of public roads or streets. The Other Debt Related Funds include the Water Fund and the Aviation Fund, the resources of which are not generally available for other City purposes, and the Convention and Civic Center Fund, which was established to account for the operations of the Convention and Civic Centers. The Convention and Civic Center Fund was abolished in Fiscal Year 1994.

The Non-Debt Related Funds, the resources of which are not available for other City purposes, include the Grants Revenue Fund, the Community Development Fund, and the Hotel Room Rental Tax Fund.

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 a modified accrual basis. Under this method, revenues are recognized in the accounting period in which they become both

available and measurable. Licenses and permits, charges for services, fines, and forfeits, and miscellaneous revenues are recorded as revenues when received in cash. 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 and the Aviation Fund) and Pension Trust Funds are accounted for on the accrual basis, in which revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

During Fiscal Year 1979, financial statements for the Proprietary Funds were changed to conform to the description above in order to bring their presentation into accord with Generally Accepted Accounting Principles as recommended by the National Council on Governmental Accounting. However, because the City's operating budget is prepared on a modified accrual basis and to achieve a consistent presentation of the City's finances as a whole, the Proprietary Funds are also shown in the tables herein on a modified accrual basis.

Budget Procedure

At least thirty days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. Within ten days after the adoption of each of such ordinances and its receipt by the Mayor, the Mayor must act upon such ordinance or the ordinance becomes effective.

The operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption at least ninety days before the end of the Fiscal Year. 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 projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table 18 for a summary of the City's capital program for the Fiscal Years 1999 through 2004.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from funds that City Council appropriates, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Certificate of Conformance in Financial Reporting

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Conformance in Financial Reporting, now called the Certificate of Achievement for Excellence in Financial Reporting (the "Certificate"), to the City for its Annual Financial Report for each of the fiscal years ended June 30, 1980 through June 30, 1996. In order to be awarded a Certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. A Certificate is valid for a period of one year only.

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CITY CASH MANAGEMENT AND INVESTMENT POLICIES

Consolidated Cash

The Act of the General Assembly of the Commonwealth on June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of cash of all City Funds, except those which for legal or contractual reasons cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, certain capital project funds, sinking fund reserves, funds of the Gas Works, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to written procedures adopted by the Finance Department.

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account but only to the extent of the balance of that fund's capital component and only in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes.

The Director of Finance adopted written procedures that modify the City's cash management operations. Generally, the new procedures, which went into effect in Fiscal Year 1991, are consistent with prior written procedures, except that the General Fund-related operating fund is required to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds is invested by the City Treasurer's Office through the use of money market mutual funds and professional money managers under contract with the City. The Finance Director adopted a written Investment Policy (the "Policy") which went into effect in August 1994.

The Policy clearly delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. Government Securities, U.S. Treasuries, U.S. Agencies, Certificates of Deposit, Bankers Acceptance Notes, Eurodollar Deposits, Euro Certificates of Deposit, Commercial Paper, Corporate Bonds, Money Market Mutual Funds, Repurchase Agreements and Commonwealth of Pennsylvania securities, all of investment grade rating or better. Each category of instruments, excluding U.S. Government, Treasury and Agency securities which carry no limitation, is limited to investment of no more than 25% of the total portfolio and, no more than 10% of the total portfolio per institutional or corporate issuer. The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-

registered money market mutual funds with the balance of funds invested by money managers in accordance with the Investment Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Finance Director, City Treasurer and Deputy City Treasurer with ex-officio membership of each of the principal operating and capital funds, i.e. Water Fund, Aviation Fund, Philadelphia Gas Works and Philadelphia Municipal Authority. The Investment Committee meets quarterly with each of the Investment Managers to review each manager's performance to date and plans for the next quarter. Investment Managers are given any changes in investment instructions at these meetings. All changes in the Policy are approved by the Investment Committee.

The Policy expressly forbids the use of any derivative investment product whose yield or market value does not follow the normal swings in interest rates. Investment in derivatives such as "inverse floaters", leveraged variable rate debt and interest-only or principal-only CMO's is specifically forbidden. The use of any other derivative investment products is restricted to identified "core cash" in any fund but never to exceed 25% of any fund's balance at the time of purchase. If the market values fall 5% below cost, a written explanation is required from the investment manager outlining the reasons for the decline and outlining the steps, if any, that are needed to correct the situation.

General Fund Cash Flow

Because the receipt of General Fund revenues lags behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes borrowings from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972. Each issue was repaid when due prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property and certain other taxes are not due until the latter part of the fiscal year; (2) large general obligation debt service payments occur in July and January and August and February of each year; and (3) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

The City continually takes steps to improve timing of its receipts and disbursements during the fiscal year, including acceleration of due dates for certain taxes and scheduling principal and interest payments under recent bond authorizations in the spring and fall of each year rather than in July and August. The City has taken steps to improve remittance processing and deposit timing and has achieved same day availability of deposit on a significant portion of General Fund receipts. It is expected, however, that the General Fund will continue to experience seasonal cash flow imbalances.

DISCUSSION OF FINANCIAL OPERATIONS

Fiscal Year 1997 Year-End Results

Table 1 summarizes the audited results for the General Fund for Fiscal Year 1997. In Fiscal Year 1997, the City posted its fifth consecutive positive General Fund balance, recording a \$128.8 million positive fund balance. This was the result of an \$118.5 million positive fund balance from Fiscal Year 1996 and a \$10.3 million net increase in the fund balance during Fiscal Year 1997. The major factors contributing to the \$10.3 million Fiscal Year 1997 surplus and the \$128.8 Fiscal Year 1997 year-end fund balance were, in comparison to the adopted Fiscal Year 1997 budget, a \$49.4 million increase in prior year adjustments and a \$0.2 million decrease in total obligations.

Fiscal Year 1998 General Fund Budget and Projected Results

The City's Fiscal Year 1998 budget was presented to City Council on January 23, 1997, and was approved by City Council on March 26, 1997. This budget was prepared by the City in conjunction with the Sixth Five-Year Plan. Simultaneously, the City's Sixth Five-Year Plan was approved by City Council and then submitted to PICA, which approved it on May 20, 1997.

The adopted General Fund budget for Fiscal Year 1998, including prior year adjustments, achieved a balanced budget without a deficit elimination grant from PICA. In preparing the budget for Fiscal Year 1998, the City believes it took a conservative approach to revenue estimation while also reflecting revenue enhancement and operating expense reduction measures identified in the Sixth Five-Year Plan.

As reported in the "City of Philadelphia: Quarterly City Managers Report" dated May 15, 1998, the City is currently estimating that it will end Fiscal Year 1998 with a \$13.5 million operating surplus, after prior year adjustments. When combined with the Fiscal Year 1997 fund balance in the General Fund of \$128.8 million, this results in an estimated \$142.3 million positive fund balance at the end of Fiscal Year 1998.

The following is a summary of the most significant projected Fiscal Year 1998 deviations of actual revenues and obligations from adopted budget levels as reported in the May 15, 1998, "City of Philadelphia - Quarterly City Managers Report":

Revenues:	Over/(Under)
Tax Revenues	\$15 million
Other Funds	\$5 million
Other Government Revenues	(\$6 million)
Local non-tax revenue	(\$4 million)
Obligations:	(Over)/Under
First Judicial District	(\$52 million)
Finance-Employee Benefits	(\$5 million)
Commerce - Economic Development	\$26 million
Sinking Fund	\$21 million
Finance - Contribution to School District	\$10 million
Human Services	\$6 million
Public Health	\$5 million
Streets	\$4 million
Miscellaneous	\$6 million
Prior Year Fund Balance	\$17 million

The City did not originally include funding for the First Judicial District's costs in the Fiscal Year 1998 budget in anticipation of the takeover by the Commonwealth of that function. When that did not occur, the City appropriated \$52 million for that purpose. This was accomplished primarily by a transfer of \$26 million from the Department of Commerce and a reduction of the original \$25 million appropriated for transfer to the School District. An additional \$15 million was subsequently appropriated for transfer to the School District leaving a net difference between the original appropriation and actual expenditure of \$10 million. The excess of \$21 million in appropriation for the Sinking Fund was due to lower than expected borrowing costs and the \$17 million of prior year fund balance resulted from a carry over of the Fiscal Year 1997 fund balance which was higher than anticipated at the time of the adoption of the Fiscal Year 1998 budget.

Fiscal Year 1999 Budget

The City's Fiscal Year 1999 budget was approved by City Council on March 26, 1998. This budget was prepared by the City in conjunction with the Seventh Five-Year Plan. The Seventh Five-Year Plan reflects a fund balance of \$51.1 million at the end of Fiscal Year 2003.

TABLE 1
CITY OF PHILADELPHIA
GENERAL FUND
SUMMARY OF OPERATIONS
(Legal Basis)
(Amounts in Millions)

	Actual					Adopted	Estimated	Adopted
	1993	1994	1995	1996	1997	Budget	Actual	Budget
	1993	1994	1995	1996	1997	1998	1998	1999
REVENUES								
Real and Personal Property Taxes	\$345.2	\$346.0	\$339.5	\$346.6	\$358.2	\$356.2	\$340.2	\$342.6
Wage and Earnings Tax (a)	804.4	829.0	847.5	864.9	872.5	888.8	892.4	895.5
Net Profits Tax	15.6	11.9	10.1	12.6	12.8	12.9	13.0	12.9
Business Privilege Tax	215.1	221.6	230.2	237.5	246.4	248.7	244.6	252.0
Sales Tax (b)	76.3	82.6	86.1	82.4	91.4	88.6	93.7	96.0
Other Taxes (c)	69.0	78.3	79.9	77.7	93.9	84.7	110.6	98.6
Total Taxes	<u>1,525.6</u>	<u>1,569.4</u>	<u>1,593.3</u>	<u>1,621.8</u>	<u>1,675.2</u>	<u>1,679.9</u>	<u>1,694.5</u>	<u>1,697.6</u>
Locally Generated Non-Tax Revenue	124.6	157.3	179.0	194.6	178.7	174.6	170.4	167.8
Revenue from Other Governments (a)(d)	589.0	564.9	490.0	535.3	546.4	589.8	584.2	622.3
Receipts from Other City Funds	15.3	20.3	13.4	13.1	24.5	20.2	25.0	64.3
Total Revenue	<u>2,254.3</u>	<u>2,311.9</u>	<u>2,275.7</u>	<u>2,364.8</u>	<u>2,424.8</u>	<u>2,464.5</u>	<u>2,474.1</u>	<u>2,552.0</u>
OBLIGATIONS/APPROPRIATIONS								
Personal Services	873.9	863.5	865.2	896.7	970.4	955.6	984.4	936.4
Purchase of Services	689.9	754.5	699.7	709.9	735.9	757.8	735.2	835.7
Materials, Supplies and Equipment	61.2	74.9	72.7	81.7	72.4	74.6	78.2	83.8
Employee Benefits	418.2	450.5	426.7	431.0	456.7	474.8	480.1	502.5
Indemnities, Contributions and Grants	81.6	60.5	52.4	100.6	84.0	84.3	74.3	97.5
Debt Service	120.1	93.9	99.8	92.1	91.1	107.8	86.7	107.1
Other	18.3	21.8	16.1	29.4	29.7	29.5	29.5	29.3
Payments to Other City Funds	17.2	26.4	34.6	29.5	23.8	25.6	25.1	26.1
Total Obligations/Appropriations	<u>2,280.4</u>	<u>2,346.0</u>	<u>2,267.2</u>	<u>2,371.0</u>	<u>2,463.9</u>	<u>2,510.0</u>	<u>2,493.5</u>	<u>2,618.3</u>
Operating Surplus (Deficit) for the Year	(25.9)	(34.3)	8.5	(6.1)	(39.2)	(45.5)	(19.5)	(66.4)
Net Adjustments - Prior Year	28.9	46.7	56.6	44.1	49.5	33.0	33.0	33.0
Funding for Labor Contracts	0.0	0.0	0.0	0.0	0.0	(99.7)	0.0	(99.5)
Cumulative Fund Balance								
(Deficit) Prior Year	<u>0.0</u>	<u>3.0</u>	<u>15.4</u>	<u>80.5</u>	<u>118.5</u>	<u>112.3</u>	<u>142.3</u>	<u>132.9(e)</u>
Year End Fund Balance Prior								
to Deficit Financing	<u>3.0</u>	<u>15.4</u>	<u>80.5</u>	<u>118.5</u>	<u>10.3</u>	<u>0.0</u>	<u>4.1</u>	<u>0.0</u>
PICA Deficit Financing FY91 and Prior	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
PICA Deficit Financing								
Current Year	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Cumulative Adjusted Year								
End Fund Balance (Deficit)	<u>\$ 3.0</u>	<u>\$ 15.4</u>	<u>\$ 80.5</u>	<u>\$ 118.5</u>	<u>\$ 128.8</u>	<u>\$ 0.0</u>	<u>\$ 142.3</u>	<u>\$ 0.0</u>

(a) In FY 1992 and for subsequent fiscal years during which the PICA bonds were outstanding, the City reduced the resident Wage & Earnings and Net Profits Tax rate from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%. After paying debt service on the PICA bonds and PICA expenses, net proceeds of the PICA Tax are remitted to the City. These proceeds are reflected in Revenues from Other Governments.

(b) A 1% sales tax went into effect on September 28, 1991. Accordingly, the FY 1992 figure represents nine months of collections. Figures for FY 1993 and thereafter assume a full year of sales tax collections.

(c) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.

(d) Net of deficit financing through PICA and subsequent PICA grants.

(e) Prior year fund balance estimated at time budget adopted.

FIGURES MAY NOT ADD DUE TO ROUNDING

TABLE 2
CITY OF PHILADELPHIA
PRINCIPAL OPERATING FUNDS (DEBT RELATED)
SUMMARY OF OPERATIONS
(Legal Basis)
(Amounts in Millions)

	Actual					Adopted Budget	Adopted Budget
	1993	1994	1995	1996	1997	1998	1999
REVENUES							
General Fund (a) (b)	\$2,254.5	\$2,311.7	\$2,275.7	\$2,364.8	\$2,424.8	\$2,464.5	\$2,551.9
Water Fund (c)	359.4	348.8	376.8	377.7	384.0	384.0	408.1
Aviation Fund (d)	114.9	116.5	115.9	124.6	128.6	149.0	149.0
Other Operating Funds (e) (b)	30.5	20.7	19.5	23.4	22.0	21.9	24.6
Total Revenue	<u>2,759.3</u>	<u>2,797.7</u>	<u>2,787.9</u>	<u>2,890.5</u>	<u>2,959.4</u>	<u>3,018.4</u>	<u>3,133.6</u>
OBLIGATIONS/APPROPRIATIONS							
Personal Services	993.0	978.6	980.7	1,019.7	1,098.4	1,089.7	1,074.6
Purchase of Services	798.2	841.8	787.4	807.1	836.3	874.4	954.1
Materials, Supplies and Equipment	96.0	111.4	111.4	126.1	117.5	124.1	137.2
Employee Benefits	461.7	495.8	471.6	478.9	504.9	527.6	557.0
Indemnities, Contributions and Taxes	92.3	67.7	61.5	104.9	89.5	93.3	108.0
Debt Service	290.2	245.2	271.8	260.9	256.9	289.2	301.5
Other	18.3	21.8	16.1	29.5	29.7	30.0	29.8
Payments to Other City Funds	41.9	104.1	88.5	81.3	77.2	31.7	60.4
Total Obligations/Appropriations	<u>2,791.6</u>	<u>2,866.4</u>	<u>2,789.0</u>	<u>2,908.4</u>	<u>3,010.3</u>	<u>3,090.0</u>	<u>3,222.5</u>
Operating Surplus (Deficit) for the Year	(32.3)	(68.7)	(1.1)	(17.9)	(50.9)	71.6	(88.9)
Net Adjustments Prior Year	42.1	60.8	81.9	58.2	64.9	51.7	47.7
Funding for Labor Contracts	0.0	0.0	0.0	0.0	0.0	99.7	(99.5)
Cumulative Fund Balance (Deficit) Prior Year	17.9	27.7	19.8	100.6	140.9	127.9	148.7
Year End Fund Balance Prior to Deficit Financing	27.7	19.8	100.6	140.9	154.9	8.3	8.0
PICA Deficit Financing FY91 and Prior	-	-	-	-	-	-	-
PICA Deficit Financing FY92	-	-	-	-	-	-	-
Cumulative Adjusted Year End Fund Balance (Deficit)	<u>\$ 27.7</u>	<u>\$ 19.8</u>	<u>\$ 100.6</u>	<u>\$ 140.9</u>	<u>\$ 154.9</u>	<u>\$ 8.3</u>	<u>\$ 8.0</u>

(a) Net of deficit financing through PICA and subsequent PICA grants.

(b) Operations of the Convention and Civic Center Fund were transferred to the General Fund on July 1, 1993.

(c) Water and Sewer rates were increased on July 1, 1993, July 1, 1994 and July 1, 1995. 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 Funds provided certain other conditions are met.

(d) Airport revenues are not available for other City purposes.

(e) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund, and the Convention and Civic Center Fund.

FIGURES MAY NOT ADD DUE TO ROUNDING.

Quarterly Reporting to PICA

On November 16, 1992, the City submitted the first of its quarterly reports to PICA. This reporting is required under the PICA Act so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for such previous quarterly or monthly period and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) within 30 days provides a written explanation of the variance that PICA deems reasonable; (ii) within 45 days proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act.

The City's most recent quarterly report was submitted to PICA on May 15, 1998 and reported no adverse variance from the Sixth Five-Year Plan.

CITY REVENUES AND EXPENDITURES

REVENUES OF THE CITY

General

In 1932, the Pennsylvania General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the real property tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax.

Major Revenue Sources of Principal Operating Funds (Debt Related)

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 for revenues by major source for Fiscal Years 1998-1999 and Table 4 for General Fund tax revenues for Fiscal Years 1993-1999. The following description does not take into account revenues in the Non-Debt Related Funds. See Table 5 for tax rates for Fiscal Years 1990 through 1999.

Real Property Taxes — The City levies real estate taxes on all taxable real property located within its boundaries. For Fiscal Year 1998, the rate for the City is 37.45 mills and the rate for the School District is 45.19 mills.

Wage, Earnings, and Net Profits Taxes — These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wage, earnings and net profits at the rate of 1.5% on City residents. In Fiscal Year 1996, the resident wage and earnings tax rate was reduced from 3.46% to 3.36% and the non-resident rate was reduced from 4.3125% to 4.2256%. In Fiscal Year 1997, the resident wage and earnings tax rate was reduced from 3.36% to 3.34%, and the non-resident wage and earnings tax rate was reduced from 4.2256% to 4.2082%; in Fiscal Year 1998, further reductions of the resident and non-resident wage and earnings tax rate to 3.29% and 4.1647%, respectively have been implemented. In the Seventh Five Year Plan, the Mayor's budget reduces the resident rate to 3.1869% and the non-resident rate to 4.0750%. The Mayor's Plan also proposes further reductions in each of these tax rates in each of Fiscal Years 2000-2003, but there can be no assurance that this proposal will be implemented.

Business Privilege Tax — In May 1984, the City enacted an ordinance substituting the Business Privilege Tax for the Mercantile License Tax. The Business Privilege Tax has been levied since January 1985 on every entity engaging in business in the City.

The Business Privilege Tax is a composite tax. Tax rates vary according to business classification (regulated, non-regulated, persons registered under the Pennsylvania Securities Act of 1972, manufacturing, wholesale, or retail) and method of tax computation employed. The various methods of tax computation are as follows: effective Fiscal Year 1989, all regulated industries, banks, trust companies, insurance companies, and public utilities, among others, are taxed at an annual rate of 3.25 mills on annual receipts not to exceed 6.5% of their net income. The tax on annual receipts and net income of all businesses, other than regulated industries, is levied at 3.25 mills and 6.5%, respectively, provided that persons registered under the Pennsylvania Securities Act of 1972 shall in no event pay a tax of less than 5.711 mills of all taxable receipts plus the lesser of 4.302% of net income or 4.302 mills on gross taxable receipts.

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

All persons subject to both the Business Privilege Tax and the Net Profits Tax are entitled to apply a credit of 60% of their Business Privilege Tax liability against what is due on the Net Profits Tax, which credit may be carried back or forward for up to three years.

In Fiscal Year 1996, the gross receipts portion of the Business Privilege Tax was reduced from its previous level of 3.25 mills to 3.00 mills and was further reduced in Fiscal Year 1997 to 2.95 mills. The Fiscal Year 1998 budget reflects a further reduction to 2.875 mills. As reflected in the Seventh Five-Year Plan, the Mayor also proposed further reductions in this tax rate for each of Fiscal Years 2000-2003, but there can be no assurance that this proposal will be implemented.

All business activity is also assessed a one-time \$200 licensing fee administered by the Department of Licenses and Inspections.

Sales and Use Tax — In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax for City general revenue purposes. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

In connection with the enactment of the ordinance levying the PICA Tax, the City also levied a one percent (1%) sales and use tax for sales within the City, authorized by the PICA Act, for City general revenue purposes (the "City Sales Tax"). The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The amount of City Sales Tax collected in Fiscal Year 1992 (from September 28, 1991 through June 30, 1992) was \$51.4 million and the amount of City Sales Tax collected in Fiscal Years 1993, 1994, 1995, 1996 and 1997 was \$76.3 million, \$82.6 million, \$86.1 million, \$82.4 million and \$91.4 million, respectively. The City estimates the collection of \$93.7 million in Fiscal Year 1998 and \$96.0 million in Fiscal Year 1999.

Other Taxes — The City also collects a Personal Property Tax, real property transfer tax, parking lot taxes, and other miscellaneous taxes such as the Amusement Tax.

Other Locally Generated Non-Tax Revenues — These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue From Other Governments — The City's Fiscal Year 1998 General Fund budget projects that 18.5% of General Fund revenues will be received from other governmental jurisdictions, including: (1) \$237.3 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) \$176.3 million from the Federal government; (3) \$40.2 million from other governments, in which revenues are primarily principal and interest payments on loans made by the City on SEPTA's behalf, Convention Center Service Fees and rents paid to the City by the Gas Works; and (4) \$3.0 million of "Other Authorized Adjustments." In addition, the projected net collections of the PICA Tax of \$127.4 million are included in "Revenue from Other Governments." These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and the Gas Works. The City has issued revenue bonds with respect to the Water and Wastewater Systems and the Gas Works to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and the Gas Works do not represent moneys that are unconditionally available for the payment of obligations of the City.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) \$4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. The \$4,994,000 amount was reduced to \$4,138,000 by administrative agreement that will be in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992, however, the transfer was made in each subsequent year. A transfer of \$4.138 million is also anticipated in Fiscal Years 1998 and 1999.

The revenues of the Gas Works are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by the Gas Works. The Gas Works also makes an annual payment of \$18,000,000 to the City's General Fund. The Fiscal Years 1998 and 1999 General Fund budgets include the payment of \$18,000,000 to the City by the Gas Works.

Assessment and Collection of Real and Personal Property Taxes

The Board of Revision of Taxes (the "Board") appoints real estate assessors who annually assess all real estate located within the City. The assessors return assessments for each parcel of real estate to the Board. The Board may increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After the Board gives proper notice of all

changes in property assessments, and after it has heard all assessment appeals, it then makes assessments and certifies the results to the Department of Revenue.

Real estate taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See Table 6 for assessed and market values of taxable realty in the City and Table 7 for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City reached the decision to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City is no longer anticipating the receipt of Personal Property Tax revenues in its current estimate of Fiscal Year 1998 results nor has it anticipated Personal Property Tax receipts in its Fiscal Year 199 budget. The Personal Property Tax had previously been levied on the value of the personal property of residents of the City.

TABLE 3
CITY OF PHILADELPHIA
SUMMARY OF OPERATIONS
PRINCIPAL OPERATING FUNDS (DEBT RELATED)
REVENUES BY MAJOR SOURCE
FISCAL YEARS 1988-1999

(Legal Basis)
(Amounts in Millions of Dollars)

Fiscal Year	Real & Personal Property Taxes (a)	Wage Earnings & Net Profits Taxes (a)	Business Privilege Tax (a)	Sales and Use Tax (a)(b)	Other Taxes (c)	Total Taxes	Water & Wastewater Charges (d)	Airport Charges	Other Locally Generated Revenue	Total Local Revenue	Revenue From Other Governments	Transfers Between Funds	Total
1988	275.2	888.3	165.7	-	94.1	1,423.3	209.7	67.6	155.1	1,855.7	435.4	32.2	2,323.3
1989	286.7	913.9	201.7	-	96.8	1,499.1	207.7	67.4	170.5	1,944.7	506.5	34.8	2,486.0
1990	314.0	947.8	207.5	-	101.3	1,570.7	205.5	72.0	209.3	2,057.0	518.4	54.6	2,629.9
1991	326.6	974.6	217.3	-	80.4	1,598.8	217.7	84.6	162.3	2,063.4	573.4	42.7	2,679.5
1992	343.3	815.9 (e)	200.3	51.4	78.0	1,488.9	268.8	103.3	178.0	2,039.0	1,006.4	25.5	3,070.9
1993	345.2	820.0 (e)	215.1	76.3	76.9	1,533.5	294.8	109.0	198.7	2,136.0	959.2	31.8	3,127.0
1994	346.0	840.8 (e)	221.6	82.6	88.7	1,579.7	288.1	113.0	206.2	2,187.0	966.4	38.6	3,192.0
1995	339.5	857.6 (e)	230.2	86.1	91.7	1,605.1	288.9	109.1	262.2	2,265.3	991.6	31.1	3,288.0
1996	346.6	877.5 (e)	237.5	82.4	92.1	1,636.1	296.2	117.6	271.8	2,321.7	1,092.4	33.2	3,447.3
1997	358.2	885.4 (e)	246.4	91.4	111.1	1,692.5	291.7	121.8	270.1	2,376.1	1,276.5	44.1	3,696.7
Adopted Budget													
1998	349.1	880.1 (e)	237.4	92.1	82.4	1,699.4	295.6	142.1	205.6	2,284.4	566.6	45.9	2,896.9
Adopted Budget													
1999	342.6	908.4 (e)	252.0	96.0	121.5	1,720.5	294.9	128.1	288.6	2,432.1	1,859.5	114.5	4,406.6

(a) See Table 5 for Tax Rates.

(b) Effective September 28, 1991.

(c) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.

(d) Water and Wastewater rates were increased on December 1, 1991, and July 1, 1993, with inflationary increases put into effect on July 1, 1994 and July 1, 1995.

(e) In FY 1992, the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on the PICA bonds and PICA's expenses.

FIGURES MAY NOT ADD DUE TO ROUNDING

TABLE 4
CITY OF PHILADELPHIA
GENERAL FUND
TAX REVENUES (a)
FISCAL YEARS 1993-1999
(Amounts in Millions)

	Actual					Adopted	Estimated	Adopted
	1993	1994	1995	1996	1997	Budget	Actual	Budget
	1998	1998	1999					
REAL PROPERTY TAXES								
Current	\$ 303.9	\$ 304.9	\$ 306.1	\$ 299.2	\$ 310.1	\$308.7	\$ 310.2	\$ 315.6
Prior	26.6	26.7	21.4	30.4	44.7	31.0	30.0	27.0
Total	<u>\$ 330.5</u>	<u>\$ 331.6</u>	<u>\$ 327.5</u>	<u>\$ 329.6</u>	<u>\$ 354.8</u>	<u>\$ 339.7</u>	<u>\$ 340.2</u>	<u>\$ 342.6</u>
PERSONAL PROPERTY TAXES								
Current	14.4	13.9	11.8	16.7	0.0(c)	16.3	0.0	0.0
Prior	0.3	0.5	0.2	0.3	3.4	0.2	0.0	0.0
Total	<u>\$ 14.7</u>	<u>\$ 14.4</u>	<u>\$ 12.0</u>	<u>\$ 17.0</u>	<u>\$ 3.4</u>	<u>\$ 16.5</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
WAGE AND EARNINGS TAX (b)								
Current	787.5	804.6	826.1	844.7	859.7	866.8	878.3	882.5
Delinquent	16.9	24.4	21.4	20.2	12.8	22.0	14.0	13.0
Total	<u>\$ 804.4</u>	<u>\$ 829.0</u>	<u>\$ 847.5</u>	<u>\$ 864.9</u>	<u>\$ 872.5</u>	<u>\$ 888.8</u>	<u>\$ 892.3</u>	<u>\$ 895.5</u>
BUSINESS TAXES:								
Business Privilege								
Current	178.1	184.4	187.5	214.6	210.6	225.7	216.6	227.0
Delinquent	37.0	37.2	42.7	22.9	35.8	23.0	28.0	25.0
Sub-Total Business Privilege	<u>\$ 215.1</u>	<u>\$ 221.6</u>	<u>\$ 230.2</u>	<u>\$ 237.5</u>	<u>\$ 246.4</u>	<u>\$ 248.7</u>	<u>\$ 244.6</u>	<u>\$ 252.0</u>
Net Profits Tax								
Current	12.6	9.3	7.7	10.4	10.4	10.5	10.6	10.5
Delinquent	3.0	2.6	2.4	2.2	2.3	2.4	2.4	2.4
Sub-Total Net Profits Tax	<u>15.6</u>	<u>11.9</u>	<u>10.1</u>	<u>12.6</u>	<u>12.7</u>	<u>12.9</u>	<u>13.0</u>	<u>12.9</u>
Total Business Taxes	<u>230.7</u>	<u>233.5</u>	<u>240.3</u>	<u>250.2</u>	<u>259.2</u>	<u>261.6</u>	<u>257.6</u>	<u>264.9</u>
OTHER TAXES								
Sales and Use Tax	76.3	82.6	86.1	82.4	91.4	88.6	93.7	96.0
Amusement Tax	5.3	8.3	7.2	7.7	9.2	8.6	9.5	9.7
Real Property Transfer Tax	40.3	46.3	45.6	42.0	54.8	46.3	71.0	58.0
Parking Taxes	23.2	23.4	25.6	27.7	28.4	29.4	29.1	29.9
Other Taxes	0.2	0.2	1.4	0.2	1.4	0.2	1.0	1.0
Sub-Total Other Taxes	<u>\$ 145.3</u>	<u>\$ 160.8</u>	<u>\$ 166.0</u>	<u>\$ 160.1</u>	<u>\$ 185.2</u>	<u>\$ 173.3</u>	<u>\$ 204.3</u>	<u>\$ 194.6</u>
TOTAL TAXES	<u><u>\$1,525.6</u></u>	<u><u>\$1,569.3</u></u>	<u><u>\$1,593.3</u></u>	<u><u>\$1,621.8</u></u>	<u><u>\$1,675.2</u></u>	<u><u>\$1,679.9</u></u>	<u><u>\$1,694.4</u></u>	<u><u>\$1,697.1</u></u>

(a) See Table 5 for tax rates.

(b) Beginning in FY 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.

(c) The City ceased levying the Personal Property Tax during the latter part of Fiscal Year 1997

FIGURES MAY NOT ADD DUE TO ROUNDING

TABLE 5
TAX RATES OF THE CITY OF PHILADELPHIA
AND SCHOOL DISTRICT
FOR THE TEN-YEAR PERIOD 1990 THROUGH 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Tax Classification										
Real Property:										
(% on Assessed Valuation)										
City	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%	3.745%
School District	4.120%	4.519%	4.519%	4.519%	4.519%	4.519%	4.519%	4.519%	4.519%	4.519%
Total Real Property Tax	7.865%	8.264%								
Assessment Ratio as										
Determined by Sales	23.800	24.600	24.600	25.200	25.100	25.500	n/a	n/a	n/a	n/a
Effective Tax Rate										
(Real Estate Tax Rate)										
Assessment Ratio)	1.872%	2.033%	2.033%	2.074%	2.107%	n/a	n/a	n/a	n/a	n/a
Wage, Earnings and Net										
Profits Taxes (a)										
Residents	4.960%	4.960%	4.960%	4.960%	4.960%	4.960%	4.860% (i)	4.840% (l)	4.790% (o)	4.687% (q)
Non-Residents	4.313%	4.313%	4.313%	4.313%	4.313%	4.313%	4.226% (j)	4.208% (m)	4.165% (p)	4.075% (r)
Real Property Transfer Tax (b)	4.070% (c)	3.920% (d)	3.690% (d)	3.460% (d)	3.240% (d)	3.000% (d)	3.000%	3.000%	3.000%	3.000%
Personal Property Tax (% on										
Taxable Intangible Items)	0.400%	0.400%	0.400%	0.400%	0.400%	0.400%	0.400%	n/a (t)	n/a (t)	n/a (t)
Business Privilege Taxes										
(% on Gross Receipts)	3.250%	3.250%	3.250%	3.250%	3.250%	3.250%	3.000% (k)	2.950% (n)	2.880% (p)	2.775% (s)
(% on Net Income)	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%
Sales and Use Tax (e)	—	—	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%
Amusement Tax	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%
Parking Lot Tax (On Gross										
Receipts from Parking)	15.000	15.000	15.000	15.000	15.000	15.000	15.000	15.000	15.000	15.000
Sound Reproduction Tax										
(On Gross Income) (f)	5.000%	5.000%	5.000%	—	—	—	—	—	—	—
Bowling Alley Tax										
(Annual Per Alley) (f)	\$25.00	\$25.00	\$25.00	—	—	—	—	—	—	—
Mechanical Amusement Device										
Tax (Annual Per Device) (g)	\$100.0	\$100.0	\$100.0	\$100.0	—	—	—	—	—	—
Hotel Room Rental Tax										
(% on Cost of Room Rental)(h)	5.000%	5.000%	5.000%	5.000%	6.000%	6.000%	6.000%	6.000%	6.000%	6.000%

NOTES:

- (a) The rate for the Wage, Earnings and Net Profits Tax for non-residents is 4.3125%. Effective July 1, 1991 the City's share of the Wage, Earnings and Net Profits Taxes for City residents is 3.46%, while PICA receives 1.5%.
- (b) Effective July 1, 1985, transfers made by corporate entities are subject to Realty Transfer Tax.
- (c) Increase effective July 1, 1988.
- (d) Phased decreases beginning July 1, 1990.
- (e) Effective September 28, 1991.
- (f) These taxes were repealed in FY 1993.
- (g) The City converted this tax to a licensing fee in FY 1994.
- (h) Tax rate increase to 6% upon substantial completion of the Convention Center which occurred in FY 1994.
- (i) Tax decrease effective January 1, 1996. The City's share of the Wage, Earnings and Net Profits for City Residents is 3.36% while PICA receives 1.5%.
- (j) Tax decrease effective January 1, 1996. The City's share of the Wage, Earnings and Net Profits for Non Residents is 4.2256%.
- (k) Tax decrease effective January 1, 1995.
- (l) Tax decrease effective January 1, 1996. The City's share of Wage, Earnings and Net Profits for City Residents is 3.34% while PICA receives 1.5%.
- (m) Tax decrease effective July 1, 1996.
- (n) Tax decrease effective January 1, 1996.
- (o) Tax decrease effective July 1, 1997. The City's share of Wage, Earnings and Net Profits for City Residents is 3.29% while PICA receives 1.5%.
- (p) Tax decrease effective July 1, 1997.
- (q) Tax decrease effective July 1, 1998.
- (r) Tax decrease effective July 1, 1998.
- (s) Tax decrease effective July 1, 1998.
- (t) The City ceased levying the Personal Property Tax during FY97.

TABLE 6
CITY OF PHILADELPHIA
ASSESSED AND MARKET VALUE OF TAXABLE REALTY IN PHILADELPHIA
FOR THE CALENDAR YEARS 1988 THROUGH 1997
(Amounts in Millions of Dollars)

Calendar Year	<u>Assessed Value Adjusted to 6/30/97 (a)</u>		<u>Market Value on Basis of STEB Ratio</u>			<u>Estimated Market Value Based on Sales</u>		
	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio of State Tax Equalization Board (b)	Amount	Percentage Increase (Decrease) Over Prior Year	Assessment Ratio as Determined by Sales (c)	Amount	Percentage Increase (Decrease) Over Prior Year
1988	7,536	5.46%	0.308	24,468	12.65%	0.243	31,025	11.93%
1989	7,573	0.49%	0.308	24,588	0.49%	0.250	30,292	-2.36%
1990	8,417	11.14%	0.300	28,094	14.26%	0.238	35,380	16.80%
1991	8,796	4.50%	0.300	29,340	4.43%	0.246	35,814	1.23%
1992	8,929	1.51%	0.300	29,783	1.51%	0.252	35,475	-0.95%
1993	8,929	-0.64%	0.300	29,593	-0.64%	0.251	35,318	-0.44%
1994	9,020	1.67%	0.300	30,087	1.67%	0.273	33,101	-6.28%
1995	8,917	-1.14%	0.299	29,823	0.88%	0.270	32,989	-0.34%
1996	8,954	0.41%	0.300	29,867	0.15%	0.271	33,126	0.41%
1997(d)	9,102	1.65%	0.303	30,059	0.65%	N/A	N/A	N/A

(a) The adjustment reflects reductions in assessments pursuant to established procedures for review of assessments.

(b) The State Tax Equalization Board (STEB) determines annually for each municipality in the Commonwealth a ratio of assessed valuation to true value. The ratio is used for the purpose of equalizing certain state school aid distribution.

(c) The Assessment Ratio as presented has not been adjusted to allow for the effects of large or unusual sales.

(d) At June 30, 1997

TABLE 7
CITY OF PHILADELPHIA
REAL PROPERTY TAXES LEVIED AND COLLECTED
FOR THE CALENDAR YEARS 1988 THROUGH 1997
(\$ in Millions)

Year	Amount Collectible in Year of Levy	Amount Collected in Year of Levy	Collections Within Year as a Percent of Amount Collectible	Net Collections of Delinquent Taxes Relating to Year of Levy	Total Collections	Total Collections as a Percent of Adjusted Amount Collectible
1988	265.8	248.4	93.5%	14.9	263.3	98.6%
1989	284.6	263.4	92.6%	17.8	281.2	98.6%
1990	316.6	290.5	91.8%	22.3	312.8	98.5%
1991	330.4	297.6	90.1%	26.0	323.6	97.6%
1992	338.9	306.4	90.4%	21.7	328.1	97.2%
1993	337.2	307.1	91.1%	20.7	327.8	96.8%
1994	335.6	305.9	91.2%	17.2	323.1	95.5%
1995	338.5	307.1	90.7%	15.2	322.3	95.2%
1996	337.7	308.2	91.3%	7.7	315.9	93.3%
1997	336.4	299.0	88.9%	N/A	N/A	N/A

Source: City of Philadelphia, Consolidated Annual Financial Report for Fiscal Year Ended June 30, 1997.