PGW-IR St. 1.0

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION



DIRECT TESTIMONY OF

# THOMAS E. KNUDSEN



ON BEHALF OF
PHILADELPHIA GAS WORKS



DOCKET NOS. P-00001831
R-00005654

RE: PETITION OF PHILADELPHIA GAS WORKS
FOR ESTABLISHMENT OF INTERIM RATE
PROCEDURES AND FOR A DECLARATORY ORDER

AUGUST, 2000

DSH:23618.3

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Thomas E. Knudsen. My business address is 800 West Montgomery Avenue, Philadelphia, PA 19122.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Philadelphia Gas Works ("PGW" or "the Gas Works" or "the Company") as its Interim Chief Financial Officer.

**Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

A. My formal responsibilities include the oversight of the following functions: budgeting, treasury, information technology, risk management, customer affairs, regulatory affairs and accounting, among other areas.

However, in my capacity as a member of the transitional management team at PGW, my responsibilities also include the formulation of strategies, policies and procedures which address the needs of the entire organization. All of the actions being currently taken are in support of PGW's six goals: to stabilize the financial condition of PGW; to stabilize operations following the failed implementation of the new Customer Information System; to control capital spending; to improve the Human Resources policies and procedures at PGW, to successfully transition PGW to PUC jurisdiction; and to oversee the process leading to permanent management.

**Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.**

A. I received a Bachelor of Arts Degree with a major in economics from Northwestern University in 1964 and a Master's Degree in Business Administration from Columbia University in 1968. During the period of 1964-66, I served as a supply officer in the

United States Navy. From 1968-1970, I was Assistant to the Finance Administrator of the City of New York. From 1971-78, I was employed in the Management Services Division of Touche Ross & Co., specializing in government, health care and utility regulatory consulting. From 1978 until February, 2000, I was a founding principal in the Woodside Group, Inc., a utility regulatory consulting firm. In March, 2000, I was appointed as Interim Chief Financial Officer of the Philadelphia Gas Works.

**Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?**

A. Yes, I have appeared before the Pennsylvania Public Utility Commission ("the Commission") in various rate and other proceedings over the course of the last several decades. I have also appeared before numerous other regulatory commissions on issues of rate determination, as detailed in Appendix A to my testimony.

**Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

A. The purpose of my testimony is several fold. First, I will explain the supporting information and testimony that I and other PGW witnesses are submitting in support of PGW's request for an interim, base rate increase of $52 million. This includes supplementing my original affidavit that accompanied PGW's Petition for an interim rate proceeding. This testimony clarifies the financial targets upon which I suggest the Commission must focus to maintain a minimally adequate level of financial well-being required for PGW to fund operations and to meet debt service requirements until the Company can complete and enjoy the benefits of a permanent base rate increase. Second, I will explain in detail various efforts PGW has undertaken, and will continue to undertake, as part of its "transition to excellence" plan to improve service and increase efficiency. Finally, I will explain, from a technical standpoint, the procedures used and the ratemaking methodology applied to PGW by the Philadelphia Gas Commission when it had the authority to set rates and authorize revisions to our tariff.

**A. <u>Support for Interim Rate Request</u>**

**Q. PLEASE SUMMARIZE PGW'S INTERIM RATE REQUEST AND THE PRIMARY JUSTIFICATION FOR THE REQUEST.**

A. PGW is requesting that the PUC allow it to increase its base rates by $52 million on an interim basis. This increase is necessary in order to provide a sufficient level of income and year-end cash balances to: 1) permit PGW to make it through the 2000-01 fiscal year (PGW's fiscal year runs from September to August); 2) have sufficient income and cash at the end of the fiscal year to satisfy its bond covenants as well as to meet its obligations under the Management Agreement – the ordinance that sets forth the ratemaking standard that is required to be followed for PGW; and 3) permit PGW to have sufficient liquidity at the end of the 2000-01 fiscal year so that the Company will be able, in the beginning of the next fiscal year, — i.e., the 2001-02 fiscal year — to meet a semi-annual debt service payment and to make the gas purchases it requires to be able to meet customer needs and assure reliability during the <u>2001-02</u> winter period. An interim rate increase must be put in place by early November if PGW is to have sufficient income and cash by its fiscal year-end to avoid bond covenant violations and additional financial difficulties in the upcoming fiscal years.

PGW recognizes that this increase is interim and that, according to the PUC order, is subject to adjustment (and, possibly, refund) at the end of PGW's full permanent base rate case that PGW is obligated to file pursuant to the PUC's order by January, 2001. PGW has agreed that it will not seek to recoup from its customers additional revenues for the period covered by the interim rates, and any higher level granted as permanent rates will be on a going forward basis only.

**Q. WOULD YOU DESCRIBE THE EVIDENCE THAT PGW IS SUBMITTING TO SUPPORT ITS INTERIM REQUEST?**

A. Yes. Exhibit 1.1 is the affidavit I sponsored to support PGW's Petition for an Interim Rate Proceeding. The narrative in the affidavit, as well as the schedules attached thereto, are updated versions of the data that PGW originally submitted to the PGC in support of its original $52 million request (updated to take account of our most recent projected gas costs) and are the primary support for the requested interim rate increase.

To provide a baseline for the Commission and the parties as well as to provide additional supporting material for this request, I have included as Exhibit 1.2 the operating and capital budget supporting data for the fiscal year 2000-01 submitted to the PGC on June 19. While the schedules contained in Exhibit 1.1 (and my appendices attached hereto) present the most up-to-date version of PGW's projected financial status, other aspects of the operating budget, particularly PGW's five (5) year projected operating budget, will be updated to take PGW's revised gas cost projections into account.[1] These updates will be available to the parties for their review.

Also, the testimony of Barbara Bisgaier (PGW-IR St. 2), a principal with Public Financial Management, Inc., PGW's bond consultants, will explain how PGW's present financial circumstances threaten its ability to satisfy its bond covenants and financial obligations. She will also explain the effect on PGW's bond rating if adequate interim rate relief is not forthcoming.

In addition to this data, PGW is also submitting the testimony of Craig White to explain PGW's proposal for revising its rates on an interim basis to produce an additional $52 million (PGW-IR St. 3).

**Q. WHAT IS THE RELATIONSHIP BETWEEN THIS INTERIM REQUEST AND PGW'S ORIGINAL $52 MILLION PERMANENT BASE RATE INCREASE THAT IT FILED ON JUNE 19, 2000 WITH THE PHILADELPHIA GAS COMMISSION ("PGC")?**

A. PGW's June 19th base rate filing at the PGC was based on its earlier projection of natural gas costs and uncollectibles and was, based upon our projections at the time, the minimum level of increase necessary to satisfy both the Company's short-term financial needs and to attempt to put PGW on firmer financial footing over the next few years. Almost immediately after that filing was made, however, PGW's financial projections for the next 12-18 months worsened considerably. This was due principally to our revised natural gas cost projections which, consistent with the trend throughout the Nation,

1 The five (5) year projections are a required part of PGW's operating budget filing before the PGC.

dramatically increased our anticipated levels of gas costs and accounts for roughly 20% of the total 30% increase that our combined interim base rate/GCR filing requests. After revising our financial projections, it became clear that PGW required additional base rates at the $52 million level just to get through this coming winter and be in a position to meet its substantial gas purchasing obligations in the first several months going into next winter. Thus while the two base rate requests are for the same amount, they differ in the time period on which they focus and the projections on which they rely.

**Q. WOULD YOU SUMMARIZE THE FINANCIAL TARGETS ON WHICH YOU BELIEVE THE COMMISSION AND PARTIES MUST FOCUS IN CONSIDERING PGW'S INTERIM RATE INCREASE REQUEST?**

A. There are several key indicators, all of which I have explained in my interim rate affidavit, which is Exhibit 1.1 here. First, and foremost, we must assure that PGW satisfies its bond covenants. Without a GCR or interim base rate increase, our projected end of year 2000-01 income and cash flow would put us in technical default of our bond covenants. Our coverages would be below the minimum 1.5 times required by our 1975 Ordinance Bonds (.04x!) and the 1998 bonds (negative 1.95x!), and our net income will be negative by over $100 million, putting us in violation of our "rate" covenant.[2] In addition, PGW's ending cash balances would be negative by well over $100 million (App. B, page 1 "No GCR, No Rate Increase, Rev. Budget 2000-01"). As Ms. Bisgaier testifies, these kind of technical defaults will have a devastating effect on PGW's ability

[2] As Ms. Bisgaier explains, PGW's bonds require that in any year, it must have sufficient revenues to cover all of its expenses for that year, including debt service but not including its payment to the City.

to access the capital markets as well as to continue its short-term, commercial paper program.

But, in addition to assuring that we satisfy our bond covenants, my schedules show what the effects would be during this coming winter on PGW's monthly cash flow balances. Those balances would turn negative starting in November, and the deficiencies would get larger and larger in each month until they would simply "swamp" the company. PGW has no short-term borrowing capabilities that would allow us to withstand these kind of monthly losses. Without some rate increase, PGW would, in effect, be paying out several hundred thousand dollars more than we are taking in on a weekly basis.

**Q. WOULD THESE CONSEQUENCES BE ELIMINATED IF THE PUC PERMITTED PGW TO REVISE ITS GCR AS IT HAS PROPOSED EVEN IF IT DOES NOT PERMIT AN INTERIM, BASE RATE INCREASE.**

A. Unfortunately, no. Also attached hereto as part of my Appendix B is an analysis of PGW's financial status assuming that its requested GCR rate increase was approved as filed and went into effect as of mid-November, 2000. While this scenario does not produce the total disaster that the "no rate increase of any kind" scenario does, it, nonetheless, puts PGW in financial jeopardy that must be avoided. Without an interim increase, but with a GCR hike, PGW's net income would still be negative at the end of the fiscal year by $17.4 million,[3] which, when the city payment is added back, means that

[3] App. B, pg. 1 shows that PGW is projected to finish this fiscal year, which ends at the end of this month, with large, negative net earnings. The only way that PGW has been able to avoid a technical default of its rate covenant in this and in (continued...)

PGW would barely satisfy its "rate" covenant. Moreover, without a base rate increase the Gas Works' cash balances at fiscal year-end 2000-01 are projected to be negative $25.1 million. With a GCR increase but with no interim rate increase in November, PGW will also experience significant monthly cash deficiencies, both in January and February, 2001 as well as at the end of the fiscal year which PGW, again, simply has no reasonable means of covering.

Further, a GCR but no base rate increase scenario would put us significantly below the 1.5x coverage minimum on our 1998 bonds (1.25x, App. B, page 3)(we would just get by with respect to our 1975 bonds). As Ms. Bisgaier points out, PGW's bond holders, and the financial community in general, views its 1.5 times coverage covenant as an important protection because they are aware that PGW has few other cushions. She describes the horrendous consequences of even a technical default by PGW on its bond covenants.

Finally, Appendix B shows that, even with a GCR increase in November, but no base rate increase, PGW's cash balance at the end of the 2000-01 fiscal year would not provide PGW enough liquidity to be able to make either the gas purchases PGW needs to make in September-November, 2001or a $25 million bond service payment on the first

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[3](...continued)

previous fiscal years (which requires that PGW have sufficient revenue to cover all expenses in the year, not including its payment to the City) is by utilizing its commercial paper to borrow the revenues to cover the losses. As I explain in my Affidavit, we have reached the limit of our commercial paper borrowing capability and, indeed, if rate relief is not obtained, we are in danger of having our commercial paper letter of credit not being extended.

working day in January, 2002. As I have stated in my affidavit, it is crucial that PGW has at least $~~30-35~~ 35-40 million in liquidity (i.e., cash and funds available from borrowing) in order to be able to maintain gas inventories necessary to serve customers reliably and to purchase gas at anything close to a reasonable cost (the number should be closer to $50 million to take reasonable account of contingencies). Our request, that base rates be increased on an interim basis in November, 2000, results in just enough liquidity by the end of the 2000-01 fiscal year to allow PGW to meet its bond indentures as well as to go into the next fiscal year at minimal levels of financial adequacy, based on an assumption of normal weather.

**Q. WHY IS AN INTERIM INCREASE IN NOVEMBER NECESSARY RATHER THAN SIMPLY WAITING UNTIL THE PUC COULD COMPLETE A PERMANENT BASE RATE PROCEEDING?**

A. First, as I have described, without both a base rate and a GCR increase in November, 2000, PGW is projected to have significant month-to-month cash deficits that it has no present ability to cover because it has reached its commercial paper borrowing limit. Just as important, in order to avoid technical default on its bond covenants at the end of its fiscal year 2000-01, PGW needs to start collecting additional revenue during the 2000-01 fiscal year.[4] If it does not, PGW will simply not have collected sufficient additional revenues within the 2000-01 fiscal year to avoid a technical default and its negative consequences. Finally, we need to have sufficient liquidity at the end of fiscal year 2000-

[4] Even if PGW were able to secure base rate relief as early as June of 2001 (by no means a certainty) PGW will have lost the opportunity to bill for all of the 2000-2001 winter heating season, a period in which PGW collects a large portion of its annual revenues.

01 to be in a position to meet our obligations in the 2001-02 time frame, as I have previously described. We <u>must</u> start collecting additional dollars very soon to accumulate enough net cash to be able to end the 2000-01 year in a minimally adequate cash position.

This can be illustrated by projecting the financial results if the PUC, instead of granting an interim base rate increase in November, 2000, waited until June, 2001 and granted a $52 million base rate increase — including PGW's original proposal to obtain the rate increase from significant increases to the customer charge. If that occurred, the Company would barely make the rate and coverage requirements of its bonds, but would still be negative by over $16 million in its cash balance at the end of fiscal year 2000-01. As I have indicated, it is crucial that PGW go into the 2001-02 fiscal year with a total of $~~30-35~~ 35-40 million in liquidity. While, if it is able to issue long-term debt, it can "borrow" about $21.5 million to temporarily fund operations to supply some of this balance,[5] it has to get the rest from its cash balances. A permanent rate increase as early as June (without the immediate interim relief that we are requesting here) would make us short of our liquidity requirements by <u>$25-30 million</u>, and simply shift our current cash crisis to this time next year.

Moreover, even to be able to survive from a cash basis under this scenario, it is essential that PGW sell bonds next spring. Any delay in obtaining rate relief could raise concerns in the financial markets of PGW's ability to service the added debt. And without that debt, we cannot finance the essential infrastructure improvements needed to

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[5] This is described in more detail in my affidavit at ¶¶ 8-9.

maintain a safe and reliable system. Ms. Bisgaier's testimony indicates that failure to obtain interim rate relief from the Commission would create considerable doubt as to the Gas Works' ability to issue the bonds.

Finally, all of PGW's financial projections for this period assume normal weather. As I explain below, if PGW experiences a warmer than normal winter, its financial crisis will be increased by several orders of magnitude and waiting until June before a base rate increase is implemented would put the Company in serious jeopardy of not making its bond covenants. There does not appear to be any reasonable course other than to increase rates on an interim basis now with a permanent rate proceeding to follow.

**Q. MR. KNUDSEN, SOME PARTIES IN THE PGC PROCEEDING HAVE SUGGESTED THAT PGW COULD AVOID IMPOSING A BASE RATE INCREASE UPON ITS CUSTOMERS BY SECURING A LOAN FROM THE CITY OF PHILADELPHIA AND BY THE CITY AGREEING TO FOREGO THE PAYMENT THAT PGW IS REQUIRED TO MAKE IN ACCORDANCE WITH ITS MANAGEMENT AGREEMENT WITH THE CITY. IS THIS A VIABLE OPTION?**

A. Again, no, and there are several reasons why it is not. First, the City's Finance Director has testified in the PGC proceeding that the City is prepared to provide a short-term "bridge" loan to cover cash deficiencies for a month (as we may experience in January, 2001 even if we receive GCR and interim base rate relief) and to provide a limited "backstop" if PGW cannot make its coverage requirements at the end of the 1999-2000 fiscal year. The City has stated however, that it cannot produce sufficient grants to eliminate the need for a base rate increase and will not jeopardize its own financial situation by foregoing PGW's required payment.

Just as important, our financial advisor (Ms. Bisgaier) has testified that the PUC's reliance upon this kind of one-time, short-term financial fix in lieu of granting a rate increase would seriously threaten if not compromise completely the ability of PGW to place its essential long-term debt issuance in June, 2001 noted above. As I have already explained, this issuance is a source of funds that PGW desperately needs to provide, in part, the liquidity to be able to function in the 2001-2002 period. Obtaining a short-term "fix" rather than rate relief, Ms. Bisgaier testifies, would still likely result in a downgrade of PGW's financial rating. Finally, foregoing a rate increase now in favor of a loan/grant from the City means, at best, that the financial crisis is simply delayed until some point in the future when these loans become due and the payment to the City is renewed. At worst, relying on the City instead of an interim rate increase would eliminate the only available "life preserver" that PGW has if its "pro forma" financial projections are significantly off. For example, all of PGW's financial projections assume <u>normal</u> weather. If this winter is considerably warmer than normal — to the same degree it has been for the last three winters — PGW will lose approximately $25 million in gas rate margin revenue creating a tremendous negative impact on PGW's cash and income positions. PGW would be unable to obtain the necessary funds to make up this shortfall if it already used up the maximum amount of revenues possibly available from the City. This approach therefore, is not a reasonable solution to PGW's current financial crisis, for the reasons I have discussed, even if those funds were readily available.

**Q. YOU HAVE DESCRIBED A FINANCIAL CRISIS FACING PGW. WHY DIDN'T PGW FILE A REQUEST FOR A RATE INCREASE EARLIER?**

A. Mayor Street took office in early January, 2000. I cannot and will not try to explain why PGW did not seek relief under the prior administration. Mayor Street had appointed a transition team to provide him with advice concerning PGW. That report was submitted to him on March 9, 2000. PGW's prior management at that time continued to take the position that no rate increase was needed until 2001, so it was not until the Mayor had reviewed the Transition Report that he had a more accurate assessment of PGW's condition. Mr. Kishinchand and I were appointed to serve as interim management on March 17, 2000.

Once appointed, our immediate task was to investigate PGW's condition as fully as possible. Though I had served as a consultant for the Public Advocate since 1986, I did not anticipate the seriousness and depth of the problems that I discovered after March 17. The situation was more complex and more difficult than I or anyone outside the company had expected. Conducting the careful review that was necessary took several months. We then had to prepare a filing, but the situation was made more difficult by the shift in regulatory jurisdiction.

We did file at the Gas Commission on June 19, because the PGC was still the entity to which we had to submit such requests at that time, and because we believed that the Gas Commission would have the authority to complete any case that was filed prior to July 1. By mid-July, 2000, both agencies had made it clear that proceedings before the PUC were going to be necessary to obtain rate and GCR revisions in the necessary time frame. We thereupon filed our petitions with the PUC as quickly as we could.

We recognize that the expedited process which will be used to review the request for interim relief will be difficult for the intervening parties and for this Commission. Having testified for the OCA and for the Public Advocate, I understand the nature of the challenge that those parties and the regulators face. I must emphasize, however, that this is the best and only opportunity that we, collectively, have to avoid a worse crisis which would create far greater burdens for customers and for the Company.

## II. <u>PGW'S EFFORTS TO CORRECT EXISTING PROBLEMS, CUT COSTS AND IMPROVE EFFICIENCY</u>

**Q. SINCE YOUR APPOINTMENT ON MARCH 17, WHAT INITIATIVES HAVE YOU UNDERTAKEN TO CORRECT THE PROBLEMS THAT YOU FOUND AT THE COMPANY?**

A. Our goals were to stabilize the financial condition of the company, stabilize the IT systems, and stabilize the personnel situation. The IT system was clearly the keystone in improving our customer service and in stabilizing the financial condition of the company. In order to accomplish those goals as quickly and as efficiently as possible, we enlisted the assistance of consultants to provide professional analysis of the problems and recommendations to resolve those problems. Attached as Appendix C to this testimony is a list of the initiatives undertaken. This is the detail of the "Transition to Excellence" plan that PGW discussed in its interim rate petition and which was discussed in the PUC's Order.

**Q. HAVE YOU BEEN SUCCESSFUL?**

A. We are getting there. We have made progress, but one cannot expect that these problems will be eliminated overnight. It took more than ten years of neglect and bad decisions to create these problems. One crucially important sign of our progress is our work to stabilize the IT systems. This work has resulted in a substantial decline in the number of billing "exceptions" or errors in our computer system as it attempts to send out bills. We expect that by the end of this month we will have billed every customer for the first time in a year. Sending out accurate bills will, after an initial increase in calls, reduce the number of calls coming to our call center so that customers who do call will actually be able to reach a customer service representative within a reasonable time.

As I stated earlier, PGW's problems are complex and more difficult than I had believed before I was appointed by the Mayor on March 17. They cannot be resolved in six months or even a year and they cannot be resolved without assistance from the City and our regulators. The City has already been of enormous help and I expect the help to continue. We are firmly committed to carrying through with our Transition to Excellence plan, but we are here asking this Commission to allow us to put another part of the solution in place.

## III. <u>RATEMAKING METHODOLOGY</u>

**Q. ARE YOU FAMILIAR WITH THE PROCESS FOLLOWED BY THE PHILADELPHIA GAS COMMISSION WHEN THAT COMMISSION REVIEWS A REQUEST BY PGW FOR A RATE INCREASE?**

A. Yes, I am. I testified at the Gas Commission on behalf of the Public Advocate in the last four PGW rate cases – in 1986, 1988, 1990 and 1991. In 1991, there were two cases: an emergency, expedited rate case and a base rate case which followed the full process. I will address the full base rate process first and then the emergency, expedited proceeding in 1991.

**Q. PLEASE EXPLAIN THE PROCESS.**

A. Each case commenced with the filing of PGW's request, usually in May or early June. The request was set forth in written testimony, accompanied by exhibits which provided financial data to supplement the written testimony. The filing consisted of our operating and capital budget for the forthcoming (fully forecasted) budget period: September 1st to August 31st of the following calendar year. PGW's filing was followed by a pre-hearing conference after public notice and then formal and informal discovery. Intervenors pre-filed written testimony and all witnesses appeared for cross-examination at a hearing on the record. In every case, the hearings were followed by briefs from the parties. When a hearing examiner conducted the hearings there was a recommended decision with exceptions from the parties prior to the final Commission decision. The recommendation for the capital budget portion of the proceeding was then forwarded to the City Council. The City Council then established the capital budget as an ordinance.

**Q. HOW LONG DID THE ENTIRE PROCESS TAKE?**

A. The four full base rate cases took an average of just over 5 months from date of initial filing until the date that the Commission announced its final decision.

**Q. YOU MENTIONED THE 1991 EMERGENCY RATE PROCEEDING, HOW WAS THAT DIFFERENT FROM THE OTHER PROCEEDINGS THAT YOU HAVE DESCRIBED?**

A. First, it was much shorter. The entire case took approximately one month from filing to final Commission decision. Second, there was no hearing examiner, no recommended decision and no briefs. Discovery was very informal and abbreviated and the Public Advocate did not have the opportunity to submit pre-filed testimony. There was testimony on the record, some cross-examination of PGW witnesses and oral testimony from the Public Advocate witness.

**Q. PLEASE EXPLAIN THE SUBSTANTIVE RATE MAKING METHODOLOGY EMPLOYED AT THE GAS COMMISSION.**

A. The rate making standards and methodology are set forth in the Management Agreement, which was adopted by ordinance by City Council (and which is included as Exhibit B to my Interim Rate Affidavit). Section VII of the Management Agreement requires that the rates shall be sufficient to produce revenues which are, in summary, sufficient to pay all operation and maintenance costs and expenses of conducting the Gas Works enterprise, as well as to pay the debt service including depreciation, employee retirement costs, a management fee to PFMC (the managing board of PGW, appointed by the Mayor), expenses of the Gas Commission, all sinking fund charges, general expenses, the $18 million payment to the City plus interest if the payment is delayed, funds to provide 1.5x the annual debt service requirement and a reasonable amount of cash to serve as cash working capital.

The Gas Commission's rate making has also required a fully-forecasted test year as the basis for budgets and rate requests. In addition to permitting rates that cover all of these projected expenses and cash needs, the Gas Commission has, in the past, focused on appropriate financial goals for the company in order to keep its costs of borrowing at the most reasonable levels possible. In 1991, the proceeding in which PGW's base rates were last changed, the PGC stated that its goal in setting rates was to permit PGW a level of revenues that would permit it to realize debt service coverage levels in the range of 1.7x - 1.9x for the indenture as it existed at that time. In 1998, the indenture coverage calculation methodology changed. Using the method of coverage calculation that was in place when the PGC established the 1.7x - 1.9x coverage goal, PGW's proposed, interim base rate increase would give PGW a coverage level of just 1.74 times, at the lower end of the "target" range that the PGC had established as an appropriate ongoing level of revenue (see, Appendix D, attached). This below "target" coverage is additional evidence of the reasonableness of PGW's interim base rate request.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

# APPENDIX A

Appendix

## SUMMARY OF CONSULTING EXPERIENCE

***Submission of Testimony***

<u>Colorado</u>

| | |
|---|---|
| *Re Public Service Company of Colorado* | Docket No. 1330 |

<u>Delaware</u>

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|---|---|
| *Re Delmarva Power & Light Company* | Docket Nos. 923,82-22;82-24;91-20 |

<u>Idaho</u>

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|---|---|
| *Re Idaho Electric Company*<br>*Re Idaho Water Company* | Docket Nos. 100726-28 |

<u>Indiana</u>

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| *Re Flowing Wells Water Company* | Docket No. 34739 |

<u>Maine</u>

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| *Re Central Maine Power Company* | Docket No. 92-345 |

<u>Massachusetts</u>

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| *Re Hingham Water Company* | Docket No. 19744 |
| *Re American Water Company* | Docket No. 19900 |

<u>New Jersey</u>

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| *Re Atlantic City Electric Company* | Docket Nos. 7911-9511; 8399-753 (LEAC); 8410-1079 (LEAC), etc. |
| *Re Commonwealth Water Company* | Docket Nos. 784-274; 819-781, etc. |
| *Re Elizabethtown Gas Company* | Docket Nos.789-1319; GR86121374; GR88080913 (LPGA), etc. |
| *Re Jersey Central Power & Light Company* | Docket Nos. 795-427; 797-643, etc. |

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| *Re New Jersey Natural Gas Company* | Docket Nos. 831-46; 838-687 (LPGA) |
| *Re Public Service Electric and Gas Company* | Docket Nos. 812-76; 761-8, etc. |
| *Re Rockland Electric Company* | Docket No. 7611-1100 |
| Re Wallkill Valley Hospital | Docket No. 89-XHR-73 |
| *Re West Keansburg Water Company* | Docket No. 759-993 |
| New Mexico | |
| *Re Public Service Company of New Mexico* | Docket Nos.1536;1631-32; 1602; 1693; 1804; 1828-29; 1835 |
| Ohio | |
| *Re American Utilities Company (Water)* | Case No. 80-999-AIR |
| *Re Dayton Power & Light Company* | Case No. 76-823-EL-AIR |
| *Re Columbus & Southern Ohio Electric Company* | Case No. 77-545-EL-AIR |
| *Re Ohio Edison Company* | Case No. 79-44-EL-AIR |
| Pennsylvania | |
| *Re Columbia Gas of Pennsylvania* | Docket No. R-78120724 |
| *Re Media Borough Water Works* | Docket No. R-78120724 |
| *Re Peoples Natural Gas Company* | Docket No. R-78010545 |
| *Re Pennsylvania Gas & Water* | Docket Nos. R-821961; R-822102 |
| *Re Philadelphia Electric Company (Electric)* | Docket Nos. R-80061225, etc. |
| *Re Philadelphia Electric Company (Gas)* | Docket Nos. R-79040785, etc. |
| *Re Philadelphia Gas Works(Rate Increases)* | Dockets 1986; 1988; 1990;1991 |
| *Re Philadelphia Gas Works (Operating Budgets)* | Dockets 1993-1999 |
| *Re Philadelphia Water Department* | Dockets 1985; 1990 |
| *Re West Penn Power Company* | Docket R-901609 |

<u>South Carolina</u>

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|---|---|
| *Re South Carolina Pipeline Corporation* | Docket No. 88-599-G |

<u>Virgin Islands</u>

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|---|---|
| *Re Virgin Island Water and Power Authority* | Docket No. 106 |

***Participation in Proceeding*** (Pennsylvania Only)

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|---|---|
| *Re Natural Fuel Distribution Company* | Docket No. R-077110514 |
| *Re Equitable Gas Company* | Docket Nos. R-78040598, etc. |
| *Re Columbia Gas of Pennsylvania* | Docket No. R-80031129 |
| *Re Peoples Natural Gas Company* | Docket No. 821906 |
| *Re Philadelphia Electric Company (Gas)* | Docket No. R-860346 - 1307(f) |
| *Re UGI Corporation* | Docket No. R-860344 - 1307(f) |

# APPENDIX B

**PHILADELPHIA GAS WORKS**
**STATEMENT OF INCOME**
**(Dollars in Thousands)**

| | Actual 1998-99 | Revised Estimate 1999-2000 | 8/8/00 Volume 11/10 Revised Budget 2000-01 | 8/24/00 No Rate Inc Revised Budget 2000-01 | 8/24/00 No GCR Inc No Rate Inc Rev Budget 2000-01 | 8/24/00 Cust/Vol 06/01 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Non-Heating | $69,375 | $88,602 | $112,544 | $112,544 | $104,302 | $112,544 |
| Gas Transport Service | 3,376 | 3,370 | 3,656 | 3,656 | 3,656 | 3,656 |
| Heating | 390,242 | 430,389 | 505,101 | 505,101 | 417,420 | 505,101 |
| Proposed Base Rate Increase | - | - | 46,335 | | | 11,780 |
| Marginal Revenue Loss Weather | - | - | (4,000) | (4,000) | (4,000) | (4,000) |
| Change in Senior Citizen Discount | - | - | 1,500 | 1,500 | 1,500 | 1,500 |
| Unbilled Adjustment | (349) | (201) | 2,400 | 1,750 | 400 | 1,750 |
| Total Gas Revenues | 462,644 | 522,160 | 667,536 | 620,551 | 523,278 | 632,331 |
| Appliance Repair & Bill Paid Turn-Ons | 14,635 | 12,473 | 13,233 | 13,233 | 13,233 | 13,233 |
| Other Operating Revenues | 9,606 | 9,250 | 11,915 | 11,092 | 9,389 | 11,301 |
| Total Other Operating Revenues | 24,241 | 21,723 | 25,148 | 24,325 | 22,622 | 24,534 |
| Total Operating Revenues | $486,885 | $543,883 | $692,684 | $644,876 | $545,900 | $656,865 |
| **OPERATING EXPENSES** | | | | | | |
| Natural Gas | $219,081 | $261,621 | $349,068 | $349,068 | $349,068 | $349,068 |
| Other Raw Material | 9 | 10 | 10 | 10 | 10 | 10 |
| Sub-Total Fuel | 219,090 | 261,631 | 349,078 | 349,078 | 349,078 | 349,078 |
| CONTRIBUTION MARGINS | $267,795 | $282,252 | $343,606 | $295,798 | $196,822 | $307,787 |
| Gas Processing | 13,881 | 14,106 | 13,825 | 13,825 | 13,825 | 13,825 |
| Field Services | 35,090 | 33,521 | 33,061 | 33,061 | 33,061 | 33,061 |
| Distribution | 15,527 | 14,082 | 13,601 | 13,601 | 13,601 | 13,601 |
| Customer Affairs | 27,044 | 28,759 | 31,208 | 31,208 | 31,208 | 31,208 |
| Bad Debt Expense | 39,000 | 48,000 | 57,000 | 53,000 | 47,326 | 53,413 |
| Marketing & Point-of-Sale Expenses | 5,253 | 3,680 | 6,713 | 6,713 | 6,713 | 6,713 |
| Administrative & General | 34,681 | 40,350 | 43,830 | 43,830 | 43,830 | 43,830 |
| Health Insurance | 23,432 | 24,375 | 25,290 | 25,290 | 25,290 | 25,290 |
| Capitalized Fringe Benefits | (4,896) | (5,008) | (5,333) | (5,333) | (5,333) | (5,333) |
| Capitalized Administrative Charges | (7,243) | (5,805) | (6,815) | (6,815) | (6,815) | (6,815) |
| Regulatory Asset Amortization | 3,156 | 3,750 | 3,750 | 3,750 | 3,750 | 3,750 |
| Amortization of Restructuring Costs | 965 | 965 | 965 | 965 | 965 | 965 |
| Year 2000 & Deregulation Amortization | 882 | 888 | 888 | 888 | 888 | 888 |
| Pensions | 787 | 1,119 | 1,376 | 1,376 | 1,376 | 1,376 |
| Taxes | 6,091 | 6,674 | 6,548 | 6,548 | 6,548 | 6,548 |
| Amortization of Non-Recurring IT Costs | - | (4,000) | - | - | - | - |
| Personnel Reductions/Retirements | - | - | (2,500) | (2,500) | (2,500) | (2,500) |
| Cost Savings/Productivity Improvements | | | (10,000) | (10,000) | (10,000) | (10,000) |
| Sub-Total Other Oper.& Maintenance | 193,650 | 205,656 | 213,407 | 209,407 | 203,733 | 209,820 |
| Depreciation | 31,106 | 32,169 | 33,381 | 33,381 | 33,381 | 33,381 |
| Cost of Removal | 2,671 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| To Clearing Accounts | (4,702) | (3,545) | (3,344) | (3,344) | (3,344) | (3,344) |
| | 29,075 | 31,124 | 32,537 | 32,537 | 32,537 | 32,537 |
| TOTAL OPERATING EXPENSES | $441,815 | $498,411 | $595,022 | $591,022 | $585,348 | $591,435 |
| OPERATING INCOME | 45,070 | 45,472 | 97,662 | 53,854 | (39,448) | 65,430 |
| Other Income | 8,263 | 16,782 | 5,274 | 4,524 | 3,774 | 4,624 |
| INCOME BEFORE INTEREST | $53,333 | $62,254 | $102,936 | $58,378 | ($35,674) | $70,054 |
| **INTEREST** | | | | | | |
| Long-Term Debt | $46,990 | $49,256 | $47,871 | $47,871 | $47,871 | $47,871 |
| Other | 4,802 | 6,270 | 6,102 | 6,102 | 6,102 | 6,102 |
| AFUDC | (201) | (500) | (355) | (355) | (355) | (355) |
| Loss From Extinguishment of Debt | 3,992 | 4,311 | 4,162 | 4,162 | 4,162 | 4,162 |
| Total Interest | 55,583 | 59,337 | 57,780 | 57,780 | 57,780 | 57,780 |
| NET INCOME | (2,250) | 2,917 | 45,156 | 598 | (93,454) | 12,274 |
| City Payment | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Net Earnings | ($20,250) | ($15,083) | $27,156 | ($17,402) | ($111,454) | ($5,726) |

08/24/2000

**PHILADELPHIA GAS WORKS**
**CASHFLOW STATEMENT**
**(Dollars In Thousands )**

| | Actual 1998-99 | Revised Estimate 1999-2000 | 8/8/00 Volume 11/10 Revised Budget 2000-01 | 8/24/00 No Rate Inc Revised Budget 2000-01 | 8/24/00 No GCR Inc No Rate Inc Rev Budget 2000-01 | 8/24/00 Cust/Vol 06/01 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| SOURCES | | | | | | |
| Net Income | ($2,250) | $2,917 | $45,156 | $598 | ($93,454) | $12,274 |
| Depreciation & Amortization | 38,500 | 40,638 | 42,827 | 42,827 | 42,827 | 42,827 |
| Earnings on Restricted Funds | (197) | 994 | - | - | - | - |
| Impact of Refunded Debt Service | 282 | 548 | - | - | - | - |
| Increased/(Decreased) Other Liabilities | 7,966 | 7,274 | 2,833 | 2,833 | 2,833 | 2,833 |
| Available From Operations | 44,301 | 52,371 | 90,816 | 46,258 | (47,794) | 57,934 |
| Funds Required for Capital | 47,363 | 68,223 | 34,820 | 34,820 | 34,820 | 34,820 |
| Capital Leasing | 2,438 | 2,228 | 6,000 | 6,000 | 6,000 | 6,000 |
| Temporary Financing | 19,000 | 22,000 | - | - | - | - |
| TOTAL SOURCES | $113,102 | $144,822 | $131,636 | $87,078 | ($6,974) | $98,754 |
| USES | | | | | | |
| Net Construction Expenditures | $68,087 | $46,959 | $62,293 | $62,293 | $62,293 | $62,293 |
| Funded Debt Reduction: | | | | | | |
| Revenue Bonds | 33,625 | 33,595 | 34,192 | 34,192 | 34,192 | 34,192 |
| PMA Lease/Subordinate Debt | 965 | 1,020 | 1,065 | 1,065 | 1,065 | 1,065 |
| Capital Lease | 6,084 | 6,538 | 6,901 | 6,901 | 6,901 | 6,901 |
| Notes Payable - CNG Acquisition | 207 | 219 | 59 | 59 | 59 | 59 |
| Temporary Financing Repayment | | | | | | |
| Distribution of Earnings | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Additions To (Reductions of) Non-Cash Working Capital | (20,071) | 52,093 | (520) | (7,890) | (14,189) | (7,332) |
| Cash Needs | 106,897 | 158,424 | 121,990 | 114,620 | 108,321 | 115,178 |
| Cash Surplus (Shortfall) | 6,205 | (13,602) | 9,646 | (27,542) | (115,295) | (16,424) |
| TOTAL USES | $113,102 | $144,822 | $131,636 | $87,078 | ($6,974) | $98,754 |
| Cash - Beginning of Period | $9,883 | $16,088 | $2,486 | $2,486 | $2,486 | $2,486 |
| Cash - Surplus (Shortfall) | 6,205 | (13,602) | 9,646 | (27,542) | (115,295) | (16,424) |
| ENDING CASH | $16,088 | $2,486 | $12,132 | ($25,056) | ($112,809) | ($13,938) |
| Internally Generated Funds | $18,286 | ($23,492) | $21,473 | $21,473 | $21,473 | $21,473 |
| Outstanding Commercial Paper | $75,000 | $97,000 | $97,000 | $97,000 | $97,000 | $97,000 |

**PHILADELPHIA GAS WORKS**
**DEBT SERVICE COVERAGE**
**( Dollars in Thousands )**

| | Actual 1998-99 | Revised Estimate 1999-2000 | 8/8/00 Volume 11/10 Revised Budget 2000-01 | 8/24/00 No Rate Inc Revised Budget 2000-01 | 8/24/00 No GCR Inc No Rate Inc Rev Budget 2000-01 | 8/24/00 Cust/Vol 06/01 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| FUNDS PROVIDED | | | | | | |
| Total Gas Revenues | $462,644 | $522,160 | $667,536 | $620,551 | $523,278 | $632,331 |
| Other Operating Revenues | 24,241 | 21,723 | 25,148 | 24,325 | 22,622 | 24,534 |
| Total Operating Revenues | 486,885 | 543,883 | 692,684 | 644,876 | 545,900 | 656,865 |
| Other Income Less Restricted Funds | 8,066 | 17,776 | 5,274 | 4,524 | 3,774 | 4,624 |
| AFUDC (Interest) | 201 | 500 | 355 | 355 | 355 | 355 |
| TOTAL FUNDS PROVIDED | $495,152 | $562,159 | $698,313 | $649,755 | $550,029 | $661,844 |
| FUNDS APPLIED | | | | | | |
| Fuel Costs | 219,090 | 261,631 | 349,078 | 349,078 | 349,078 | 349,078 |
| Other Operating Costs | 222,725 | 236,780 | 245,944 | 241,944 | 236,270 | 242,357 |
| Total Operating Expenses | 441,815 | 498,411 | 595,022 | 591,022 | 585,348 | 591,435 |
| PMA Lease Cost | - | - | - | - | - | - |
| $20.1M Capital Lease Cost | 3,884 | 3,991 | 3,980 | 3,980 | 3,980 | 3,980 |
| $23M Capital Lease Cost | 3,998 | 3,997 | 3,997 | 3,997 | 3,997 | 3,997 |
| Less: Non-Cash Expenses | 34,831 | 36,257 | 37,569 | 37,569 | 37,569 | 37,569 |
| TOTAL FUNDS APPLIED | $414,866 | $470,142 | $565,430 | $561,430 | $555,756 | $561,843 |
| Funds Available to Cover Debt Service | $80,286 | $92,017 | $132,883 | $88,325 | ($5,727) | $100,001 |
| Add-back Lease Costs | 7,882 | 7,988 | 7,977 | 7,977 | 7,977 | 7,977 |
| Funds Available Excluding Lease Costs | $88,168 | $100,005 | $140,860 | $96,302 | $2,250 | $107,978 |
| 1975 Ordinance Bonds Debt Service | $57,741 | $59,345 | $51,611 | $51,611 | $51,611 | $51,611 |
| Debt Service Coverage 1975 Bonds | 1.53 | 1.69 | 2.73 | 1.87 | 0.04 | 2.09 |
| Net Available after Prior Debt Service | $30,427 | $40,660 | $89,249 | $44,691 | ($49,361) | $56,367 |
| PMA & Other Capital Leases | 7,882 | 7,988 | 7,977 | 7,977 | 7,977 | 7,977 |
| Net Available after Prior Capital Leases | $22,545 | $32,672 | $81,272 | $36,714 | ($57,338) | $48,390 |
| 1998 Ordinance Bonds Debt Service | $14,230 | $21,659 | $29,449 | $29,449 | $29,449 | $29,449 |
| Debt Service Coverage New Bonds | 1.58 | 1.51 | 2.76 | 1.25 | (1.95) | 1.64 |
| Net Available after New Debt Service | $8,315 | $11,013 | $51,823 | $7,265 | ($86,787) | $18,941 |
| 1998 Ordinance Subordinate Bond Debt Ser | $1,988 | $1,987 | $1,990 | $1,990 | $1,990 | $1,990 |
| Debt Service Coverage Subordinate Bond | 4.18 | 5.54 | 26.04 | 3.65 | (43.61) | 9.52 |

Normal weather 4600 degree days
No rate increase - GCR effective 10/15
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 08/02/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 TXCP | $2.0 | $0.6 | $1.1 | ($0.8) | $3.7 | ($12.7) | ($4.6) | $21.0 | $40.0 | $48.9 | $25.6 | ($4.9) | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 25.8 | 27.2 | 37.0 | 48.2 | 59.6 | 68.8 | 76.8 | 72.6 | 60.1 | 44.2 | 38.3 | 35.6 | 594.0 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.8 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 12.6 | 14.6 | 7.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL RECEIPTS | 45.7 | 53.5 | 46.0 | 54.7 | 66.9 | 70.2 | 78.2 | 74.2 | 61.7 | 45.8 | 53.4 | 39.4 | 689.6 |
| TOTAL | 47.7 | 54.1 | 47.1 | 53.9 | 70.6 | 57.5 | 73.6 | 95.2 | 101.7 | 94.7 | 79.0 | 34.5 | 691.6 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 25.8 | 27.2 | 24.7 | 26.6 | 34.9 | 37.6 | 30.8 | 30.6 | 29.7 | 28.7 | 25.8 | 25.4 | 347.8 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 9.8 | 9.9 | 10.1 | 10.2 | 11.6 | 10.8 | 10.4 | 9.8 | 9.7 | 9.5 | 9.8 | 9.6 | 120.8 |
| TOTAL DISBURSEMENTS | 47.1 | 53.1 | 47.9 | 50.2 | 83.3 | 62.2 | 52.6 | 55.1 | 52.8 | 69.0 | 63.9 | 59.6 | 716.7 |
| MONTHLY CASH FLOW | (1.4) | 0.4 | (1.9) | 4.5 | (16.4) | 8.0 | 25.6 | 19.1 | 8.8 | (23.2) | (30.5) | (20.2) | (27.1) |
| CUMULATIVE CASH FLOW | (1.4) | (0.9) | (2.8) | 1.7 | (14.7) | (6.6) | 19.0 | 38.0 | 46.9 | 23.6 | (6.9) | (27.1) | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 0.6 | 1.1 | (0.8) | 3.7 | (12.7) | (4.6) | 21.0 | 40.0 | 48.9 | 25.6 | (4.9) | 2.0 |
| MONTHLY CASH FLOW | (1.4) | 0.4 | (1.9) | 4.5 | (16.4) | 8.0 | 25.6 | 19.1 | 8.8 | (23.2) | (30.5) | (20.2) | (27.1) |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | 0.6 | 1.1 | (0.8) | 3.7 | (12.7) | (4.6) | 21.0 | 40.0 | 48.9 | 25.6 | (4.9) | (25.1) | (25.1) |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (96.4) | (95.9) | (97.8) | (93.3) | (109.7) | (101.6) | (76.0) | (57.0) | (48.1) | (71.4) | (101.9) | (122.1) | (122.1) |

Normal weather 4600 degree days
Rate increase 6/01 - GCR effective 10/15
Productivity/cost savings $10 0 million
Beginning Cash Balance $2 0 million

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 08/24/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97 0 TXCP | $2 0 | $0.6 | $1.1 | ($0 8) | $3.7 | ($12.7) | ($4.6) | $21.0 | $40.0 | $48 9 | $26 4 | ($0.1) | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 25 8 | 27.2 | 37.0 | 48.2 | 59 6 | 68 8 | 76 8 | 72 6 | 60.1 | 44.2 | 38 3 | 35.5 | 594.0 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3 9 | 32.1 |
| Drawn from Capital Funds - Principal $34 8 | 12.6 | 14 6 | 7.6 | 0.0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 0 0 | 34 8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0 0 | 0.0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 0 0 | 0.0 |
| Drawn from Lease Funds - Principal $10 3 | 0 0 | 0 0 | 0.0 | 0.0 | 6.0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.0 | 0 0 | 0 0 | 6.0 |
| Drawn from Lease Funds - Interest | 0 0 | 0 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 0 | 0 0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 0 | 0.0 | 0.0 | 0 0 |
| Pension Withdrawal | 0.6 | 3 0 | 0.0 | 5.5 | 0 0 | 0.0 | 0 0 | 0 0 | 0 0 | 0.0 | 13 6 | 0 0 | 22.7 |
| Rate Increase | 0.0 | 0 0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.8 | 4 0 | 4 0 | 8 8 |
| TOTAL RECEIPTS | 45.7 | 53 5 | 46 0 | 54.7 | 66.9 | 70 2 | 78.2 | 74 2 | 61.7 | 46 6 | 57.4 | 43.4 | 698.4 |
| TOTAL | 47.7 | 54.1 | 47.1 | 53.9 | 70.6 | 57.5 | 73 6 | 95 2 | 101.7 | 95.6 | 83.8 | 43 3 | 700 4 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12 0 | 13.1 | 13 2 | 10 8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10 6 | 11.3 | 136 8 |
| Natural Gas | 25.6 | 27.2 | 24.7 | 26 6 | 34.9 | 37.6 | 30 8 | 30 6 | 29.7 | 28.7 | 25 8 | 25.4 | 347.8 |
| Debt Service | 0 0 | 3.9 | 0 0 | 0.1 | 25.9 | 2.7 | 0 0 | 4 0 | 1.7 | 1.4 | 37.9 | 13 3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0 2 | 0 4 | 0.2 | 0 6 | 0.4 | 0 2 | 0.0 | 0 0 | 2 2 |
| City Fee | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 18 2 | 0 0 | 0 0 | 18.2 |
| Other Disbursements | 9 8 | 9.9 | 10.1 | 10 2 | 11.5 | 10 8 | 10 4 | 9 8 | 9.7 | 9.6 | 9.6 | 9 6 | 120 8 |
| TOTAL DISBURSEMENTS | 47.1 | 53.1 | 47.9 | 50.2 | 83.3 | 62.2 | 52.6 | 56.1 | 52 8 | 69.0 | 83.9 | 59 6 | 718 7 |
| MONTHLY CASH FLOW | (1.4) | 0.4 | (1.9) | 4.5 | (16.4) | 8 0 | 25.6 | 19.1 | 8.6 | (22.4) | (26.5) | (16.2) | (18.3) |
| CUMULATIVE CASH FLOW | (1.4) | (0.9) | (2.8) | 1.7 | (14.7) | (6.6) | 19 0 | 38 0 | 46.9 | 24.4 | (2.1) | (18 3) | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.0 | 0.0 | 0 0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0 0 | 0.0 | 0.0 | 0 0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97 0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 0.6 | 1.1 | (0.8) | 3.7 | (12.7) | (4.6) | 21.0 | 40.0 | 48.9 | 26.4 | (0.1) | 2.0 |
| MONTHLY CASH FLOW | (1 4) | 0.4 | (1.9) | 4.5 | (16 4) | 8 0 | 25 6 | 19.1 | 8.8 | (22 4) | (26 5) | (16 2) | (18 3) |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0 0 | 0 0 | 0 0 | 0.0 | 0 0 | 0.0 | 0 0 | 0.0 | 0 0 | 0 0 | 0.0 |
| ENDING BALANCE - CASH | 0.6 | 1.1 | (0.8) | 3.7 | (12.7) | (4.6) | 21.0 | 40.0 | 48.9 | 26.4 | (0.1) | (16.3) | (16.3) |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (96 4) | (95 9) | (97.8) | (93 3) | (109 7) | (101.6) | (76 0) | (57 0) | (48.1) | (70.6) | (97.1) | (113 3) | (113 3) |

# APPENDIX C

# PROGRESS REPORT
## PHILADELPHIA GAS WORKS
## TRANSITION TO EXCELLENCE PLAN
## INTERIM MANAGEMENT/ISSUES AND INITIAITVES

<u>Regulatory</u>

| | |
|---|---|
| PUC Audit/**Barrington Wellesley** | December, 2000 |
| PGC Budget Proceedings | October, 2000 |
| PUC Bas Rate Proceeding | March, 2001? |
| PUC Gas Cost Rate Proceeding | October, 2000? |
| PUC Customer Service Oversight | On-going per PUC Memorandum |
| PGC IT Audit – **Deloitte & Touche** | September, 2000 |

<u>Strategy and Planning</u>

| | |
|---|---|
| Strategic Plan | October, 2000 |
| Draft | September, 2000 |
| Organization Plan/Position Evaluation | October, 2000 |
| Draft | September, 2000 |
| Compensation Restructuring/**Hay Group** | October, 2000 |
| Labor Negotiation Task Force | On-going |

<u>Stabilization</u>

| | |
|---|---|
| **KPMG** – Control Study | November, 2000 |
| Project Management Office/**Andersen** | |
| Exceptions | August 31, 2000 |
| Cash Postings | August 31, 2000 |
| Budget Billing | September 15, 2000 |
| Part and Labor Plan | September 1, 2000 |
| Mobile System | September 15, 2000 |
| Errors Resolution | On-going |
| IT Systems Improvements/**SPL** | On-going |
| Financial Control/**Deloitte & Touche** Audit | December, 2000 |
| File Restructuring | August 31, 2000 |
| Month End Activities | August 31, 2000 |
| Collectibility Study | October, 2000 |
| Financial Reporting Structure/**Mara** | September, 2000 |
| Governance/New Management | Open |
| Cash Collection Initiatives | On-going |

**BOLD** – Consulting capacity or auditing assistance

Departmental Changes

Call Center

| | |
|---|---|
| **Vanguard Study** Implementation | March, 2001 |
| Customer Affairs – Interim VP | August 18, 2000 |
| 30 New Hires | August 15, 2000 |
| Staff Reorganization | September, 2000 |
| Training | |
| Target ed Training | On-going - Started August 7 |
| **Sarcom**/BCCS | On-going - Started August 7 |
| Customer Attitude Study | June, 2000 |

Human Resources

| | |
|---|---|
| **Hay Study** Implementation | January, 2001 |
| HR Information System/**Under Review** | January, 2001 |
| Staffing Changes | August 31, 2000 |

Information Technology

| | |
|---|---|
| Reorganization | September, 2000 |

Corporate Planning &Process Control

| | |
|---|---|
| New Department Set-up | September, 2000 |
| Staffing | October, 2000 |

Marketing Department

| | |
|---|---|
| Reorganization | May, 2000 |

Risk Management

| | |
|---|---|
| **City Risk Management Dept.** Evaluation | June, 2000 |
| Reorganization | June, 2000 |

# APPENDIX D

**PHILADELPHIA GAS WORKS**
**DEBT SERVICE COVERAGE UNDER 1975 BOND ORDINANCE**
**( Dollars in Thousands )**

| | Actual 1998-99 | Revised Estimate 1999-2000 | 8/8/00 Volume 11/10 Revised Budget 2000-01 | 8/24/00 No Rate Inc Revised Budget 2000-01 | 8/24/00 No GCR Inc No Rate Inc Rev Budget 2000-01 | 8/24/00 Cust/Vol 06/01 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| **FUNDS PROVIDED** | | | | | | |
| Total Gas Revenues | $462,644 | $522,160 | $667,536 | $620,551 | $523,278 | $632,331 |
| Other Operating Revenues | 24,241 | 21,723 | 25,148 | 24,325 | 22,622 | 24,534 |
| Total Operating Revenues | 486,885 | 543,883 | 692,684 | 644,876 | 545,900 | 656,865 |
| Other Income Less Restricted Funds | 8,066 | 17,776 | 5,274 | 4,524 | 3,774 | 4,624 |
| AFUDC (Interest) | 201 | 500 | 355 | 356 | 355 | 356 |
| TOTAL FUNDS PROVIDED | $495,152 | $562,159 | $698,313 | $649,755 | $550,029 | $661,844 |
| **FUNDS APPLIED** | | | | | | |
| Fuel Costs | 219,090 | 261,631 | 349,078 | 349,078 | 349,078 | 349,078 |
| Other Operating Costs | 222,725 | 236,780 | 245,944 | 241,944 | 236,270 | 242,357 |
| Total Operating Expenses | 441,815 | 498,411 | 595,022 | 591,022 | 585,348 | 591,435 |
| PMA Lease Cost | - | - | - | - | - | - |
| $20.1M Capital Lease Cost | 3,884 | 3,991 | 3,980 | 3,980 | 3,980 | 3,980 |
| $23M Capital Lease Cost | 3,998 | 3,997 | 3,997 | 3,997 | 3,997 | 3,997 |
| Less: Non-Cash Expenses | 34,831 | 38,257 | 37,569 | 37,569 | 37,569 | 37,569 |
| TOTAL FUNDS APPLIED | $414,866 | $470,142 | $565,430 | $561,430 | $555,756 | $561,843 |
| Funds Available to Cover Debt Service | $80,286 | $92,017 | $132,883 | $88,325 | ($5,727) | $100,001 |
| Add-back Lease Costs | 7,882 | 7,988 | 7,977 | 7,977 | 7,977 | 7,977 |
| Funds Available Excluding Lease Costs | $88,168 | $100,006 | $140,860 | $96,302 | $2,250 | $107,978 |
| 1975 Ordinance Bonds Debt Service | $71,971 | $81,004 | $81,060 | $81,060 | $81,060 | $81,060 |
| Debt Service Coverage 1975 Bonds | 1.23 | 1.23 | 1.74 | 1.19 | 0.03 | 1.33 |
| Net Available after Prior Debt Service | $16,197 | $19,001 | $59,800 | $15,242 | ($78,810) | $26,918 |
| PMA & Other Capital Leases | 7,882 | 7,988 | 7,977 | 7,977 | 7,977 | 7,977 |
| Net Available after Prior Capital Leases | $8,315 | $11,013 | $51,823 | $7,265 | ($86,787) | $18,941 |
| 1998 Ordinance Subordinate Bond Debt Ser | $1,988 | $1,987 | $1,990 | $1,990 | $1,990 | $1,990 |
| Debt Service Coverage Subordinate Bond | 4.18 | 5.54 | 26.04 | 3.65 | (43.61) | 9.52 |

PGW-IR St. 1.1
9/27/00
Phila, PA
MS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

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SECRETARY'S BUREAU

# THOMAS E. KNUDSEN

ON BEHALF OF
PHILADELPHIA GAS WORKS

DOCUMENT
FOLDER

DOCKETED
OCT 10 2000

DOCKET NO. R-00005654

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PHILADELPHIA GAS WORKS

SEPTEMBER 2000

DSH:24073.1

## I. Introduction and Summary of Rebuttal

**Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

A. The purpose of my testimony is to respond to the testimony submitted by Mr. Richard LeLash on behalf of the Office of Consumer Advocate ("OCA"), Mr. Richard Baudino, on behalf of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), and Messrs. Charles Weakley, Paul Metro and Andrew O'Donnell, on behalf of the Pennsylvania Public Utility's Office of Trial Staff ("OTS").[1]

First, I take issue with the suggestions of at least two of the witnesses (Mr. LeLash and Mr. Baudino) that PGW's interim rate hike could be avoided by securing loans from, and/or the waiver of PGW's required $18 million payment to, the City of Philadelphia. I will then respond to the allegations that PGW's interim financial needs can be met with rate hikes considerably smaller than the $52 million requested by PGW. My rebuttal is directed most directly at Mr. LeLash's testimony since his is the most aggressive in terms of recommendations. Finally, I will address the suggestion made by Mr. LeLash that even if PGW proves the need for increased rates, PGW's request, nonetheless, should be denied either because PGW should have pursued alternative means of raising cash or because, PGW's service is so inadequate it should not be permitted any increase whatsoever.

## II. General Response to Testimony of OCA, OTS and PICGUG

**Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES THAT HAVE SUBMITTED DIRECT TESTIMONY IN RESPONSE TO PGW'S FILING.**

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[1] Mr. Brian Kalcic submitted testimony on behalf of the Office of Small Business Advocate but did not take a position regarding PGW's interim rate request.

A. In response to our testimony showing that a $52 million interim rate increase was required, three parties filed testimony, and all have recommended that at least some interim rate increase is justified and would be reasonable. The range of recommendations, however, is broad. They are as follows:

| | |
|---|---|
| Office of Trial Staff: | $27.5 million and update GCR filing to reflect more current (and significantly higher) cost of natural gas. |
| PICGUG | Consider a $15.6 million interim rate increase. |
| Office of Consumer Advocate | No interim rate increase if the PUC can require the City of Philadelphia both to forgo its required $18 million payment and to contribute that amount to the PGW as a "project revenue." $7.5 million interim rate increase if the PUC can not force the City to waive the payment. |

**Q. DO YOU HAVE AN OVERALL COMMENT ON THE RECOMMENDATIONS OF THESE PARTIES?**

A. While I do not doubt the sincerity of each of the parties submitting their recommendations, and especially appreciate the OTS's recognition of the significant earnings and cash flow problems currently facing PGW and its customers, I am disappointed that the parties were not able to sufficiently appreciate the seriousness of the present situation as presented in the record. The parties appear not to have understood that the full $52 million request is absolutely necessary to maintain PGW's financial situation at minimally acceptable levels until the Company can secure, and realize the benefits of, a permanent rate increase and internal efficiency improvements.

**Q. ON AN OVERALL BASIS, HOW WILL THE PARTIES' RECOMMENDATIONS AFFECT PGW'S PRESENT CIRCUMSTANCES?**

A. While all of these recommendations are inadequate based upon the facts that I presented in my direct testimony, I must report that, since the filing of that testimony, the Company's financial situation has become more precarious.

First, as all the parties are aware, gas prices continue to escalate. This is a phenomenon that the OTS recognized as a factor that must be dealt with, not only in setting an appropriate GCR level but also as a significant downward drag on PGW's daily and monthly cash working capital needs. Gas costs have gone up so fast and so high that, whereas I previously projected a cash crisis beginning in January, we are now looking at a negative position by November. PGW does not have the ability, alone, to cover these shortfalls. The negative cash balances in January are now projected to approach $12 million. It is important to understand that these gas price hikes not only have cash flow implications but also increase PGW's projected level of uncollectibles (which are accounted for only in base rates), further worsening projected earnings. Because of the timing differences between the receipt of GCR funds and our need to pay for higher priced gas, the negative cash flow effects of these gas cost increases will be mitigated only slightly by an increase in our originally-filed $97 million gas cost rate increase. Without increasing still further our interim rate request, there will be a significantly negative effect on our earnings.

In addition, PGW has been formally advised by J.P. Morgan, the lead institution that provides the letter of credit securing PGW's commercial paper, that it will not presently extend our agreement for another year but will instead consider such a request only after the PUC takes action on PGW's interim rate request in November. (I have attached the J.P. Morgan letter as Schedule 1). J.P. Morgan has also confirmed that it will continue to require PGW to adhere to a requirement of the commercial paper letter of credit that, once a year, PGW demonstrate that it has enough cash to pay down the entire outstanding balance for at least 5 days. Since, by contract, J.P. Morgan requires this demonstration, it is clear that PGW will have difficulty garnering the cash balance necessary to make this representation.

As I will explain below, these developments have caused PGW to request that the Philadelphia City Council authorize the issuance of backstop loans to ensure that PGW will be able to continue to pay its bills starting in November and to make its commercial paper "pay-down demonstration" in the spring. But, it would be extremely shortsighted and dangerous if these requests were viewed as justification for rejecting all or substantially all of PGW's interim rate petition, as OCA witness LeLash (and, to some extent, PICGUG witness Baudino) has recommended.

**Q. PLEASE EXPLAIN THE SPECIFICS OF THE SUPPORT OFFERED BY THE ADMINISTRATION.**

A. The owner of PGW is indeed the City of Philadelphia and, therefore, its citizens who are also the ratepayers of PGW. Accordingly, the City administration has recognized its responsibility to the Company and its customers and has agreed to propose a substantial contribution to help PGW through this difficult time. The administration has asked Philadelphia City Council (which must approve any such action) to approve a $45 million loan to PGW.[2] The administration has also taken the unprecedented step of indicating its willingness to voluntarily waive or grant back the $18 million mandatory payment on a one-time basis as an additional backstop that would be available to assist PGW to deal with contingencies and (hopefully) to assure that PGW will satisfy all applicable bond ordinance and rate covenants. This grant back to PGW must also be approved by City Council. A portion ($5 million) of the $18 million would be made available to assure that PGW will satisfy it bond ordinance requirements for the 1999-2000 fiscal year that just ended. The rest, plus any unused portion of the $5 million, would be available to backstop PGW in the same way in the present fiscal year or if PGW's financial condition deteriorates because of unbudgeted contingencies. Because of the lead time necessary, the City Administration asked City Council last week to approve the loans even prior to the PUC's scheduled consideration of PGW's interim rate request.

**Q. WHY DOESN'T THE ADMINISTRATION SUPPORT ELIMINATION OF THE NEED FOR AN INTERIM RATE INCREASE?**

A. For a number of reasons. First, the City administration and the City Council have made clear that for the loans to be approved, the City must be assured that the Company's financial condition, at the time the loan is made, will permit PGW to pay the loans back. This is because the loans are being made pursuant to the authority in the Management Agreement, which states that any such advance must be paid back in two years. This means that the City Council will not permit the loans to be used as a replacement for a

---

[2] The repayment terms and the interest (if any) has not been determined but under the Management Agreement, a loan must be repaid in 24 months.

rate increase, since PGW's present financial position does not permit a conclusion that the loans will definitely be able to be paid back as required.

Second, the City would be acting irresponsibly if it allowed its loan and grant to replace an increase in rates to customers. I explained in my direct testimony that PGW has no short term sources of funds other than the City. If the City's line of credit is issued simply to meet projected obligations, PGW will literally have no protection if it needs to respond to contingencies such as warmer or colder than normal weather. Indeed, as I have explained above, PGW is already positioned to potentially use a portion of its "backstop" starting in November.

Finally, it is clear that if the PUC refuses to grant an interim rate increase because of short term financial help from its owner, the investment community will be left with the view that PGW will not be able to survive on its own. Such a conclusion (which would be very difficult to refute) almost certainly would result in PGW losing its short-term line of credit as well as the downgrading of its long-term debt. This would be a disaster.

Thus, the City administration is willing to do its part to help this Company survive over the next 12 - 18 months — but only as part of an overall assistance plan that includes a rate increase — not in place of it.

## III. Response to Mr. LeLash's Testimony Regarding Level of Interim Rate Increase

**Q. MR. LELASH TESTIFIES THAT IF PGW RECEIVES A $20 MILLION LOAN FROM THE CITY THE STANDARD FOR GRANTING THIS INTERIM RATE REQUEST WOULD BE SATISFIED BY JUST A $7.5 MILLION INTERIM RATE INCREASE, AND THAT IF THE CITY WOULD WAIVE ITS $18**

**MILLION PAYMENT AND CONTRIBUTE IT TO PGW AS A PROJECT REVENUE NO RATE INCREASE IS JUSTIFIED. DO YOU AGREE?**

A. No, most definitely not. Mr. LeLash's testimony does not dispute any of my financial projections, the resulting earnings or the cash flow results. He is able to testify that either no increase is justified or just 14% of our request would get us through the rest of this fiscal year simply with a minimal coverage calculation by assuming normal weather. He also assumes the City should bear the full responsibility for providing all additional relief. Further, he changes the criteria by which PGW's revenue needs must be judged almost literally in mid-stream.

Mr. LeLash has calculated the amount of additional revenue PGW needs to barely meet its 1.5x debt service coverage requirements in its 1975 and 1998 bond ordinances, and has refused to consider any other aspects of PGW's financial circumstances or requirements. For example, he has ignored the fact that PGW's revenue requirement is actually much higher than $52 million, and has ignored PGW's substantial end of year cash flow requirements. He has also completely ignored Ms. Bisgaier's testimony, which indicated that, absent a substantial commitment in the form of rate relief, the credit agencies are likely to take action to downgrade PGW's bond rating or terminate its short-term line of credit. In contrast, OTS witness O'Donnell has properly recognized that a failure to permit a reasonable level of interim rates will likely result in PGW experiencing a downgrading of its bonds, with enormous increases in costs and diminution in service for PGW's customers. He testified that, for that reason alone, PGW should receive an interim rate increase.

**Q. MR. LELASH CLAIMS THAT A RATE INCREASE COULD BE AVOIDED IF THE CITY COULD SIMPLY BE ORDERED TO WAIVE THE ENTIRE $18 MILLION PAYMENT THAT PGW IS REQUIRED TO MAKE TO THE CITY. WHAT IS YOUR RESPONSE.**

A. As I indicated earlier, I have been informed that the City has no intention of waiving its $18 million payment as a replacement for rate relief. The City has an absolute right to that payment which, as I and Ms. Bisgaier have explained, is already accounted for in Philadelphia's budgeted revenues, and its state-approved "five year plan." I have also been informed by counsel that the PUC is legally required to set rates to cover that payment. Therefore, the only way in which the $18 million payment may come into play is if the City voluntarily agrees to waive some or all of it as part of a comprehensive solution to PGW's immediate financial problems. Thus, for the purposes of analyzing Mr. LeLash's recommendations I will focus on his claim that PGW's interim rate needs could be satisfied by just a $7.5 million interim rate increase.

**Q. WHY IS MR. LELASH'S $7.5 MILLION RECOMMENDATION DEFICIENT?**

A. For many reasons. First, and as I indicated, Mr. LeLash's recommendation is based in significant part on his arbitrary determination to set rates to permit PGW to barely satisfy the debt service coverage in its bond indenture. He is wrong about that standard but, even assuming for the moment that he is correct and that the Commission should look no further than whether, on a pro forma basis, PGW will have enough earnings to make its interest coverages, his recommendation is, nonetheless, woefully deficient. That is because, as Mr. LeLash candidly admitted, at least in part, PGW's actual revenue requirement is actually at least $70 million, much higher than its $52 million request.

Mr. LeLash's recommendation, therefore, will not permit PGW to satisfy its interest coverage requirement. PGW's interim rate request understates its actual revenue requirement for several main reasons:

- <u>Presumed expense savings</u>. PGW has included in its projected, <u>pro forma</u> expenses a full <u>$14 million</u> in projected expense savings that PGW is projecting to realize. PGW management has to reduce expenses and operate efficiently, and therefore, I directed that our budget be very aggressive in the assumptions in these areas. However, while Mr. LeLash acknowledged that he did not expect the Company's hoped-for expense savings to materialize, he claimed no downward <u>pro forma</u> earnings adjustment needs to be made.
- <u>Additional uncollectibles due to rising gas prices</u>. PGW's original $52 million filing calculated the uncollectibles that PGW expected to incur based only on its original $42 million gas cost rate increase that it filed with the Philadelphia Gas Commission on June 19, 2000. After that filing, PGW updated its gas cost and determined that the full increase necessary to reflect <u>then</u> current gas cost projections was $97 million. Despite this more than doubling of gas costs, PGW did not increase its interim rate request to reflect the additional uncollectibles that will be caused by this higher level of gas costs. Those additional uncollectibles — which were never anticipated in PGW's original $52 million — we would estimate now to be nearly $10 million.

Accordingly, if these items alone are considered, PGW will fall well short of the earnings necessary to produce a 1.5x debt service coverage. In turn, rather than just making its debt service coverage requirements with Mr. LeLash's recommended $7.5 million rate increase, PGW will miss this requirement by approximately $24 million.

In addition, the above discussion does not even take into account additional contingencies that have come to the fore since our filing in August and which also will have a dampening effect on our earnings:

- First, and foremost, is the effect of spiraling gas costs. As OTS witness Metro has pointed out, even PGW's proposed $97 million GCR increase is significantly understated because of increases in wholesale prices that have occurred since the time that PGW calculated its GCR costs. Mr. Metro testified that, based upon present projections, PGW's gas costs are likely to be $62 million higher than the level reflected in its present filing. I have been informed by Mr. White that PGW's calculation of projected gas costs using the most current data would require an even higher increase in the neighborhood <u>of $70 to $100 million</u>. These hikes will result in PGW incurring additional foregone revenues in the form of higher uncollectibles which are not included in PGW's request. These higher uncollectibles will be in the range of <u>$10</u> million.
- Additional costs associated with gas distribution network safety inspections. Mr. LeLash noted with favor a recent Order of the PUC in which it directed PGW to prepare an enhanced plan for gas distribution network inspection and maintenance. By that Order, PGW is required to submit a proposed plan to the PUC by October 16th. It is clear from the Order that the PUC intends to require PGW to implement this additional plan before the winter heating season gets too far along. These additional enhancements could require additional expenditures for PGW, depending on the nature and comprehensiveness of the plan that is mutually agreed upon by PGW and the PUC. Mr. LeLash did not make an adjustment to reflect such additional requirements.

By establishing a proposed rate increase that would just barely allow PGW to squeak by <u>only</u> if several cost understatements are ignored, Mr. LeLash's recommendations would almost certainly put PGW in a position of failing to meet its bond ordinance covenants at the end of its fiscal year. If these "known and measurable" increased costs were also included in the calculation, Mr. LeLash's own standard would require an interim rate increase of <u>over $40 million</u> in order for PGW to be able to satisfy its debt service coverage covenants. ($7.5 million permitted by Mr. LeLash plus $14 million unrealized cost savings; plus $10 million in originally unclaimed uncollectible expense; plus $10 million in further uncollectible expense.)

Q. **WITH RESPECT TO THE CALCULATION OF UNCOLLECTIBLES, MR. WEAKLEY RECOMMENDED A 7.3922% FACTOR IN HIS TESTIMONY. IS THAT THE CORRECT PERCENTAGE TO USE?**

A. No. Mr. Weakley bases his recommendation strictly on a five-year historical average. However, this five-year period covered a period of time when no base rate increases took place and when the GCR was relatively stable. We are now in a period where customers will be faced not only with an interim rate increase, but also a substantial increase in their GCR. As I have testified, under such circumstances, experience shows the percentage rate of uncollectibles increases considerably. Schedule 2 shows the bad debt percentages we realized in prior years when gas rates were increasing at rates that we are now projecting we will experience. For that reason, I believe that my position, which assumes a large uncollectible amount, is much more reasonable than an historical average for a period which that is not relevant to the present circumstances.

Q. **WILL THE PUC BE ABLE TO ADJUST PGW'S REVENUES IN THE PERMANENT BASE RATE CASE THAT IS SCHEDULED TO START NO LATER THAN JANUARY, 2001 AND CORRECT ANY DEFICIENCIES IF THE INTERIM RATES CAN BE SHOWN TO BE INADEQUATELY LOW?**

A. No. That is because of the very weather sensitive nature of PGW's revenue collections. A large portion (in my opinion, an inappropriately large portion) of PGW's revenues are collected through volumetric charges. If PGW's revenues are not increased to adequate levels now in order to permit it to satisfy its bond ordinance coverage requirements and to meet PGW's cash flow needs, there is simply no way the PUC could increase it rates in the non-winter months and still produce enough revenues to rectify the situation. For example, I showed in my direct testimony that if PGW received no interim rate increase but received the entire $52 million in say June of 2001, it would collect just $6 million in the 2000-2001 fiscal year.

**Q. BUT MR. LELASH CLAIMS THAT PGW'S REQUEST IS DESIGNED NOT ONLY TO ESTABLISH APPROPRIATE FINANCIAL LEVELS FOR THIS INTERIM PERIOD BUT ALSO TO MAKE MORE LONG TERM IMPROVEMENTS IN PGW'S FINANCIAL CONDITION (LELASH, pp., 20, 24-25). IS HE CORRECT?**

A. No. Mr. LeLash apparently has confused the justification that PGW submitted in its original filing before the Philadelphia Gas Commission ("PGC") in which the Gas Works proposed to establish rates to address both short term and more long term problems. But I explained in my direct testimony that, after that filing, PGW's financial situation worsened considerably (principally because of the massive hikes in gas costs). We elected to present an interim rate filing that requested only the $52 million, with the majority of that amount billable during the winter heating season. This approach would allow us to operate and to collect sufficient revenues to make it through the rest of the year and no more! Because of PGW's seriously deteriorating financial condition this amount, $52 million, is not anticipated to have any material effect on the amount of outstanding commercial paper (the "short term borrowing" mentioned by Mr. LeLash) or to reduce the level of additional long term debt. If PGW's long-term issues are to be addressed by the PUC, it will not be in this interim rate case.

**Q. WHAT OTHER DEFICIENCIES EXIST IN MR. LELASH'S DECISION TO FOCUS SOLELY ON THE LEVEL OF REVENUES ALLEGEDLY NECESSARY TO ALLOW PGW TO MEET ITS DEBT SERVICE COVERAGE REQUIREMENTS OF ITS BOND ORDINANCES?**

A. The most glaring deficiency is that Mr. LeLash has completely ignored my testimony that PGW desperately needs to increase its revenues during this winter in order to produce a sufficient level of cash on hand in the spring and at the end of this fiscal year in order to satisfy several of its obligations. His position appears to be based on several contentions: 1) an allegation that establishing rates to provide for cash working capital is "unreasonable;" 2) a position that cash working capital should come from the "owners" of the company as opposed to ratepayers; and 3) a claim that the PUC's Order Establishing Interim Rate Procedures authorizing this proceeding indicated that the only issue in the proceeding was the amount of revenues necessary to allow PGW to get through this coming winter and that any cash working capital needs that are beyond PGW's winter needs would not be dealt with in this case.

**Q. CONSIDERING THE LATTER CLAIM FIRST, IS MR. LELASH CORRECT THAT THE CASH WORKING CAPITAL NEEDS OF THE COMPANY AT THE END OF THIS FISCAL YEAR OR AT THE BEGINNING OF NEXT FISCAL YEAR ARE NOT ISSUES THAT NEED TO BE CONSIDERED WHEN EXAMINING THE COMPANY'S FINANCIAL NEEDS DURING THIS COMING WINTER?**

A. No, most definitely not. As I have explained above, and as I made clear in my direct testimony, PGW's needs during the winter are twofold. First, it needs to collect enough revenues so that it can meet its obligations during the winter itself. This means paying the higher gas costs that occur every winter as a result of increased demand as well as a number of other costs that go up during that period. Second, because of the seasonal nature of PGW's revenue collection, PGW <u>must</u> bill and collect revenues during the winter heating season to have enough cover in the bank not only to meet its debt service bond covenants at the end of this year but also to satisfy obligations beyond the winter heating season. This should be a simple fact to understand. Over 65% of PGW's annual revenues are billed in its four month winter heating season (December - March). Assuming that one agrees that PGW's cash flow obligations are legitimately recoverable in its rates, the standard that we used for determining the level of interim rates was straightforward: would PGW be able to satisfy its financial obligations if the rate increase were deferred until after this winter? PGW's 2000-2001 cash needs clearly would not be able to be met without a rate increase this winter.

**Q. WHAT POST-WINTER HEATING SEASON CASH FLOW OBLIGATIONS DOES PGW HAVE WHICH IT WOULD NOT BE ABLE TO SATISFY UNDER MR. LELASH'S PROPOSAL?**

A. There are two that are most pressing. First, as my direct testimony indicated, during this coming winter heating season, PGW must collect enough revenues so that during the latter part of the fiscal year it will have sufficient cash on hand so that it can purchase gas inventory that is needed to meet customer needs during the <u>subsequent</u> fiscal period, i.e., 2001-2002 and also make a substantial debt service payment in January, 2002. As I indicated, the <u>absolute</u> <u>minimum</u> requirement for PGW is \$35 - \$40 million in liquidity at the end of each fiscal year. Because we anticipate being able to reimburse approximately

$21 million of capital projects funded by operations from our anticipated long-term debt issuance in July, 2001, PGW must still have a cash balance of at least $13.5 - $18.5 million, plus an additional $21 million by August 2001 to provide the needed liquidity. Yet, Mr. LeLash's recommendations, in which the City would provide a $20 million temporary advance and rates would be increased by just $7.5 million, would only produce $3 million of net cash at the end of the fiscal year.[3] That $3 million is at least $10 - $15 million too low if PGW is to have the liquidity it needs to operate after August 2001, assuming normal weather. It is important to recognize, however, that the $3 million positive cash balance at the end of the fiscal year is produced only by utilizing the $20 million short term loan from the City. This loan which, the City is providing as a backstop will not be forthcoming unless the City believes it will be paid back. Without the $20 million loan, Mr. LeLash's $3 million positive cash balance turns into a $17 million negative cash balance, which would have to be made up somehow. Presumably, Mr. LeLash would demand that PGW go to the City and ask for still more dollars in order to simply avoid increasing rates.

But Mr. LeLash's claim is deficient for another reason. As I indicated in the introduction, one of the obligations of our commercial paper arrangement is that every May we must demonstrate that we are able to pay down the entire outstanding balance for five business days. During the fiscal year 1999-2000, we were able to garner every dollar available and actually paid the debt. We have since issued $97 million of short term

[3] OCA St. 1, Schedule 2, p. 2.

paper. We had initially thought that if we were able to extend the letter of credit we might be able to put off this obligation. However, it is now clear that in May 2001 we will again have to make this substantial cash flow demonstration. This means that under any calculation we must be able to show that our May total cash flow will meet or exceed \$97 million if only for a short period. Mr. LeLash's calculation, even with a \$20 million loan from the City, would produce only \$74.9 million of a cash balance in May. This means that we would default on our pay-down obligation on the commercial paper. But, the best illustration of why Mr. LeLash's interim rate recommendation is deficient from a cash standpoint can be seen on my Schedule 3, attached hereto. There I have shown the cash implications of a \$7.5 million rate increase but have adjusted it to reflect the effects of increased gas costs of some \$70 million. As I have indicated, the OTS has testified that PGW has significantly understated its likely actual gas costs in the 2000-2001 budget year. Those additional costs are going to wreak havoc with PGW's cash flow such that, with only \$7.5 million interim rate increase, by the end of the fiscal year PGW will be in a <u>negative</u> cash position of <u>almost</u> <u>\$30</u> <u>million</u>. In order to repair PGW's cash balance at the end of the year, the City would have to infuse the entire \$45 million of potential short term loans that the Administration has elected to offer. Even then, PGW's cash balance would not satisfy the liquidity requirements in order to continue to meet cash requirements at the end of this fiscal year and into the next.[4]

[4] Even with the entire \$52 million rate increase and \$70 million of additional gas costs, PGW will come out of 2000-2001 just barely positive — with \$3.0 million cash — and will have to utilize the City loan to obtain the liquidity it needs.

Finally, all of these analyses **assume** normal weather and expenses as projected. If the weather were colder than normal these calculations would be far worse. Yet, under Mr. LeLash's analysis, PGW would have already utilized all available sources in order just to get through the 2000-2001 winter. The Company would have no means to pay its bills or to supplement its earnings and thus it would not meet its bond ordinance requirements. I do not believe that recommendations with such uncertainties can be called reasonable. PGW's $52 million interim request is designed to help the Company avoid using its entire City loan so that it can have a contingency to deal with the effects of warmer or colder than normal weather or to deal with other contingencies such as higher than projected uncollectible or unrealized expense savings.

**Q. WHAT ABOUT MR. LELASH'S CLAIM THAT IT IS UNREASONABLE TO EXAMINE PGW'S CASH NEEDS BEYOND THE WINTER HEATING SEASON?**

A. Mr. LeLash's allegation that setting interim rates to produce a reasonable amount of cash working capital for PGW is somehow unreasonable is inconsistent with the way in which PGW's rates have been traditionally established for at least the last 25 to 30 years. During that time, PGW had been authorized to establish its rates at levels that would cover all of its operating expenses, its debt service and a reasonable amount of cash working capital needed to maintain the Company as a going concern. I have participated in those cases for approximately 15 years and I can attest that the PGC has always employed the "cash flow" ratemaking method. Indeed, in the proceeding that is now pending before the PGC, and in which Mr. LeLash has testified on gas cost issues for the City's Public Advocate, his colleague, Mr. Bleiweis, submitted extensive testimony in which he analyzed the level of revenues that PGW needed in order to satisfy its post-winter cash needs. While Mr. Bleiweis differed with PGW as to how revenues should be generated to produce these cash levels (with Mr. Bleiweis, like Mr. LeLash, claiming that rates should only be increased by $20 million if the City were not willing to waive its $18 million payment), there was absolutely no suggestion that it was inappropriate or unreasonable to obtain working capital funds through revenues collected from ratepayers. Indeed, the Management Agreement, which is a City ordinance setting forth the basis for ratemaking for PGW, specifically states that the regulatory entity with the authority to establish rates shall establish them at levels that will cover all PGW's expenses, its debt service obligations and a reasonable level for cash working capital.[5]

I have been advised by counsel that the Gas Competition Act, which placed PGW under the regulatory sphere of the Public Utility Commission, specifically requires the PUC to follow the same "ratemaking methodologies and requirements" of the PGC. Establishing rates to include an allowance for cash working capital in rates is one of those requirements.

Finally, I would note that from a ratemaking "policy" standpoint there is nothing unreasonable about securing necessary cash working capital from ratepayers. Securing appropriate levels of cash working capital is necessary for only one purpose — to permit PGW to provide safe, reliable and adequate service to customers. It is, therefore, no different than any other cost input which, even Mr. LeLash would agree, is properly

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[5] See, Management Agreement, Section VII.

recoverable from ratepayers. It is particularly appropriate in this instance to recover these cash working capital requirements from ratepayers because of the frequently overlooked fact that PGW is, in large part, owned by its ratepayers who are citizens of Philadelphia. Thus, if cash working capital is obtained from the "owners" of PGW, it would be garnered generally from the same citizens that pay PGW's rates.

Putting all of that aside, the very practical bottom line is that PGW has no realistic alternatives other than its ratepayers and the City. As indicated, the City has offered a $45 million loan to assure that PGW can withstand contingencies. PGW now needs additional help from ratepayers. Since all of this testimony is in the context of whether the PUC should raise rates now or wait until some time next year, it would appear inadvisable at best to subject PGW's customers to this kind of risk just to avoid a rate increase for 6-9 months, especially where the interim rates are subject to refund.

**Q. ARE THERE ANY OTHER BASES FOR CONCLUDING THAT MR. LELASH'S RECOMMENDATION IS INADEQUATE?**

A. Yes. Mr. LeLash has completely ignored the testimony of PGW's financial advisor, Ms. Bisgaier, who has testified that, based on the information that she has available, failure of the PUC to grant necessary interim rate increase would cause a downgrading of PGW's bonds to the point that it would be prohibitively expensive to go ahead with the issue planned in the spring of 2001. Moreover, she has also testified that the financial institution that has issued the letter of credit that supports PGW's commercial paper has declined to extend that line of credit until after the PUC acts in November, presumably to evaluate the adequacy of the PUC decision. (Schedule 1 attached hereto). Under the circumstances, arguing that PGW's revenue requirement needs should be put off until they can be considered in the permanent rate case puts PGW in a position where these independent entities may well decide that the financial risks inherent in lending PGW money are too great. I do not think that Mr. LeLash would disagree that such downgrading or the elimination of the commercial paper line of credit would be extremely costly to ratepayers at the very least and, potentially, a disastrous development for all concerned. In light of the fact that PGW has already agreed that any interim rate increase could be evaluated in more detail in the permanent rate proceeding, the obviously prudent course is to permit PGW's rates to be increased on an interim basis to avoid these catastrophic results.

## IV. Testimony of OTS and PICGUG

**Q. PLEASE COMMENT ON THE RECOMMENDATIONS OF THE OTS WITNESSES AND PICGUG WITNESS BAUDINO.**

A. The testimony of Mr. Baudino generally mirrors the testimony of Mr. LeLash and his recommendation that just 1/3 of our $52 million request be granted by the Commission is similarly inadequate. The recommendations of the OTS witnesses, in my view, represent an attempt to provide a reasonable level of cash and revenue to PGW in this interim period. All three witnesses appear to recognize our cash needs and attempt to address them. Unfortunately, the OTS recommendation of a $27.5 million interim increase and an upward revision to our GCR rate falls short of what is needed at this time principally because of the large negative effect on PGW's uncollectibles that will occur because of the huge run-ups in natural gas costs. If those additional foregone revenues — in the range of $20 million — were factored into OTS's calculation, a $47.5 million interim rate increase would be justified.

**V. Mr. LeLash's Claim that PGW Should Have Explored Alternative Means of Raising Cash**

**Q. MR. LELASH ALSO CLAIMS THAT AN INTERIM RATE INCREASE IS UNNEEDED BECAUSE PGW SHOULD BE ABLE TO OBTAIN ITS NECESSARY ADDITIONAL CASH AND/OR REVENUES BY VARIOUS SCHEMES, INCLUDING APPROPRIATING AN ALLEGEDLY OVER FUNDED PENSION FUND, REFINANCING ITS BOND SINKING FUNDS OR ENTERING INTO GAS STORAGE MANAGEMENT CONTRACTS. COULD YOU COMMENT.**

A. Yes. First, it must be noted that Mr. LeLash merely states that the Company needs to explore these options. He does not present any concrete recommendation for us to consider. In any event, all of these ideas, and many others, have been considered by PGW — and have been rejected, at least as short term solutions, especially in the present circumstances. For example, the potential to enter into a gas storage management contract or the refinancing of the bond sinking fund, the <u>total</u> cost to PGW and its ratepayers would be very high. They would take considerable time to review, ~~regulate~~ negotiate and implement, and the costs of implementation would outweigh the potential benefits in the short run — which is where our focus must be because of PGW's cash position. In other words, to obtain the necessary amounts of working capital, through either of these methods, PGW would, in essence, have to mortgage its future and give up revenues it would otherwise be able to collect for years to come. This was exactly the strategy pursued during the last five years which contributed greatly to the creation of today's crisis. In the long run, ratepayers would be worse off because, while they would have avoided a rate increase for a short period of time, they would be denied the additional revenues that would be produced by PGW from these sources which we would effectively have "sold off." Moreover, a gas asset management arrangement clearly is not prudent in the rapidly escalating gas market in which we now find ourselves. During the recent 2000 injection season PGW locked-in for price significant volumes for injection into underground storage which will save ratepayers millions of dollars in the fiscal year 2000-2001 winter withdrawal period. Specifically, injection cost marked to market today yields an approximate advantage of some $25 million. These savings exceed by many multiples the savings that could have been realized by way of a storage management contract for the 2000 injection season. It is also true that PGW entered into summer refill storage management contracts in past years for its CNG-GSS and Washington storage capacity. However, the weighted average cost of gas (WACOG) in these storage exceeded the WACOG of storage managed by PGW's own Gas Management department. Additionally, there was little to no excess revenue shared from the utilitization of PGW assets by the third party manager.

I am also advised that any action to appropriate overfunded pension liabilities would require City Council approval, which not only would take time, but which may very well generate opposition from unions and retirees — a controversy that PGW certainly does not need at this time, especially without a complete study. Moreover, as to the sinking fund forward purchase, the benefit would not have been great, especially considering the long term loss of income that would result. Accordingly, while these ideas may all be valid for serious consideration in the future, and certainly can be explored in the permanent base rate case, they simply would be impossible to implement in the time frame necessary to provide any meaningful benefits to PGW this winter or even in this fiscal yea~~r. The one approach that could have been implemented quickly~~.

**VI. Claims That the Interim Rate Request Should be Denied Due to "Inadequate Service"**

**Q. FINALLY, MR. LELASH CLAIMS, NOTWITHSTANDING EVERYTHING ELSE, THAT PGW'S INTERIM RATE REQUEST SHOULD BE DENIED BECAUSE OF "ALLEGEDLY INADEQUATE SERVICE." COULD YOU PLEASE COMMENT.**

A. Yes. First, I have been advised by counsel that issues concerning the adequacy of PGW's service, gas safety, reliability, etc., have all been reserved for the permanent base rate case and can be raised by Mr. LeLash at that time.

Moreover, based on my years of experience as a rate analyst, I believe that Mr. LeLash's recommendations in this respect are unprecedented and completely inappropriate. First, Mr. LeLash has strung together quotes from various internal draft reports that PGW had commissioned in order to identify ways in which it could improve its service in various categories, and he has concluded, merely from those reports, that PGW's entire service is so inadequate that PGW should be denied 100% of its rate request. While, as a general rule, service inadequacies certainly can be the basis for the denial of a rate request, in my experience, the level or degree of inadequacy has always been a key factor in determining the degree to which a rate increase should be denied or limited. Mr. LeLash has produced no evidence that would provide any nexus between these scattered "findings" about PGW's service and any finding that the level of service falls below minimally acceptable levels under the Gas Works ideal standards, the Public Utility Code, PUC regulations or otherwise.

Moreover, Mr. LeLash's position would clearly rob PGW of the financial ability to make improvements that we all believe can and should be made. Mr. LeLash's own testimony criticizes the Company for its past practice of cutting back on main replacements in times when the Company's cash flow and earnings levels were seriously deficient. While I cannot disagree with Mr. LeLash's characterization in that respect, and agree with him that the Company's management should have asked its regulators for a rate increase at that time rather than cutting back on its main replacement program, Mr. LeLash's own testimony points out exactly what would happen if his recommendations were adopted by the PUC. PGW would have no choice but to cut back on service main replacements, capital construction maintenance, customer service, etc. It simply makes no sense to reduce PGW's available level of revenues because of "inadequate service" at a time when almost everyone agrees that all parties should be working with PGW to improve service.

Finally, I would note that these kind of issues are precisely the kind that will be addressed by the PUC's management audit, which is scheduled to issue its preliminary findings later this year. Again, all of these issues can and would be more appropriately addressed in the permanent base rate case when the detailed and comprehensive findings and recommendations of the PUC's management auditors can be included and considered.

**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes it does.

# PGW - IR - EXH. 1.3

DOCUMENT
FOLDER

R-00005654

Schedule 1

**JPMorgan**

Sandra Brinkert
Vice President

Morgan Guaranty
Trust Company of
New York

60 Wall Street
New York NY
10260-0060

Tel: 212 648-4411
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August 18, 2000

Mr. Thomas E. Knudsen
Chief Financial Officer
Philadelphia Gas Works
800 W. Montgomery Avenue
Philadelphia, PA 19122

Dear Mr. Knudsen:

This letter is in response to your request for an extension of the expiration date of the Credit Agreement between the City of Philadelphia, Pennsylvania and First Union Bank, N.A., PNC Bank, N.A. and *Morgan Guaranty Trust Company of New York*, as Agent, dated as of May 28, 1999.

At this time, we ask that you defer your request for an extension. Morgan, as Agent, encourages you to make a similar request in December after the disposition of your rate request to the PUC and the PGC have been completed.

PNC has indicated to us its interest in exiting the credit facility. In December, we will again assess our position with respect to this facility and, if we are prepared to extend, we will work with you to replace PNC. Given the importance of the rate increase expected within the next few months, we do not think it is feasible to introduce a new bank to the facility now. Once the rate issue is resolved, the credit assessment becomes more accurate and the pricing will not reflect as much uncertainty.

If you have any questions, please do not hesitate to call. I am on vacation until September 4th, but I will be calling in for messages and can return your call.

Sincerely,

Sandra Brinkert

cc: Barbara Bisgaier, Public Financial Management
Walter Unangst, PNC Bank
Stephen Yohannan, First Union National Bank

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J.P. Morgan & Co.
Incorporated

# PHILADELPHIA GAS WORKS
## BAD DEBT EXPENSE & ACCOUNTS RECEIVABLE
( Dollars in Thousands )

| Fiscal Year Ended | Gas Revenues | Bad Debt Expense | Customer Accts. Rec. | Uncollect Reserve | Bad Debt %/ Revenue | Bad Debt %/ Accts. Rec |
|---|---|---|---|---|---|---|
| 6/30/78 | $238,024 | $5,169 | $39,891 | ($6,023) | 2.17% | 12.96% |
| 6/30/79 | 248,027 | 5,251 | 45,721 | (5,743) | 2.12% | 11.48% |
| 6/30/80 | 326,750 | 5,539 | 47,200 | (5,785) | 1.70% | 11.74% |
| 6/30/81 | 419,712 | 15,977 | 91,931 | (16,216) | 3.81% | 17.38% |
| 6/30/82 | 488,510 | 27,131 | 104,005 | (32,243) | 5.55% | 26.09% |
| 8/31/83 | 494,757 | 26,990 | 77,718 | (25,009) | 5.46% | 34.73% |
| 8/31/84 | 525,028 | 25,441 | 71,781 | (26,071) | 4.85% | 35.44% |

Normal weather 4600 degree days
Rate increase -11/10 Volumetric & GCR 10/15
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million
GCR & gas costs increased by $70 million

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 09/25/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 TXCP | $2.0 | $0.7 | $2.5 | ($0.1) | $3.9 | ($16.3) | ($8.6) | $22.0 | $40.4 | $48.1 | $23.4 | ($8.2) | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 30.3 | 31.2 | 36.8 | 52.7 | 65.4 | 75.6 | 86.5 | 80.0 | 65.8 | 48.5 | 41.4 | 38.5 | 652.7 |
| Other | 6.7 | 6.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 11.6 | 14.6 | 8.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 3.0 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Advance (Repayment) of Capital Fund* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 5.1 |
| TOTAL RECEIPTS | 49.2 | 57.5 | 49.8 | 59.2 | 70.2 | 77.7 | 88.6 | 82.3 | 68.1 | 50.6 | 57.1 | 43.0 | 753.4 |
| TOTAL | 51.2 | 58.2 | 52.3 | 59.0 | 74.1 | 61.4 | 80.0 | 104.3 | 108.5 | 98.7 | 80.5 | 34.8 | 755.4 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 29.3 | 30.0 | 29.3 | 31.6 | 42.0 | 45.4 | 36.3 | 39.4 | 37.3 | 34.9 | 30.7 | 30.5 | 416.5 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 9.7 | 9.8 | 10.1 | 10.2 | 11.5 | 10.8 | 10.4 | 9.8 | 9.7 | 9.6 | 9.6 | 9.5 | 120.6 |
| TOTAL DISBURSEMENTS | 50.5 | 55.8 | 52.4 | 55.2 | 90.4 | 69.9 | 58.0 | 63.9 | 60.4 | 75.3 | 88.8 | 64.6 | 785.2 |
| MONTHLY CASH FLOW | (1.3) | 1.8 | (2.6) | 4.0 | (20.2) | 7.7 | 30.6 | 18.4 | 7.7 | (24.7) | (31.7) | (21.6) | (31.8) |
| CUMULATIVE CASH FLOW | (1.3) | 0.5 | (2.1) | 1.9 | (18.3) | (10.6) | 20.0 | 38.4 | 46.1 | 21.4 | (10.2) | (31.8) | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 0.7 | 2.5 | (0.1) | 3.9 | (16.3) | (8.6) | 22.0 | 40.4 | 48.1 | 23.4 | (8.2) | 2.0 |
| MONTHLY CASH FLOW | (1.3) | 1.8 | (2.6) | 4.0 | (20.2) | 7.7 | 30.6 | 18.4 | 7.7 | (24.7) | (31.7) | (21.6) | (31.8) |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | 0.7 | 2.5 | (0.1) | 3.9 | (16.3) | (8.6) | 22.0 | 40.4 | 48.1 | 23.4 | (8.2) | (29.8) | (29.8) |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (96.3) | (94.5) | (97.1) | (93.1) | (113.3) | (105.6) | (75.0) | (56.6) | (48.9) | (73.6) | (105.2) | (126.8) | (126.8) |

Normal weather 4600 degree days
Rate increase $52MM -11/10 Volumetric & GCR 10/15
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million
GCR & gas costs increased by $70 million

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| 09/25/00 | BUDGET Sep | BUDGET Oct | BUDGET Nov | BUDGET Dec | BUDGET Jan | BUDGET Feb | BUDGET Mar | BUDGET Apr | BUDGET May | BUDGET June | BUDGET July | BUDGET Aug | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING BALANCE - CASH INCLUDES 97.0 TXCP | $2.0 | $0.5 | $2.1 | ($0.5) | $3.2 | ($12.6) | $0.1 | $36.2 | $59.7 | $71.8 | $50.3 | $21.7 | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 30.1 | 31.1 | 36.7 | 52.4 | 65.3 | 75.4 | 86.3 | 79.8 | 65.7 | 48.4 | 41.6 | 38.7 | 651.6 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 11.6 | 14.6 | 8.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 3.0 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 5.8 | 6.4 | 6.0 | 5.2 | 3.9 | 3.4 | 3.3 | 39.0 |
| TOTAL RECEIPTS | 49.0 | 57.4 | 49.7 | 58.9 | 74.6 | 82.7 | 94.1 | 87.4 | 72.5 | 53.8 | 60.2 | 45.9 | 786.2 |
| TOTAL | 51.0 | 57.9 | 51.9 | 58.4 | 77.8 | 70.0 | 94.2 | 123.6 | 132.2 | 125.6 | 110.5 | 67.6 | 788.2 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 29.3 | 30.0 | 29.3 | 31.6 | 42.0 | 45.4 | 36.3 | 39.4 | 37.3 | 34.9 | 30.7 | 30.5 | 416.5 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 9.7 | 9.8 | 10.1 | 10.2 | 11.5 | 10.8 | 10.4 | 9.8 | 9.7 | 9.6 | 9.6 | 9.5 | 120.6 |
| TOTAL DISBURSEMENTS | 50.5 | 55.8 | 52.4 | 55.2 | 90.4 | 69.9 | 58.0 | 63.9 | 60.4 | 75.3 | 88.8 | 64.6 | 785.2 |
| MONTHLY CASH FLOW | (1.5) | 1.6 | (2.7) | 3.8 | (15.9) | 12.7 | 36.1 | 23.5 | 12.1 | (21.5) | (28.6) | (18.7) | 1.0 |
| CUMULATIVE CASH FLOW | (1.5) | 0.1 | (2.5) | 1.2 | (14.6) | (1.9) | 34.2 | 57.7 | 69.8 | 48.3 | 19.7 | 1.0 | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 0.5 | 2.1 | (0.5) | 3.2 | (12.6) | 0.1 | 36.2 | 59.7 | 71.8 | 50.3 | 21.7 | 2.0 |
| MONTHLY CASH FLOW | (1.5) | 1.6 | (2.7) | 3.8 | (15.9) | 12.7 | 36.1 | 23.5 | 12.1 | (21.5) | (28.6) | (18.7) | 1.0 |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **ENDING BALANCE - CASH** | **0.5** | **2.1** | **(0.5)** | **3.2** | **(12.6)** | **0.1** | **36.2** | **59.7** | **71.8** | **50.3** | **21.7** | **3.0** | **3.0** |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (96.5) | (94.9) | (97.5) | (93.8) | (109.6) | (96.9) | (60.8) | (37.3) | (25.2) | (46.7) | (75.3) | (94.0) | (94.0) |

**PHILADELPHIA GAS WORKS**
**DEBT SERVICE COVERAGE**
**( Dollars in Thousands )**

| | 9/26/00 $52M 11/10 GCR $70M Rev Budget 2000-01 |
|---|---|
| **FUNDS PROVIDED** | |
| Total Gas Revenues | $737,636 |
| Other Operating Revenues | 26,390 |
| Total Operating Revenues | 764,026 |
| Other Income Less Restricted Funds | 5,274 |
| AFUDC (Interest) | 355 |
| TOTAL FUNDS PROVIDED | $769,655 |
| **FUNDS APPLIED** | |
| Fuel Costs | 419,078 |
| Other Operating Costs | 252,118 |
| Total Operating Expenses | 671,196 |
| PMA Lease Cost | - |
| $20.1M Capital Lease Cost | 3,980 |
| $23M Capital Lease Cost | 3,997 |
| Less: Non-Cash Expenses | 37,569 |
| TOTAL FUNDS APPLIED | $641,604 |
| Funds Available to Cover Debt Service | $128,051 |
| Add-back Lease Costs | 7,977 |
| Funds Available Excluding Lease Costs | $136,028 |
| 1975 Ordinance Bonds Debt Service | $51,611 |
| **Debt Service Coverage 1975 Bonds** | **2.64** |
| Net Available after Prior Debt Service | $84,417 |
| PMA & Other Capital Leases | 7,977 |
| Net Available after Prior Capital Leases | $76,440 |
| 1998 Ordinance Bonds Debt Service | $29,449 |
| **Debt Service Coverage New Bonds** | **2.60** |
| Net Available after New Debt Service | $46,991 |
| 1998 Ordinance Subordinate Bond Debt Ser | $1,990 |
| **Debt Service Coverage Subordinate Bond** | **23.61** |
| Surplus (Shortfall) | 32,267 |

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SECRETARY'S BUREAU

DOCKETED
OCT 10 2000

# PGW - IR EXH. 1.1

R-00005654

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**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| **In Re: Petition of Philadelphia Gas Works for Establishment of Interim Rate Procedures and for a Declaratory Order** | : : : | **Docket No. P-__________** |

## AFFIDAVIT AND VERIFICATION OF THOMAS KNUDSEN

1. I, Thomas Knudsen, being first duly sworn according to law, hereby depose and say that I currently serve as the Chief Financial Officer of the Philadelphia Gas Works ("PGW") and, in that capacity, am authorized to submit this Affidavit and Verification on PGW's behalf. This Affidavit and Verification is submitted in support of PGW's Petition for Establishment of Interim Rates and for a Declaratory Order which requests the Commission to establish expedited procedures to consider and determine increased interim rates for PGW. In addition to verifying the facts in the Petition, this Affidavit provides further detail and support to justify an expedited interim rate proceeding for PGW.

2. As explained in the Petition, the Gas Choice Act provides for review of PGW rate changes utilizing the same ratemaking methodology and requirements that were applicable to PGW prior to the Commission's assumption of jurisdiction. Accordingly, it is important to understand exactly how PGW's prior rate regulation was conducted by the Philadelphia Gas Commission ("PGC" or "Gas Commission").

3. First, the Gas Commission used a fully forecasted test year. Second, the PGC used a "cash flow" method as required by ordinance. Under the Management Agreement

(attached as Exhibit "B" to the Petition) and the Bond Covenants (relevant portions of which are attached as Exhibit "C" to the Petition), the documents which define the various responsibilities of both management and the Gas Commission with regard to PGW operations (attached as Exhibit "B" to the Petition), the PGC was obligated, at a minimum, to fix rates and charges sufficient to:

(a) pay all operation and maintenance expenses, including but not limited to depreciation, charges for employee retirement costs, charges for a management fee;

(b) pay the interest and principal due in the fiscal year (and provide for a minimum of a 1.5X debt service coverage on long term debt);

(c) pay all sinking fund charges payable in respect to principal and interest on all (debt) obligations;

(d) provide for reasonable amounts of working capital;

(e) pay general expenses;

(f) make a payment to the owner - the City of Philadelphia – at an annual $18 million level, and

(g) provide for capital additions.

Section VII of the Management Agreement.[1]

4. In addition, the PGC has considered additional factors in judging the long term financial stability of the Gas Works including the level of monthly and annual revenues and the income PGW needed to reduce its short and long term borrowing and to improve its credit rating

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1 Unlike rate proceedings for investor owned utilities, the Management Agreement does not provide for a return on equity or for any required profit margin in determining PGW's revenue requirement.

over time. For example, PGW's original $52 million base rate filing at the PGC, on June 19, 2000, was intended not only to meet PGW's minimum net income/cash flow requirements for FY2001 but to also allow the company to build up internally generated funds sufficient to reduce its dependence on short and long term borrowing. The levels of debt have risen to unacceptable levels and need to be reduced to those more appropriate for a utility of its size. A more appropriate capital structure could ultimately save ratepayers millions of dollars per year.

5. When considering the short term financial status of the Company, PGC's rate-making approach necessarily focused on two key issues:

(a) the level of net income PGW needed at the end of its fiscal year to meet the annual requirements (the coverage requirements, for example, are measured at the end of the fiscal year);

(b) the level of cash PGW needed each month (and, indeed, each day) to be able to fund operations and pay expenses as they come due.

6. PGW's present financial position at the end of this fiscal year (August 31, 2000) is precarious. The combined effects of the warmer than normal winter of 1999-2000, continuing erosion in sales levels and the failure of the computer system, with its impact on billing and collection activities, leave PGW with the thinnest of earnings margins to meet the coverage requirement in the current fiscal period. Testimony has been offered in the budget proceeding, presently before the PGC, that the City will, if absolutely required, provide PGW a "backstop" in the event that additional "project revenues" in the form of a contribution from the City are needed.

7. More critical, however, is PGW's updated projection that it will end the fiscal year with barely $2 million in cash. <u>PGW has no short-term debt balance remaining upon which to draw to supplement these funds.</u> The company has borrowed to the maximum of an allowed

$100 million letter of credit.[2] This is an unprecedented position for this utility. The prior forecast of $5 million of year-end cash balances just a few weeks ago has evaporated with the requirement to pay extraordinarily high gas costs in July and August for storage injection and gas consumption.

8. What is critical is that, at a minimum, PGW should have $35-40 million of combined cash and borrowing capacity going into the fall period. PGW needs the liquidity because the months of September, October, and November are essentially break-even or negative months on a cash flow basis. The fiscal year-end balance must support purchases of gas for the beginning of the winter and allow the company to make a required debt service payment of approximately $25 million on the first working day of January. Without immediate and substantial help, PGW is heading for a technical default on our first bond obligation of 2001. PGW can make it out of fiscal year 2000, but no further!

9. Looking forward a year, and as noted above, the company needs to have sufficient income to meet its bond coverage of a 1.5X multiple of the annual debt service coverage. And, as also noted above, PGW should end the year with a minimum of $35-40 million in liquid assets. With reference to Attachment 1 to this Affidavit, the forecast shows that without rate relief or a change in the Gas Cost Rate (GCR) PGW would end the year with a negative cash position of $113.5 million and $97 million of short-term debt outstanding.

10. If this were to occur, PGW will have violated its bond covenants and the statutory requirements with regard to those debt issues. Violation of those covenants would likely lead to bondholder litigation and, I am told, significant impact for other large bond issuers in the

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2 PGW can only borrow the full amount less interest on the balance, yielding a borrowing limitation of $97 million.

Commonwealth – the City of Philadelphia and the Commonwealth itself. It will ensure a downgrading of the bond rating, making borrowing prohibitively expensive.

11. There is a critical need for interim rates to address this dire situation. PGW filed at the PGC on June 19, 2000 for a $52 million rate increase for which it gave appropriate notice. Assuming (1) the Company was able to start to recover the increase in gas costs as soon as possible[3] and (2) an interim base rate increase in the amount of $52 million was to start in November, we would have sufficient funds to make our debt service coverage but PGW would only end the year with $12 million in cash, as presented in Attachment 2 .

12. In this analysis it is assumed that the gas cost rate could change in October and a base rate increase of $52 million would be approved at the PUC's November 9, 2000 Public Meeting. In the lower of the two highlighted boxes on Attachment 2 are the month-end cash flow positions, as presently forecasted. The "Ending Balance-Cash" for each month shows that the company will experience minimally acceptable balances throughout the fall and actually end January in a negative position. At year-end, the August cash balance is the $12 million referred to in paragraph 11.

13. The problem the Company faces is that with rate relief starting substantially after the fiscal period begins, PGW can't realize any substantial cash-flow benefits from new rates until January at the earliest. There is a substantial lag between service provided, issuance of bills, and payment of those bills under the new tariffs. Most critically, PGW will have disbursed substantial funds for high cost gas purchases well in advance of reimbursement from ratepayers.

14. There has been a major change in the last six weeks, already alluded to, which has profoundly affected the forecasts presented to the PGC. As evidenced by PGW's recent filing

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[3] PGW submitted its revised GCR filing to the Commission on August 2, 2000.

for a revised Gas Cost Rate with this Commission, the estimates for our fuel costs for the next fiscal period have more than doubled, from $42 million, based on the Company's March forecast of fossil fuel prices, to $97 million, based on the July projections.

15. The effect of this increase on PGW's financial condition cannot be underestimated. The direct impact on the operating statement is a substantial increase in the bad debt expense to recognize, through base rates, anticipated non-payment of bills with higher fuel costs. I have prepared Attachment 3 to this Affidavit which provides the annual financial forecast of operations. As shown, the Bad Debt Expense has increased from $46 million in the June filing to $57 million now. This increase is large because the sheer size of a 30% overall increase in charges to customers will drive low-income customers to the non-payment category as compared to the number who have been able to pay smaller bills in recent years. All else being held equal, this increase in bad debt expense suggests that PGW could justify an increased revenue requirement of $63 million to recognize this potential charge.

16. The other reason for the need for the entire $52 on an interim basis is that the June projections assumed that PGW would receive rate relief in September from the PGC. With an assumption of a November decision by the PUC and a delay in rate implementation of almost three months, a quarter of the benefit of a rate change is lost for next fiscal year. The original PGC filing was based on most of the rate increase being derived from an increase in the customer charge. As a result, even though September, October and November do not normally generate high heating revenues, the Company had counted on the additional revenue from the beginning of the fiscal year.

17. Other changes in circumstances in the last six weeks have heightened the need for increased interim rates. PGW was recently put on Credit Watch by Standard and Poors. See Exhibit "D" to the Petition. In fact, all three PGW rating agencies are looking to the regulatory

agencies to recognize the need for substantial rate relief and for the Commission to grant that relief. At this time, PGW is not anticipating any action on the part of Fitch and Moody's with regard to their current evaluations. However, PGW is rated two levels above junk bond status by all three groups.

18. In the short term, aggressive collection efforts will not generate the cash needed. With regard to the receivable balance, it should be noted that the Credit and Collection module of the new Customer Information System (accounts receivable) was not in place when the system went live a year ago. Sections of the module were brought on line starting in February. An aggressive collection effort began at that time and continues to date with substantial overtime being given to Collection Department personnel to contact customers. Unfortunately, because so many customers were not billed for so long a period of time, we cannot assume that those bills will be paid in this fiscal period or, in some cases, even the next. Our tariff gives customers as long to pay a bill as it took for the bill to accumulate. It should also be noted that over 60% of the accounts receivable balance is fully reserved already as uncollectible.

19. The final section of the Collection module, Write-offs, is being completed this month. By mid-August, we will substantially write-down the accounts receivable balance. PGW will also submit accounts that are almost a year old to agencies to start third party collection efforts. The company is working diligently to make in-roads into the collection problem before the fall light-up season. The parties need to be aware, however, that PGW has assumed an historic collection rate in our projections, despite the size of the increase. In effect, the projections reflect reasonable success in future collection efforts. With the Company recognizing write-offs for this fiscal period at such a late date and faced with a 30% increase in rates, management does not anticipate improving upon the historic pattern of outstanding accounts receivable balances in a material way for some time.

20. PGW cannot evade its legal obligations to the City of Philadelphia. PGW is required by ordinance and the provisions of bond indentures to make the annual payment to the City of $18 million. The total $90 million in City Payments over the next five years is an integral part of the City's financial plan which has been approved by the Philadelphia Intergovernmental Cooperation Authority ("PICA"). PGW is not in a position to assume any other course of action but to comply with its legal obligations in this regard.

21. The City Payment, by ordinance, is made in four even, monthly disbursements of $4.5 million starting in February each year. In the accompanying projections, however, it is assumed that PGW will make only one payment with interest on or about June 30 next year, as the Company has in each of the last two years. For purposes of meeting our cash needs, PGW will have the use of the City Payment funds through the winter.

22. Other options usually available to provide liquidity to a utility in our position are not available in this instance. I have prepared Attachment 4 to this Affidavit which shows that for the approved compliance budget for fiscal year 2000, the costs at PGW are largely fixed in nature. Assuming management has very little flexibility to cut labor bill through the winter months leading up to labor negotiations in the spring, one can see that up to 92% of our expenses are not subject to meaningful reduction within this time-frame. The company does have some flexibility in the categories of contracted service and purchases, but not a lot.

23. The forecasts assume a very aggressive cost reduction and productivity improvement program totaling $14 million. It is going to be very difficult to reach this target given the cost structure at PGW, but that is the goal to which the company is committed. The company and the parties cannot look to cost cutting or productivity gains in the short term as a source of cash.

24. PGW is financially vulnerable if the weather is colder or warmer than normal. In the first instance, the company will experience demand for cash to purchase gas well in excess of the levels forecast. In that event, the end-of-month negative balances for January will be larger and the December balance will turn negative from the $7.8 million positive balance shown on Attachment 2. At least in this instance, sales will increase and the position of the Company will improve as the year progresses.

25. If the weather is warmer than normal, PGW will see a deterioration in the forecast position. The sales will have declined and the company will experience depressed earnings similar to those seen over the last three years that, in large part, created the liquidity crisis the Company is in.

26. The company needs to issue long term bonds in June or July of next year and demonstrate our ability to do so. PGW needs to sell debt to fund its capital program and, for FY2001, provide the means to meet the year-end goal of a $35-40 million cash balance discussed in paragraph 8. Specifically, the company anticipates spending nearly $62 million on essential capital projects in FY2001. As shown on Attachment 2a, $40.8 million will be drawn from what is left of the existing Capital Fund balances by the end of November. Contained in the disbursement lines for each of the months of FY2001 are payments totaling $21.5 million for capital projects. The Operating Fund can be reimbursed this amount from the proceeds of a new bond issue. Under this assumption, the year-end cash balance will be $33.6 million. While such long-term borrowing through the sale of bonds should be available at a reasonable cost if GCR and base rates are increased adequately, such borrowing will not be available at a reasonable cost if either GCR or base rates increases of sufficient magnitude are not forthcoming.

27. PGW expects to follow this interim rate request with a request for a permanent increase in base rates. That proceeding will request an increase in the customer charge. If granted, the increase would generate funds in the summer and shoulder months and provide more of a liquidity cushion for the fall of 2001. Of course, any interim increase would be incorporated into a subsequent permanent increase.

28. The assumption implicit in these projections is that the gas costs, as forecast, will remain at the current, extraordinarily high levels. The pattern in the recent past has been that management expects some softening in the markets as time goes on. Any softening will relieve some of the pressure on PGW's financial position, however, PGW cannot rely on the vagaries of the market, however,

29. To address the cash short-fall in January, as shown on Attachment 2, two actions are necessary. First, PGW will restrict spending to the greatest extent possible up to and over the end-of-year period, even beyond the efforts for cost cutting and productivity improvements discussed in paragraph 23. Second, the Mayor has indicated that he will seek the support of City Council in providing a loan to PGW as a backstop both to fill the short-fall in January, if necessary, and to cover any extraordinary demands created by weather conditions other than normal.

30. In this regard an increase in the customer charge would help protect PGW from weather conditions. While I believe an increase to the customer charge is fully justified even within the context of the interim rate proceeding, PGW has deferred all customer charge increases to its permanent base rate proceeding. While such deferral exposes PGW to the revenue effects of abnormal weather conditions, the Company is attempting to accommodate what is likely to be the concerns of the Commission and the parties in confining the interim rate proceeding to revenue requirement issues, given the need to expedite the process to put new rates

into effect as quickly as possible. This is despite the fact that an increase in the customer charge would provide much needed protection to PGW and its customers.

The facts set forth in this Affidavit and the accompanying Petition for Establishment of Interim Rate Procedures are true and correct to the best of my knowledge, information and belief. This statement is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Thomas T. Knudsen

THOMAS KNUDSEN

Chief Financial Officer

Date: Aug 8, 2000

DSH:23482.1

Normal weather 4600 degree days
*No rate increase - no GCR*
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 08/02/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 | $2.0 | $0.5 | $0.4 | ($7.0) | ($10.3) | ($36.5) | ($39.6) | ($26.9) | ($19.6) | ($20.5) | ($50.8) | ($87.5) | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 25.7 | 27.1 | 31.0 | 40.4 | 49.8 | 57.6 | 64.0 | 60.8 | 50.3 | 37.1 | 32.1 | 29.8 | 505.6 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 12.6 | 14.1 | 8.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL RECEIPTS | 45.6 | 52.9 | 40.5 | 46.9 | 57.1 | 59.0 | 65.4 | 62.4 | 51.9 | 38.7 | 47.2 | 33.7 | 601.2 |
| TOTAL | 47.6 | 53.4 | 40.9 | 39.9 | 46.8 | 22.5 | 25.7 | 35.5 | 32.3 | 18.2 | -3.6 | -53.9 | 603.2 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 25.8 | 27.2 | 24.7 | 26.6 | 34.9 | 37.6 | 30.8 | 30.6 | 29.7 | 28.7 | 25.8 | 25.4 | 347.8 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 9.8 | 9.9 | 10.1 | 10.2 | 11.5 | 10.6 | 10.4 | 9.8 | 9.7 | 9.5 | 9.6 | 9.6 | 120.8 |
| TOTAL DISBURSEMENTS | 47.1 | 53.1 | 47.9 | 50.2 | 83.3 | 62.2 | 52.6 | 55.1 | 52.8 | 69.0 | 83.9 | 59.6 | 716.7 |
| MONTHLY CASH FLOW | (1.5) | (0.1) | (7.4) | (3.3) | (26.1) | (3.2) | 12.8 | 7.2 | (0.9) | (30.3) | (36.7) | (25.9) | (115.5) |
| *CUMULATIVE CASH FLOW* | (1.5) | (1.6) | (9.0) | (12.3) | (38.5) | (41.6) | (28.9) | (21.6) | (22.5) | (52.8) | (89.5) | (115.5) | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 0.5 | 0.4 | (7.0) | (10.3) | (36.5) | (39.6) | (26.9) | (19.6) | (20.5) | (50.8) | (87.5) | 2.0 |
| MONTHLY CASH FLOW | (1.5) | (0.1) | (7.4) | (3.3) | (26.1) | (3.2) | 12.8 | 7.2 | (0.9) | (30.3) | (36.7) | (25.9) | (115.5) |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | 0.5 | 0.4 | (7.0) | (10.3) | (36.5) | (39.6) | (26.9) | (19.6) | (20.5) | (50.8) | (87.5) | (113.5) | (113.5) |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (96.5) | (96.6) | (104.0) | (107.3) | (133.5) | (136.6) | (123.9) | (116.6) | (117.5) | (147.8) | (184.5) | (210.5) | (210.5) |

2

Normal weather 4600 degree days
Rate increase -11/10 Volumetric & GCR 10/15
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million

## BUDGET OF CASH RECEIPTS AND DISBURSEMENTS

*FISCAL YEAR ENDING AUGUST 31, 2001*

(Millions of Dollars)

| | | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 08/04/00 | | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 | | $2.0 | $2.0 | $2.2 | $3.5 | $7.8 | ($6.6) | $7.3 | $39.2 | $62.6 | $76.5 | $57.0 | $29.4 | $2.0 |
| *RECEIPTS* | | | | | | | | | | | | | | |
| Gas | | 28.1 | 28.9 | 34.2 | 47.9 | 59.6 | 68.9 | 76.7 | 70.9 | 60.0 | 44.2 | 37.7 | 35.1 | 592.0 |
| Other | | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | | 11.6 | 12.6 | 10.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | | 0.0 | 0.0 | 3.0 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 5.8 | 6.4 | 6.0 | 5.2 | 3.9 | 3.4 | 3.3 | 39.1 |
| TOTAL RECEIPTS | | 47.0 | 53.2 | 49.2 | 54.4 | 68.9 | 76.1 | 84.5 | 78.5 | 66.7 | 49.7 | 56.2 | 42.2 | 726.6 |
| TOTAL | | 49.0 | 55.2 | 51.4 | 57.9 | 76.7 | 69.5 | 91.8 | 117.7 | 129.3 | 126.2 | 113.3 | 71.6 | 728.6 |
| DISBURSEMENTS | | | | | | | | | | | | | | |
| Labor | | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | | 25.8 | 27.2 | 24.7 | 26.6 | 34.9 | 37.6 | 30.8 | 30.6 | 29.7 | 28.7 | 25.8 | 25.4 | 347.8 |
| Debt Service | | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | | 9.7 | 9.8 | 10.1 | 10.2 | 11.5 | 10.8 | 10.4 | 9.8 | 9.7 | 9.6 | 9.6 | 9.5 | 120.6 |
| TOTAL DISBURSEMENTS | | 47.0 | 53.0 | 47.9 | 50.2 | 83.3 | 62.2 | 52.6 | 55.1 | 52.8 | 69.1 | 83.9 | 59.5 | 716.5 |
| MONTHLY CASH FLOW | | 0.0 | 0.2 | 1.3 | 4.2 | (14.4) | 13.9 | 31.9 | 23.4 | 13.9 | (19.5) | (27.6) | (17.2) | 10.1 |
| CUMULATIVE CASH FLOW | | 0.0 | 0.2 | 1.5 | 5.8 | (8.6) | 5.3 | 37.2 | 60.6 | 74.5 | 55.0 | 27.4 | 10.1 | |
| OPENING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | | 2.0 | 2.0 | 2.2 | 3.5 | 7.8 | (6.6) | 7.3 | 39.2 | 62.6 | 76.5 | 57.0 | 29.4 | 2.0 |
| MONTHLY CASH FLOW | | 0.0 | 0.2 | 1.3 | 4.2 | (14.4) | 13.9 | 31.9 | 23.4 | 13.9 | (19.5) | (27.6) | (17.2) | 10.1 |
| NET TXCP ACTIVITY MONTHLY | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | | 2.0 | 2.2 | 3.5 | 7.8 | (6.6) | 7.3 | 39.2 | 62.6 | 76.5 | 57.0 | 29.4 | 12.1 | 12.1 |
| *EST CASH POSITION NET OF TXCP (PEAK DAY)* | | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | | (95.0) | (94.8) | (93.5) | (89.2) | (103.6) | (89.7) | (57.8) | (34.4) | (20.5) | (40.0) | (67.6) | (84.9) | (84.9) |

# 2A

Normal weather 4600 degree days
Rate increase -11/10 Volumetric & GCR 10/15
Productivity/cost savings $10.0 million
Beginning Cash Balance $2.0 million
Bond Sale June-July 2001

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 08/04/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 | $2.0 | $2.0 | $2.2 | $3.5 | $7.8 | ($6.6) | $7.3 | $39.2 | $62.6 | $76.5 | $57.0 | $40.4 | $2.0 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 28.1 | 28.9 | 34.2 | 47.9 | 59.6 | 68.9 | 76.7 | 70.9 | 60.0 | 44.2 | 37.7 | 35.1 | 592.0 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 11.6 | 12.6 | 10.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.0 | 10.5 | 56.3 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 3.0 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 0.6 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 22.7 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 5.8 | 6.4 | 6.0 | 5.2 | 3.9 | 3.4 | 3.3 | 39.1 |
| TOTAL RECEIPTS | 47.0 | 53.2 | 49.2 | 54.4 | 68.9 | 76.1 | 84.5 | 78.5 | 66.7 | 49.7 | 67.2 | 52.7 | 748.1 |
| TOTAL | 49.0 | 55.2 | 51.4 | 57.9 | 76.7 | 69.5 | 91.6 | 117.7 | 129.3 | 126.2 | 124.3 | 93.1 | 750.1 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 25.8 | 27.2 | 24.7 | 26.6 | 34.9 | 37.6 | 30.8 | 30.6 | 29.7 | 28.7 | 25.8 | 25.4 | 347.8 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP: Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 9.7 | 9.8 | 10.1 | 10.2 | 11.5 | 10.8 | 10.4 | 9.8 | 9.7 | 9.6 | 9.6 | 9.5 | 120.6 |
| TOTAL DISBURSEMENTS | 47.0 | 53.0 | 47.9 | 50.2 | 83.3 | 62.2 | 52.6 | 55.1 | 52.8 | 69.1 | 83.9 | 59.5 | 716.5 |
| MONTHLY CASH FLOW | 0.0 | 0.2 | 1.3 | 4.2 | (14.4) | 13.9 | 31.9 | 23.4 | 13.9 | (19.5) | (16.6) | (6.7) | 31.6 |
| CUMULATIVE CASH FLOW | 0.0 | 0.2 | 1.5 | 5.8 | (8.6) | 5.3 | 37.2 | 60.6 | 74.5 | 55.0 | 38.4 | 31.6 | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 2.0 | 2.0 | 2.2 | 3.5 | 7.8 | (6.6) | 7.3 | 39.2 | 62.6 | 76.5 | 57.0 | 40.4 | 2.0 |
| MONTHLY CASH FLOW | 0.0 | 0.2 | 1.3 | 4.2 | (14.4) | 13.9 | 31.9 | 23.4 | 13.9 | (19.5) | (16.6) | (6.7) | 31.6 |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | 2.0 | 2.2 | 3.5 | 7.8 | (6.6) | 7.3 | 39.2 | 62.6 | 76.5 | 57.0 | 40.4 | 33.6 | 33.6 |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (95.0) | (94.8) | (93.5) | (89.2) | (103.6) | (89.7) | (57.8) | (34.4) | (20.5) | (40.0) | (56.6) | (63.4) | (63.4) |

# 3

**PHILADELPHIA GAS WORKS**
**STATEMENT OF INCOME**
**(Dollars in Thousands)**

| | Actual 1998-99 | 6/19 Filing Estimate 1999-2000 | Revised Estimate 1999-2000 | 6/19 Filing Budget 2000-01 | 8/2/00 Volume 12/01 Revised Budget 2000-01 | 8/8/00 Volume 11/10 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Non-Heating | $69,375 | $89,529 | $88,602 | $106,778 | $112,544 | $112,544 |
| Gas Transport Service | 3,376 | 3,483 | 3,370 | 3,509 | 3,656 | 3,656 |
| Heating | 390,242 | 422,867 | 430,389 | 463,816 | 505,101 | 505,101 |
| Proposed Base Rate Increase | - | - | - | 52,000 | 46,380 | 46,335 |
| Marginal Revenue Loss Weather | - | - | - | (4,000) | (4,000) | (4,000) |
| Change in Senior Citizen Discount | - | - | - | 1,500 | 1,500 | 1,500 |
| Unbilled Adjustment | (349) | (201) | (201) | 1,500 | 2,400 | 2,400 |
| Total Gas Revenues | 462,644 | 515,678 | 522,160 | 625,103 | 667,581 | 667,536 |
| Appliance Repair & Bill Paid Turn-Ons | 14,635 | 12,098 | 12,473 | 13,233 | 13,233 | 13,233 |
| Other Operating Revenues | 9,606 | 9,250 | 9,250 | 11,115 | 11,915 | 11,915 |
| Total Other Operating Revenues | 24,241 | 21,348 | 21,723 | 24,348 | 25,148 | 25,148 |
| **Total Operating Revenues** | $486,885 | $537,026 | $543,883 | $649,451 | $692,729 | $692,684 |
| **OPERATING EXPENSES** | | | | | | |
| Natural Gas | $219,081 | $252,986 | $261,621 | $294,593 | $349,068 | $349,068 |
| Other Raw Material | 9 | 10 | 10 | 10 | 10 | 10 |
| Sub-Total Fuel | 219,090 | 252,996 | 261,631 | 294,603 | 349,078 | 349,078 |
| **CONTRIBUTION MARGINS** | $267,795 | $284,030 | $282,252 | $354,848 | $343,651 | $343,606 |
| Gas Processing | 13,881 | 13,775 | 14,106 | 13,835 | 13,825 | 13,825 |
| Field Services | 35,090 | 33,092 | 33,521 | 33,061 | 33,061 | 33,061 |
| Distribution | 15,527 | 14,038 | 14,082 | 13,601 | 13,601 | 13,601 |
| Customer Affairs | 27,044 | 29,009 | 28,759 | 31,208 | 31,208 | 31,208 |
| Bad Debt Expense | 39,000 | 44,000 | 48,000 | 46,000 | 57,000 | 57,000 |
| Marketing & Point-of-Sale Expenses | 5,253 | 4,373 | 3,680 | 6,713 | 6,713 | 6,713 |
| Administrative & General | 34,681 | 40,350 | 40,350 | 43,830 | 43,830 | 43,830 |
| Health Insurance | 23,432 | 24,375 | 24,375 | 25,290 | 25,290 | 25,290 |
| Capitalized Fringe Benefits | (4,896) | (5,258) | (5,008) | (5,333) | (5,333) | (5,333) |
| Capitalized Administrative Charges | (7,243) | (5,855) | (5,605) | (6,815) | (6,815) | (6,815) |
| Regulatory Asset Amortization | 3,156 | 3,750 | 3,750 | 3,750 | 3,750 | 3,750 |
| Amortization of Restructuring Costs | 965 | 965 | 965 | 965 | 965 | 965 |
| Year 2000 & Deregulation Amortization | 882 | 888 | 888 | 888 | 888 | 888 |
| Pensions | 787 | 1,119 | 1,119 | 1,376 | 1,376 | 1,376 |
| Taxes | 6,091 | 6,674 | 6,674 | 6,548 | 6,548 | 6,548 |
| Amortization of Non-Recurring IT Costs | - | - | (4,000) | - | - | - |
| Personnel Reductions/Retirements | - | - | - | (2,500) | (2,500) | (2,500) |
| Cost Savings/Productivity Improvements | | | | (10,000) | (10,000) | (10,000) |
| Sub-Total Other Oper.& Maintenance | 193,650 | 205,295 | 205,656 | 202,417 | 213,407 | 213,407 |
| Depreciation | 31,106 | 32,169 | 32,169 | 33,381 | 33,381 | 33,381 |
| Cost of Removal | 2,671 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| To Clearing Accounts | (4,702) | (3,545) | (3,545) | (3,344) | (3,344) | (3,344) |
| | 29,075 | 31,124 | 31,124 | 32,537 | 32,537 | 32,537 |
| **TOTAL OPERATING EXPENSES** | $441,815 | $489,415 | $498,411 | $529,557 | $595,022 | $595,022 |
| OPERATING INCOME | 45,070 | 47,611 | 45,472 | 119,894 | 97,707 | 97,662 |
| **Other Income** | 8,263 | 16,782 | 16,782 | 5,774 | 5,274 | 5,274 |
| INCOME BEFORE INTEREST | $53,333 | $64,393 | $62,254 | $125,668 | $102,981 | $102,936 |
| **INTEREST** | | | | | | |
| Long-Term Debt | $46,990 | $49,256 | $49,256 | $47,871 | $47,871 | $47,871 |
| Other | 4,802 | 6,270 | 6,270 | 6,102 | 6,102 | 6,102 |
| AFUDC | (201) | (500) | (500) | (355) | (355) | (355) |
| Loss From Extinguishment of Debt | 3,992 | 4,311 | 4,311 | 4,162 | 4,162 | 4,162 |
| Total Interest | 55,583 | 59,337 | 59,337 | 57,780 | 57,780 | 57,780 |
| **NET INCOME** | (2,250) | 5,056 | 2,917 | 67,888 | 45,201 | 45,156 |
| City Payment | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| **Net Earnings** | ($20,250) | ($12,944) | ($15,083) | $49,888 | $27,201 | $27,156 |

**PHILADELPHIA GAS WORKS**
**CASHFLOW STATEMENT**
**(Dollars in Thousands )**

| | Actual 1998-99 | 6/19 Filing Estimate 1999-2000 | Revised Estimate 1999-2000 | 6/19 Filing Budget 2000-01 | 8/2/00 Volume 12/1 Revised Budget 2000-01 | 8/8/00 Volume 11/10 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| **SOURCES** | | | | | | |
| Net Income | ($2,250) | $5,056 | $2,917 | $67,888 | $45,201 | $45,156 |
| Depreciation & Amortization | 38,500 | 40,638 | 40,638 | 42,827 | 42,827 | 42,827 |
| Earnings on Restricted Funds | (197) | 994 | 994 | - | - | - |
| Impact of Refunded Debt Service | 282 | 548 | 548 | - | - | - |
| Increased/(Decreased) Other Liabilities | 7,966 | 7,274 | 7,274 | 2,833 | 2,833 | 2,833 |
| Available From Operations | 44,301 | 54,510 | 52,371 | 113,548 | 90,861 | 90,816 |
| *Funds Required for Capital* | 47,363 | 68,223 | 68,223 | 34,820 | 34,820 | 34,820 |
| Capital Leasing | 2,438 | 2,228 | 2,228 | 6,000 | 6,000 | 6,000 |
| *Temporary Financing* | 19,000 | 22,000 | 22,000 | - | - | - |
| TOTAL SOURCES | $113,102 | $146,961 | $144,822 | $154,368 | $131,681 | $131,636 |
| **USES** | | | | | | |
| Net Construction Expenditures | $68,087 | $50,959 | $46,959 | $62,293 | $62,293 | $62,293 |
| Funded Debt Reduction: | | | | | | |
| Revenue Bonds | 33,625 | 33,595 | 33,595 | 34,192 | 34,192 | 34,192 |
| PMA Lease/Subordinate Debt | 965 | 1,020 | 1,020 | 1,065 | 1,065 | 1,065 |
| Capital Lease | 6,084 | 6,538 | 6,538 | 6,901 | 6,901 | 6,901 |
| Notes Payable - CNG Acquisition | 207 | 219 | 219 | 59 | 59 | 59 |
| *Temporary Financing Repayment* | | | | | | |
| Distribution of Earnings | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Additions To (Reductions of) | | | | | | |
| Non-Cash Working Capital | (20,071) | 47,245 | 44,219 | (8,823) | (520) | (520) |
| Cash Needs | 106,897 | 157,576 | 150,550 | 113,687 | 121,990 | 121,990 |
| Cash Surplus (Shortfall) | 6,205 | (10,615) | (5,728) | 40,681 | 9,691 | 9,646 |
| TOTAL USES | $113,102 | $146,961 | $144,822 | $154,368 | $131,681 | $131,636 |
| Cash - Beginning of Period | $9,883 | $16,088 | $8,214 | $5,473 | $2,486 | $2,486 |
| Cash - Surplus (Shortfall) | 6,205 | (10,615) | (5,728) | 40,681 | 9,691 | 9,646 |
| **ENDING CASH** | $16,088 | $5,473 | $2,486 | $46,154 | $12,177 | $12,132 |
| Internally Generated Funds | $18,286 | ($19,492) | ($23,492) | $21,473 | $21,473 | $21,473 |
| Outstanding Commercial Paper | $75,000 | $97,000 | $97,000 | $97,000 | $97,000 | 97,000 |

**PHILADELPHIA GAS WORKS**
**DEBT SERVICE COVERAGE**
**( Dollars In Thousands )**

| | Actual 1998-99 | 6/19 Filing Estimate 1999-2000 | Revised Estimate 1999-2000 | 6/19 Filing Budget 2000-01 | 8/2/00 Volume 12/1 Revised Budget 2000-01 | 8/8/00 Volume 11/10 Revised Budget 2000-01 |
|---|---|---|---|---|---|---|
| **FUNDS PROVIDED** | | | | | | |
| Total Gas Revenues | $462,644 | $515,678 | $522,160 | $625,103 | $667,581 | $667,536 |
| Other Operating Revenues | 24,241 | 21,348 | 21,723 | 24,348 | 25,148 | 25,148 |
| Total Operating Revenues | 486,885 | 537,026 | 543,883 | 649,451 | 692,729 | 692,684 |
| Other Income Less Restricted Funds | 8,066 | 17,776 | 17,776 | 5,774 | 5,274 | 5,274 |
| AFUDC (Interest) | 201 | 500 | 500 | 355 | 355 | 355 |
| TOTAL FUNDS PROVIDED | $495,152 | $555,302 | $562,159 | $655,580 | $698,358 | $698,313 |
| **FUNDS APPLIED** | | | | | | |
| Fuel Costs | 219,090 | 252,996 | 261,631 | 294,603 | 349,078 | 349,078 |
| Other Operating Costs | 222,725 | 236,419 | 236,780 | 234,954 | 245,944 | 245,944 |
| Total Operating Expenses | 441,815 | 489,415 | 498,411 | 529,557 | 595,022 | 595,022 |
| PMA Lease Cost | - | - | - | - | - | - |
| $20.1M Capital Lease Cost | 3,884 | 3,991 | 3,991 | 3,980 | 3,980 | 3,980 |
| $23M Capital Lease Cost | 3,998 | 3,997 | 3,997 | 3,997 | 3,997 | 3,997 |
| Less: Non-Cash Expenses | 34,831 | 36,257 | 36,257 | 37,569 | 37,569 | 37,569 |
| TOTAL FUNDS APPLIED | $414,868 | $461,146 | $470,142 | $499,965 | $565,430 | $565,430 |
| Funds Available to Cover Debt Service | $80,286 | $94,156 | $92,017 | $155,615 | $132,928 | $132,883 |
| Add-back Lease Costs | 7,882 | 7,988 | 7,988 | 7,977 | 7,977 | 7,977 |
| Funds Available Excluding Lease Costs | $88,168 | $102,144 | $100,005 | $163,592 | $140,905 | $140,860 |
| 1975 Ordinance Bonds Debt Service | $57,741 | $59,345 | $59,345 | $51,611 | $51,611 | $51,611 |
| **Debt Service Coverage 1975 Bonds** | **1.53** | **1.72** | **1.69** | **3.17** | **2.73** | **2.73** |
| Net Available after Prior Debt Service | $30,427 | $42,799 | $40,660 | $111,981 | $89,294 | $89,249 |
| PMA & Other Capital Leases | 7,882 | 7,988 | 7,988 | 7,977 | 7,977 | 7,977 |
| Net Available after Prior Capital Leases | $22,545 | $34,811 | $32,672 | $104,004 | $81,317 | $81,272 |
| 1998 Ordinance Bonds Debt Service | $14,230 | $21,659 | $21,659 | $29,449 | $29,449 | $29,449 |
| **Debt Service Coverage New Bonds** | **1.58** | **1.61** | **1.51** | **3.53** | **2.76** | **2.76** |
| Net Available after New Debt Service | $8,315 | $13,152 | $11,013 | $74,555 | $51,868 | $51,823 |
| 1998 Ordinance Subordinate Bond Debt Ser | $1,988 | $1,987 | $1,987 | $1,990 | $1,990 | $1,990 |
| **Debt Service Coverage Subordinate Bond** | **4.18** | **6.62** | **5.54** | **37.46** | **26.06** | **26.04** |

4

Normal weather [illegible] degree days
No rate increase
No Productivity/cost savings
Beginning Cash Balance $.5 million

BUDGET FOR CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2001
(Millions of Dollars)

| | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | BUDGET | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 09/19/00 | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | July | Aug | TOTAL |
| OPENING BALANCE - CASH INCLUDES 97.0 TXCP | $0.5 | $8.0 | $11.1 | $9.8 | $13.1 | ($1.7) | $7.7 | $30.4 | $48.4 | $56.7 | $32.2 | $1.3 | $0.5 |
| RECEIPTS | | | | | | | | | | | | | |
| Gas | 28.3 | 29.8 | 34.1 | 44.4 | 54.9 | 61.4 | 70.6 | 66.9 | 55.4 | 40.8 | 35.3 | 32.7 | 556.5 |
| Other | 6.7 | 8.7 | 1.4 | 1.0 | 1.3 | 1.4 | 1.4 | 1.6 | 1.6 | 1.8 | 1.5 | 3.9 | 32.1 |
| Drawn from Capital Funds - Principal $34.8 | 11.6 | 11.6 | 11.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 34.8 |
| Drawn from Capital Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawn from Lease Funds - Principal $10.3 | 0.0 | 0.0 | 0.0 | 0.0 | 8.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.0 |
| Drawn from Lease Funds - Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Advance (Repayment) of Capital Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Withdrawal | 5.0 | 3.0 | 0.0 | 5.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.6 | 0.0 | 27.1 |
| Rate Increase | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL RECEIPTS | 51.6 | 53.1 | 47.1 | 50.9 | 62.2 | 64.8 | 72.0 | 68.5 | 57.0 | 42.4 | 50.4 | 36.6 | 656.5 |
| TOTAL | 52.0 | 61.1 | 58.2 | 60.7 | 75.3 | 63.1 | 79.7 | 98.9 | 105.3 | 99.1 | 82.6 | 37.9 | 656.9 |
| DISBURSEMENTS | | | | | | | | | | | | | |
| Labor | 11.5 | 12.0 | 13.1 | 13.2 | 10.8 | 10.7 | 11.2 | 10.1 | 11.3 | 11.0 | 10.6 | 11.3 | 136.8 |
| Natural Gas | 22.6 | 24.0 | 25.0 | 21.5 | 28.1 | 29.8 | 26.5 | 24.8 | 24.3 | 25.2 | 21.9 | 19.3 | 295.0 |
| Debt Service | 0.0 | 3.9 | 0.0 | 0.1 | 25.9 | 2.7 | 0.0 | 4.0 | 1.7 | 1.4 | 37.9 | 13.3 | 90.9 |
| TXCP - Interest | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 2.2 |
| City Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.2 | 0.0 | 0.0 | 18.2 |
| Other Disbursements | 10.0 | 10.1 | 10.3 | 10.7 | 12.0 | 11.8 | 11.4 | 11.0 | 10.9 | 10.8 | 10.9 | 11.0 | 130.8 |
| TOTAL DISBURSEMENTS | 44.1 | 50.1 | 48.4 | 47.6 | 77.0 | 55.4 | 49.3 | 50.5 | 48.6 | 66.8 | 81.3 | 54.9 | 673.9 |
| MONTHLY CASH FLOW | 7.5 | 3.1 | (1.3) | 3.3 | (14.8) | 9.4 | 22.7 | 18.0 | 8.3 | (24.5) | (30.9) | (18.3) | (17.4) |
| CUMULATIVE CASH FLOW | 7.5 | 10.6 | 9.3 | 12.7 | (2.2) | 7.3 | 30.0 | 47.9 | 56.2 | 31.8 | 0.9 | (17.4) | |
| OPENING TXCP 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| TXCP ISSUED DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TXCP ISSUED PAID DOWN DURING MONTH | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING TXCP | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 | 97.0 |
| OPENING BALANCE - CASH | 0.5 | 8.0 | 11.1 | 9.8 | 13.1 | (1.7) | 7.7 | 30.4 | 48.4 | 56.7 | 32.2 | 1.3 | 0.5 |
| MONTHLY CASH FLOW | 7.5 | 3.1 | (1.3) | 3.3 | (14.8) | 9.4 | 22.7 | 18.0 | 8.3 | (24.5) | (30.9) | (18.3) | (17.4) |
| NET TXCP ACTIVITY MONTHLY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ENDING BALANCE - CASH | 8.0 | 11.1 | 9.8 | 13.1 | (1.7) | 7.7 | 30.4 | 48.4 | 56.7 | 32.2 | 1.3 | (16.9) | (16.9) |
| EST CASH POSITION NET OF TXCP (PEAK DAY) | | | | | | | | | | | | | |
| CASH POSITION NET OF TXCP | (89.0) | (85.9) | (87.2) | (83.9) | (98.7) | (89.3) | (66.6) | (48.6) | (40.3) | (64.8) | (95.7) | (113.9) | (113.9) |

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PA. P.U.C.
SECRETARY'S BUREAU

**IN THE MATTER OF:**

**PHILADELPHIA GAS WORKS'**
**FISCAL YEAR 2000-2001**
**OPERATING BUDGET FILING**

**FILED: JUNE 19, 2000**

DOCKETED
OCT 10 2000

DOCUMENT
FOLDER

Exh. 1.2

R-0005654

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(This Volume)



June 19, 2000

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Exhibit A-1

# PHILADELPHIA GAS WORKS
# STATEMENT OF INCOME
## ( Dollars in Thousands )

| Line No. | | Actual 1998-99 | Estimate 1999-2000 | Budget 2000-01 | 2000-01 Budget Over/(Under) 1999-00 Estimate Amount | % |
|---|---|---|---|---|---|---|
| | **OPERATING REVENUES** | | | | | |
| 1 | Non-Heating | $69,375 | $89,529 | $106,778 | $17,249 | 19 |
| 2 | Gas Transport Service | 3,376 | 3,483 | 3,509 | 26 | 1 |
| 3 | Heating | 390,242 | 422,867 | 463,816 | 40,949 | 10 |
| 4 | Proposed Base Rate Increase | - | - | 52,000 | 52,000 | |
| 5 | Marginal Revenue Loss - Weather | - | - | (4,000) | (4,000) | |
| 6 | Change in Senior Citizen Discount | - | - | 1,500 | 1,500 | |
| 7 | Unbilled Gas Adjustment | (349) | (201) | 1,500 | 1,701 | |
| 8 | Total Gas Revenues | 462,644 | 515,678 | 625,103 | 109,425 | 21 |
| 9 | Marketing Point-of Sale Revenues | 952 | - | - | - | |
| 10 | Appliance Repair & Other Service Revenues | 13,683 | 12,098 | 13,233 | 1,135 | 9 |
| 11 | Other Operating Revenues | 9,606 | 9,250 | 11,115 | 1,865 | 20 |
| 12 | Total Other Revenues | 24,241 | 21,348 | 24,348 | 3,000 | 14 |
| 13 | Total Operating Revenues | $486,885 | $537,026 | $649,451 | $112,425 | 21 |
| | **OPERATING EXPENSES** | | | | | |
| 14 | Natural Gas | $219,081 | $252,986 | $294,593 | $41,607 | 16 |
| 15 | Other Raw Material | 9 | 10 | 10 | - | |
| 17 | Sub-Total Fuel | 219,090 | 252,996 | 294,603 | 41,607 | 16 |
| 18 | Contribution Margins | $267,795 | $284,030 | $354,848 | $70,818 | 25 |
| 19 | Labor & Fringe Benefits | $107,238 | $112,934 | $113,407 | $473 | 0 |
| 20 | Bad Debt Expense | 39,000 | 44,000 | 46,000 | 2,000 | 5 |
| 21 | Other Expenses & Depreciation | 76,487 | 79,485 | 75,547 | (3,938) | (5) |
| 22 | Sub-Total Other O&M & Depreciation | 222,725 | 236,419 | 234,954 | (1,465) | (1) |
| 23 | Total Operating Expenses | $441,815 | $489,415 | $529,557 | $40,142 | 8 |
| 24 | **Operating Income** | $45,070 | $47,611 | $119,894 | $72,283 | |
| 25 | Other Income | 8,263 | 16,782 | 5,774 | (11,008) | (66) |
| 26 | Income Before Interest | $53,333 | $64,393 | $125,668 | $61,275 | |
| | **INTEREST** | | | | | |
| 27 | Long Term Debt | $46,990 | $49,256 | $47,871 | ($1,385) | (3) |
| 28 | Other Interest | 4,802 | 6,270 | 6,102 | (168) | (3) |
| 29 | AFUDC | (201) | (500) | (355) | 145 | (29) |
| 30 | Loss from Extinguishment of Debt | 3,992 | 4,311 | 4,162 | (149) | (3) |
| 31 | Total Interest Expense | $55,583 | $59,337 | $57,780 | ($1,557) | (3) |
| 32 | Net Income Before City Payment | (2,250) | 5,056 | 67,888 | 62,832 | |
| 33 | City Payment | 18,000 | 18,000 | 18,000 | - | |
| 34 | **Net Earnings/(Loss) from Operations** | ($20,250) | ($12,944) | $49,888 | $62,832 | |

**PHILADELPHIA GAS WORKS**
**STATEMENT OF INCOME**
**(Dollars in Thousands)**

| | Actual 1998-99 | Estimate 1999-2000 | Budget 2000-01 | 2000-01 Budget Over/(Under) 1999-00 Estimate Amount | % |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Non-Heating | $69,375 | $89,529 | $106,778 | $17,249 | 19 |
| Gas Transport Service | 3,376 | 3,483 | 3,509 | 26 | 1 |
| Heating | 390,242 | 422,867 | 463,816 | 40,949 | 10 |
| Proposed Base Rate Increase | - | - | 52,000 | 52,000 | |
| Marginal Revenue Loss - Weather | - | - | (4,000) | (4,000) | |
| *Change in Senior Citizen Discount* | - | - | 1,500 | 1,500 | |
| Unbilled Adjustment | (349) | (201) | 1,500 | 1,701 | |
| Total Gas Revenues | 462,644 | 515,678 | 625,103 | 109,425 | 21 |
| *Marketing Point of Sale Revenues* | 952 | - | - | - | |
| Appliance Repair & Bill Paid Turn-Ons | 13,683 | 12,098 | 13,233 | 1,135 | 9 |
| Other Operating Revenues | 9,606 | 9,250 | 11,115 | 1,865 | 20 |
| Total Other Operating Revenues | 24,241 | 21,348 | 24,348 | 3,000 | 14 |
| ***Total Operating Revenues*** | $486,885 | $537,026 | $649,451 | $112,425 | 21 |
| **OPERATING EXPENSES** | | | | | |
| Natural Gas | $219,081 | $252,986 | $294,593 | $41,607 | 16 |
| Other Raw Material | 9 | 10 | 10 | - | |
| Sub-Total Fuel | 219,090 | 252,996 | 294,603 | 41,607 | 16 |
| **CONTRIBUTION MARGINS** | $267,795 | $284,030 | $354,848 | $70,818 | 25 |
| Gas Processing | 13,881 | 13,775 | 13,835 | 60 | |
| Field Services | 35,090 | 33,092 | 33,061 | (31) | |
| Distribution | 15,527 | 14,038 | 13,601 | (437) | (3) |
| Customer Affairs | 27,044 | 29,009 | 31,208 | 2,199 | 8 |
| *Bad Debt Expense* | 39,000 | 44,000 | 46,000 | 2,000 | 5 |
| Marketing & Point-of-Sale Expenses | 5,253 | 4,373 | 6,713 | 2,340 | 54 |
| Administrative & General | 34,681 | 40,350 | 43,830 | 3,480 | 9 |
| Health Insurance | 23,432 | 24,375 | 25,290 | 915 | 4 |
| Capitalized Fringe Benefits | (4,896) | (5,258) | (5,333) | (75) | 1 |
| Capitalized Administrative Charges | (7,243) | (5,855) | (6,815) | (960) | 16 |
| Regulatory Asset Amortization | 3,156 | 3,750 | 3,750 | - | |
| *Amortization of Restructuring Costs* | 965 | 965 | 965 | - | |
| Year 2000 & Deregulation Amortization | 882 | 888 | 888 | - | |
| Pensions | 787 | 1,119 | 1,376 | 257 | 23 |
| *Taxes* | 6,091 | 6,674 | 6,548 | (126) | (2) |
| Personnel Reductions/Retirements | - | - | (2,500) | (2,500) | |
| Cost Savings/Productivity Improvements | - | - | (10,000) | (10,000) | |
| Sub-Total Other Oper.& Maintenance | 193,650 | 205,295 | 202,417 | (2,878) | (1) |
| Depreciation | 31,106 | 32,169 | 33,381 | 1,212 | 4 |
| Cost of Removal | 2,671 | 2,500 | 2,500 | - | |
| To Clearing Accounts | (4,702) | (3,545) | (3,344) | 201 | (6) |
| | 29,075 | 31,124 | 32,537 | 1,413 | 5 |
| **TOTAL OPERATING EXPENSES** | $441,815 | $489,415 | $529,557 | $40,142 | 8 |
| OPERATING INCOME | 45,070 | 47,611 | 119,894 | 72,283 | |
| **Other Income** | 8,263 | 16,782 | 5,774 | (11,008) | (66) |
| INCOME BEFORE INTEREST | $53,333 | $64,393 | $125,668 | $61,275 | |
| **INTEREST** | | | | | |
| Long-Term Debt | $46,990 | $49,256 | $47,871 | ($1,385) | (3) |
| Other | 4,802 | 6,270 | 6,102 | (168) | (3) |
| AFUDC | (201) | (500) | (355) | 145 | (29) |
| Loss From Extinguishment of Debt | 3,992 | 4,311 | 4,162 | (149) | (3) |
| Total Interest | 55,583 | 59,337 | 57,780 | (1,557) | (3) |
| **NET INCOME** | (2,250) | 5,056 | 67,888 | 62,832 | |
| City Payment | 18,000 | 18,000 | 18,000 | - | |
| **Net Earnings/(Loss) From Operations** | ($20,250) | ($12,944) | $49,888 | $62,832 | |

Exhibit A-2

# PHILADELPHIA GAS WORKS
# CASHFLOW STATEMENT
# ( Dollars in Thousands )

| Line No. | SOURCES | Actual 1998-99 | Estimate 1999-2000 | Budget 2000-01 | 2000-01 Budget Over/(Under) 1999-00 Estimate Amount |
|---|---|---|---|---|---|
| 1. | Net Income | ($2,250) | $5,056 | $67,888 | $62,832 |
| 2. | Depreciation & Amortization | 38,500 | 40,638 | 42,827 | 2,189 |
| 3. | Earnings on Restricted Funds | (197) | 994 | - | (994) |
| 4. | Increased/(Decreased) Long Term Debt | 282 | 548 | - | (548) |
| 5. | Increased/(Decreased) Other Liabilities | 7,966 | 7,274 | 2,833 | (4,441) |
| 6. | Available From Operations | 44,301 | 54,510 | 113,548 | 59,038 |
| 7. | Funds Required for Capital | 47,363 | 68,223 | 34,820 | (33,403) |
| 8. | Capital Leasing | 2,438 | 2,228 | 6,000 | 3,772 |
| 9. | Temporary Financing | 19,000 | 22,000 | - | (22,000) |
| 10. | TOTAL SOURCES | $113,102 | $146,961 | $154,368 | $7,407 |
| | USES | | | | |
| 11. | Net Construction Expenditures | $68,087 | $50,959 | $62,293 | $11,334 |
| | Funded Debt Reduction: | | | | |
| 12. | Revenue Bonds | 33,625 | 33,595 | 34,192 | 597 |
| 13. | PMA Lease/Subordinate Debt | 965 | 1,020 | 1,065 | 45 |
| 14. | Capital Lease | 6,084 | 6,538 | 6,901 | 363 |
| 15. | Notes Payable - CNG Acquisition | 207 | 219 | 59 | (160) |
| 16. | Distribution of Earnings | 18,000 | 18,000 | 18,000 | - |
| | Additions to (Reductions of) | | | | |
| 17. | Non-Cash Working Capital | (20,071) | 47,245 | (8,823) | (56,068) |
| 18. | Cash Needs | 106,897 | 157,576 | 113,687 | (43,889) |
| 19. | Cash Surplus (Shortfall) | 6,205 | (10,615) | 40,681 | 51,296 |
| 20. | TOTAL USES | $113,102 | $146,961 | $154,368 | $7,407 |
| 21. | Cash - Beginning of Period | $9,883 | $16,088 | $5,473 | ($10,615) |
| 22. | Cash - Surplus (Shortfall) | 6,205 | (10,615) | 40,681 | 51,296 |
| 23. | Ending Cash | $16,088 | $5,473 | $46,154 | $40,681 |
| 24. | Internally Generated Funds | $18,286 | - | $21,473 | $21,473 |
| 25. | Outstanding Commercial Paper | $75,000 | $97,000 | $97,000 | - |

PGW - IR - Exhibit 1.4

9/28/00
Phila DD
RJS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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RESPONSE TO SECRETARIAL LETTER
DATED SEPTEMBER 7, 2000

DOCUMENT
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Docket Nos. P-00001831
R-00005654

DOCKETED
OCT 10 2000

VOLUME I OF III

SEPTEMBER, 2000

DSH:24119.1

# INDEX

**Volume 3**

5. $62,315,000 Gas Works Revenue Bonds
(1975 General Ordinance), Sixteenth Series
and
6. $113,965 Gas Works Revenue Bonds
(1998 General Ordinance), Second Series

7. Debt Service Schedules for Each Outstanding Bond Ordinance
(Merrill Lynch and Co., June 23, 1999)

212 Locust Street
Suite 300
Harrisburg, PA 17101

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F: 717 237 7161
www.wolfblock.com

# Wolf, Block, Schorr and Solis-Cohen LLP

DANIEL CLEARFIELD
DIRECT DIAL: (717) 237-7173
E-MAIL: DCLEARFIELD@WOLFBLOCK.COM

September 14, 2000

**VIA HAND DELIVERY**

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

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

Dear Secretary McNulty:

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

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

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

DSH:23930.1

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

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

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

Very truly yours,

Daniel Clearfield BN

Daniel Clearfield
For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww
Enclosure

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

Re: $132,520,000 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Eleventh Series C

Certificate as to Effective Status of Bond Ordinance and Related Ordinances.

I, CHARLES H. SAWYER, JR., Chief Clerk of the Council of the City of Philadelphia, (the "Council"), do hereby certify that it appears from the records of said Council that:

(a) The copies of the Bill Number 1871 of 1975, 2068 of 1979, 274 of 1980, 534 of 1985 and 1248 of 1987 attached hereto are true and correct copies of the originals of those Ordinances on file in the office of the Chief Clerk of the Council; and

(b) Such Ordinances have not been amended or repealed and are in full force and effect on the date of this certificate.

Charles H Sawyer Jr

CHARLES H. SAWYER, JR.
CHIEF CLERK OF THE COUNCIL OF
THE CITY OF PHILADELPHIA

Dated: February 14, 1989

(SEAL)

(Bill No. 2068)

AN ORDINANCE

Constituting the Fifth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975; authorizing the Mayor, City Controller, and City Solicitor or a majority thereof to sell either at public or private sale Gas Works Revenue Bonds, Fifth Series, of the City of Philadelphia in the maximum principal amount of fifty million (50,000,000) dollars and to establish the terms and provisions thereof by supplementing the General Gas Works Revenue Bond Ordinance of 1975; designating the projects and setting forth the use of proceeds; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Fifth Series Bonds from general accounts of the City; covenanting the payment of interest and principal; providing for transfer and payment of certain interest and income on moneys held in the Gas Works Sinking Fund Reserve to the operating funds of the Gas Works and, with the approval of the Gas Commission, the payment to the City of any balance in the operating funds up to the amount so transferred and paid; and specifying the applicability of sections of the First Class City Revenue Bond Act and the General Gas Works Revenue Bonds Ordinance of 1975.

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

SECTION 1. The Mayor, City Controller, and City Solicitor 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, Fifth Series of the City (the Fifth Series Bonds), 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 (the General Ordinance), a sum or sums of which, in the aggregate, shall not exceed fifty million (50,000,000) dollars to be expended as provided in Section 2 of this ordinance. Said Fifth Series Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at private negotiated sale as said officers or a majority of them shall deem to be in the best interest of the City. The Fifth Series Bonds shall contain such terms and provisions as are determined by a majority of said officers 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.

The Fifth Series Bonds shall not pledge the credit or taxing power 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 the revenues pledged in the General Ordinance.

SECTION 2. The projects for which the Fifth Series Bonds are to be issued consist of the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budget of the City. Such capital improvements include, without limitation, the acquisition of land or rights therein; the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery, and apparatus; the acquisition, construction or replacement of pipes and pipe lines; and the acquisition or replacement of property of a captial nature for use in the operation, maintenance and administration of the Gas Works system of the City.

The proceeds of the sale of the Fifth Series Bonds shall be used to pay financing costs, to make addtional payments into the Sinking Fund Reserve as required by the General Ordinance and to pay other project costs (as defined in the Act), which may include, without limitation, the repayment to the City or to accounts of the Gas Works of amounts advanced for project costs, and the funding or refunding of outstanding bond anticipation temporary loan notes of the City issued in anticipation of bonds previously authorized by the Council for capital improvements to the Gas Works system of the City.

The City covenants that the proceeds of the sale of the Fifth Series Bonds which remain available for the payment of project costs, after payment of the financing costs, the required payment into the Sinking Fund Reserve, and the repayment to the City of amounts previously advanced for project costs or for the funding or refunding of bond anticipation temporary loans as described above, shall be deposited, held and disbursed in and 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.

SECTION 3. Based on the report of the Director of Finance of the City filed with the 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 there from in the order and priority stated in Section 4.02 of the General Ordinance.

SECTION 4. The City covenants that, so long as any of the Fifth Series Bonds shall remain outstanding, all revenues of the Gas Works which are pledged under Section 4.02 of the General Ordinance will 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 otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Fifth Series Bonds shall remain unpaid, it will make payments or cause payments to be made from the pledged Gas Works revenues directly into its Gas Works Revenue Bond Sinking Fund created under the General Ordinance, at such times and in such annual amounts as shall be required to accumulate amounts therein sufficient for the payment of principal of and the interest on the Fifth Series Bonds when due and that it will pay or cause to be paid from said Sinking Fund said principal and interest when due.

SECTION 6. All interest and income earned on moneys held in the Gas Works Revenue Bond Sinking Fund Reserve created under the General Ordinance (Sinking Fund Reserve Earnings) shall, to the extent not required to comply with Section 6.04 of the General Ordinance, be transferred and paid by the Sinking Fund Depositary to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of Section 4.02 of the General Ordinance. To the extent that in any fiscal year balance remains in the Project Revenues, including Sinking Fund

Reserve Earnings, as such balance is determined in accordance with Section 4.02 of the General Ordinance, such balance, upon the approval of the Gas Commission may be paid to the City, provided that in a given fiscal year the balance so paid does not exceed the amount of Sinking Fund Reserve Earnings transferred and paid to the operating funds during the same fiscal year. For Fiscal Year 1980 up to $4.5 million of such balance, subject to the above provisions, shall be transferred and paid to the General Fund.

SECTION 7. The Director of Finance is authorized to make such covenants and take such other action on behalf of the City with respect to the investment of the proceeds of the Fifth Series Bonds as may be necessary or advisable in order that the Fifth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code.

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 Fifth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance shall apply to such terms in this ordinance.

APP. NO. 469—8

CERTIFICATION: This is a true and correct copy of the original Ordinance approved by the Mayor on

JUL 26 1979

Charles H Sawyer Jr

Chief Clerk of the Council.

(Bill No. 1871)

**AN ORDINANCE**

Authorizing, generally, the issuance and sale by the City of Gas Works Revenue Bonds of the City of Philadelphia, prescribing the form of bonds, their execution, transfer, exchange, payment and redemption, prescribing the conditions precedent to the issue of specific series of bonds, including a supplemental authorizing ordinance, pledging the revenues of the Gas Works of the City as security, adopting a rate covenant, and directing the Gas Commission to impose rates sufficient to comply therewith, designating a fiscal agent and sinking fund depositary, establishing a Sinking Fund, including a Sinking Fund Reserve, and providing for its management, providing remedies upon default, and for amendments and modifications.

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

SECTION 1.

## ARTICLE I
## AUTHORIZATION, SCOPE AND PURPOSE—SHORT TITLE

This Ordinance is enacted pursuant to the provisions of The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924) for the purpose of authorizing the issuance from time to time of gas works revenue Bonds of the City to be secured by a pledge of the revenues of the Gas Works of the City, in such principal amounts as shall from time to time be authorized by further ordinance of the Council as more particularly hereinafter set forth. This Ordinance shall be known as the General Gas Works Revenue Bond Ordinance of 1975.

SECTION 2.

## ARTICLE II
## DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 2.01. *Definitions.* For all purposes of this Ordinance and any ordinance supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

*Act* means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in this Ordinance.

*Bond* or *Bonds* means any gas works revenue bond of the City issued and outstanding pursuant to the Act under this Ordinance and any supplemental ordinance and shall include installment bonds, temporary bonds and interim certificates.

*Bondholder* means the holder of any bearer bond and the registered owner of any registered bond and the term Holder, or Holders unless the context otherwise requires, shall be deemed to include the registered owners of any bond or bonds as well as the holders of bearer bonds.

*City* means the City of Philadelphia, Pennsylvania.

*City Charges* means the proportionate charges, if any, for services performed for the Gas Works of the City by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Agreement between the City and the Manager and all other payments made to the City from Project Revenues.

*Director of Finance* means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter.

*Fiscal Agent* means the bank named as such in Section 6.02 or its successor.

*Fiscal Year* means the fiscal year of the City.

*Gas Works* means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquified, synthetic or manufactured gas or in the maintenance, management or administration thereof, and also means, as the context may require, the business entity managed by the Manager.

*Manager* means The Philadelphia Facilities Management Corporation currently managing the Gas Works pursuant to an ordinance of City Council approved December 29, 1972, setting forth the Agreement between the City and The Philadelphia Facilities Management Corporation, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by ordinance to manage the Gas Works.

*Net Operating Expenses* means Operating Expenses exclusive of City Charges.

*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 of the City, 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.

*Project Revenues* means the revenues pledged for the security and payment of the Bonds as set forth in Section 4.02.

*Rate Covenant* means the rate covenant contained in subsection (b) of Section 4.03.

*Series* when applied to Bonds means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV thereof and may also mean, if appropriate, a subseries of any series if, for any reason, the City should determine to divide any series into one or more subseries of Bonds.

*Sinking Fund* means the Gas Works Revenue Bond Sinking Fund established by Section 6.01.

*Sinking Fund Depositary* means the bank named as such in Section 6.02 or its successor.

*Sinking Fund Reserve* means the Sinking Fund Reserve established by Section 6.04.

*Supplemental Ordinance* means an ordinance supplemental hereto enacted pursuant to the Act and this Ordinance by the Council of the City authorizing the issuance of a series of Bonds.

SECTION 2.02. *Interpretation.* All references in this Ordinance to articles, sections and other sub-divisions of the Ordinance are to the designated articles, sections or other sub-divisions of this Ordinance as originally enacted. The words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular article, section or other sub-division.

SECTION 2.03. *Descriptive Headings.* The descriptive headings of the several articles and sections of this Ordinance are inserted for convenience only and shall not control or affect the meaning or construction of any of its provisions.

SECTION 2.04. *Severability.* In case any one or more of the provisions contained in this Ordinance or in any Bond or coupon issued pursuant hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Ordinance or of said Bonds or coupons, and this Ordinance or said Bonds or coupons shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

SECTION 3.

## ARTICLE III
## CONCERNING THE BONDS

SECTION 3.01. *Forms Generally.* All Bonds, and the coupons, if any, appertaining thereto, shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Ordinance, and may be designated as of such Series by date, number, letter or otherwise and may also have such individual letters, identifying numbers or other marks, and such descriptive panels, registration panels, legends or endorsements placed thereon, as may, consistently with this Ordinance and the Act, be determined by the Director of Finance. The Bonds may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto and an appropriate certificate as to its correspondence with an executed counterpart may be included on the face or on the reverse of the Bonds. Any portion of the text of any Bond may be set forth on the reverse thereof with an appropriate reference on the face of the bond.

SECTION 3.02. *Form of Fully Registered Bond.* Fully registered bonds shall be substantially in the following form:

(Form of Fully Registered Bond)

UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BOND

[Numerical Designation] $

[Series Designation]

[Interest Rate: % Semi-annual Interest $ ]

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of the United States of America to

or registered assigns, on

, unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. approved , 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of Dollars ($ ), and the pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, to the registered owner by check or draft mailed to the registered owner at his address as it appears on the bond register, from the interest payment date next preceding the date hereof, unless the date hereof shall be an interest payment date, in which case from the date hereof, initially on and thereafter on each subsequent and until payment of such principal amount, or provisions therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon. The principal of and interest on this bond and the premium, if any, payable upon redemption are payable at the principal Philadelphia office of

Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the Series designated hereon (the Bonds), limited in aggregate principal amount to $ issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated .
The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances, are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, out of its Gas Works Revenue Bond Sinking Fund, in the semi-annual amount shown hereon on each interest payment date of this Bond, or as the case may be, the proportionate part thereof from the date hereof to the next interest payment date, and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any.

*Reference is hereby made to the 1975 Ordinance for a* statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the registered owner of this Bond that no Gas Works revenue bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works 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 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,.

(here insert specific provisions with respect to redemption, including, if applicable, mandatory redemption)

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days or more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance or any right except to receive payment of the redemption price.

This Bond is transferable and exchangeable by the registered owner hereof in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the 1975 Ordinance, and upon surrender and cancellation of this Bond. Upon any such transfer or exchange, the City shall issue in the name of the transferee or of the registered owner hereof, and shall deliver in exchange for this Bond, to or upon the order of such registered owner, a new registered Bond or new registered Bonds in authorized denominations aggregating the principal amount hereof or a coupon Bond or coupon Bonds of such denominations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the person in whose name this Bond is registered as the absolute owner hereof for all purposes whether or not this Bond or any installment of interest be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. All payments of the principal, or premium upon redemption, of this Bond or of interest hereon to such registered owner in the manner herein and in the 1975 Ordinance set forth shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums so paid whether or not notation of the same be made hereon, and any consent, waiver or other action taken by such registered owner pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such registered owner, his heirs, successors or assigns, and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange or transfer hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

*IN WITNESS WHEREOF, the City of Philadelphia* has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, as of .

CITY OF
PHILADELPHIA

By ......................
Fiscal Agent

Countersigned and Attested by (Facsimile Signature)

By ......................
Authorized Officer

City Controller

By ......................
Authorized Officer

SECTION 3.03. *Form of Coupon Bond and Form of Coupon for Interest.* Coupon Bonds and the coupons thereunto appertaining shall be substantially in the following form:

(Form of Coupon Bond)

UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BONDS

(Numerical Designation) $

(Series Designation)

%

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of the United States of America to the bearer, or if this Bond is registered as to principal as hereinafter provided, to the registered owner hereof, on unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. approved , 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of Dollars ($ ), and to pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, from the date hereof initially on and thereafter on each subsequent and until payment of such principal amount, or provision therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon, but, with respect to interest accrued at or prior to maturity, only upon presentation and surrender of the coupons for interest hereunto appertaining as they severally mature. The principal of and interest on this Bond and the premium, if any, payable upon redemption, are payable at the principal Philadelphia office of , Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the series designated hereon (the Bonds), limited in aggregate principal amount to $ , issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated . The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances, are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, upon surrender of the applicable coupons, out of its Gas Works Revenue Bond Sinking Fund in the amount shown on the respective coupons hereunto appertaining on each interest payment date of this Bond and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any.

Reference is hereby made to the 1975 Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the holder of this Bond that no Gas Works Revenue Bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works 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 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,

(here insert *specific* provisions with respect to redemption, *including, if applicable, mandatory redemption)*

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance or any right except to receive payment of the redemption price.

This Bond is transferable by delivery unless registered as to principal in the name of the owner on the bond register of the City to be kept for that purpose at the principal Philadelphia Office of the Fiscal Agent, such registration to be noted hereon by the Fiscal Agent on behalf of the City. After such registration no transfer shall be valid unless made by the registered owner in person or by his duly authorized attorney and similarly noted upon said bond register and hereon. This Bond, however, may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored after which this Bond may again from time to time be registered or made transferable by delivery as before. Such registration, however, shall not affect the negotiability of the coupons for interest hereto attached, which shall always continue to be payable to bearer and to be transferable by delivery.

This Bond is exchangeable by the holder or, if registered as to principal, by the registered owner in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations, and upon payment of the charges provided in the 1975 Ordinance, and upon surrender of this Bond. Upon request for such exchange, the City shall issue in the name of the holder or registered owner of his nominee or in bearer form at the option of the holder or registered owner, and shall deliver in exchange for this Bond, to or upon the order of the holder or registered owner, a new registered Bond or new registered Bond in authorized denominations aggregating the principal amount hereof or a new coupon Bond or coupon Bonds of such demoninations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to the underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the holder of this Bond if it shall not at the time be registered as to principal, the registered owner of this Bond if it shall at the time be so registered, and the holder of any coupon appertaining hereto, whether or not this Bond shall be so registered, as the absolute owner of this Bond or such coupon, as the case may be, for all purposes whether or not this Bond or such coupon be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder or registered owner hereof pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such holder or registered owner, his heirs, successors or assigns and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

IN WITNESS WHEREOF, The City of Philadelphia has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, and has also caused the coupons hereto attached to be authenticated with the facsimile signature of the City Controller, as of

| | |
|---|---|
| Countersigned and Attested by | CITY OF PHILADELPHIA |
| (Facsimile Signature) City Controller | By ...................... Fiscal Agent |
| | By ...................... Authorized Officer |
| | By ...................... Authorized Officer |

(*Form of Coupon*)

Coupon No. $

On , the City of Philadelphia upon surrender of this Coupon will pay to the bearer unless the Bond hereinafter mentioned shall have been called for previous redemption and payment of the redemption price made or provided for, at the principal Philadelphia office of in Philadelphia, Pennsylvania, but only out of the rentals, revenues and moneys referred to in the Bond hereinafter mentioned, the amount shown hereon, in lawful money of the United States of America, being interest then due on its Gas Works Revenue Bond, , dated as of , and numbered.

CITY OF PHILADELPHIA

By ......................
City Controller

SECTION 3.04. *General Form, Content and Payment of Bonds.* Bonds shall be generally designated as Gas Works Revenue Bonds of the City and shall be issued in such series and within such series in such subseries as the City may from time to time determine. The aggregate principal amount of Bonds which may be issued, authenticated and delivered under this Ordinance is unlimited, but prior to issuance of each Series of Bonds, the City shall adopt a Supplemental Ordinance authorizing such Series.

The Bonds of each Series may be issued in coupon form with principal payable to bearer or registered as to principal only, in fully registered form, or may consist in whole or in part of one or more installment Bonds in fully registered form payable as to principal or subject to mandatory redemption in annual installments, or any combination of the foregoing, shall be issued in such aggregate principal amount, shall be dated on or as of such date or dates, shall be in such denominations, shall mature or be subject to mandatory redemption in such principal amounts and on such dates, shall bear interest from such date or dates and at such rate or rates, shall be subject to optional redemption at such times and upon such terms, and shall contain such other terms and conditions not inconsistent with this Ordinance or the Act, all as shall be determined by the City and set forth in the supplemental ordinance under which such bonds are issued, or as shall be determined by a designated officer or officers of the City thereunto authorized by the Supplemental Ordinance, or in the absence of such provisions or designation, as shall be determined by the Director of Finance as specified in Section 4.05.

The principal of and interest on (except the final installment of principal and the interest then payable) and the principal, premium, if any, and accrued interest payable upon partial redemption with respect to, all fully registered installment Bonds, and the interest payable in respect of fully registered Bonds, shall be payable by check or draft of the Fiscal Agent mailed to the registered owner of such Bonds at the address of such owner as it appears upon the bond register, and the records of the Fiscal Agent shall be conclusive as to such payment and shall bind such owner, his successors and assigns whether or not such payment be noted on such Bond. Except as aforesaid, the principal of all Bonds, the premium, if any, payable upon redemption thereof, and the interest on all coupon Bonds payable at or prior to maturity, shall be payable in lawful money of the United States of America at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania, or at the principal office of a paying agent designated in such Bonds, but with respect to such principal, only upon presentation and surrender of such Bonds, or with respect to interest payable at or prior to maturity of such coupon Bonds, only upon presentation and surrender of the respective coupons for interest, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Bonds or coupons.

Each Bond executed and delivered upon any transfer, exchange or substitution, shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by the Bond or Bonds surrendered upon such transfer or exchange, or as the case may be, the part thereof represented by such new Bond or Bonds, and notwithstanding anything to the contrary contained in this Ordinance, such new Bond, if a fully registered Bond, shall be so dated, and, if a coupon Bond, shall have attached thereto such coupons, that neither gain nor loss in interest shall result from such transfer, exchange, or substitution.

The foregoing provisions of this Section, any other provision in this Ordinance to the contrary notwithstanding, are subject to the express understanding that the principal of and interest on all Bonds issued hereunder and the premium, if any, payable on redemption thereof, shall be payable only from the rentals, revenues and moneys of the City pledged for the payment thereof pursuant to this Ordinance and not otherwise.

SECTION 3.05. *Registration of Bonds, Registrar, Bond Register.* The City shall keep or cause to be kept at the principal Philadelphia office of the Fiscal Agent, books for the registration and transfer of Bonds entitled to registration and transfer; and the City will register or transfer or cause to be registered or transferred therein, as hereinafter provided and under such reasonable regulations as may be prescribed by the Director of Finance, any Bonds entitled to be so registered or transferred, upon presentation for such purpose. The Fiscal Agent is hereby appointed the registrar of the City for the purpose of registering, transferring and exchanging the Bonds. The books kept pursuant to this Section are herein and in the Bonds referred to as the bond register.

SECTION 3.06. *Bonds are Negotiable Instruments.* The Bonds shall have the qualities of negotiable instruments under the law merchant and the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania, subject to the provisions for registration and transfer contained in Section 3.07 and 3.08 and in the Bonds.

SECTION 3.07. *Transfer of Coupon Bonds.* All coupon Bonds shall be negotiable and title thereto shall pass by delivery unless registered as to principal in the manner hereinafter provided. The bearer of any coupon Bond may have the ownership of the principal thereof registered on the bond register required to be kept pursuant to Section 3.05, and such registration shall be noted on the Bond. After such registration no transfer shall be valid unless made on such books by the registered owner in person, or by his duly authorized attorney, and similarly noted on the Bond; but such Bond may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored; and such Bond may again, from time to time, be registered or discharged from registration in the same manner as before. Such registration, however, shall not affect the negotiability by delivery of the coupons, but every such coupon shall continue to be transferable by delivery and shall remain payable to bearer.

SECTION 3.08. *Registration and Transfer of Fully Registered Bonds.* The names and addresses of the registered owners of all fully registered Bonds together with a brief description of the Bonds so registered shall be recorded in the bond register. Any fully registered Bond may be transferred at the principal Philadelphia office of the Fiscal Agent or surrendered for transfer at the principal office of one of the paying agents designated in such Bond, upon surrender of such Bond accompanied by delivery of a written instrument of transfer in form approved by the Director of Finance, duly executed by the registered owner of such Bond or his duly authorized attorney, and thereupon the City and the Fiscal Agent shall execute in the name of the transferee or transferees, and the Fiscal Agent shall deliver, a new fully registered Bond, or new fully registered Bonds, of like form, of the same Series, bearing the same rate of interest, of the same maturity, and for the same aggregate principal amount.

SECTION 3.09. *Exchange of Bonds.* All Bonds of any Series issued hereunder shall be exchangeable for like Bonds of different authorized denominations or for Bonds in different form of the same Series, as the case may be, and, in each case, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided. The holder of any bearer coupon Bond or Bonds or the registered owner of any registered Bond or Bonds desiring to exchange such Bond or Bonds shall surrender (or, in the case of registered Bonds, shall cause his attorney thereunto duly authorized to surrender) such Bond or Bonds in negotiable form or, as the case may be, accompanied by an appropriate instrument of transfer, together with all unmatured coupons appertaining to coupon Bonds so surrendered, at the principal Philadelphia office of the Fiscal Agent or at the principal office of one of the paying agents designated in the Bonds, together with a written request for exchange, in form approved by the Director of Finance, setting forth the form of Bond or Bonds requested to be issued in exchange, the denomination or denominations thereof and, if to be issued in partial or fully registered form, the person or persons in whose name such Bonds are to be registered. Thereupon and subject to the provisions of Section 3.10, the City and the Fiscal Agent shall execute and deliver to the persons thereunto entitled a new Bond or new Bonds in the form requested in authorized denominations aggregating the principal amount of the Bond or Bonds surrendered, maturing as to principal on the same date or dates, bearing the same rate of interest, and bearing the same designation as to series. All fully registered Bonds issued in exchange for Bonds of any series shall be dated on the date of issuance thereof and shall bear interest from the date from which interest was initially payable with respect to such Series or from the next preceding interest payment date of such Series, whichever is later, or, if the date of authentication shall be an interest payment date of such Series, from such date. All coupon Bonds issued in exchange for Bonds of any Series shall be dated as of the date of the initial issuance of such Series and all matured coupons shall be removed from such Bonds prior to their authentication and delivery in exchange. For the purpose of exchange, a fully registered installment Bond shall be deemed to represent separate Bonds each in the amount and of the maturity of the annual installments of principal provided for in such Bond.

SECTION 3.10. *Cost of Bond Registration, Transfer or Exchange, Miscellaneous Provisions Governing Transfers and Exchanges.* Registration, transfer, discharges from registration, and exchanges of Bonds authorized under this Article shall be without expense to the Holders of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder requesting any such transaction, as a condition precedent to the exercise of such privilege.

The City shall not be required to make (a) any exchange or transfer of any Bonds during the period of fifteen business days next preceding any interest payment date for such Bonds, or (b) any exchange or transfer of any Bonds during the period of twenty business days next preceding the first publication or mailing of any notice of redemption of such Bonds.

All Bonds surrendered for exchange and the coupons, if any, attached thereto and all registered Bonds without coupons surrendered for transfer, shall be cancelled as the principal thereof and the coupons severally become due and payable and after such due date, may be cremated, shredded or otherwise destroyed by the Fiscal Agent.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of registered Bonds shall be valid obligations of the City, evidencing the same debt as the Bonds surrendered, and shall be secured by this Ordinance to the same extent as such surrendered Bonds.

SECTION 3.11. *Ownership of Bonds.* The City, the Fiscal Agent and any paying agent designated in any Bond may treat the holder of any coupon Bond if it shall not at the time be registered as to principal, the registered owner of any coupon Bond if it shall at the time be so registered, the holder of any coupon appertaining to a coupon Bond whether or not such coupon Bond shall be so registered, and the registered owner of any fully registered Bond, as the absolute owner of such Bond or such coupon, as the case may be, for all purposes whether or not such Bond or such coupon shall be overdue, and neither the City, the Fiscal Agent nor any paying agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder of any bearer coupon Bond or by the registered owner of any Bond other than a bearer coupon Bond pursuant to the provisions of this Ordinance shall be conclusive and binding upon such Holder, his heirs, successors or assigns, and upon all transferees of such Bond whether or not notation of such consent, waiver or other action shall have been made on such Bond or on any Bond issued in exchange therefor.

SECTION 3.12. *Definitive and Temporary Bonds.* Bonds in definitive form shall be fully engraved or printed or lithographed on steel engraved borders. Until Bonds in definitive form of any Series are ready for delivery, the City and the Fiscal Agent may execute, and, upon the requst of the City in writing, the Fiscal Agent shall deliver in lieu of any such Bonds, and subject to the same provisions, limitations and conditions, one or more printed, lithographed or typewritten Bonds in temporary form, substantially of the tenor of the Bonds hereinbefore described, without coupons or with one or more coupons, and with appropriate omissions, variations and insertions. Such Bond or Bonds in temporary form may be for the amount of any authorized denomination or any multiple thereof, as the Director of Finance may determine. Until exchanged for Bonds in definitive form such Bonds in temporary form shall be entitled to the benefit of this Ordinance. Unless otherwise agreed with the Holder of such temporary Bond or Bonds, the City shall, without unreasonable delay, prepare, execute and deliver to the Fiscal Agent, and thereupon, upon the presentation and surrender of any Bond or Bonds in temporary form, the Fiscal Agent shall execute and deliver, in exchange therefor, a Bond or Bonds in definitive form of the same Series and same maturity for the same aggregate principal amount as the Bond or Bonds in temporary form surrendered. Such exchange shall be made by the City at its own expense and without making any charge therefor. Until such Bonds in definitive form are ready for delivery, the Holder of one or more Bonds in temporary form may, with the consent of the City, exchange the same, upon surrender thereof to the Fiscal Agent for cancellation, for Bonds in temporary form of like aggregate principal amount, of the same Series and maturity, in authorized denominations and bearing all unmatured coupons, if any.

SECTION 3.13. *Execution of Bonds.* The Bonds shall be executed on behalf of the City by the Fiscal Agent by the manual signatures of two of its duly authorized officers, under the seal of the City which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual or facsimile signature of the Controller, all in accordance with the Act of March 24, 1949, P. L. 312, or in such other manner as shall be authorized by law and prescribed by supplemental ordinance. The coupons attached to coupon Bonds shall be executed on behalf of the City by the facsimile signature of the City Controller. Any such Bonds or coupons may be executed, issued and delivered notwithstanding that one or more of the officers signing such Bonds or whose facsimile signature shall be upon such Bonds or coupons or any thereof, shall have ceased to be such officer or officers at the time when such Bonds shall actually be delivered, and although at the nominal date of the Bond any such person shall not have been such officer.

SECTION 3.14. *Mutilated, Destroyed, Lost or Stolen Bonds.* Upon receipt by the Fiscal Agent and the City of evidence satisfactory to both of them that any outstanding Bond or coupon has been destroyed, lost or stolen, and of indemnity satisfactory to both of them, then, in the absence of notice to the City or to the Fiscal Agent that such Bond or coupon, if alleged to have been lost or stolen, has been acquired by a bona fide purchaser, or if a Bond or coupon has been mutilated, the City in its discretion acting through the Director of Finance, may execute and deliver a new bond of the same Series and same maturity and of like tenor (which shall have attached the same corresponding coupons, if any, as the mutilated, destroyed, lost or stolen Bond if such Bond were a coupon Bond) in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond and coupons, if any, or in lieu of and in substitution for the Bond and coupons, if any, so destroyed, lost or stolen.

The City may, for each new bond authenticated and delivered under the provisions of this Section, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in the premises. In case any such mutilated, lost or stolen Bond or coupon has become or is about to become due and payable, the City, in its discretion, may, instead of issuing a new Bond or coupon, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Bond or coupon issued under the provisions of this Section in lieu of any Bond or coupon alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond or coupon so alleged to be destroyed, lost or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Ordinance with all other Bonds and coupons issued under this Ordinance.

SECTION 3.15. *Installment Bonds—Interim Certificates.* Nothing in this Ordinance shall be construed to prohibit the authorization by supplemental ordinance of installment Bonds in the forms above provided with appropriate modifications or to prohibit the issuance of interim certificates pending the delivery of definitive Bonds in such form as shall be approved by the City Solicitor.

SECTION 4.

## ARTICLE IV
## ISSUANCE OF BONDS—SUPPLEMENTAL ORDINANCES

SECTION 4.01. *Purpose of Bonds.* The Bonds issued under this Ordinance shall be issued for the purpose of paying the cost of projects, as such term is defined in the Act, related to the Gas Works, of reimbursing any fund of the City from which such costs shall have been paid or advanced, of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, of refunding any Bonds of the City issued for the *foregoing purposes under the Act, or of* refunding *general obligation bonds of the City issued for the foregoing purposes.*

SECTION 4.02. *Pledge of Revenues; Grant of Security Interest; Application of Revenues.* The City hereby pledges for the security and payment of all Bonds and coupons, if any, issued under this Ordinance and hereby grants 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 Act and all accounts, contract rights and general intangibles representing the Project Revenues, and in each case, the proceeds of the foregoing. For the purpose of compliance with the filing requirements of the Uniform Commercial Code in order to perfect the security interest herein granted, the Fiscal Agent shall be deemed to be and the City hereby recognizes the Fiscal Agent as, the representative of bondholders to execute financing statements as the secured party. Subject to the provisions of Section 7.02 hereof, all Project Revenues as and when collected in each fiscal year shall be applied first to Net Operating Expenses; second, to required payments into the Sinking Fund herein created to pay the principal of and interest on all Bonds issued hereunder and, if required, to accumulate, or to restore any deficiency in, the Sinking Fund Reserve; third, to the payment of any general obligation bonds adjudged to be self-liquidating on the basis of such expected revenues; fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works, and fifth, to the payment of City Charges. Any balance remaining may be applied to any proper purpose of the City. The foregoing provisions shall not be construed to require the segregation upon collection of revenues prior to default in the payment of the principal of and interest on Bonds.

SECTION 4.03. *Particular Covenants.* The City covenants with the Holders of all Bonds from time to time and at the time outstanding under this Ordinance, that so long as any such Bonds shall remain outstanding:

(a) No Bonds will be issued by the City hereunder or under any ordinance supplemental hereto unless the financial report of the chief fiscal officer of the City required by Section 8 of the Act to be filed with the City Council shall be accompanied by an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field (the Engineers) setting forth the qualifications of the Engineers and:

(i) containing a statement that the Engineers have made such investigation of the physical properties included in the Gas Works and of the books and records of the Gas Works maintained by the City or by the Manager, as they deemed necessary; and

(ii) on the basis of such investigation containing:

(aa) the same matters, statements and opinion as are required by Section 8 of the Act to be contained in the financial report of the chief fiscal officer supported by appropriate schedules and summaries;

(bb) a statement that the Gas Works rents, rates and charges, on the basis of which the statements required by the foregoing clause (aa) are made, are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b); and

(cc) a statement that, in the opinion of the engineers, the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

(b) it will, 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 required to pay sinking fund requirements for principal of and interest on all Bonds issued and outstanding hereunder which will become due and payable during such Fiscal Year; and

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

B. The sum of:

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

(ii) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

The Gas Commission is hereby 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.

(c) It will pay or cause the Fiscal Agent or paying agent to pay from the Project Revenues deposited in the Sinking Fund the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable and as more particularly set forth in the Bonds.

(d) It will continuously maintain in good condition and continuously operate the Gas Works.

(e) It will not in any Fiscal Year pay from the Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges in respect of Bonds issued and outstanding hereunder for such Fiscal Year, then payable, shall have been deposited in the Sinking Fund created hereby.

(f) It will not refund from the proceeds of Bonds any debt of the City represented by general obligation bonds or notes issued prior to January 1, 1974.

(g) That it has, by Ordinance, authorized the imposition of rates and charges by the Gas Commission sufficient from time to time to comply with Rate Covenant set forth in Section 4.03(b) and that it will not repeal or materially adversely dilute such authorization.

(h) It will, not later than 120 days following the close of each Fiscal Year, file with the Fiscal Agent a report of the operation of the Gas Works setting forth, among other things, in reasonable detail financial data concerning the Gas Works for such Fiscal Year, including a balance sheet, statements of income, equity, and changes in financial condition, and an analysis of funds available to cover debt service (in each case not inconsistent with the statements of income, expenses, and other accounts of the City audited by the City Controller) prepared by the Manager of the Gas Works in accordance with generally recognized municipal accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in this Ordinance and in all ordinances supplemental hereto on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis. The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder or his authorized representative at all reasonable times.

SECTION 4.04. *Bonds to be Parity Bonds.* All bonds issued hereunder shall be parity Bonds equally and ratably secured by the pledge of and grant of security interest in, the Project Revenues without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond or coupon over any other Bond or coupon or as between principal and interest.

The City hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to its Gas Works by the issuance of its general obligation bonds or by the issuance, under ordinances other than Supplemental Ordinances, of Gas Works bonds for the payment of which Project Revenues of the Gas Works 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 this Ordinance, as from time to time supplemented and amended, in respect of Bonds.

SECTION 4.05. *Sale of Bonds; Taxes Not to be Assumed; Terms and Provisions; Authority of Director of Finance.* To the extent, pursuant to Section 4.06, that the Supplemental Ordinance authorizing any Series of Bonds hereunder shall not otherwise provide:

(a) All bonds shall be sold at public, private or invited sale as a majority of the Mayor, the City Controller and the City Solicitor may determine to be in the best interest of the City and, if sold at competitive public sale, shall be sold to the purchaser or purchasers submitting the highest and best bid upon such terms and conditions of the bidding as shall be specified in an official notice of sale issued in the name of the City by the Director of Finance;

(b) no covenant to pay or assume any taxes shall be included in such Bonds; and

(c) subject to the foregoing, the terms upon which or the prices for which the Bonds are to be sold or exchanged, and the form, terms and provisions of the Bonds including, without limitation, the matters referred to in Section 5 of the Act, and in the second paragraph of Section 3.04 of this Ordinance shall be determined by the Director of Finance who is hereby designated as the officer of the City to make such determinations based, to the extent applicable, on the prices, interest rates or other terms set forth in the highest and best proposal conforming to the bidding specifications as ascertained and accepted on behalf of the City by the Director of Finance.

SECTION 4.06. *Conditions of Issuing Bonds; Supplemental Ordinance; Filing of Transcript; Use of Proceeds; Refunding Bonds.* Prior to the issuance of any series of Bonds, the Council shall adopt an ordinance supplemental hereto specifying the aggregate principal amount or maximum aggregate principal amount, and authorizing the issuance of such Bonds; stating that such Bonds are issued in respect of capital costs of a Gas Works project or projects of the City or to fund or refund bond anticipation or other obligations of the City issued in respect thereof or for the purpose of refunding debt issued for such purpose; making a finding based on the report of the Director of Finance of the City required by Section 8 of the Act that the Project Revenues pledged hereunder will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in Section 4.02; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution. Such Supplemental Ordinance may specify such form, terms and provisions of the Bonds to be issued thereunder, may specify a particular method of sale; may specify the terms upon which, or the prices for which, the Bonds are to be sold or exchanged, including, if applicable, competitive bidding specifications; may contain such amendments to this Ordinance, including amendments or rescission of the covenants herein contained, and may contain or authorize such further covenants and agreements, including such covenants as may be appropriate under existing regulations so that the Bonds may not be deemed to be "arbitrage bonds" as such term is defined in the Internal Revenue Code and applicable regulations, all as the Council may deem appropriate and proper and as shall be authorized or permitted by the Act but no such amendments, provisions, terms, covenants or agreements (other than those permitted under Section 8.01 and adopted pursuant thereto) which shall be inconsistent with the provisions of, or if they would impair a prior covenant contained in, this Ordinance as at the time amended or supplemented, shall become effective until all Bonds the holders of which are entitled to the protection of, or to enforce compliance with such prior covenant, shall cease to be outstanding.

Prior to the issuance of any Series of Bonds hereunder the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of this Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; (v) an executed copy of the Engineer's report required by subsection (a) of Section 4.03; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of, any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of Section 6.04 that the report for the latest completed Fiscal Year required to be filed pursuant to subsection (h) of Section 4.03 has been filed and that during such Fiscal Year the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in this Ordinance and all Supplemental Ordinances, and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

The Director of Finance, the City Solicitor, the City Controller and such other officers of the City as may be appropriate are authorized in connection with the issuance of any Series of Bonds hereunder, to prepare, execute and file on behalf of the City such statements, documents or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable state or federal laws or regulations.

Unless otherwise provided in the Supplemental Ordinance, the proceeds of sale of all Bonds issued hereunder shall be deposited in the consolidated cash account of the City to the credit of the capital improvement funds and shall be disbursed therefrom, in accordance with established procedures, for the costs of the project or projects (as such term is defined in the Act) for which the Bonds were issued *provided,* however, that if such Bonds shall be issued for the purpose of funding or refunding bonds or notes previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special account in the Sinking Fund hereinafter authorized and deposited, invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the bonds or notes being funded or refunded.

If the City shall, by Supplemental Ordinance, authorize the issuance of revenue refunding bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization contained in the Supplemental Ordinance, the Director of Finance is hereby authorized in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and/or the income and profit from the investment thereof for the payment and redemption of the funded or refunded bond or notes and including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

SECTION 5.

## ARTICLE V
## REDEMPTION OF BONDS

SECTION 5.01. *Bonds May Be Subject to Redemption.* Bonds of any Series may be subject to either optional or mandatory redemption at the times, in the order, in the amounts, at the redemption prices, and other such terms, conditions and restrictions, all as may be set forth in the Supplemental Ordinance authorizing the issuance of such series or, in the absence of such provisions, as may be set forth in the Bonds at the direction of the Director of Finance and shall be set forth in the official notice of sale.

SECTION 5.02. *Notice, Selection by Lot.* Whenever the City shall, by ordinance of Council, determine to redeem all or part of the Bonds of any series in accordance with the right reserved so to do, or when the City or the Fiscal Agent shall be required to redeem Bonds pursuant to mandatory redemption provisions, the City or the Fiscal Agent, as the case may be, shall cause a notice of intention to redeem, signed in the name of the City by the Fiscal Agent, to be published once a week for two consecutive weeks, the first publication to be at least thirty days and not more than sixty days before the redemption date, in not less than two nor more than four daily newspapers published in the English language and of general circulation in the City. At least thirty days before the redemption date the Fiscal Agent shall mail such notice to each registered owner appearing upon the bond register of the registered Bonds to be redeemed, but failure so to mail any such notice shall not affect the validity of the proceedings for redemption. Such notice shall specify, unless a pertinent Supplemental Ordinance shall otherwise provide, the Series and the maturities of the Bonds so to be redeemed and also, if less than all then outstanding Bonds of a maturity are to be redeemed, the numbers of the Bonds to be redeemed which may be expressed in designated blocks, if applicable, and the date fixed for redemption, the redemption price and the place of payment, and shall further state that, from and after such date, interest thereon will cease to accrue.

In connection with the redemption of less than all the Bonds of a particular maturity or series, the Fiscal Agent shall draw by lot the number of the Bonds to be redeemed in such manner as it shall deem proper unless the Supplemental Ordinance establishing the terms and provisions of such Bonds or the redemption provisions of the particular Bonds provides that they shall be redeemable in the order or inverse order of their numbers or that such Bonds shall be redeemable in the order or inverse order of their maturities and all Bonds of a particular maturity or maturities are being redeemed. For the purpose of any drawing, the Fiscal Agent shall assign a number for each basic denomination.

SECTION 5.03. *Effect of Redemption, Payment.* Notice having been given in the manner hereinbefore provided in this Article or irrevocable instructions to give such notice having been delivered to the Fiscal Agent to pay said Bonds or portions thereof, and funds complying with the provisions of subparagraph (1) of Section 10 of the Act having been deposited in trust with the Fiscal Agent or having been set aside with the Sinking Fund Depositary in a special account in the Sinking Fund, prior to the date fixed for redemption, the Bonds or portions thereof so called for redemption, shall become due and payable on the redemption date so designated, and interest on such Bonds or portions thereof shall cease from such redemption date, whether such Bonds be presented for redemption or not, and the coupons representing the interest on any of said Bonds thereafter to accrue shall from that date be void and of no effect. The principal amount of all Bonds or portions thereof so called for redemption, together with the premium, if any, and accrued interest thereon, shall be paid by the Fiscal Agent, upon presentation and surrender thereof in negotiable form, accompanied by coupons, if any, representing such interest. All coupons maturing subsequent to the date of redemption must accompany each Bond so redeemed.

SECTION 5.04. *Partial Redemption.* Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City a new Bond or Bonds of authorized denominations in principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented, which new Bond or Bonds shall, at the option of the Holder, either be a coupon Bond or Bonds with all unmatured coupons thereto appertaining or a registered Bond or Bonds without coupons.

SECTION 6.

## ARTICLE VI
## SINKING FUND

SECTION 6.01. *Establishment of Sinking Fund.* There is hereby established a sinking fund to be known as the City of Philadelphia Gas Works Revenue Bond Sinking Fund (referred to in this Ordinance as the Sinking Fund) for the benefit and security of the Holders of all Bonds. The Sinking Fund shall be held in the name of the City in an account or accounts separate and apart from all other accounts of the City and payments therefrom shall be made only as hereinafter in this Ordinance provided.

The City covenants and the Director of Finance is directed to deposit in, and there is hereby appropriated to, the Sinking Fund from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and the interest on the Bonds then becoming due and payable. Payment into the Sinking Fund shall be scheduled at such times and in such amounts in relation to the receipt of revenues and the operation and maintenance requirements of the Gas Works as the Director of Finance shall determine.

SECTION 6.02. *Fiscal Agent.* Such state or federally chartered bank as may from time to time be appointed by the City in accordance with law, shall act as Fiscal Agent in respect of all Bonds issued under this Ordinance or in respect of any particular issue or issues of Bonds. The Fiscal Agent shall also act as Sinking Fund Depositary of the Sinking Fund, and as paying agent and registrar of the Bonds in respect of which it is the Fiscal Agent. Nothing in this Ordinance shall be construed to prevent the City from engaging other or additional Fiscal Agents from time to time or from engaging other or additional sinking fund Depositaries, paying agents or registrars of the Bonds or any series thereof.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of accounts and records, the disposal of cancelled Bonds and coupons, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of this Ordinance.

SECTION 6.03. *Payments From the Sinking Fund.* The Sinking Fund Depositary 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, all Bonds.

Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve and moneys for the payment of the interest, principal and premium of bonds unclaimed after the due date for two years, shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund.

SECTION 6.04. *Sinking Fund Reserve.* There is hereby established a Sinking Fund Reserve which shall be held by the Sinking Fund Depositary as part of the Sinking Fund but for which separate accounts shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance in compliance with this Section 6.04, 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 hereunder, an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the Bonds of such Series becoming due and payable in such Fiscal Year. The money and investments (valued at market) in the Sinking Fund Reserve shall be held and maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all bonds issued and outstanding hereunder, *provided* that if the Supplemental Ordinance authorizing a Series of Bonds shall authorize the accumulation from Project Revenues of a reserve of such amount in respect of such Bonds over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds, then the full payment of the annual deposits required under such Supplemental Ordinance will meet the Sinking Fund Reserve requirement of this Ordinance in respect of such Bonds.

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) or interest on any Bond or Bonds, the Sinking Fund Depositary is hereby authorized and directed to withdraw from the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency as required by Section 7.02.

SECTION 6.05. *Management of the Sinking Fund.* To the extent that debt service in respect of any Series of Bonds shall not be financed as a part of the cost of the project or projects for which the Bonds are issued, in which case the amount of the debt service financed shall be deposited in the Sinking Fund from the proceeds of Bonds, sinking fund payments from the pledged revenues in respect of each Series of Bonds shall commence during the six-month period immediately preceding the first interest payment date of each Series for which debt service has not been completely funded and in any event not later than one year subsequent to the estimated completion or acquisition of projects to be constructed or acquired as estimated by the Manager of the Gas Works and, in all other cases, not later than one year subsequent to the date of the Bonds. The moneys, including interest bearing deposits, in the Sinking Fund to the extent not otherwise invested and to the extent not insured, shall be secured as required by the Act and, to the extent not currently required for the payment of debt service, shall be continuously invested and reinvested in securities or interest bearing deposits authorized by the Act, all at the direction and under the management of the Director of Finance. Interest and profits from such investments shall be added to the Sinking Fund and credited in reduction of or to complete required deposits into the Sinking Fund.

SECTION 6.06. *Consolidated Fund.* The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the holders of all Bonds from time to time outstanding hereunder and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated prorata for the Series or the specific Bonds in respect of which such investments were made without distinction or priority but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest or premium shall be held and applied exclusively to the payment of such particular principal, interest or premium.

SECTION 7.

## ARTICLE VII
## DEFAULTS AND REMEDIES

SECTION 7.01. *Defaults and Statutory Remedies.* If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or the interest on any Bond or any Series of Bonds issued hereunder, whether at stated maturity or upon call for prior redemption, or if the City shall fail to comply with any provision of the bonds or with any covenant of the City contained in this 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, including the appointment of a trustee, provided in the Act.

SECTION 7.02. *Additional Remedies.* If the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by this Ordinance and as provided in the Bonds or if, for any reason, there shall be insufficient moneys on deposit in the Sinking Fund for the payment in full of the principal (and premium, if any) or of interest on the Bonds as and when the same shall from time to time become due and payable, then the City covenants that it will without notice thereof from any Bondholder, fiscal agent, paying agent or sinking fund depositary, and so long as such default shall continue, immediately upon such

default deposit in the Sinking Fund, on a dail
of all pledged revenues of the Gas Works, or
percentage thereof as the Director of Financ
mine. The covenant of this Section 7.02 sh
cally enforceable by any trustee appointed
Section 20 of the Act or if there be no suc
pointed, then by the Holder of any Bond out

SECTION 7.03. *Remedies Not Exclusive; E*
*In Exercise of Remedies.* No remedy herein
conferred upon or reserved to the trustee, if
Holder of any bond is intended to be exclusi
specifically provided in the Act) of any oth
remedies, and each and every such remedy s
lative, and shall be in addition to every other
hereunder or now or hereafter existing at la
or by statute.

No delay or omission of the trustee, if one
or of any Holder of the Bonds to exercise
power accruing upon any default shall imp
right or power or shall be construed to be a
such default, or an acquiescence therein; and
and remedy given by this Article, by the Act
may be exercised from time to time, and as
be deemed expedient.

SECTION 7.04. *Remedies to be Enforced*
*Pledged Revenues.* Any decree or judgment
ment of money against the City by reason of
under shall be enforceable only against the
nues and the investments thereof and no de
ment against the City upon an action broug
shall order or be construed to permit the o
tachment, seizure, or sale upon execution
property of the City.

SECTION 8.

## ARTICLE VIII
## AMENDMENTS AND MODIFICAT

SECTION 8.01. In addition to the adoption of Supplemental Ordinances supplementing and/or amending this Ordinance as provided in Section 4.06 in connection with the issuance of successive series of bonds, this Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission herein or therein; (b) 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; (c) 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 (d) except as aforesaid, in such other respect as may be authorized in writing by the Holders of 67% in principal amount of the Bonds outstanding and affected. Bonds which have become due and payable on a fixed redemption date in accordance with Section 5.03 shall be deemed to be not outstanding.

SECTION 9.

## ARTICLE IX
## MISCELLANEOUS

SECTION 9.01. *Ordinances are Contracts With Bondholders.* This Ordinance and Supplemental Ordinances adopted pursuant hereto are contracts with the Holders of all Bonds from time to time outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VII and the laws of Pennsylvania.

SECTION 9.02. *Repeals.* All ordinances and parts of ordinances heretofore adopted to the extent that the same are inconsistent herewith are hereby repealed.

APP. NO. 397—44

CERTIFICATION: This is a true and correct copy of

the original Ordinance approved by the Mayor on

MAY 30 1975

Charles H Sawyer Jr

Chief Clerk of the Council

(Bill No. 274)

AN ORDINANCE

Constituting the Sixth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth Supplemental Ordinance thereto; authorizing the Mayor, the City Controller and the City Solicitor, or a majority of them, to sell Gas Works Revenue Bonds, Sixth Series, of the City of Philadelphia in the maximum aggregate principal amount of one hundred million dollars ($100,000,000); designating the projects being financed and setting forth the use of proceeds; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Sixth Series Bonds from general accounts of the City; covenanting the payment of interest and principal on the Sixth Series Bonds; authorizing covenants and action in order that the Sixth Series Bonds shall not be arbitrage bonds; amending the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth

Supplemental Ordinance thereto, to provide that interest and income on the Sinking Fund Reserve may be retained in such Reserve by the Director of Finance; 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 by the Fifth Supplemental Ordinance thereto.

*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, Sixth Series, of the City (the "Sixth Series Bonds"), 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, as amended by the Fifth Supplemental Ordinance thereto (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed one hundred million dollars ($100,000,000) to be expended as provided in Section 2 of this Ordinance. The Sixth Series Bonds 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.

The Sixth Series 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 Sixth Series Bonds shall be issued in respect of capital costs of the gas works system of the City (the "Gas Works") *incurred or to be incurred for the purpose of* (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 budget of the City, 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; and (ii) 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 temporary loan notes or other obligations of the City issued in respect of Project Costs.

The City covenants that the proceeds of the sale of the Sixth Series Bonds which remain available for the payment of the costs of the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budget of the City, 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 temporary loans 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.

SECTION 3. Based on the report of the Director of Finance of the City filed with the 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, so long as any of the Sixth Series 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 otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Sixth Series 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 annual amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due.

SECTION 6. The Director of Finance is authorized to take such action on behalf of the City with respect to the investment of the proceeds of the Sixth Series 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 Sixth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1954, as amended.

SECTION 7. The General Ordinance is hereby amended by changing the first sentence of Section 6 of the Fifth Supplemental Ordinance to the General Ordinance to read as follows:

"All interest and income earned on moneys held in the Gas Works Revenue Bond Sinking Fund Reserve created under the General Ordinance (Sinking Fund Reserve Earnings) may, to the extent not required to comply with Section 6.04 of the General Ordinance, be transferred and paid by the Director of Finance to the operating funds of the Gas Works, to be applied as Project Revenues in accordance with the terms of Section 4.02 of the General Ordinance."

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 Sixth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance shall apply to such terms in this Ordinance.

APP. NO. 368—8

CERTIFICATION: This is a true and correct copy of the original Ordinance approved by the Mayor on

[illegible] 3 1 1989,

Charles H. Sauzer Jr.

Chief Clerk of the Council

(Bill No. 534)

AN ORDINANCE

Constituting the Eighth 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, Eighth Series, of the City of Philadelphia in the maximum aggregate principal amount of ninety million dollars ($90,000,000), provided that if the Bonds are sold at a discount the aggregate principal amount may be increased to reflect such discount so long as the aggregate gross proceeds to the City from the sale of the Bonds do not exceed ninety million dollars ($90,000,000); designating the projects being financed and setting forth the use of proceeds and permitting the transfer of interest and income earned on such proceeds to the operating funds of the Gas Works; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Eighth Series Bonds from general accounts of the City; covenanting the payment of interest and principal on the Eighth Series Bonds; authorizing covenants and action in order that the Eighth Series Bonds shall not be arbitrage bonds; amending the General Gas Works Revenue Bond Ordinance of 1975, as amended to date, to provide that excess monies in the Sinking Fund Reserve in respect of the Eighth Series Bonds, other than Sinking Fund Reserve Earnings, shall be transferred to certain accounts of the Gas Works and applied to pay capital costs; amending the General Revenue Bond Ordinance of 1975, as amended to date, relating to the issuance of fully registered 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, Eighth Series, of the City (the "Eighth Series Bonds"), 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, 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 Eighth Series Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at a private negotiated sale, as a majority of the Bond Committee shall deem to be in the best interest of the City. The Eighth Series Bonds 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.

The aggregate principal amount of Eighth Series Bonds which are authorized to be issued hereunder shall not be more than ninety million dollars ($90,000,000); provided that if any of the Eighth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Eighth Series Bonds which may be issued hereunder shall be increased to reflect such discounts, so long as the aggregate gross proceeds from the sale of the Eighth Series Bonds shall not exceed ninety million dollars ($90,000,000).

The Eighth Series 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 Eighth Series Bonds shall be issued in respect of capital costs of the gas works system of the City (the "Gas Works") incurred or to be incurred for the purpose of (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; and (ii) 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.

The City covenants that the proceeds of the sale of the Eighth 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 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.

Any excess moneys in the Sinking Fund Reserve in respect of the Eighth Series 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 pay capital costs as described in this Section 2.

SECTION 3. Based on the report of the Director of Finance of the City filed with the 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, so long as any of the Eighth Series 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 other Gas Works accounts except as otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Eighth Series 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.

SECTION 6. The Director of Finance is authorized to take such action on behalf of the City with respect to the investment of the proceeds of the Eighth Series 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 Eighth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1954, as amended (the "Code").

SECTION 7. In order to comply with the requirement of Section 103(j) of the Code that all tax-exempt obligations be in registered form, the General Ordinance is hereby amended as follows:

(a) The following definition of Record Date is added to Section 2.01 of the General Ordinance:

> "Record Date means, with respect to each interest payment date on the Bonds, that day which next precedes such interest payment date by fifteen (15) days, whether or not such day is a business day."

(b) The General Ordinance is amended by the addition of Section 3.04A, to read as follows:

> "The third paragraph of Section 3.04 shall not apply to Bonds issued after May 1, 1985 but, instead, the following provision shall apply to such Bonds: The principal of and interest on (except the final installment of principal and the interest then payable) and the principal, premium, if any, and accrued interest payable upon partial redemption

with respect to, all fully registered installment Bonds, and the interest payable in respect of fully registered Bonds shall be payable by check or draft of the Fiscal Agent mailed to the registered owner of such Bonds at the address of such owner as it appears upon the bond register at the close of business on the Record Date, or, in the case of defaulted interest, as it appears on a special record date established for the payment of such defaulted interest by notice mailed by or on behalf of the City to the registered owner of such Bonds not less than ten (10) days preceding such special record date (such notice to be mailed to the registered owner of such Bonds appearing on the bond register on the close of business on the fifth day preceding the date of mailing); and the records of the Fiscal Agent shall be conclusive as to such payment and shall bind such owner, his successors and assigns whether or not such payment be noted on such Bond. Except as aforesaid, the principal of all Bonds, the premium, if any, payable upon redemption thereof, and the interest on all coupon Bonds payable at or prior to maturity, shall be payable in lawful money of the United States of America at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania, or at the principal office of a paying agent designated in such Bonds, but with respect to such principal, only upon presentation and surrender of such Bonds, or with respect to interest payable at or prior to maturity of such coupon Bonds, only upon presentation and surrender of the respective coupons for interest, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Bonds or coupons."

(c) The first sentence of Section 3.09 of the General Ordinance is amended to read as follows:

"All Bonds of any Series issued hereunder shall be exchangeable for like Bonds of different authorized denominations or for Bonds in different form authorized for the same Series, as the case may be, and, in each case, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided."

(d) The General Ordinance is amended by the addition of Section 3.09A, to read as follows:

"The fourth sentence of Section 3.09 hereof shall not apply to Bonds issued after May 1, 1985 but, instead, the following provision shall apply to such Bonds: All fully registered Bonds issued in exchange for Bonds of any Series shall be dated the date of issuance thereof and shall bear interest from the date from which interest was initially payable with respect to such Series or from the next preceding interest payment date of such Series to which interest has been duly paid or provided, whichever is later, or, if the date of authentication shall be an interest payment date to which interest has been duly paid or provided, from such date."

(e) The first sentences of Section 5.02 of the General Ordinance is amended to read as follows:

"Whenever the City shall, by ordinance of the Council, determine to redeem all or part of the Bonds of any Series in accordance with the right reserved so to do, or when the City or the Fiscal Agent shall be required to redeem Bonds pursuant to mandatory redemption provisions, the City or the Fiscal Agent, as the case may be, shall cause a notice of intention to redeem, signed in the name of the City by the Fiscal Agent, to be published once a week for two (2) consecutive weeks, the first publication to be at least thirty (30) days and not more than sixty (60) days before the redemption date, in not less than two (2) nor more than four (4) daily newspapers published in the English language and of general circulation in the City; provided, however, that no such published notice shall be required for the redemption of fully registered Bonds of any Series for which mailed *notice, described in the next succeeding sentence,* shall be the only required notice."

(f) Section 5.04 of the General Ordinance is *amended to read as follows:*

"Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent *shall execute and deliver to the* Holder *thereof,* at the expense of the City, a new Bond or Bonds of authorized denominations in principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented, which new Bond or Bonds shall be in the same form of the Bond to be redeemed or, at the option of the Holder, in any other form authorized for Bonds of such Series."

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 Eighth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

APP. NO. 247-12

CERTIFICATION: This is a true and correct copy of the original Ordinance approved by the Mayor on

MAY 17 1985

Charles H Sawyer Jr

Chief Clerk of the Council

(Bill No. 1248)

AN ORDINANCE

*Constituting the Eleventh 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, in the maximum aggregate principal amount of two hundred seventy five million dollars ($275,000,000), provided that if the Bonds are sold at a discount the aggregate principal amount may be increased to reflect such discount so long as the aggregate gross proceeds to the City from the sale of the Bonds do not exceed two hundred seventy five million dollars ($275,000,000); designating that the Bonds are being issued to pay the costs of certain projects and to refund certain outstanding series of Gas Works Revenue Bonds and the application of the proceeds of the Bonds for such purpose; determining the sufficiency of the 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, 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, 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 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.

The aggregate principal amount of Bonds which are authorized to be issued hereunder shall not be more than two hundred seventy-five million dollars ($275,000,000); provided 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, so long as the aggregate gross proceeds from the sale of the Bonds shall not exceed two hundred seventy-five million dollars ($275,000,000).

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 the City's Gas Works Revenue Bonds, First Series, the City's Gas Works Revenue Bonds, Second Series and certain maturities of the City's Gas Works Revenue Bonds, Ninth Series or such other series as shall be designated by the Director of Finance (collectively, 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 of 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. 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 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 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.

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, 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, 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 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.

The aggregate principal amount of Bonds which are authorized to be issued hereunder shall not be more than two hundred seventy-five million dollars ($275,000,000); provided 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, so long as the aggregate gross proceeds from the sale of the Bonds shall not exceed two hundred seventy-five million dollars ($275,000,000).

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 the City's Gas Works Revenue Bonds, First Series, the City's Gas Works Revenue Bonds, Second Series and certain maturities of the City's Gas Works Revenue Bonds, Ninth Series or such other series as shall be designated by the Director of Finance (collectively, 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 of 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. 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 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 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.

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 (the "Code").

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 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 in the General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

APP. NO. 169-8

CERTIFICATION: This is a true and correct copy of the original Ordinance approved by the Mayor on

**MAY 26, 1987**

Charles H. Sawyer Jr.

Chief Clerk of the Council

# Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 W. Washington Ave., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004

Issuer: CITY OF PHILADELPHIA, PENNSYLVANIA

Policy Number: 3406BE

Bonds: $132,520,000 Gas Works Revenue Bonds, Eleventh Series, dated January 1, 1989 (except for the TECA Securities which are dated their date of delivery), consisting of: $37,925,000 in aggregate principal amount of Current Interest Bonds maturing on January 1 in the years 1991 through 1999, both inclusive; $6,617,423.90 in aggregate principal amount of TECA Term Bonds maturing on January 1, 2001; $8,258,141.05 in aggregate principal amount of TECA Securities maturing on January 1 (as further described on the reverse hereof:)

Premium: $1,491,691.76

AMBAC

**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 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant 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 Bondholder's 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 of the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

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. "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. "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 redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against 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.

President

AMBAC INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

Stephen D. Cooke

Secretary

Authorized Representative

Effective Date: February 14, 1989

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

Cynthia Chaney

Authorized Officer

Form # 66-0003 (11/87) A-2841

BONDS: in the years 2002 through 2004, both inclusive; $52,110,000 in aggregate principal amount of Term Bonds maturing on January 1, 2010; $5,064,435.05 in aggregate principal amount of TECA Term Bonds maturing on January 1, 2012; and $22,545,000 in aggregate principal amount of Term Bonds maturing January 1, 2015. The Fiscal Agent is The Philadelphia National Bank, Philadelphia, Pennsylvania.

The undersigned hereby certifies that this document is a true and correct copy of the Municipal Bond Insurance Policy, Policy No. 3406BE issued by AMBAC INDEMNITY CORPORATION.

Assistant Secretary

Date Feb 19 1987

NEW ISSUE

*In the opinion of Co-Bond Counsel, under existing law as presently enacted and construed, interest on the Eleventh Series C Bonds is excluded from gross income for Federal income tax purposes and is not a preference item for purposes of determining the Federal alternative minimum tax imposed on corporations and individuals; however, interest on the Eleventh Series C Bonds may be subject to the application of the alternative minimum tax and the environmental tax when held by certain corporations and the application of the foreign branch profits tax when held by foreign corporations. In rendering this opinion, Co-Bond Counsel has assumed continuing compliance by the City with tax covenants contained in the Bond Authorization relating to the Eleventh Series C Bonds. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the Eleventh Series C Bonds are, in the opinion of Co-Bond Counsel, exempt from personal property taxes in Pennsylvania and the interest thereon and gain from the sale thereof are exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.*

# $132,520,000
# City of Philadelphia, Pennsylvania
## Gas Works Revenue Bonds, Eleventh Series C

**Dated: January 1, 1989** **Due: January 1, as shown below**
**TECA Securities dated the date of delivery**

The Eleventh Series C Bonds (other than the Eleventh Series C Bonds maturing January 1, 2001 through January 1, 2004 and January 1, 2012, the "TECA Securities"*) are issuable as fully registered bonds in the aggregate principal amounts and bearing interest at the rates set forth on the inside cover hereof in the denomination of $5,000 principal amount or any whole multiple thereof (the "Current Interest Bonds"). The TECA Securities shall be issuable in fully registered form in the denomination of $5,000 Maturity Amount or any whole multiple thereof payable on the dates and in the amounts set forth on the inside cover hereof. The principal or redemption price of the Eleventh Series C Bonds is payable at the principal corporate trust office of The Philadelphia National Bank, Fiscal Agent, Sinking Fund Depositary and Escrow Agent, Philadelphia, Pennsylvania. Interest on the Current Interest Bonds is payable initially on January 1, 1990 and thereafter semiannually on each July 1 and January 1 by check mailed by the Fiscal Agent to the persons in whose names the Current Interest Bonds are registered on the 15th day preceding each interest payment date. Registered owners of at least $100,000 principal amount of Current Interest Bonds may elect to receive interest payments by wire transfer. The Eleventh Series C Bonds due January 1, 2010 and January 1, 2015 (the "Term Bonds") are subject to optional and mandatory redemption prior to maturity and the TECA Securities due January 1, 2001 and January 1, 2012 (the "TECA Term Bonds") are subject to mandatory redemption prior to maturity, all as described herein.

**Payment of the principal of and interest on the Eleventh Series C Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the Eleventh Series C Bonds.**

THE ELEVENTH SERIES C 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 ANY LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS REFERRED TO HEREIN.

*The Eleventh Series C Bonds are offered when, as and if issued and received by the Underwriters, subject to receipt of an unqualified approving legal opinion of Drinker Biddle & Reath and Hwang & Associates, A Professional Corporation, Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor, for the Philadelphia Gas Works by Obermayer, Rebmann, Maxwell & Hippel of Philadelphia, Pennsylvania, and for the Underwriters by Astor, Weiss & Newman and Harris and Kahn, both of Philadelphia, Pennsylvania. It is anticipated that the Eleventh Series C Bonds will be available for delivery in New York, New York, on or about February 14, 1989.*

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PaineWebber Incorporated — Doley Securities, Inc.

Donaldson, Lufkin & Jenrette Securities Corporation — The First Boston Corporation
Marine Midland Capital Markets Corporation — Merrill Lynch Capital Markets
Metro Equities Corporation — W.H. Newbold's Son & Co. Inc.
Russell, Rea & Zappala, Inc. — Van Kampen Merritt

Dated: January 26, 1989
*TECA Securities are a service mark of PaineWebber Incorporated.

$37,925,000 Serial Bonds

| Due January 1 | Principal Amount | Interest Rate | Due January 1 | Principal Amount | Interest Rate |
|---|---|---|---|---|---|
| 1991 | $2,345,000 | 6.10% | 1996 | $5,590,000 | 6.60% |
| 1992 | 2,485,000 | 6.20 | 1997 | 5,950,000 | 6.70 |
| 1993 | 2,640,000 | 6.30 | 1998 | 6,345,000 | 6.75 |
| 1994 | 2,805,000 | 6.40 | 1999 | 6,780,000 | 6.80 |
| 1995 | 2,985,000 | 6.50 | | | |

(Plus Accrued Interest)

$52,110,000 7.25% Term Bonds Due January 1, 2010; Price – 99.250%
$22,545,000 6.75% Term Bonds Due January 1, 2015; Price – 94.184%
(Plus Accrued Interest)

$8,258,141.05 Initial Principal Amount Serial TECA Securities

| Due January 1 | Initial Principal Amount | Maturity Amount | Approximate Yield to Maturity |
|---|---|---|---|
| 2002 | $2,965,866.00 | $7,240,000 | 7.05% |
| 2003 | 2,748,810.80 | 7,240,000 | 7.10 |
| 2004 | 2,543,464.25 | 7,235,000 | 7.15 |

$6,617,423.90 TECA Term Bonds Due January 1, 2001
Maturity Amount $14,986,126.55; Approximate Yield 7.00%
$5,064,435.05 TECA Term Bonds Due January 1, 2012
Maturity Amount $25,835,000.00; Approximate Yield 7.25%

CITY OF PHILADELPHIA

MAYOR
HONORABLE W. WILSON GOODE

*Mayor's Cabinet*

| | |
|---|---|
| William P. Hankowsky | Director of Commerce |
| Seymour Kurland | City Solicitor |
| Elizabeth C. Reveal | Director of Finance |
| Edward A. Schwartz | Housing Director |
| Gerri H. Walker | City Representative |
| James Stanley White | Managing Director |

**City Treasurer and Deputy Finance Director**

Benjamin Blakney

**Acting City Controller**
John G. Smithyman

**President of City Council**

Honorable Joseph E. Coleman

**Philadelphia Gas Works**

Robert J. Patrylo, President and
Chief Executive Officer
Alfred P. Degen, Executive Vice President
Sydney Avent, Senior Vice President and General Counsel
Thomas F. Bonner, Senior Vice President and
Chief Operating Officer
Joseph G. Horan, Senior Vice President
Thomas J. Hanna, Vice President—Engineering and Services
Don C. Kenley, Vice President—Public Affairs
Terri Maloney, Vice President—Customer Activities
Lorina Marshall, Vice President—Government and
Community Affairs
Edward H. Morris, Jr., Vice President and
Chief Financial Officer
Harry A. Connelly, Vice President—Rates and
Federal Regulatory Affairs
Dennis E. Stinson, Vice President—Marketing

OFFICIAL STATEMENT

of the

CITY OF PHILADELPHIA, PENNSYLVANIA

respecting its

*$132,520,000 Gas Works Revenue Bonds, Eleventh Series C*

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## 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 $132,520,000 aggregate principal amount of Gas Works Revenue Bonds, Eleventh Series C dated January 1, 1989 (except for the TECA Securities which are dated the date of delivery) (the "Eleventh Series C Bonds"). THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE ELEVENTH SERIES C BONDS ARE PAYABLE SOLELY FROM MONIES DERIVED FROM THE REVENUES OF THE PHILADELPHIA GAS WORKS. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF PHILADELPHIA IS PLEDGED, NOR WILL EITHER BE APPLIED, TO ANY SUCH PAYMENT. PERSONS CONSIDERING A PURCHASE OF ELEVENTH SERIES C BONDS SHOULD READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY.

The Eleventh Series C Bonds are being issued to refund certain of the City's Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds") and certain of the City's Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds"). The Eleventh Series C Bonds are being issued pursuant to The First Class City Revenue Bond Act of the Commonwealth of Pennsylvania (the "Act"), the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), and the Eleventh Supplemental Gas Works Revenue Bond Ordinance (the "Eleventh Supplemental Ordinance"). Bonds of all series issued or to be issued under the General Ordinance are parity bonds (herein referred to as the "Bonds" or as "Gas Works Revenue Bonds"). Eleven series of Gas Works Revenue Bonds have been issued under the General Ordinance and appropriate supplemental ordinances. As of January 1, 1989, $549,590,000 aggregate principal amount of Gas Works Revenue Bonds of such series were outstanding, of which $138,755,000 were Eleventh Series A Bonds and Eleventh Series B Bonds, which were issued in June, 1987 to fund a portion of PGW's capital improvement program and refund all outstanding maturities of the First and Second Series Bonds, $89,325,000 were Eighth Series Bonds and $101,300,000 were Ninth Series Bonds. Upon the deposit of the net proceeds of the Eleventh Series C Bonds with the Escrow Agent, $88,795,000 of the principal amount of the Ninth Series Bonds maturing in the years 1996 through 2012, inclusive, and $25,000,000 of the principal amount of the Eighth Series Bonds maturing in the year 2015 will be refunded (the "Refunded Bonds").

All quotations from and summaries and explanations of the constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth" or the "State") 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 Eleventh Series C Bonds are qualified in their entirety by reference to the definitive form of the Eleventh Series C Bonds. All capitalized terms used herein shall have the meanings ascribed to them in the Act and the General Ordinance (see Appendix II). Copies of the Act, the General Ordinance and the Eleventh Supplemental Ordinance are available from the Office of the Director of Finance, Room 1420, Municipal Services Building, Philadelphia, Pennsylvania 19102.

### Philadelphia Gas Works

The Philadelphia Gas Works ("PGW") consists of all the real and personal property owned by the City and used for the 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. 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 liquified natural gas ("LNG") plant, a substitute natural gas ("SNG") plant and a liquid propane gas ("LPG") plant.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the sole supplier of gas in the City. Outside the City limits, PGW has no distribution mains and serves no customers. Of total gas revenues for the twelve month period ended August 31, 1988, 72% was derived from residential customers, 23% was derived from commercial and industrial customers and 5% was derived from municipal entities. As of November, 1988, PGW served approximately 523,900 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission to be so constituted and appointed and to exercise such power and perform such duties as may from time to time be provided in contracts between the City and the operator of the Philadelphia Gas Works, or, in the absence of a contract, as may be provided by ordinance. (For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "THE GAS COMMISSION".)

Since January 1, 1973, PGW has been managed by 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, including the Gas Cost Rate, and charges of PGW are fixed by the Gas Commission and not by the Public Utility Commission of the Commonwealth (see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME — Gas Cost Rate"). 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. On May 29, 1986, PGW filed a request for a base rate increase with the Gas Commission designed to produce net additional base revenues in the fiscal year commencing September 1, 1986 of $59 million. On March 3, 1987, the Gas Commission granted a base rate increase, which became effective May 7, 1987, designed to produce net additional base revenues for the period January 1, 1987 through August 31, 1987, the fiscal year end, of $28.65 million. On September 16, 1987, the Gas Commission ordered that the base rate be annualized to produce the same level of base revenues for the fiscal year ending August 31, 1988. On June 3, 1988, PGW filed a rate request for a base rate increase with the Gas Commission designed to produce additional base revenues in the fiscal year commencing September 1, 1988 of $49 million. On October 13, 1988, the Gas Commission rejected this request and established base rates reflecting a $2 million reduction in base revenues, effective as of September 1, 1988.

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

### Segregation of Accounts and Relation to the City

The City has covenanted that so long as any Eleventh Series C Bonds remain outstanding, all Project Revenues (as defined in the Act and the General Ordinance) shall be deposited, held and disbursed in and from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

The Management Agreement provides for PGW to make certain payments to the City. Such payments, which are subordinated to debt service on the Bonds, currently include an annual payment of $18 million. The amount of this payment may be subject to change from time to time.

Additional information regarding the City is presented in Appendix III — City of Philadelphia, General Information.

### Recent Operating Results and Rate Covenant Compliance

The following table presents recent operating results for PGW. Debt service coverages are computed under terms of the Rate Covenant in the General Ordinance. The Rate Covenant provides that so long as any Bonds are outstanding, the City will impose, charge and collect in each fiscal year such gas rates and charges as shall, together with all other Project Revenues to be received in such fiscal year, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding general obligation bonds issued for improvements to PGW.

| | (Dollar Amounts in Thousands) Years Ended August 31, | |
|---|---|---|
| | 1987 | 1988 |
| Project Revenues* | $469,265 | $487,344 |
| Net Operating Expenses* | 375,490 | 392,293 |
| Net Revenues | $ 93,775 | $ 95,051 |
| Debt Service on Outstanding Revenue Bonds | $ 50,193 | $ 59,473 |
| Debt Service Coverage on Outstanding Revenue Bonds | 1.87x | 1.60x |
| Debt Service on Outstanding General Obligation Bonds** | $ 1,729 | — |
| Debt Service Coverage on Total Outstanding Revenue and Other General Obligation Bonds Issued for Gas Works Purposes | 1.81x | 1.60x |
| Balance Available for Other Purposes | $ 41,853 | $ 35,578 |
| Outstanding Revenue Bonds | $566,735 | $549,590 |

* Project Revenues and Net Operating Expenses have been computed in accordance with the General Ordinance.

** General Obligation Bonds matured in the 1987 fiscal year.

For a further explanation of revenues and expenses, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME."

## SECURITY

The Eleventh Series C Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act, the General Ordinance and the Eleventh Supplemental Ordinance. Such Project Revenues include principally the rents, rates and charges imposed by the City on the users of gas distributed by PGW. Reference is made to Appendix II for summaries of the Act, the General Ordinance and the Eleventh Supplemental Ordinance, including definitions of certain terms used herein. Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the issuance of the Bonds (see "MUNICIPAL BOND INSURANCE").

### Pledge of Revenues and Funds

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

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

### Priority in Application of Project Revenues

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

First, to Net Operating Expenses;

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

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

Fourth, to the payment of interest and Sinking Fund charges of other general obligation debt incurred for PGW; and

Fifth, to the payment of City Charges.

The balance of the Project Revenues in any fiscal year, including Sinking Fund Reserve Earnings, as such balance is determined in accordance with the General Ordinance, may, upon the approval of the Gas Commission, be paid to the City provided that in a given fiscal year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to PGW's operating funds during the same fiscal year. See Appendix II — Summaries of Legislation Authorizing the Issuance of Gas Works Revenue Bonds. During the 1989 fiscal year, to date, there has been no request by the City for transfer of any excess Project Revenues relating to PGW's current fiscal year.

### Subordinated Short Term Borrowings — Tax Exempt Commerical Paper Program

In December, 1982, legislation was approved by the Commonwealth permitting PGW to finance inventory and accounts receivable through temporary borrowings (not exceeding five years) which mature beyond the limitations of the fiscal year in which issued. The legislation does not limit the amount of such borrowings. In September, 1983, the City was authorized by ordinance to effect such borrowings by the issuance of tax-exempt notes from time to time in amounts not to exceed $100,000,000 aggregate principal amount at any one time outstanding. The ordinance subordinated payment of any such tax-exempt notes from Project Revenues to all the payments set forth above under "Priority in Application of Project Revenues" except the payment of City Charges, which was relegated to the lowest priority. Since the City's authorization, the Gas Commission has approved a maximum amount at any time outstanding for such notes of $85,000,000. As of November 30, 1988, $82,175,000 aggregate principal amount of tax-exempt notes were outstanding.

### Rate Covenant and Rate Requirements

The General Ordinance includes a rate covenant (the "Rate Covenant") which requires that, so long as Gas Works Revenue Bonds are outstanding, the City impose, charge and collect in each fiscal year such gas rates and charges as shall, together with all other Project Revenues to be received in such fiscal year, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding City general obligation bonds issued for improvements to PGW. (For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "RATES AND CHARGES.")

### Covenant Against Commingling with Other City Funds

The City has covenanted that so long as any of the Eleventh Series C Bonds remain outstanding all Project Revenues shall be deposited, held and disbursed in and from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

### Additional Parity Bonds

The General Ordinance permits the issuance of additional Bonds which will be parity bonds, provided, among other requirements, that an independent engineer determines that estimated Project Revenues will be sufficient to meet the Rate Covenant. See the material under the caption "The

General Ordinance" in Appendix II for a discussion of the provisions relating to the issuance of additional Bonds. The Eleventh Supplemental Ordinance authorizes the issuance of up to $275 million of Bonds, in one or more series, to fund capital improvements and to advance refund outstanding First and Second Series Bonds and certain outstanding Ninth Series Bonds or such other series as shall be designated by the Director of Finance of the City. The Eleventh Series A Bonds and Eleventh Series B Bonds were issued in June, 1987 in the aggregate amount of $142,440,000 to fund a portion of PGW's capital improvement program and refund all outstanding maturities of the First and Second Series Bonds.

### Sinking Fund

Pursuant to the Act, the General Ordinance establishes a Sinking Fund for the benefit and security of the holders of all Bonds to be held separate and apart from all other accounts of the City, and directs the Director of Finance to deposit therein from the Project Revenues in each fiscal year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then coming due and payable. It is the current practice of the City to make deposits in the Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. Interest and profits from any such investment shall be added to the Sinking Fund and credited in reduction of or to complete required deposits into the Sinking Fund.

### Sinking Fund Reserve

The General Ordinance establishes a Sinking Fund Reserve as part of the Sinking Fund but for which separate accounts shall be maintained. The City is required to deposit in the Sinking Fund Reserve from the proceeds of sale of each series of Bonds issued under the General Ordinance an amount equal to the maximum amount required in any fiscal year to pay the principal of and interest on the Bonds of such series coming due and payable in that fiscal year unless the Supplemental Ordinance authorizing the series of Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six fiscal years after the issuance and delivery of the Bonds. Although the Eleventh Supplemental Ordinance has authorized an accumulation from Project Revenues, it is expected that the Sinking Fund Reserve requirement will be fully funded by proceeds from the Eleventh Series C Bonds. The money and investments (valued at market) in the Sinking Fund Reserve must at all times be held and maintained in an amount equal to the maximum of the principal and interest requirements of all outstanding Bonds in any subsequent fiscal year. As of November 30, 1988, the value of the funds and investments on deposit in the Sinking Fund Reserve was required to be at least $62,670,335 and the amount in the Sinking Fund Reserve met this requirement. If, at any time, the monies in the Sinking Fund (other than the Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any Bond or Bonds, the Sinking Fund Depositary is required to pay over to the Fiscal Agent from the Sinking Fund Reserve the amount of the deficiency. The Sinking Fund and Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The General Ordinance provides that interest and income earned on monies held in the Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SECURITY – Priority in Application of Project Revenues."

### Required Deposit to Sinking Fund From Project Revenues

The City has covenanted in the General Ordinance that, if the City shall fail to make required deposits into the Sinking Fund, including the Sinking Fund Reserve, or if, for any reason, there shall be a deficiency in the Sinking Fund Reserve, it will immediately upon such failure or deficiency and without notice thereof, and so long as such failure or deficiency shall continue, deposit in the Sinking Fund, including the Sinking Fund Reserve, on a daily basis, 50% of all Project Revenues or such greater percentage thereof as the Director of Finance shall determine. This obligation is specifically enforceable by the trustee for bondholders appointed in accordance with the Act or, if none is appointed, by any bondholder (see "REMEDIES OF BONDHOLDERS").

## MUNICIPAL BOND INSURANCE

The City has received a commitment from the AMBAC Indemnity Corporation ("AMBAC Indemnity") for a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Eleventh Series C Bonds, effective as of the date of issuance of the Eleventh Series C Bonds. A description of AMBAC Indemnity is attached hereto as Appendix IV. Appendix IV also contains a copy of the text of the Municipal Bond Insurance Policy and a summary of the rights of holders of the Eleventh Series C Bonds with respect to the Municipal Bond Insurance Policy. A Statement of Insurance containing a summary of the Municipal Bond Insurance Policy will be printed on the Eleventh Series C Bonds. The City has not made any independent investigation of AMBAC Indemnity or of their financial condition.

## DESCRIPTION OF THE ELEVENTH SERIES C BONDS

The Eleventh Series C Bonds are being issued pursuant to the Act, the General Ordinance and the Eleventh Supplemental Ordinance. The Eleventh Series C Bonds are being issued for the purpose of providing funds to advance refund certain of the City's Gas Works Revenue Bonds, Ninth Series and certain of the City's Gas Works Revenue Bonds, Eighth Series. The Act authorizes the City to issue Revenue Bonds to finance revenue producing projects and to refund bonds issued for such purpose, but the bonds must be payable, directly or indirectly, solely from Project Revenues (as defined in the Act). The General Ordinance is the governing ordinance under which all Gas Works Revenue Bonds are issued.

### The Current Interest Bonds

The Current Interest Bonds will be dated January 1, 1989 and will bear interest from such date, payable on January 1, 1990, and on each July 1 and January 1 thereafter. The Current Interest Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the inside cover hereof in the denomination of $5,000 principal amount each or any integral multiple thereof. The principal of, and premium, if any, on the Current Interest Bonds will be payable at the principal corporate trust office of The Philadelphia National Bank in Philadelphia. Interest on the Current Interest Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Current Interest Bonds are registered on the 15th day preceeding each interest payment date, except that if any such interest payment date is not a business day, then such interest check shall be mailed on the next succeeding business day. Registered owners of at least $100,000 principal amount of the Current Interest Bonds may elect to receive interest payments by wire transfer.

### The TECA Securities

The TECA Securities are payable at maturity in an amount (the "Maturity Amount") equal to the principal amount of such TECA Securities at delivery (the "Initial Principal Amount"), plus interest from the date of delivery of such TECA Securities compounded on January 1 and July 1 of each year. The TECA Securities are issuable as fully registered bonds in the denomination of $5,000 Maturity Amount or any integral multiple thereof (except for one TECA Security maturing in 2001 which shall be issued in the Maturity Amount of $1,126.55). The TECA Securities are payable on the dates and in the amounts set forth on the following page at the principal corporate trust office of The Philadelphia National Bank in Philadelphia.

| Due Jan. 1 | Initial Principal Amount | Maturity Amount | Approximate Yield to Maturity |
|---|---|---|---|
| 2001 | $6,617,423.90 | $14,986,126.55 | 7.00% |
| 2002 | 2,965,866.00 | 7,240,000.00 | 7.05 |
| 2003 | 2,748,810.80 | 7,240,000.00 | 7.10 |
| 2004 | 2,543,464.25 | 7,235,000.00 | 7.15 |
| 2012 | 5,064,435.05 | 25,835,000.00 | 7.25 |

### Accreted Value

The Initial Principal Amount plus interest accreted (the "Accreted Value") per $5,000 Maturity Amount of each TECA Security on each January 1 and July 1 of each year is set forth on the next succeeding page. The Accreted Value of TECA Securities on any other date will be calculated based on an assumption that such Accreted Value increases in equal daily amounts on the basis of a 360 day year consisting of twelve 30 day months.

### Use of Proceeds

It is estimated that the proceeds of the Eleventh Series C Bonds will be applied as follows:

| | |
|---|---|
| Ninth Series Escrow Account (1) | $ 89,022,350 |
| Eighth Series Escrow Account (2) | 23,011,950 |
| Municipal Bond Insurance Policy (3) | 1,500,192 |
| Sinking Fund Reserve Deposit (4) | 15,526,700 |
| Costs of Issuance (5) | 1,756,766 |
| Original Issue Discount | 1,702,042 |
| | $132,520,000 |

(1) Net of monies transferred from the Ninth Series Sinking Fund Reserve.

(2) Net of monies transferred from the Eighth Series Sinking Fund Reserve.

(3) Net of rebate from AMBAC Indemnity on the Refunded Bonds of $595,200.

(4) The deposit to the Sinking Fund Reserve from the proceeds of the Eleventh Series C Bonds is equal to the maximum annual debt service requirement on the Eleventh Series C Bonds. See "SECURITY – Sinking Fund Reserve."

(5) Includes Underwriters' discount. See "UNDERWRITING".

### Plan of Refunding

Pursuant to an Escrow Deposit Agreement to be dated the date of delivery of the Eleventh Series C Bonds, the net proceeds of the Eleventh Series C Bonds will be deposited with The Philadelphia National Bank (the "Escrow Agent") and invested in government obligations or other permitted escrow obligations the principal of and interest on which will be applied to: a) Pay the interest due on all Refunded Ninth Series Bonds from March 15, 1989 to March 15, 1995, inclusive; b) Call the Refunded Ninth Series Bonds for redemption on March 15, 1995, at 102 ½% of par; (c) Pay the interest due on all Refunded Eighth Series Bonds from May 15, 1989 to May 15, 1995, inclusive; and (d) Call the Refunded Eighth Series Bonds for redemption on May 15, 1995, at 102 ½% of par.

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Eleventh Series C
Accreted Value Per $5,000 Maturity Amount of
TECA Securities

| Accreted Value On | January 1, 2001 Maturity | January 1, 2002 Maturity | January 1, 2003 Maturity | January 1, 2004 Maturity | January 1, 2012 Maturity |
|---|---|---|---|---|---|
| 02/14/89 | 2,207.85 | 2,048.25 | 1,898.35 | 1,757.75 | 980.15 |
| 07/01/89 | 2,266.42 | 2,102.98 | 1,949.43 | 1,805.38 | 1,007.08 |
| 01/01/90 | 2,345.75 | 2,177.11 | 2,018.64 | 1,869.92 | 1,043.58 |
| 07/01/90 | 2,427.85 | 2,253.85 | 2,090.30 | 1,936.77 | 1,081.41 |
| 01/01/91 | 2,512.82 | 2,333.30 | 2,164.51 | 2,006.01 | 1,120.62 |
| 07/01/91 | 2,600.77 | 2,415.55 | 2,241.35 | 2,077.73 | 1,161.24 |
| 01/01/92 | 2,691.80 | 2,500.70 | 2,320.92 | 2,152.01 | 1,203.33 |
| 07/01/92 | 2,786.01 | 2,588.85 | 2,403.31 | 2,228.95 | 1,246.95 |
| 01/01/93 | 2,883.52 | 2,680.11 | 2,488.63 | 2,308.63 | 1,292.16 |
| 07/01/93 | 2,984.45 | 2,774.58 | 2,576.98 | 2,391.17 | 1,339.00 |
| 01/01/94 | 3,088.90 | 2,872.39 | 2,668.47 | 2,476.65 | 1,387.54 |
| 07/01/94 | 3,197.02 | 2,973.64 | 2,763.20 | 2,565.20 | 1,437.83 |
| 01/01/95 | 3,308.91 | 3,078.46 | 2,861.29 | 2,656.90 | 1,489.96 |
| 07/01/95 | 3,424.72 | 3,186.98 | 2,962.87 | 2,751.89 | 1,543.97 |
| 01/01/96 | 3,544.59 | 3,299.32 | 3,068.06 | 2,850.27 | 1,599.94 |
| 07/01/96 | 3,668.65 | 3,415.63 | 3,176.98 | 2,952.17 | 1,657.93 |
| 01/01/97 | 3,797.05 | 3,536.03 | 3,289.76 | 3,057.71 | 1,718.03 |
| 07/01/97 | 3,929.95 | 3,660.67 | 3,406.55 | 3,167.03 | 1,780.31 |
| 01/01/98 | 4,067.50 | 3,789.71 | 3,527.49 | 3,280.25 | 1,844.85 |
| 07/01/98 | 4,209.86 | 3,923.30 | 3,652.72 | 3,397.52 | 1,911.73 |
| 01/01/99 | 4,357.21 | 4,061.60 | 3,782.39 | 3,518.99 | 1,981.03 |
| 07/01/99 | 4,509.71 | 4,204.78 | 3,916.67 | 3,644.79 | 2,052.84 |
| 01/01/2000 | 4,667.55 | 4,353.00 | 4,055.71 | 3,775.10 | 2,127.25 |
| 07/01/2000 | 4,830.92 | 4,506.44 | 4,199.69 | 3,910.06 | 2,204.37 |
| 01/01/2001 | 5,000.00 | 4,665.30 | 4,348.79 | 4,049.85 | 2,284.28 |
| 07/01/2001 | | 4,829.75 | 4,503.17 | 4,194.63 | 2,367.08 |
| 01/01/2002 | | 5,000.00 | 4,663.04 | 4,344.59 | 2,452.89 |
| 07/01/2002 | | | 4,828.58 | 4,499.91 | 2,541.81 |
| 01/01/2003 | | | 5,000.00 | 4,660.79 | 2,633.95 |
| 07/01/2003 | | | | 4,827.42 | 2,729.43 |
| 01/01/2004 | | | | 5,000.00 | 2,828.37 |
| 07/01/2004 | | | | | 2,930.90 |
| 01/01/2005 | | | | | 3,037.15 |
| 07/01/2005 | | | | | 3,147.24 |
| 01/01/2006 | | | | | 3,261.33 |
| 07/01/2006 | | | | | 3,379.55 |
| 01/01/2007 | | | | | 3,502.06 |
| 07/01/2007 | | | | | 3,629.01 |
| 01/01/2008 | | | | | 3,760.57 |
| 07/01/2008 | | | | | 3,896.89 |
| 01/01/2009 | | | | | 4,038.15 |
| 07/01/2009 | | | | | 4,184.53 |
| 01/01/2010 | | | | | 4,336.22 |
| 07/01/2010 | | | | | 4,493.41 |
| 01/01/2011 | | | | | 4,656.30 |
| 07/01/2011 | | | | | 4,825.09 |
| 01/01/2012 | | | | | 5,000.00 |

### Optional Redemption of Term Bonds

The Eleventh Series C Bonds due January 1, 2010 and January 1, 2015 (the "Term Bonds") are subject to redemption prior to maturity at the option of the City on and after January 1, 1999 in whole or in part on any interest payment date, in any order of maturity directed by the City, by lot, at the following redemption prices, plus accrued interest to the date of redemption:

| Redemption Period (Dates Inclusive) | Redemption Price (Expressed as a Percentage of Principal Amount Calculated as of the Redemption Date) |
|---|---|
| January 1, 1999 to December 31, 1999 | 102 |
| January 1, 2000 to December 31, 2000 | 101 |
| January 1, 2001 and thereafter | 100 |

### Mandatory Redemption of Term Bonds

The Term Bonds are subject to mandatory redemption prior to maturity, in direct order of maturity and within a maturity by lot, at a redemption price of 100% of their principal amounts plus accrued interest, from funds which the City has covenanted to deposit in the Sinking Fund on or before January 1 of the years 2005 to 2010 (including 2010 which is a final maturity) in the case of the 2010 maturity, and the years 2013 to 2015 (including 2015 which is a final maturity) in the case of the 2015 maturity, in amounts sufficient to redeem on each January 1 the following principal amounts of such Term Bonds (to the extent that Term Bonds in the principal amount otherwise required to be redeemed have not been previously purchased by the City and surrendered to the Fiscal Agent), and to pay the Term Bonds at maturity as set forth below:

| Year | Amount | Year | Amount |
|---|---|---|---|
| 2005 | $ 7,240,000 | 2013 | $7,030,000 |
| 2006 | 7,765,000 | 2014 | 7,505,000 |
| 2007 | 8,325,000 | 2015 | 8,010,000 |
| 2008 | 8,925,000 | | |
| 2009 | 9,580,000 | | |
| 2010 | 10,275,000 | | |

### Mandatory Redemption of TECA Term Bonds

The TECA Term Bonds maturing on January 1, 2001 and on January 1, 2012 are subject to mandatory redemption prior to maturity, in direct order of maturity and within a maturity by lot, at a redemption price of 100% of their Accreted Value, from funds which the City has covenanted to deposit in the Sinking Fund on or before January 1 of the years 2000, 2001 (which is a final maturity), 2011 and 2012 (which is a final maturity) in amounts sufficient to redeem on each January 1 the following Accreted Value of such TECA Term Bonds:

| Year | Amount |
|---|---|
| 2000 | $ 7,231,086.60 |
| 2001* | 7,240,000.00 |
| 2011 | 11,016,805.80 |
| 2012* | 14,005,000.00 |

*Final Maturity

### Notice of Redemption

Each redemption made pursuant to the foregoing paragraphs shall be made only after notice is mailed, not less than 30 nor more than 60 days before the date fixed for redemption, first class postage prepaid, to the registered owners appearing on the bond register of the Eleventh Series C Bonds to be redeemed. Failure to mail such notice, or any defect therein, shall not affect the validity of the proceedings for redemption of Eleventh Series C Bonds for which such notice has been properly given. Notice having been so given and provision having been made for redemption from funds on deposit with the City's Fiscal Agent or Sinking Fund Depositary, all interest on Eleventh Series C Bonds called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the Eleventh Series C Bonds called for redemption shall have no security, benefit or lien under the General Ordinance or any rights thereunder except to receive payment of the redemption price.

## REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders, including the holders of the Eleventh Series C 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 II hereof. Also, Bondholders or a trustee therefor are entitled to the remedies of secured parties in respect of the Project Revenues and the funds on deposit in the Sinking Fund, including the Sinking Fund Reserve.

### Limitation Under Federal Bankruptcy Code

The rights and remedies of Bondholders are subject to various provisions of Chapter 9 of the United States Bankruptcy Code (the "Code"), which permits, under certain circumstances, a political subdivision or public agency or instrumentality of a state to file a voluntary petition in bankruptcy in the nature of a plan for adjustment in the repayment of debts, if it is insolvent or unable to meet its debts as they mature. Such a petition may be filed by a political subdivision only if the state legislature has generally authorized the entity to be a debtor under Chapter 9 of the Code or a governmental officer or organization empowered by state law to give such authorization has done so. No such authorization has ever been sought or granted with regard to the City. Should the City ever file under Chapter 9 of the Code, the rights and remedies of the Bondholders may be adversely affected.

The enforceability of the rights and remedies of Bondholders may also be limited by bankruptcy, insolvency or other laws now or hereafter in effect affecting the rights or remedies of creditors generally, or be subject to principles of equity, if equitable remedies are sought.

## PHILADELPHIA GAS WORKS

### General

PGW consists of all the real and personal property owned by the City and used for the 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. PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance or the Gas Commission or, as appropriate, both. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the Director of Finance oversees certain financial practices of PGW and the operations of its pension plan; and the City's Law Department is designated as the legal advisor to the Gas Commission and PGW.

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### Summary Statements of Income

The summary statements of income set forth below should be read in conjunction with the audited financial statements and notes included in Appendix I hereto.

| | (Dollar Amounts In Thousands) | | | | |
|---|---|---|---|---|---|
| | Fiscal Years Ended August 31, | | | | |
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| Operating revenues | $532,163 | $495,286 | $477,127 | $456,443 | $469,567 |
| Natural gas | 305,835 | 289,383 | 266,029 | 221,119 | 229,284 |
| Other raw materials | 105 | 748 | 1,003 | 1,814 | 549 |
| Gas processing | 16,781 | 16,356 | 18,726 | 18,899 | 24,062 |
| Customer service | 18,182 | 19,455 | 20,306 | 20,858 | 20,786 |
| Distribution | 12,335 | 13,048 | 13,411 | 14,350 | 16,562 |
| Customer activities | 50,866 | 49,491 | 47,309 | 51,449 | 51,186 |
| Administrative and general | 18,692 | 19,647 | 25,068 | 26,112 | 28,413 |
| Pensions | 16,710 | 16,936 | 17,571 | 16,763 | 17,016 |
| Taxes, other than income | 4,696 | 5,037 | 5,430 | 5,808 | 6,398 |
| Depreciation | 14,057 | 14,490 | 14,553 | 19,462 | 21,155 |
| Total operating expenses | 458,259 | 444,591 | 429,406 | 396,634 | 415,411 |
| Operating income | 73,904 | 50,695 | 47,721 | 59,809 | 54,156 |
| Other income | 16,729 | 15,906 | 15,643 | 12,295 | 15,940 |
| Income before interest expense | 90,633 | 66,601 | 63,364 | 72,104 | 70,096 |
| Interest expense | 39,843 | 40,766 | 44,244 | 44,125 | 48,575 |
| Income before extraordinary loss | 50,790 | 25,835 | 19,120 | 27,979 | 21,521 |
| Loss on extinguishment of debt (2) | — | 8,488 | — | — | — |
| Net income (1) | $ 50,790 | $ 17,347 | $ 19,120 | $ 27,979 | $ 21,521 |

(1) Net Income is before payment of City Fee.

(2) In fiscal year 1985, PGW recorded an extraordinary charge against earnings of $8,488,000, which recognizes the increase in the debt outstanding net of related issuance and discount costs between the Ninth Series Bonds and the defeased maturities of the Seventh Series Bonds. Due to the reduced interest costs, debt service payments over the life of the Ninth Series Bonds compared to the defeased maturities of the Seventh Series Bonds were lowered by approximately $6.6 million.

In fiscal year 1987, PGW received approval from the Gas Commission to permit the amortization of the a) loss incurred in the issuance of the Tenth Series Bonds over the life of the Tenth Series Bonds and b) the loss incurred in the issuance of the Eleventh Series B Bonds over the life of the Eleventh Series B Bonds. Due to the reduced interest rates achieved by the refundings, debt service payments over the life of the Tenth Series Bonds compared to the defeased maturities of the Sixth Series Bonds were lowered by approximately $4.4 million and debt service payments over the life of the Eleventh Series B Bonds compared to the defeased maturities of the First and Second Series Bonds were lowered by approximately $1.5 million.

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

### General Considerations

During the five fiscal years ended August 31, 1988 (presented in the foregoing Summary Statements of Income), PGW experienced slightly declining natural gas sales caused, in part, by fluctuating winter weather conditions, conservation efforts on the part of PGW's customers and a reduction in the number of customers PGW serves. PGW's annual sales of natural gas declined from 78.3 billion cubic feet (bcf) in 1984 to 75.4 bcf in 1988. PGW successfully adapted its rate structure and marketing program to meet the ever changing supply of and demand for natural gas. Despite fluctuations in gas sales over the past 5 years, PGW has been able to maintain profitability and rate stability through Gas Cost Rate adjustments and control of operating expenses (see "Gas Cost Rate" and "Five Year Summary of Operations" below). To increase gas sales and profit margins, PGW has directed its marketing efforts towards attracting new, large volume commercial and industrial customers and retaining current customers.

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

### Five Year Summary of Operations

The beginning of this decade was marked by financial transition during which efforts were undertaken to address working capital shortfalls, which were the result of an unprecedented rise in unpaid customer accounts and of costlier supplemental fuel supplies. To fund this deficiency in working capital, PGW borrowed $45.0 million from the City and repaid this amount in the 1983 fiscal year.

To provide a more permanent, low cost funding mechanism with which to stabilize its working capital needs, PGW established a tax exempt commercial paper program in fiscal year 1984, which PGW continues to use. The authorized level of the tax-exempt commercial paper program is $85.0 million (see "Tax Exempt Commercial Paper" below).

A three-year labor contract was negotiated in 1983 providing for annual increases of 5%, 6% and 6% respectively, over the term. PGW negotiated a subsequent three-year agreement which provided for increases of 4.5% annually, commencing April 8, 1986.

### Five Year Summary of Gas Sales

Total gas sales for PGW can be described as sales to firm or interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in delivery of natural gas. Firm service is sold to residential, commercial and industrial customers depending on the type of service required and represented 83% of total gas sales as of the end of fiscal year 1988. Interruptible service is offered to customers, under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible service is sold to high volume commercial and industrial customers and represented 17% of total gas sales as of the end of fiscal year 1988. (See "Certain Financial Data" below for a five year summary of gas sales.)

Fiscal year 1984 marked the coldest winter in the last five years (4,972 degree days*), resulting in a net increase of 5.7 bcf in gas sales over fiscal year 1983. This increase in sales more than offset the impact of a downward adjustment to the Gas Cost Rate ("GCR"), as defined below, effective from January 1, 1984 to March 31, 1984. Thus, gas revenues were $525.0 million for fiscal year 1984, an increase of $30.3 million or 6.1% over those for the prior year. Revenues from firm sales increased by $34.8 million over those for fiscal year 1983 on the strength of a 5.9 bcf volume increase. Revenues from interruptible sales declined by $4.5 million reflecting competitive pressure from oil prices and a .2 bcf decrease in customer demand.

* A "normal" year has 4600 degree days.

In fiscal year 1985, total gas sales were 69.9 bcf, down 8.4 bcf from the previous year. Milder than normal temperatures during the 1985 heating season were primarily responsible for this decrease. Firm sales decreased by 7.3 bcf while firm revenues in 1985 totaled $433.2 million, down $28.0 million or 6.1% from fiscal year 1984. Interruptible sales declined in 1985 by 1.1 bcf, reducing interruptible revenues by $7.8 million.

For fiscal year 1986, total gas sales were 71.9 bcf, an increase of 2.0 bcf over the previous year. Temperatures during the 1986 heating season were slightly cooler than the prior heating season. Sales to firm customers, representing 84% of gas sold, totaled 60.4 bcf. This higher level of sales reflects primarily a return to a more normal heating season. Revenues from gas sales in 1986 totaled $471.5 million, 3.6% less than the prior year, as a result of a decline in the GCR. Firm revenues decreased by $7.8 million as the impact of additional sales of 2.0 bcf were more than offset by the downward adjustment in the GCR. Gas sales to interruptible customers were 11.5 bcf, virtually unchanged from the previous year, while revenues declined by $10.4 million from the 1985 level due to competitive oil prices which declined sharply over the year thereby reducing profit margins.

Fiscal year 1987 resulted in total gas sales of 71.3 bcf, a decrease of .6 bcf from the previous year. Temperatures during the 1987 heating season were slightly warmer than the 1986 heating season, and 2% warmer than a normal heating season. Sales to firm customers, representing 85% of gas sold, totaled 61.0 bcf in 1987. This higher level of firm sales was principally due to additional residential sales. The demand for gas service by interruptible customers declined by 1.1 bcf from the prior year, to a level of 10.3 bcf. Total revenues from gas sales in fiscal year 1987 amounted to $450.8 million, 4.4% less than the preceding year. Firm revenues declined by $9.2 million as downward adjustments in the fuel component of the base rate and the GCR more than offset additional sales and the approved $28.65 million rate increase. Interruptible revenues declined by $11.5 million from the 1986 level due to competitive oil prices.

For the 1988 fiscal year, gas sales totaled 75.4 bcf, 4.1 bcf higher than the 1987 fiscal year. Slightly cooler than normal temperatures during the heating season produced 4,676 degree days, an increase of 76 degree days or 2% greater than normal, and 178 degree days or 4% greater than experienced in the prior year. Sales to firm customers of 62.8 bcf were 1.9 bcf higher than experienced in 1987 due to increased heating demand. Interruptible gas sales increased 21% to 12.6 bcf. Associated interruptible revenues increased 18.5% as movement of alternate fuel prices reduced profit margins.

Gas Cost Rate

Revenues in each fiscal year reflect the recovery of natural gas and raw material costs through the operation of the Gas Cost Rate (GCR).

The GCR is designed to routinely change customer rates to allow for the recovery of lower or higher fuel costs through the application of a levelized rate established on an annual basis, beginning September 1st of each year.

Since January 1, 1984, the GCR's have been as follows:

| Effective Date | $/thousand cubic feet (mcf) [1] |
|---|---|
| January 1, 1984 | (0.8948) |
| April 1, 1984 | (0.3915) |
| September 1, 1984 | 0.3825 |
| January 1, 1985 | 0.1188 |
| April 1, 1985 | (0.0590) |
| September 1, 1985 | (0.0890) |
| February 1, 1986 | (0.2542) |
| September 1, 1986 | (0.2443)[2] |
| December 1, 1987 | (0.4419) |
| September 1, 1988 | (0.0655) |

1 Parentheses ( ) denote a negative GCR, which is a credit on the customer's bill.

2 As of September 1, 1986, the fuel component of the base rate was reduced from $4.2401 per mcf to $3.6000 per mcf.

## Natural Gas

In fiscal year 1984, due to the impact of deregulation, natural gas prices declined to levels 7% lower than those of fiscal year 1983. However, increased sendout and a reduction in natural gas refunds from pipeline suppliers caused PGW's overall natural gas costs to rise by nearly $8 million.

In fiscal year 1985 the downward trend in natural gas costs continued, with expenses for natural gas totaled $289.4 million compared to $305.8 million in 1984. Also contributing to this decrease in natural gas expenditures were reduced sendout stemming from a warmer heating season, and an increase in refunds received from pipeline suppliers.

Natural gas expenses were further decreased by $23.0 million or 8% in fiscal 1986 as the result of lower pipeline prices and purchases on the spot market. These savings were offset, in part, by deferred pipeline charges of $11.5 million as approved by the Federal Energy Regulatory Commission, and increased sendout.

In fiscal year 1987 natural gas expenses decreased by $44.9 million or 17% from the 1986 fiscal year level. This was again a result of lower pipeline prices and purchases on the spot market combined with reduced sendout. Also, the payment of deferred pipeline charges approved by the Federal Energy Regulatory Commission was $11.3 million lower in fiscal year 1987.

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

## Accounts Receivable

Beginning in 1982, several programs were developed by PGW, in concert with the Gas Commission, to provide for better collection policies and stabilization of accounts receivable growth. Among these programs were the following:

- PGW worked closely with the City in the establishment and promotion of energy assistance programs such as the federally funded Low Income Home Energy Assistance Program (LIHEAP), the Philadelphia Emergency Crisis Program and the Utility Emergency Services Fund (UESF). These programs collectively provided a total of $12.7 million of assistance to customers during fiscal year 1988.
- Accelerated collection activities were instituted to keep outstanding customer balances from reaching excessively high levels. Limitation of customer balances contributes favorably to their collectibility.
- Additional meter readers were employed during the heating season to eliminate the need for estimated billings, and collection activities were augmented in off peak periods.
- In October, 1984, PGW initiated the Limited Service Program, which offered heating service to customers who had been shut-off for nonpayment.
- To improve PGW's efforts to collect accounts receivable, the 5%-2% Repayment Agreement Plan was instituted in February, 1985. This plan permitted customers to enter into an agreement requiring an initial payment of 5% of the past-due amount, payment of 2% of the past-due amount each month and payment of current usage on a monthly budget plan.

Although the 5%-2% Repayment Agreement Plan was created to increase collections, revisions to this plan made in September, 1985 incorporating an income eligibility test and allowing for a maximum forgiveness of 50% (the "Forgiveness Repayment Agreements") limited its effectiveness. The revisions enabled the remaining customers, not meeting the income eligibility test, to make a 20% initial payment of the past due amount with the remaining amount to be paid over a maximum of 24 months (the "20% Repayment Agreements").

The large number of both Forgiveness Repayment Agreements and 20% Repayment Agreements resulted in the reactivation of previously terminated accounts during 1985, 1986 and to a lesser extent 1987 and 1988. This reactivation is the principal reason for the increase in Accounts Receivable and the growth in the annual average number of delinquent accounts.

During the period May through August, 1987, PGW retroactively billed customers the $28.65 million resulting from the rate increase approved for the 1987 fiscal year. The impact of this delayed billing inflated the customer accounts receivable at August, 1987 and contributed to the 11% improvement recorded in August, 1988. Through November, 1988, delinquent customers entered into 29,466 Forgiveness Repayment Agreements, of which 15,271 are currently active with a balance of $13.0 million. Delinquent customers also entered into 92,371 20% Repayment Agreements, 27,741 of which are currently active with a balance of $10.8 million. The total amount of active outstanding accounts under these two repayment plans is 28% of total Gas Accounts Receivable and starting in 1985, PGW has increased the reserve for uncollectible accounts to provide for these account reinstatements under the two repayment plans.

The status of Accounts Receivable during the 1984 to 1988 period is reflected in the following table:

ACCOUNTS RECEIVABLE, ACCUMULATED PROVISIONS FOR UNCOLLECTIBLE ACCOUNTS WRITE-OFF EXPENSES, DELINQUENT CUSTOMERS, AND REVENUE STATISTICS

(Dollars Amounts in Thousands)

| | Fiscal Years Ended August 31, | | | | |
|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| Reported revenues during the year | $500,057 | $489,419 | $471,192 | $450,518 | $465,122 |
| Accounts receivable at August 31 | $ 71,781 | $ 81,902 | $ 92,061 | $ 94,441 | $ 83,734 |
| Accumulated provisions for uncollectible accounts at August 31 | $ 26,071 | $ 33,419 | $ 39,358 | $ 41,639 | $ 40,851 |
| Net accounts receivable at August 31 | $ 45,710 | $ 48,483 | $ 52,703 | $ 52,802 | $ 42,883 |
| Accumulated provisions for uncollectible accounts as a percentage of accounts receivable (%) | 36.3 | 40.8 | 42.8 | 44.1 | 48.8 |
| Write-offs during the year* | $ 24,392 | $ 14,424 | $ 13,159 | $ 20,496 | $ 20,874 |
| Receivables as a percentage of reported revenues during the year (%) | 14.35 | 16.73 | 19.54 | 20.96 | 18.00 |
| Delinquent customers (annual average) | 131,052 | 141,521 | 153,086 | 156,387 | 148,588 |
| Delinquent customers at August 31 | 135,226 | 125,851 | 135,394 | 148,670 | 124,543 |

*Net write-off.

### Write-off of Uncollectible Accounts

In fiscal year 1984, net customer accounts receivable of $24.4 million were written off and the reserve balance increased moderately to $26.1 million. In fiscal years 1985, 1986, 1987 and 1988, in recognition of the substantial number of reactivated gas accounts resulting from the two repayment plans, the reserve was increased to $33.4 million, $39.4 million, $41.6 million and $40.9 million respectively, while the amount written off, net of reactivations, was $14.4 million in 1985, $13.2 million in 1986, $20.5 million in 1987 and $20.9 million in 1988.

The following table presents information regarding the aging of Gas Accounts Receivable of PGW at August, 1988 and August, 1987:

AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE

(Dollar Amounts in Thousands)

| | August 31, 1988 | | | | | |
|---|---|---|---|---|---|---|
| Customer Receivables | Current | 30 Days | 60 Days | Total 90 Days & Over | Gas Accounts Receivable | Delinquent Accounts |
| Residential and small commercial ... | $ 5,852 | $5,419 | $4,443 | $42,702 | $58,416 | $52,564 |
| Industrial and large commercial ..... | 5,869 | 766 | 285 | 1,029 | 7,949 | 2,080 |
| Final billing (a) .................... | 2,493 | 3,117 | 3,994 | 5,606 | 15,210 | 12,717 |
| Total ........................... | $14,214 | $9,302 | $8,722 | $49,337 | $81,575(b) | $67,361 |

| | August 31, 1987 | | | | | |
|---|---|---|---|---|---|---|
| Customer Receivables | Current | 30 Days | 60 Days | Total 90 Days & Over | Gas Accounts Receivable | Delinquent Accounts |
| Residential and small commercial ... | $25,348 | $ 4,915 | $2,948 | $34,257 | $67,468 | $42,120 |
| Industrial and large commercial ..... | 3,982 | 2,996 | 485 | 1,200 | 8,663 | 4,681 |
| Final billing (a) .................... | 2,836 | 3,542 | 3,909 | 4,842 | 15,129 | 12,293 |
| Total ........................... | $32,166 | $11,453 | $7,342 | $40,299 | $91,260(b) | $59,094 |

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

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

### Capital Improvement Program

PGW's Capital Improvement Program is funded by the sale of revenue bonds and Internally Generated Funds ("IGF"). Bond sales are made in advance of actual expenditures, with the proceeds being placed in restricted accounts and expended solely for PGW capital purposes. The last revenue bond issue sold under the Capital Improvement Program was the $100 million Gas Works Revenue Bonds, Eleventh Series A, issued in June, 1987.

In fiscal year 1989, PGW expects to issue $75 million Gas Works Revenue Bonds (the Twelfth Series Bonds) to pay for various capital expenditures.

FISCAL YEAR
NET CAPITAL EXPENDITURES(1)

(Dollar Amounts in Thousands)

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gas supply ................................. | $ 4,914 | $ 4,599 | $ 2,839 | $ 3,294 | $ 6,124 |
| Distribution ................................ | 23,127 | 26,362 | 29,654 | 35,621 | 41,846 |
| Customer service ........................... | 2,320 | 3,657 | 3,856 | 4,546 | 4,426 |
| Other ...................................... | 2,994 | 7,184 | 10,838 | 14,645 | 20,141 |
| Total ...................................... | $33,355 | $41,802 | $47,187 | $58,106 | $72,537 |
| Internally Generated Funds to fund Capital Improvements ............................... | $ 9,600 | $12,400 | $ 6,200 | $21,100 | $19,400 |

(1) Net of reimbursements, contributions and salvage.

### Internally Generated Funds

Since fiscal year 1982, PGW has provided for a portion of capital costs to be funded through the use of IGF. IGF consists of funds generated by PGW net revenues. In fiscal year ended August 31, 1988, PGW generated $19.4 million of IGF, which funded approximately 27% of the Capital Improvement Program for that year.

Tax-Exempt Commercial Paper

In 1984, PGW's ability to meet its short term financing needs was enhanced by the institution of a tax-exempt commercial paper program (see "SECURITY – Subordinated Short Term Borrowings"). The resulting rate structure stability and financing flexibility have enabled PGW to meet its current operating needs. The authorized level of the tax-exempt commercial paper program was increased by the Gas Commission during the 1985 fiscal year to $85 million from the $75 million initially authorized. At August 31, 1988, the amount outstanding was reduced to $34.4 million due to timing constraints on the sale of notes. The amount outstanding at August 31, 1987, August 31, 1986, and August 31, 1985 was constant at $83 million compared to $64 million outstanding at August 31, 1984.

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Certain Financial Data

The following data are based upon the records of PGW. The Acting City Controller has not participated in the preparation of any of the financial data contained in this Official Statement. For further information, see Appendix I — Financial Statements of PGW.

SELECTED OPERATING DATA

(Dollar Amounts in Thousands)

| | Years Ended August 31, | | | | |
|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| DEGREE DAYS | 4,972 | 4,428 | 4,536 | 4,498 | 4,676 |
| % of normal (4,600 degree days) | 108 | 96 | 99 | 98 | 102 |
| MAXIMUM 24-HOUR SENDOUT (mcf) | 676,842 | 719,133 | 571,751 | 600,858 | 596,889 |
| Avg. peak-day temperature (degrees) | 7 | 4 | 20 | 14 | 14 |
| GAS REVENUES & SALES BY CUSTOMER CLASSIFICATION | | | | | |
| Gas operating revenues ($ 000 omitted) | | | | | |
| Residential: | | | | | |
| Heating | $311,113 | $311,011 | $306,824 | $301,984 | $306,008 |
| Non-heating | 32,935 | 31,272 | 30,090 | 28,021 | 26,614 |
| Industrial and commercial: | | | | | |
| Firm | 65,411 | 66,582 | 66,370 | 64,725 | 65,028 |
| Interruptible | 63,823 | 56,052 | 45,628 | 34,100 | 40,410 |
| Other gas revenues (municipal, PHA, sales for resale and unbilled revenues) | 51,746 | 24,352 | 22,630 | 21,988 | 26,212 |
| Total gas revenues | $525,028 | $489,269 | $471,542 | $450,818 | $464,272 |
| Other operating revenues | 7,135 | 6,017 | 5,585 | 5,625 | 5,295 |
| Total operating revenues | $532,163 | $495,286 | $477,127 | $456,443 | $469,567 |
| Other income | 16,729 | 15,906 | 15,643 | 12,295 | 15,940 |
| Total revenues and other income | $548,892 | $511,192 | $492,770 | $468,738 | $485,507 |
| SUMMARY OF CUSTOMERS AT END OF PERIOD | | | | | |
| Residential | 500,338 | 500,378 | 499,608 | 496,836 | 497,227 |
| Industrial and commercial: | | | | | |
| Firm | 18,431 | 18,482 | 18,840 | 19,015 | 19,513 |
| Interruptible | 98 | 135 | 164 | 193 | 259 |
| Municipal and PHA | 2 | 2 | 2 | 2 | 2 |
| Total customers | 518,869 | 518,997 | 518,614 | 516,046 | 517,001 |
| GAS SALES BY CLASSIFICATION (mmcf) | | | | | |
| Residential: | | | | | |
| Heating | 47,204 | 42,157 | 43,525 | 44,268 | 45,838 |
| Non-heating | 4,532 | 3,947 | 3,956 | 3,790 | 3,667 |
| Industrial and commercial: | | | | | |
| Firm | 9,807 | 8,943 | 9,347 | 9,398 | 9,670 |
| Interruptible | 12,561 | 11,437 | 11,453 | 10,362 | 12,584 |
| Other | 4,165 | 3,367 | 3,576 | 3,520 | 3,667 |
| Total gas sales | 78,269 | 69,851 | 71,857 | 71,338 | 75,426 |
| SUPPLY AND DISPOSITION OF GAS (mmcf) | | | | | |
| Natural gas purchased | 79,245 | 69,998 | 75,383 | 73,944 | 78,178 |
| Liquid petroleum | 14 | 81 | 141 | 89 | 110 |
| Liquified natural gas | 2,840 | 2,331 | 2,596 | 1,760 | 2,620 |
| Total supply | 82,099 | 72,410 | 78,120 | 75,793 | 80,908 |
| Deduct: | | | | | |
| Additions to (withdrawals from) gas storage | 1,097 | (1,088) | 967 | 75 | 2,502 |
| PGW 's use and other | 2,733 | 3,647 | 5,296 | 4,380 | 2,980 |
| Total gas sales | 78,269 | 69,851 | 71,857 | 71,338 | 75,426 |
| AVGERAGE MONTHLY USAGE OF RESIDENTIAL CUSTOMERS (mcf) | | | | | |
| Heating | 10.2 | 9.1 | 9.2 | 9.2 | 9.5 |
| Non-heating | 2.9 | 2.8 | 2.9 | 2.9 | 2.9 |
| AVERAGE MONTHLY BILL OF RESIDENTIAL CUSTOMERS | | | | | |
| Heating | $ 70.13 | $ 69.75 | $ 67.72 | $ 66.77 | $ 66.10 |
| Non-heating | $ 21.77 | $ 23.05 | $ 23.08 | $ 22.39 | $ 21.76 |

## *HISTORICAL REVENUES AND DEBT SERVICE COVERAGE*

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

| | (Dollar Amounts in Thousands) Years Ended August 31, | | | | |
|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| Operating revenues | $532,163 | $495,286 | $477,127 | $456,443 | $469,567 |
| Other income | 16,729 | 15,906 | 15,643 | 12,295 | 15,940 |
| Total revenues | 548,892 | 511,192 | 492,770 | 468,738 | 485,507 |
| Adjustments | 2,696 | 227 | 2,124 | 527 | 1,837 |
| Project revenues | 551,588 | 511,419 | 494,894 | 469,265 | 487,344 |
| Operating expenses | 458,259 | 444,591 | 429,406 | 396,634 | 415,411 |
| Less: depreciation | 15,376 | 16,390 | 16,634 | 21,707 | 23,615 |
| other adjustments | 60 | 72 | 276 | (563) | (497) |
| Net operating expenses | 442,823 | 428,129 | 412,496 | 375,490 | 392,293 |
| Net revenues | $108,765 | $ 83,290 | $ 82,398 | $ 93,775 | $ 95,051 |
| Debt service on revenue bonds | $ 48,951 | $ 47,502 | $ 51,597 | $ 50,193 | $ 59,473 |
| Debt service on general obligation bonds issued for PGW* | 4,347 | 3,440 | 2,549 | 1,729 | — |
| Total revenue bond and general obligation bond debt service | $ 53,298 | $ 50,942 | $ 54,146 | $ 51,922 | $ 59,473 |
| Debt service coverage: | | | | | |
| Revenue bonds | 2.22x | 1.75x | 1.60x | 1.87x | 1.60x |
| Revenue bonds and general obligation bonds | 2.04x | 1.63x | 1.52x | 1.81x | 1.60x |

* General obligation bonds matured in the 1987 fiscal year.

In connection with its rate decision of Oct. 13, 1988, the Gas Commission suggested certain expense reductions which would allow PGW to meet its financial obligations and achieve a debt service coverage level above the Rate Covenant. In response to this rate decision, PGW has developed an operational plan for fiscal year 1989, which includes extensive reductions in operating expenses. Personnel levels are being reduced by PGW through attrition and the implementation of an early retirement program, which together are expected to result in staffing levels at fiscal year end being approximately 10% below previously budgeted levels. All other operating expenses have been reviewed and selective reductions have been implemented. PGW expects that for fiscal year 1989, debt service coverage will be in excess of the Rate Covenant.

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**Projected Debt Service**

The following table presents year-by-year debt service requirements of the previously issued Gas Works Revenue Bonds (First through Eleventh Series A & B), excluding the refunded portion of the Seventh Series Bonds, the refunded portion of the Sixth Series Bonds, the refunded First Series Bonds, the refunded Second Series Bonds, and the refunded portion of the Eighth Series Bonds and Ninth Series Bonds. The table also includes debt service requirements on $132,520,000 Eleventh Series C Bonds, and a forecast for $75,000,000* of the Twelfth Series Bonds.

DEBT SERVICE REQUIREMENTS
GAS WORKS REVENUE BONDS
(Dollar Amounts in Thousands)

| Fiscal Year (Aug. 31) | Debt Service on Previously Issued Revenue Bonds | Debt Service on Eleventh Series C Bonds | | | | Debt Service on Twelfth Series Revenue Bonds (1)* | Estimated Total Debt Service on Third through Twelfth Series Bonds |
|---|---|---|---|---|---|---|---|
| | | Principal | Interest | Accretion | Total | | |
| 1989 | $ 57,326,012.00 | $ | $ | $ | $ | $ | $ 57,326,012.00 |
| 1990 | 52,429,855.00 | | 11,690,490.00 | | 11,690,490.00 | 6,817,500.00 | 70,937,845.00 |
| 1991 | 52,404,397.00 | 2,345,000.00 | 7,722,137.50 | | 10,067,137.50 | 6,820,525.00 | 69,292,059.50 |
| 1992 | 52,415,769.00 | 2,485,000.00 | 7,573,580.00 | | 10,058,580.00 | 6,819,013.00 | 69,293,362.00 |
| 1993 | 52,393,492.00 | 2,640,000.00 | 7,413,385.00 | | 10,053,385.00 | 6,817,962.00 | 69,264,839.00 |
| 1994 | 52,387,405.00 | 2,805,000.00 | 7,240,465.00 | | 10,045,465.00 | 6,821,963.00 | 69,254,833.00 |
| 1995 | 52,370,755.00 | 2,985,000.00 | 7,053,692.50 | | 10,038,692.50 | 6,820,188.00 | 69,229,635.50 |
| 1996 | 47,340,228.00 | 5,590,000.00 | 6,772,210.00 | | 12,362,210.00 | 6,822,637.00 | 66,525,075.00 |
| 1997 | 43,236,993.00 | 5,950,000.00 | 6,388,415.00 | | 12,338,415.00 | 6,818,487.00 | 62,393,895.00 |
| 1998 | 38,545,245.00 | 6,345,000.00 | 5,974,946.25 | | 12,319,946.25 | 6,817,738.00 | 57,682,929.25 |
| 1999 | 31,863,554.00 | 6,780,000.00 | 5,530,282.50 | | 12,310,282.50 | 6,819,562.00 | 50,993,398.50 |
| 2000 | 27,182,346.00 | 3,420,457.10 | 5,299,762.50 | 3,810,633.34 | 12,530,852.94 | 6,818,138.00 | 46,531,336.94 |
| 2001 | 27,181,744.00 | 3,196,966.80 | 5,299,762.50 | 4,043,033.20 | 12,539,762.50 | 6,823,050.00 | 46,544,556.50 |
| 2002 | 15,785,976.00 | 2,965,866.00 | 5,299,762.50 | 4,274,134.00 | 12,539,762.50 | 6,823,062.00 | 35,148,800.50 |
| 2003 | 15,787,614.00 | 2,748,810.80 | 5,299,762.50 | 4,491,189.20 | 12,539,762.50 | 6,822,763.00 | 35,150,139.50 |
| 2004 | 15,783,411.00 | 2,543,464.25 | 5,299,762.50 | 4,691,535.75 | 12,534,762.50 | 6,821,325.00 | 35,139,498.50 |
| 2005 | 15,784,393.00 | 7,240,000.00 | 5,037,312.50 | | 12,277,312.50 | 6,817,925.00 | 34,879,630.50 |
| 2006 | 15,788,238.00 | 7,765,000.00 | 4,493,381.25 | | 12,258,381.25 | 6,821,738.00 | 34,868,357.25 |
| 2007 | 15,789,351.00 | 8,325,000.00 | 3,910,118.75 | | 12,235,118.75 | 6,821,112.00 | 34,845,581.75 |
| 2008 | 15,785,663.00 | 8,925,000.00 | 3,284,806.25 | | 12,209,806.25 | 6,820,225.00 | 34,815,694.25 |
| 2009 | 15,783,356.00 | 9,580,000.00 | 2,614,000.00 | | 12,194,000.00 | 6,817,838.00 | 34,795,194.00 |
| 2010 | 15,782,162.00 | 10,275,000.00 | 1,894,256.25 | | 12,169,256.25 | 6,817,713.00 | 34,769,131.25 |
| 2011 | 15,787,050.00 | 2,319,034.90 | 1,521,787.50 | 8,697,766.91 | 12,538,589.31 | 6,818,200.00 | 35,143,839.31 |
| 2012 | 12,797,156.00 | 2,745,400.15 | 1,521,787.50 | 11,259,599.85 | 15,526,787.50 | 6,817,650.00 | 35,141,593.50 |
| 2013 | 19,993,638.00 | 7,030,000.00 | 1,284,525.00 | | 8,314,525.00 | 6,819,412.00 | 35,127,575.00 |
| 2014 | 8,680,362.00 | 7,505,000.00 | 793,968.75 | | 8,298,968.75 | 6,821,425.00 | 23,800,755.75 |
| 2015 | 8,680,575.00 | 8,010,000.00 | 270,337.50 | | 8,280,337.50 | 6,821,625.00 | 23,782,537.50 |
| 2016 | 8,681,019.00 | | | | | 6,817,950.00 | 15,498,969.00 |
| 2017 | 8,678,544.00 | | | | | 6,818,338.00 | 15,496,882.00 |
| 2018 | | | | | | 6,819,900.00 | 6,819,900.00 |
| 2019 | | | | | | 6,819,750.00 | 6,819,750.00 |
| | $812,446,303.00 | $132,520,000.00 | $126,484,697.50 | $41,267,892.25 | $300,272,589.75 | $204,594,714.00 | $1,317,313,606.75 |

(1) Interest estimated at 8¼%.
* Subject to change

## THE GAS COMMISSION

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation of PGW by PFMC. The Management Agreement grants to the Gas Commission certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include fixing of PGW rates and charges, approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of the annual operating budget, review of the capital budget and recommendations thereon to City Council, approval of certain loans, access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services, and approval of all real property acquisitions for further approval of City Council.

## RATES AND CHARGES

The rates fixed by the Gas Commission, to be charged by PGW for providing gas and related services, are subject to various statutory provisions. The General Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contains a rate covenant. In addition, the Philadelphia Home Rule Charter contains a rate covenant which, in the absence of any other applicable rate covenant, would govern PGW's rates. See Appendix II for details of the General Ordinance.

The Management Agreement directs the Gas Commission without further authorization of City Council, to fix rates and charges (other than charges to the City and the Philadelphia Board of Education, which are subject to approval of City Council) which, together with other Project Revenues, will in each fiscal year produce revenues sufficient, at a minimum:

(a) to pay all the operation and maintenance costs and expenses of PGW, including, but not limited to, depreciation, employee retirement costs and a management fee to PFMC not exceeding $300,000 annually, and to pay interest and amortization becoming due in such fiscal year on debt incurred for PGW;

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

(c) to provide appropriations for debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council; and

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

The Management Agreement provides that, for purposes of complying with such rate requirement, the amount of operating expenses which do not represent an actual outflow of funds (e.g., depreciation) may be included in revenues in determining whether revenues are sufficient to meet other costs, expenses and requirements.

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

## GAS SUPPLY AND REGULATION OF FEEDSTOCKS

PGW has contracts for natural gas with two major interstate pipeline companies which account for virtually all of PGW's gas supplies. In addition, it relies on pipeline storage gas deliveries under storage contracts with the same pipeline companies. It also owns and operates supplemental LNG, SNG and propane-air facilities to meet incremental demand in excess of pipeline and storage supplies. Portions of its SNG facility are not presently in use. A preliminary decision has been made to discontinue maintenance on the unused portion of the plant. A decision on the most effective disposition/disposal of the unused portions of the plant will be made in the future. PGW's supplies of natural gas, LNG and propane-air are adequate to meet its projected demand under either normal or design (colder-than-normal) conditions through 1992. The price and supply of interstate natural gas and certain feedstocks for PGW gas manufacturing facilities are regulated by the Federal Energy Regulatory Commission. Pursuant to legislation included in the National Gas Policy Act, regulation of the price of interstate natural gas was phased out gradually and terminated on January 1, 1985.

## INSURANCE

PGW is principally insured through insurance carriers. A reserve is maintained by periodic charges to income to cover current estimated losses which are excluded from coverage under the deductible provisions of the insurance policies. Charges against the reserve are made as claims are settled.

PGW's property is insured against the risks of loss or damage, without aggregate limits, in the amount of $250 million per occurrence with a $100,000 deductible; subject, however, to an annual aggregate limit of $100 million for earthquake and an annual aggregate limit of $50 million for flood, generally, and to a lower limit as to the Richmond Plant. PGW is insured against the risk of damage or injury to the public (i) with respect to incidents arising on or after February 1, 1979 but before September 1, 1980, for $10 million in excess of $500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage there is aggregate excess coverage of $40 million; (ii) with respect to incidents arising on or after September 1, 1980 but before October 8, 1981, for $10 million in excess of $500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $65 million; (iii) with respect to incidents arising on or after October 8, 1981 but before October 17, 1983, for $10 million in excess of $500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $90 million; (iv) with respect to incidents arising on or after October 17, 1983 but before September 1, 1984, for $10 million in excess of $500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $190 million; (v) with respect to incidents arising on or after September 1, 1984 but before September 1, 1985, for $25 million in excess of $500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $175 million; (vi) with respect to incidents arising on or after September 1, 1985, for $20 million in excess of $500,000 for any one incident, without aggregate limits, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $55 million then $21 million part of $25 million; (vii) with respect to incidents arising on or after October 22, 1985, for $20 million in excess of $500,000 for any one incident, without aggregate limitation, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $80 million; (viii) with respect to incidents arising on or after September 1, 1986, for $25 million in excess of $500,000 for any one incident, generally without aggregate limitation, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $75 million; and (ix) with respect to incidents on or after October 1, 1986, for $25 million in excess of $500,000 for any one incident, generally without aggregate limits, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of $175 million. PGW also maintains $25 million of Workers' Compensation insurance in excess of $500,000 per incident for on-duty injuries to employees. In addition, PGW maintains Boiler and Machinery, Blanket Crime, and other forms of insurance.

Directors and Officers Liability Insurance, which has been maintained since September, 1977, was cancelled effective January, 1989 as the City broadened and clarified the indemnity provision of the Management Agreement between the City and PFMC to include all PGW officers thereby negating the need for outside Directors and Officers insurance.

## LITIGATION

A gas explosion in fiscal year 1979 resulted in personal injury, deaths and substantial property damage. Claims related to this incident have been made against PGW. Certain of the claims are for punitive damages, which may be outside the scope of PGW insurance coverage, which has a $500,000 deductible. Although discovery has not been completed, PGW is not presently aware of any facts which would give rise to awards for punitive damages.

PGW is a defendant in three additional cases arising from explosions in which damages claimed exceed the $500,000 deductible portion of its insurance coverage. PGW's liability would be limited in each case to its $500,000 deductible. In one case, settlement is expected for much less than $500,000. The other cases are in the discovery stage, and their outcome cannot be determined at this time.

Four explosions occurred in 1988, as a result of which, claims for property damage and personal injury for two occurrences are expected to exceed $500,000; claims for property damage and personal injury for the two remaining occurrences are expected to aggregate $500,000.

## UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Eleventh Series C Bonds at a price of $129,271,449.40 (including an original issue discount of $1,702,042.20), plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the Eleventh Series C Bonds if any are purchased. The Eleventh Series C Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

## RATINGS

Standard & Poor's Corporation and Moody's Investors Service, Inc. have assigned their municipal bond ratings of AAA and Aaa, respectively, to the Eleventh Series C Bonds with the understanding that upon delivery of the Eleventh Series C Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Eleventh Series C Bonds will be issued by AMBAC Indemnity Corporation. An explanation of the significance of the rating assigned by a rating agency may only be obtained from the rating agency furnishing the same. There is no assurance that a rating will be maintained for any given period of time or that it will not be revised or withdrawn entirely, if in the rating agency's judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading volume and market price of the Eleventh Series C Bonds.

## TAX EXEMPTION

In the opinion of Co-Bond Counsel, under existing law as presently enacted and construed, interest on the Eleventh Series C Bonds is excluded from gross income for Federal income tax purposes and is not a preference item for purposes of determining the Federal alternative minimum tax imposed on corporations and individuals; however, interest on the Eleventh Series C Bonds may be subject to the application of the alternative minimum tax and the environmental tax when held by certain corporations and the application of the foreign branch profits tax when held by foreign corporations. In rendering this opinion, Co-Bond Counsel has assumed continuing compliance by the City with tax covenants contained in the Bond Authorization relating to the Eleventh Series C Bonds. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the Eleventh Series C Bonds are, in the opinion of Co-Bond Counsel, exempt from personal property taxes in Pennsylvania and the interest thereon and gain from the sale thereof are exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

Failure to comply with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code") could cause the interest on the Eleventh Series C Bonds to be included in gross income, in certain cases retroactive to the date of issue of the Eleventh Series C Bonds regardless of the date at which such non-compliance occurs or is ascertained. These requirements include the provisions of Section 148 of the Code which prescribe yield and other limits within which the proceeds of the Eleventh Series C Bonds are to be invested and require that certain investment earnings on such proceeds be rebated on a periodic basis to the United States. The City will execute a certificate setting forth the facts, estimates and circumstances in existence on the date of delivery of the Eleventh Series C Bonds on the basis of which Co-Bond Counsel will determine that the proceeds of the Eleventh Series C Bonds will not be used in a manner that would cause the Eleventh Series C Bonds to be "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code.

Ownership of the Eleventh Series C Bonds may result in collateral Federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred indebtedness to purchase or carry the Eleventh Series C Bonds. Co-Bond Counsel will express no opinion with respect to these collateral tax consequences and taxpayers who may be subject to these provisions should consult their own tax advisors.

## FEDERAL TAX TREATMENT OF INTEREST ON TECA SECURITIES

Although no interest will be paid on the TECA Securities prior to maturity or earlier redemption, the value of the TECA Securities will accrete at an annual percentage rate compounded semiannually on July 1 and January 1 of each year, resulting in the approximate yield to maturity expressed on the inside cover of this Official Statement. During each semiannual accretion period, the Accreted Value of each TECA Security will increase in equal daily amounts on the basis of a 360 day year consisting of twelve 30 day months. The difference at any time between the Accreted Value of any TECA Security and the Initial Principal Amount thereof is original issue discount. Original issue discount properly allocable to the owner of any TECA Security is excludable from gross income for Federal income tax purposes.

## 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.

## EXPERTS

The financial statements of PGW as of August 31, 1988 and 1987 and for the years then ended have been audited by Coopers & Lybrand, independent certified public accountants, as set forth in their report in Appendix I. Such audited financial statements of PGW have been included in this Official Statement in reliance upon the report of Coopers & Lybrand and upon their authority as experts in accounting and auditing.

## LEGAL OPINIONS

Certain legal matters incident to the authorization, issuance and sale of the Eleventh Series C Bonds are subject to receipt of the approving opinions of Co-Bond Counsel, Drinker Biddle & Reath and Hwang & Associates, A Professional Corporation, both of Philadelphia, Pennsylvania. The proposed form of approving opinion is included herein as Exhibit A. Certain legal matters will be passed upon for the City by the Office of the City Solicitor, for PGW by Obermayer, Rebmann, Maxwell & Hippel of Philadelphia, Pennsylvania, and for the Underwriters by Astor, Weiss & Newman and Harris and Kahn, both of Philadelphia, Pennsylvania.

## *VERIFICATION OF MATHEMATICAL COMPUTATIONS*

The accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments held pursuant to the Escrow Deposit Agreement to pay (1) interest when due on all Refunded Ninth Series Bonds from March 15, 1989 to March 15, 1995, inclusive; (2) the principal amount and applicable redemption premium, on March 15, 1995, of the Refunded Ninth Series Bonds maturing on March 15 of the years 1996 through 2012; (3) interest when due on all Refunded Eighth Series Bonds from May 15, 1989 to May 15, 1995, inclusive; and (4) the principal amount and applicable redemption premium, on May 15, 1995, of the Refunded Eighth Series Bonds maturing on May 15, 2015, and (b) the mathematical computations supporting the conclusion that the Eleventh Series C Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, will be verified solely as to mathematical accuracy by Leevy, Redcross and Company, independent certified public accountants.

## NO LITIGATION CERTIFICATE

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

## CERTAIN REFERENCES

All summaries of the provisions of the Eleventh Series C Bonds and the security therefor, the Act, the General Ordinance and the Eleventh Supplemental Ordinance set forth herein and in Appendix II 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 any 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.

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

CITY OF PHILADELPHIA

By:

/s/ W. WILSON GOODE
Mayor

/s/ SEYMOUR KURLAND
City Solicitor

/s/ JOHN G. SMITHYMAN
Acting City Controller

Approved:

/s/ ELIZABETH C. REVEAL
Director of Finance

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# APPENDIX I

## FINANCIAL STATEMENTS
## OF PGW

## PHILADELPHIA GAS WORKS

## YEARS ENDED AUGUST 31, 1988 AND 1987

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Coopers
&Lybrand

certified public accountants

*REPORT OF INDEPENDENT ACCOUNTANTS*

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

We have audited the accompanying balance sheets of the Philadelphia Gas Works as of August 31, 1988 and 1987, and the related statements of income, changes in City equity and changes in financial position 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Philadelphia Gas Works as of August 31, 1988 and 1987, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
October 28, 1988

PHILADELPHIA GAS WORKS

BALANCE SHEETS

AUGUST 31, 1988 and 1987

(thousands of dollars)

| ASSETS | 1988 | 1987 |
|---|---|---|
| Utility plant, at original cost: | | |
| In service | $765,785 | $688,710 |
| Under construction | 21,816 | 31,796 |
| Total | 787,601 | 720,506 |
| Less accumulated depreciation | 220,978 | 202,805 |
| Utility plant, net | 566,623 | 517,701 |
| Sinking fund, revenue bonds | 67,148 | 68,672 |
| Capital improvement funds | 32,230 | 85,270 |
| Current assets: | | |
| Cash | 598 | 4,116 |
| Temporary investments | 39,457 | 81,432 |
| | 40,055 | 85,548 |
| Accounts receivable: | | |
| Customers | 83,734 | 94,441 |
| Others | 1,929 | 1,683 |
| Accrued gas revenues | 6,750 | 7,600 |
| Accumulated provisions for uncollectible accounts | (40,851) | (41,639) |
| Accounts receivable, net | 51,562 | 62,085 |
| Materials and supplies | 47,419 | 43,094 |
| Other current assets | 12,048 | 8,936 |
| Total current assets | 151,084 | 199,663 |
| Unamortized bond issuance costs | 4,999 | 5,695 |
| Unamortized losses on reacquired debt | 8,249 | 9,318 |
| Other assets | 5,671 | 3,206 |
| Total assets | $836,004 | $889,525 |

| EQUITY AND LIABILITIES | 1988 | 1987 |
|---|---|---|
| City equity | $200,856 | $197,335 |
| Long-term debt | 517,275 | 537,153 |
| Current liabilities: | | |
| Notes payable | 34,375 | 82,900 |
| Current portion of long-term debt | 19,878 | 16,129 |
| Accounts payable | 24,334 | 23,466 |
| Customers' deposits | 3,331 | 2,905 |
| Other current liabilities and deferred credits | 11,582 | 7,800 |
| Accrued accounts: | | |
| Interest, taxes and wages | 14,518 | 14,015 |
| Distribution to the City | 3,000 | 3,000 |
| Total current liabilities | 111,018 | 150,215 |
| Other liabilities | 6,855 | 4,822 |
| Commitments and contingencies (Note 9) | - | - |
| Total equity and liabilities | $836,004 | $889,525 |

See notes to financial statements.

STATEMENTS OF INCOME

for the years ended August 31, 1988 and 1987

(thousands of dollars)

| | 1988 | 1987 |
|---|---|---|
| Operating revenues: | | |
| Nonheating | $ 93,115 | $ 87,461 |
| Heating | 372,007 | 363,057 |
| Unbilled gas adjustment | (850) | 300 |
| Total gas revenues | 464,272 | 450,818 |
| Other operating revenues | 5,295 | 5,625 |
| Total operating revenues | 469,567 | 456,443 |
| Operating expenses: | | |
| Natural gas | 229,284 | 221,119 |
| Other raw material | 549 | 1,814 |
| Gas processing | 24,062 | 18,899 |
| Customer service | 20,786 | 20,858 |
| Distribution | 16,562 | 14,350 |
| Collection | 8,277 | 8,316 |
| Meter reading | 6,035 | 5,662 |
| Appropriation for uncollectible reserve | 20,698 | 22,237 |
| Customer relations | 8,677 | 8,191 |
| Customer accounting | 3,168 | 3,231 |
| Marketing | 4,331 | 3,812 |
| Administrative and general | 28,413 | 26,112 |
| Pensions | 17,016 | 16,763 |
| Taxes | 6,398 | 5,808 |
| Total except depreciation | 394,256 | 377,172 |
| Depreciation | 23,615 | 21,707 |
| Less depreciation distributed through clearing accounts | 2,460 | 2,245 |
| Total | 21,155 | 19,462 |
| Total operating expenses | 415,411 | 396,634 |
| Operating income | 54,156 | 59,809 |
| Other income | 15,940 | 12,295 |
| Income before interest | 70,096 | 72,104 |
| Interest: | | |
| Long-term debt | 42,474 | 37,911 |
| Other | 7,291 | 6,874 |
| Allowance for funds used during construction | (1,190) | (660) |
| Total interest | 48,575 | 44,125 |
| Net income | 21,521 | 27,979 |
| Distribution to City of Philadelphia | 18,000 | 18,000 |
| Transferred to City equity | $ 3,521 | $ 9,979 |

See notes to financial statements.

STATEMENTS OF CHANGES IN CITY EQUITY

for the years ended August 31, 1988 and 1987

(thousands of dollars)

| | 1988 | 1987 |
|---|---|---|
| Balance, beginning | $197,335 | $187,356 |
| Transferred from statement of income | 3,521 | 9,979 |
| Balance, ending | $200,856 | $197,335 |

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended August 31, 1988 and 1987

(thousands of dollars)

| | 1988 | 1987 |
|---|---|---|
| Source of funds: | | |
| Net income | $ 21,521 | $ 27,979 |
| Depreciation and amortization | 28,405 | 25,125 |
| Appropriation to reserve for injuries and damages | 3,640 | 1,766 |
| Allowance for funds used during construction | (1,625) | (1,034) |
| Working capital provided by operations | 51,941 | 53,836 |
| Proceeds from sale of equipment | 82 | 69 |
| Increase in long-term debt | - | 226,845 |
| Costs of long-term debt issuances and losses on reacquired debt | 170 | (13,231) |
| Sinking fund withdrawals | 1,524 | - |
| Capital improvement funds withdrawals | 53,040 | - |
| Contributions in aid of construction | 5,213 | 2,382 |
| Decrease in working capital | 9,382 | 4,798 |
| | $121,352 | $274,699 |
| Applications of funds: | | |
| Construction expenditures | 73,388 | 58,054 |
| Cost of removal of plant in service | 2,819 | 1,469 |
| Reduction of long-term debt | 20,840 | 129,615 |
| Payment of injuries and damages claims | 3,143 | 2,723 |
| Distribution to City of Philadelphia | 18,000 | 18,000 |
| Sinking fund deposits | - | 9,359 |
| Capital improvement fund deposits | - | 51,943 |
| Payment of waste removal costs | 3,162 | 3,536 |
| | $121,352 | $274,699 |
| Summary of net changes in working capital: | | |
| Increase (decrease) in current assets: | | |
| Cash and temporary investments | (45,493) | 3,170 |
| Accounts receivable | (10,523) | 430 |
| Materials and supplies | 4,325 | (2,489) |
| Other current assets | 3,112 | 1,331 |
| | (48,579) | 2,442 |
| Increase (decrease) in current liabilities: | | |
| Notes payable | (48,525) | - |
| Current portion of long-term debt | 3,749 | 450 |
| Accounts payable | 868 | 2,410 |
| Customers' deposits | 426 | 351 |
| Other current liabilities and deferred credits | 3,782 | 3,799 |
| Accrued interest, taxes and wages | 503 | 230 |
| | $(39,197) | $ 7,240 |
| | $ (9,382) | $ (4,798) |

See notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 1988 and 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Utility Plant

Utility plant is stated at original cost. Utility plant in service includes a Synthetic Natural Gas Plant (SNG), portions of which are in use, the remaining portions are available for use. The SNG plant is being maintained primarily in a reserve status. At August 31, 1988 and 1987, the net book value of the SNG plant was $53,239,000 and $56,928,000, 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, and that derived from internally generated funds is reported as other income. The AFUDC rate applied to construction work in progress in 1988 was 7.56% and 7.85% in 1987.

Property Additions, Retirements, Sales, and Maintenance

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

Depreciation

Depreciation is provided on a straight-line method using rates applied to each asset category. A depreciation study undertaken in 1987 and implemented during the year ended August 31, 1987 established rates depreciating utility plant over its revised remaining useful life and includes a net salvage component.

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

Accrued Gas Revenues

Estimated revenues from gas distributed and unbilled at the close of the accounting period are accrued and included in income.

Gas Cost Rate (GCR)

The GCR is designed to provide a mechanism to recover, on an annualized and level basis, the estimated difference between actual purchased gas and raw material cost and the amount of cost included in base rates. This results in an underbilling or overbilling of costs at the end of a fiscal period. Overbillings are liabilities at the end of the fiscal year in which they occur. Underbillings are revenues when billed. The GCR is adjusted in the subsequent fiscal year to reflect the underbillings or overbillings. Changes in the GCR rate offset the amounts of gas revenues and natural gas operating expenses but do not affect operating income or net income.

In August, 1987 the Company presented a proposal to the Philadelphia Gas Commission (PGC) to change the GCR rate from a negative $.2443/Mcf to a negative $.4419/Mcf. This rate was adopted on November 10, 1987 and became effective as of December 1, 1987.

In August, 1988 the PGC authorized changing the GCR rate from a negative $.4419/Mcf to a negative $.0655/Mcf. This rate was approved on August 15, 1988 with an effective date of September 1, 1988.

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.

Debt Discount and Expense

Discount and expenses arising from the issuance of revenue bonds are amortized in direct proportion to the reduction of the outstanding balances over the term of the particular bond.

Loss on Reacquired Debt

Losses on reacquired debt are deferred and amortized to interest expense over the life of the refunding issue as permitted by the PGC.

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

Pensions

The Company has a noncontributory pension plan covering substantially all employees and providing for retirement payments at age sixty-five or earlier under various options. In accordance with resolutions of the PGC, ordinance of City Council, and as prescribed by the City's Director of Finance, the plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. In addition, current payments to retired employees and other beneficiaries are being made directly by the Company rather than from the assets of the pension fund and are included as part of pension expense.

Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, a reserve is maintained by periodic charges to income to cover estimated losses for known occurrences which are excluded under the deductible provisions of such insurance policies and for incidents that may have occurred but have not been reported under claims-made insurance policies. Charges against the reserve are made as claims are settled.

2. OWNERSHIP AND MANAGEMENT:

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

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $6,306,000 in 1988 and $5,717,000 in 1987 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled $334,000 in 1988 and $243,000 in 1987.

Certain activities of the Philadelphia Gas Commission are paid for by the Company. Such payments totaled $605,000 in 1988 and $699,000 in 1987.

2. OWNERSHIP AND MANAGEMENT: (Cont'd)

Company employees are subject to payroll withholding taxes imposed by the City. Withholding taxes paid to the City totaled $4,620,000 in 1988 and $4,401,000 in 1987.

3. CASH AND INVESTMENTS:

A. Cash

The aggregated carrying amount of bank balances at August 31, 1988 and 1987 were $312,000 and $3,803,000, respectively. All of the deposited funds are in depositories insured by a federal agency in addition to being collateralized in accordance with City and State statutes. Federal depository insurance on these balances at August 31, 1988 and 1987 was $134,000 and $310,000, respectively.

B. Investments

Statutes authorize the Company to invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities, and repurchase agreements.

The Company's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Company or its agent in the Company's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Company's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Company's name. There were no Category 3 investments at August 31, 1988 and 1987.

REPURCHASE AGREEMENTS

| | Category | | Carrying | Market |
|---|---|---|---|---|
| | 1 | 2 | Amount | Value |
| August 31, 1988 | $36,457,000 | $ 3,000,000 | $39,457,000 | $39,457,000 |
| August 31, 1987 | $76,432,000 | $ 5,000,000 | 81,432,000 | $81,432,000 |

The Company's Sinking Fund and Capital Improvement Fund deposits are maintained by the City and are considered Category 1 investments.

4. DEFERRED WASTE REMOVAL COSTS:

In compliance with the rate order issued by the PGC on March 3, 1987, the Company has deferred recognition of the expense involved in removing residual waste material from the gas production plants. These costs are being amortized to expense over a three year period beginning in fiscal 1987. The unamortized remaining amount included in other assets as of August 31, 1988 and 1987 was $3,286,000 and $2,357,000, respectively.

5. NOTES PAYABLE:

Pursuant to the provisions of certain Ordinances and Resolutions of the City, the Company may sell short-term notes in a principal amount which, together with interest, may not exceed $85,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and are collateralized by a subordinated security interest in the Company's revenues.

The notes outstanding at August 31, 1988 and 1987 have an average weighted interest rate of approximately 5.5% and 4.4%, respectively, and an average term to maturity of 18 days and 12 days, respectively. During the year ended August 31, 1988, the Company repaid $48,525,000 in commercial paper. Principal amounts outstanding at August 31, 1988 and 1987 were $34,375,000 and $82,900,000, respectively.

6. OTHER CURRENT LIABILITIES:

During the years ended August 31, 1988 and 1987, the Company's billed revenues exceeded its operating costs under the GCR Tariff by $1,528,000 and $4,425,000, respectively. Accordingly, the Company deferred this excess which is included in other current liabilities and deferred credits. The GCR Tariff mechanism amortizes the liability through a reduction in rates during the subsequent fiscal year.

7. LONG-TERM DEBT:

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

| | August 31, 1988 | | | August 31, 1987 | | |
|---|---|---|---|---|---|---|
| | Current Portion | Long-term Portion | Total | Current Portion | Long-term Portion | Total |
| | (Thousands of Dollars) | | | | | |
| Revenue Bonds............ | $ 20,840 | $528,750 | $549,590 | $ 17,145 | $549,590 | $566,735 |
| Unamortized Debt Discount. | (962) | (11,475) | (12,437) | (1,016) | (12,437) | (13,453) |
| Total .................. | $ 19,878 | $517,275 | $537,153 | $ 16,129 | $537,153 | $553,282 |

Principal maturities during the next five years are $20,840,000 in 1989; $22,430,000 in 1990; $23,915,000 in 1991; $25,460,000 in 1992; $27,110,000 in 1993.

Interest expense related to principal revenue bonds outstanding during the next five years is $62,446,000 in 1989; $62,670,000 in 1990; $62,645,000 in 1991; $62,656,000 in 1992; $62,634,000 in 1993; and $809,840,000 thereafter.

Revenue Bonds

Under the authority of the General Gas Works Revenue Bond Ordinance of 1975, the City has issued eleven series of Gas Works Revenue Bonds consisting of serial and term bonds. Proceeds of all series of Revenue Bonds were applied to reduce capital improvement loans from the City which had been previously approved by the voters, but for which bonds had not been issued, to fund future capital improvements, or to refund bonds previously issued. The serial bonds are not subject to redemption prior to maturity while the term bonds are subject to redemption at the option of the City after a designated date, either in whole or in part at varying redemption prices. In addition, the term bonds are subject to mandatory redemption after a designated date prior to maturity at a redemption price of 100% of principal amount and accrued interest. Funds deposited in a sinking fund may be used for this purpose.

7. LONG-TERM DEBT: (Cont'd)

Also provided by the General Ordinance is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. The General Ordinance also provides that sinking fund reserves be maintained as part of the Sinking Fund, which reserves have heretofore initially been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the Bonds of each such series in any fiscal year. Monies in the Sinking Fund Reserve are to be applied to the payment of debt service if for any reason other monies in the Sinking Fund should be insufficient.

Capital improvement funds are revenue bond proceeds to be utilized for construction expenditures.

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

On October 8, 1986 the Company issued the Tenth Series Revenue Bonds in the amount of $88,090,000 for the purpose of providing funds, at more favorable interest rates, for the partial advanced refunding of $75,490,000 Sixth Series Revenue Bonds. As a result, $13,960,000 of the Sixth Series issued August 15, 1980 and maturing through 1990, remain outstanding following the refunding. The difference between the reacquisition price and the net carrying amount of the extinguished portion of the Sixth Series resulted in a loss of $8,802,000. This advanced refunding will reduce the Company's future debt service costs by $5,087,000.

On July 14, 1987 the Company issued the Eleventh Series Revenue Bonds in the amount of $142,440,000. Series "A" Bonds totaling $100,000,000 were issued for the purpose of providing funds for capital expenditures with the proceeds being deposited into the capital improvement fund. Series "B" Bonds totaling $42,440,000 were issued for the purpose of providing funds, at more favorable interest rates, for the advance refunding of $40,665,000 First and Second Series Revenue Bonds outstanding as of July 31, 1987. The difference between the reacquisition price and the net carrying amount of the reacquired debt resulted in a loss of $1,327,000. The Company is amortizing this loss over the life of the Eleventh Series Revenue Bonds. This advanced refunding will reduce the Company's future debt service costs by $1,526,000.

7. LONG-TERM DEBT: (Cont'd)

The following is a summary of the revenue bonds:

| Series | | Year of Issue | Original Amount | August 31, 1988 Current Portion | August 31, 1988 Long-Term Portion | August 31, 1987 Current Portion | August 31, 1987 Long-Term Portion | Interest Rates | Year of Maturity |
|---|---|---|---|---|---|---|---|---|---|
| | | | (Thousands of Dollars) | | | | | | |
| Third: | Term..... | 1976 | $ 33,865 | $ 2,585 | $ 28,870 | $ 2,410 | $ 31,455 | 7.375% | 1997 |
| Fourth: | Serial... | 1978 | 23,145 | - | - | 3,215 | - | 6.4% | 1988 |
| | Term..... | 1978 | 46,855 | 3,420 | 43,435 | - | 46,855 | 6.8-6.875% | 1998 |
| | | | 70,000 | 3,420 | 43,435 | 3,215 | 46,855 | | |
| Fifth: | Serial... | 1979 | 16,680 | 2,315 | - | 2,175 | 2,315 | 6.20-6.3% | 1989 |
| | Term..... | 1979 | 33,320 | - | 33,320 | - | 33,320 | 6.5-6.8% | 1999 |
| | | | 50,000 | 2,315 | 33,320 | 2,175 | 35,635 | | |
| Sixth: | Serial... | 1980 | 24,510 | 3,605 | 3,895 | 3,345 | 7,500 | 8.0-8.25% | 1990 |
| Seventh: | Term..... | 1982 | 10,675 | - | 10,675 | - | 10,675 | 6.00% | 2013 |
| Eighth: | Serial... | 1985 | 19,455 | 1,015 | 17,480 | 960 | 18,495 | 6.00-8.60% | 2000 |
| | Term..... | 1985 | 70,830 | - | 70,830 | - | 70,830 | 8.70-8.75% | 2015 |
| | | | 90,285 | 1,015 | 88,310 | 960 | 89,325 | | |
| Ninth: | Serial... | 1985 | 37,750 | 1,430 | 29,090 | 1,355 | 30,520 | 6.10-9.10% | 2001 |
| | Term..... | 1985 | 70,780 | - | 70,780 | - | 70,780 | 9.00-9.125% | 2012 |
| | | | 108,530 | 1,430 | 99,870 | 1,355 | 101,300 | | |
| Tenth: | Serial... | 1986 | 88,090 | 1,045 | 87,045 | - | 88,090 | 5.25-7.20% | 2001 |
| Eleventh: | Serial... | 1987 | 62,520 | 5,425 | 53,410 | 3,685 | 58,835 | 5.00-7.40% | 2000 |
| | Term..... | 1987 | 79,920 | - | 79,920 | - | 79,920 | 7.70-7.875% | 2017 |
| | | | 142,440 | 5,425 | 133,330 | 3,685 | 138,755 | | |
| TOTAL | | | | $ 20,840 | $528,750 | $ 17,145 | $549,590 | | |

7. LONG-TERM DEBT: (Cont'd)

From respective dates of issue, the serial bonds mature over a period of ten years to thirteen years while the term bonds mature within thirty years.

8. ACCOUNTING FOR PENSION COSTS:

A. Plan Description

The Company sponsors a public employee retirement system (PERS) to provide pension benefits for employees of the employer.

At September 1, 1986, the date of the last actuarial valuation, the Company's Pension Plan membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them: | 1,550 |
| Current employees: | |
| Vested | 1,465 |
| Nonvested | 1,204 |
| Total Current | 2,669 |
| Total Membership | 4,219 |

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

(i) 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times Credited Service, with a maximum of 60% of the highest annual earnings during the last 10 years of Credited Service, applicable to all participants.

(ii) 2% of total earnings received during the period of Credited Service plus 22.5% of the first $100 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

8. ACCOUNTING FOR PENSION COSTS: *(Cont'd)*

Final-average earnings is the employee's average pay, over the highest 5 of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

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

B. Summary of Significant Accounting Policies and Plan Asset Matters

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

Method Used to Value Investments Pension Plan equity securities are reported at cost. Fixed-income securities are reported at par value; investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date.

C. Funding Status and Progress

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

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

The pension benefit obligation was determined as part of an actuarial valuation at September 1, 1986, certain information of which was updated at September 1, 1987. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7 percent per year compounded annually, (b) projected salary increases of 5 percent per year compounded annually, and (c) 62 as the assumed retirement age.

At September 1, 1987, the unfunded pension benefit obligation was $88,097,000, as follows:

| | |
|---|---|
| Pension benefit obligation: | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | $114,785,000 |
| Current employees - | |
| Accumulated employee contributions including allocated investment income | None |
| Vested | 99,013,000 |
| Nonvested | 61,716,000 |
| Total pension benefit obligation | $275,514,000 |
| Net assets available for benefits, at market value | 187,417,000 |
| Unfunded pension benefit obligation | $ 88,097,000 |

D. Contributions Required and Contributions Made

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

Contributions totaling $17,016,000 were made in accordance with actuarial contribution requirements determined through an actuarial valuation performed at September 1, 1986. These contributions consisted of (a) $7,617,000 normal cost and (b) $9,399,000 amortization of the unfunded actuarial accrued liability.

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

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

E. Post Retirement Benefit Information

In addition to providing pension benefits, the Company also provides health care and life insurance benefits to plan beneficiaries and their dependents. The Company recognizes the cost of providing these benefits, by charging the annual insurance premiums to expense. The cost of providing benefits for 1,524 beneficiaries and their dependents for the 1988 and 1987 fiscal years is not separable from the cost of providing benefits for approximately 2,700 active employees and their dependents. Total premiums incurred amounted to $12,300,000 and $10,400,000 for 1988 and 1987, respectively.

F. Ten-Year Historical Trend Information (unaudited)

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

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

F. Ten-Year Historical Trend Information (unaudited)

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

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

| Year | (1) Net Assets Available for Benefits | (2) Pension Benefit Obligation | (3) Percentage Funded (1)/(2) | (4) Unfunded Pension Benefit Obligation (2) - (1) | Annual Contribution | (5) Annual Covered Payroll | Contribution as a % of Covered Payroll | (6) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4)/(5) |
|---|---|---|---|---|---|---|---|---|
| 1978 | $ 37,131 | $ N/A | | $ N/A | $ 8,441 | $46,237 | 18.3% | |
| 1979 | 46,308 | N/A | | N/A | 9,928 | 49,969 | 19.9 | |
| 1980 | 57,857 | 139,132 | 41.6% | 81,275 | 11,851 | 57,087 | 20.8 | 142.4% |
| 1981 | 72,371 | 163,654 | 44.2 | 91,283 | 13,840 | 61,137 | 22.6 | 149.3 |
| 1982 | 91,115 | 190,323 | 47.9 | 99,208 | 15,181 | 67,474 | 22.5 | 147.0 |
| 1983 | 111,012 | N/A | | N/A | 16,276 | 70,418 | 23.1 | |
| 1984 | 129,803 | N/A | | N/A | 16,710 | 75,330 | 22.2 | |
| 1985 | 145,845 | 232,714 | 62.7 | 86,869 | 16,936 | 80,017 | 21.2 | 108.6 |
| 1986 | 169,936 | 262,394 | 64.8 | 92,458 | 17,571 | 85,537 | 20.5 | 108.1 |
| 1987 | 187,417 | 275,514 | 68.0 | 88,097 | 16,763 | 90,139 | 18.6 | 97.7 |

N/A - Information not available for these periods.

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

9. COMMITMENTS AND CONTINGENCIES:

Commitments for major construction and maintenance contracts were approximately $6,752,000 and $18,582,000 as of August 31, 1988 and 1987, respectively.

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

| Year Ended August 31, | |
|---|---|
| 1989 | $1,569,000 |
| 1990 | 1,134,000 |
| 1991 | 937,000 |
| 1992 | 462,000 |
| 1993 | 60,000 |
| | $4,162,000 |

Rent expense for the years ended August 31, 1988 and 1987 amounted to $2,107,000 and $2,263,000, respectively.

The Company has substantial purchase commitments for its supply of natural gas with two major interstate pipeline companies. The applicable rates are subject to periodic approval of the Federal Energy Regulatory Commission. As a result of these commitments, the Company was billed $4,964,000 by one of its suppliers for failure to take the minimum natural gas deliveries during the periods ended October 31, 1983, 1984 and 1985. On December 16, 1986, the supplier initiated action in federal court seeking recovery of the amounts. In August, 1987, the Company agreed to pay the supplier $450,000 in settlement of this matter. In addition, the parties mutually agreed to seek dismissal of the above mentioned court action and waive and release the Company from the claimed minimum bill liability. Settlement costs related to this matter were accrued and included in natural gas expense for the year ended August 31, 1987.

9. COMMITMENTS AND CONTINGENCIES: (Cont'd)

On October 31, 1986, the PGC granted the Company a rate increase to increase annual revenues $36,000,000. Appeals processed through the legal system overturned the PGC's original rate order. On March 3, 1987, the PGC revised its original order and approved a $28,650,000 rate increase for the Company retroactive to January 1, 1987.

The Company's proposed operating budget for the fiscal year ending August 31, 1988 assumed that the increase in the base rates approved by the PGC would remain in effect. For the full fiscal year, the increase was projected to produce additional revenue of approximately $45,000,000. In connection with the PGC's review of the operating budget, Community Legal Services filed a petition to have the $28,650,000 rate increase applied to the entire year. On September 16, 1987, the PGC, in effect, granted this petition by ordering a 4% reduction in the Company's base rate, which had the effect of reducing the Company's revenues for the 1988 fiscal year by an estimated $17,000,000. The Company's petition with the Court of Common Pleas seeking to vacate the PGC's order was denied on October 14, 1987.

On June 3, 1988 the Company filed with the PGC its fiscal year 1989 operating budget and a request to increase annual base revenues $49,000,000. Also, on July 26, 1988 the Company filed with the PGC its annual request to reset the GCR billing rate to a negative $.0337/Mcf for the fiscal year commencing September 1, 1988.

On August 15, 1988, the PGC issued a rate order eliminating the Company's projection of gas cost increases and established a GCR billing rate at a negative $.0655/Mcf to be effective September 1, 1988. This increasing of the GCR credit by the PGC is expected to reduce revenue $1,900,000 in the 1989 fiscal year. However, any revenue shortfall which may result from the elimination of projected natural gas cost increases is recoverable in future GCR filings through the normal over/under cost recovery of the GCR tariff.

On October 13, 1988, the PGC rejected the Company's June 3, 1988 request for a $49,000,000 base rate increase and established rates reflecting a $2,000,000 decrease in base rate. On October 28, 1988, the Company filed a petition for reconsideration with the PGC for the review of certain aspects of its decision. The outcome of this petition of reconsideration is unknown. The PGC actions did not have a significant impact on the financial statements at August 31, 1988.

# APPENDIX II

## SUMMARIES OF LEGISLATION AUTHORIZING THE ISSUANCE OF GAS WORKS REVENUE BONDS

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APPENDIX II

SUMMARIES OF LEGISLATION
AUTHORIZING THE ISSUANCE
OF GAS WORKS REVENUE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), which authorize the issuance of Gas Works Revenue Bonds generally, and the Eleventh Supplemental Gas Works Bond Ordinance (the "Eleventh Supplemental Ordinance"), which authorizes the issuance of the Eleventh Series Bonds, including the Eleventh Series C Bonds. The summaries are not and should not be regarded as complete statements of the provisions of this legislation or of the portions thereof summarized. Reference is made to the Act, the General Ordinance and the Eleventh Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, Room 1420, Municipal Services Building, Philadelphia, Pennsylvania 19107, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the General Ordinance and the Eleventh 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. §§15901-15924)

**General Authorization Definitions: Bonds to be Special Obligations**

The Act is intended to provide a comprehensive authorization to the City of Philadelphia (the "City") and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects and to issue Bonds to refund previously issued Bonds.

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

"Project Revenues" mean, in respect of a project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the project to the ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by Federal, state or local governments or governmental agencies on account of the cost of operation of the project, or the payment of the principal of or interest on moneys borrowed to finance the cost of the project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

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

## Estimate of Future Revenues

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

For the purpose of estimating future Project Revenues, the Act provides that only the following shall be included: (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, are or will be in effect and will be reasonably collectible during the Fiscal Year under the rate schedule which is or will be in effect during such Fiscal Year, or which may be imposed by administrative action without future legislation; (ii) those bulk payments which may be imposed under existing legislation or which are provided under existing agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) those governmental subsidies or payments which, under existing legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annual or more frequently recurring nature, are payable in such year.

## Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, project operation and maintenance, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds and such other provisions as the City deems necessary or desirable in the interests or for the protection of the City or of such bondholders. Under the Act such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification, with such limitations as may be specified in the bond ordinance, by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

## Sinking Fund

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

## Refunding

Bonds from time to time outstanding under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Bonds issued under the Act and are subject to the same protections and provisions required for the issuance of an original issue of Bonds. Bonds will no longer be deemed to be outstanding obligations when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania, the principal and interest of which are sufficient to effect, and which are irrevocably pledged to, the redemption or payment of such Bonds and, in the case of redemption, notice of such redemption or irrevocable instructions to give such notice shall have been duly given.

## Validity of Proceedings; Suits and Limitations Thereon

Prior to the delivery of any Bonds, the City must file with the court of common pleas a transcript of the proceedings authorizing the issuance of the Bonds. If no action asserting the invalidity of such proceedings or of the Bonds, is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally, except where a constitutional question is involved.

## Exemption From State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, their transfer and the income therefrom, including any gains made on the sale thereof (other than underwriting profits in a distribution thereof), shall at all times be free from taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds, the receipt of income therefrom or the realization of gains on the sale thereof.

## Defaults and Remedies

If the City should fail to pay the principal of or interest on any Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court; however, a judgment rendered in favor of the bondholder in such an action is collectible only from Project Revenues. The holders of 25% in aggregate principal amount of Bonds which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance, may appoint a trustee to represent them. On being appointed, the trustee shall be the exclusive representative for the affected bondholders. The trustee may, and upon written request of the holders of 25% in aggregate principal amount and on being furnished with indemnity satisfactory to it, shall, take one or more of the following actions, which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds: enforce, by proceedings at law or in equity, all rights of the holders of the Bonds; bring suit on the Bonds; bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, declare the unpaid principal of the Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and upon the curing of all defaults, to annul such declaration. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, trustee fees and expenses, including operating costs of a project and reasonable counsel fees, and all such costs and disbursements allowed by the Court, shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. The General Ordinance limits any such recovery to Project Revenues. The trustee shall make distribution of any sums so collected in accordance with the Act.

## Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues pledged for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitation, to authorize the issuance and sale of general obligation refunding bonds of the City, without limitation as to rate of interest, in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds, together with interest to the redemption date and redemption premium, if any.

## THE GENERAL ORDINANCE

(Ordinance of City Council approved May 30, 1975 - Bill No. 1871, as amended by Ordinance of the City Council approved July 26, 1979 - Bill No. 2068, Ordinance of the City Council approved July 31, 1980 - Bill No. 274, Ordinance of the City Council approved September 22, 1982 - Bill No. 1316 and Ordinance of the City Council approved May 17, 1985 - Bill No. 534)

Pursuant to the authorization contained in the Act, the City has adopted the General Ordinance. The City has made a pledge of, and has granted a security interest in, all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the General Ordinance.

### Definitions

"City Charges" are defined to be the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission and the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues.

"Fiscal Year" is defined as the fiscal year for the Gas Works as provided in any ordinance of the City from time to time enacted and, if no other fiscal year is established by ordinance, it shall mean the fiscal year of the City.

"Net Operating Expenses" are defined to be Operating Expenses exclusive of City Charges.

"Operating Expenses" are defined to be all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year including, without limitation, the manager's fee, salaries and wages, purchases of services by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or 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.

"Project Revenues" are defined to include all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other Project Revenues (as such term is defined in the Act) derived from the Gas Works, and all accounts, contract rights and general intangibles representing the Project Revenues.

## Additional Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (a "Supplemental Ordinance"). The General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The General Ordinance sets forth the manner of making payment of principal, interest and premium, the requirements governing such payment, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The General Ordinance authorizes the issuance of definitive and temporary Bonds, provides for the execution of the Bonds and provides for the issuance of Bonds to replace mutilated, destroyed, lost or stolen Bonds.

## Purposes For Which Bonds May Be Issued, Conditions of Issuance - Engineering Report

Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any Bonds of the City issued for the foregoing purposes under the Act, or (5) refund any general obligation bonds of the City issued for the foregoing purposes. However, the City also covenants that it will not refund by the issuance of Bonds general obligation bonds or notes issued prior to January 1, 1974.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued unless the financial report of the City's chief fiscal officer required by the Act to be filed with the City Council in connection with such issuance shall be accompanied by an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works. Also, prior to the issuance of the Bonds, a transcript of the proceedings authorizing the issuance of the Bonds shall also be filed with the Fiscal Agent, together with a copy of the engineering report.

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying the sources from which the pledged Project Revenues are to be derived; (3) a statement that, on the basis of actual and estimated future annual financial operations of the project from which the pledged Project Revenues are to be derived, the project will, in the opinion of the engineers, yield pledged Project Revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of operating expenses, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged and surplus requirements fixed by the General Ordinance, or the Supplemental Ordinance authorizing the issuance of any series of Bonds, and (4) that the revenues upon which the preceding statements are based comply with the definition of "Project Revenues" contained in the Act. The General Ordinance also requires that the engineering report state that the pledged Project Revenues are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Security

The Bonds are and will be equally and ratably secured by a pledge of and a security interest in all Project Revenues and the Sinking Fund, including the Sinking Fund Reserve.

## Priority in Application of Project Revenues

Prior to default, the General Ordinance establishes the following priorities in the application of Project Revenues during each Fiscal Year:

**First**, to Net Operating Expenses;

**Second**, to required payments into the Sinking Fund to pay the principal of and interest on all Bonds issued under the General Ordinance and to accumulate, or to restore any deficiency in, the Sinking Fund Reserve;

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

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

**Fifth**, to the payment of City Charges.

The balance of the Project Revenues in any Fiscal Year may be, upon the approval of the Gas Commission, paid to the City, provided that in a given Fiscal Year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to PGW's operating funds during the same Fiscal Year. The General Ordinance does not require the segregation of revenues upon their collection prior to default. An ordinance adopted by the City in September of 1983 allows the issuance of Gas Works Revenue Notes secured by Project Revenues, payment of which Notes shall be subordinated to the payments listed in clauses **First** through **Fourth** above.

## Rate Covenant

The City covenants that it has authorized the imposition of rates and charges by the Gas Commission sufficient to comply with the Rate Covenant in the General Ordinance, and that it will not repeal or materially adversely dilute such authorization.

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of: