

Wage, Earnings, and Net Profits Taxes — These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 1995-2006, and the annual wage and earnings tax receipts in such fiscal years.

<u>Fiscal Year</u>	<u>Resident Wage and Earnings Tax Rates*</u>	<u>Non-Resident Wage and Earnings Tax Rates</u>	<u>Annual Wage and Earnings Tax Receipts (including PICA Tax) (Amounts in Millions)</u>
1995	4.9600%	4.3125%	\$1,070.2
1996	4.8600	4.2256	1,096.3
1997	4.8400	4.2082	1,106.1
1998	4.7900	4.1647	1,158.1
1999	4.6869	4.0750	1,195.6
2000	4.6135	4.0112	1,242.3
2001	4.5635	3.9672	1,332.6
2002	4.5385	3.9462	1,297.3
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005 (est.)**	4.3310	3.8197	1,381.8
2006 (budget)	4.3010	3.7716	1,405.7

* Includes PICA Tax

** On January 1, 2005, the City began to use a calendar year period for wage tax purposes.

In the Thirteenth Five-Year Plan, which was approved by the Philadelphia City Council and PICA, the Mayor proposed further reductions in this tax rate for each of the Fiscal Years 2005-2009. The Thirteenth Five-Year Plan proposed reducing the wage tax from its current level of 4.4625% for residents and 3.8801% for non-residents to 4.169% for residents and 3.685% for non-residents by Fiscal Year 2009. Each approved Five-Year Plan since the one covering Fiscal Years 1996-2000 has included reductions in this tax rate for each of its fiscal years.

Business Privilege Tax — In May 1984, the City enacted an ordinance substituting the Business Privilege Tax for the Mercantile License Tax. The Business Privilege Tax has been levied since January 1985 on every entity engaging in business in the City.

The Business Privilege Tax is a composite tax. Tax rates vary according to business classification (regulated, non-regulated, persons registered under the Pennsylvania Securities Act of 1972, manufacturing, wholesale, or retail) and method of tax computation employed. The various methods of tax computation are as follows: effective Fiscal Year 1989, all regulated industries, banks, trust companies, insurance companies, and public utilities, among others, were taxed at an annual rate of 3.25 mills on annual receipts not to exceed 6.5% of their net income. The tax on annual receipts and net income of all businesses, other than regulated industries, was levied at 3.25 mills and 6.5%, respectively, provided that persons registered under the Pennsylvania Securities Act of 1972 shall in no event pay a tax of less than 5.711 mills on all taxable receipts plus the lesser of 4.302% of net income or 4.302 mills on gross taxable receipts.

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale

transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

All persons subject to both the Business Privilege Tax and the Net Profits Tax are entitled to apply a credit of 60% of their Business Privilege Tax liability against what is due on the Net Profits Tax, which credit may be carried back or forward for up to three years.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the Business Privilege Tax from its previous level of 3.25 mills.

<u>Fiscal Year</u>	<u>Business Privilege Tax/Gross Receipts</u>
1996	3.000 mills
1997	2.950 mills
1998	2.875 mills
1999	2.775 mills
2000	2.650 mills
2001	2.525 mills
2002	2.400 mills
2003	2.300 mills
2004	2.100 mills
2005 (est.)	1.900 mills
2006 (budget)	1.750 mills

In the Fourteenth Five-Year Plan, the Mayor also proposed further reductions in this tax rate for each of Fiscal Years 2006-2010. The City proposes to accelerate the rate reductions for the gross receipts portion of the business privilege tax so that by Fiscal Year 2007, this tax will be only 58 percent of the rate that prevailed when the City began its tax cuts in 1996. There can be no assurance that the proposed reductions will be implemented.

All business activity is also assessed a one-time \$200 licensing fee administered by the Department of Licenses and Inspections.

Sales and Use Tax — In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The table below sets forth the City Sales Tax collected in Fiscal Years 1996 through 2004, the estimated collection for Fiscal Year 2005 and the budgeted collection for Fiscal Year 2006.

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<u>Fiscal Year</u>	<u>City Sales Tax Collections</u>
1996	\$ 82.4 million
1997	91.4 million
1998	94.5 million
1999	101.4 million
2000	103.7 million
2001	111.3 million
2002	108.1 million
2003	108.0 million
2004	108.0 million
2005	112.0 million*
2006	114.8 million**

* Estimated tax collections for Fiscal Year 2005

**Adopted budget estimate for Fiscal Year 2006

Other Taxes — The City also collects real property transfer taxes, parking lot taxes, and other miscellaneous taxes such as the Amusement Tax.

Other Locally-Generated Non-Tax Revenues — These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue From Other Governments — The City's Fiscal Year 2005 Adopted General Fund estimate projects that approximately 29.9% of General Fund revenues will be received from other governmental jurisdictions, including: (1) \$377.5 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) \$362.3 million from the Federal government; and (3) \$37.3 million from other governments, in which revenues are primarily principal and interest payments on loans made by the City on SEPTA's behalf and the Convention Center Service Fee offset. In addition, the projected net collections of the PICA Tax of \$222.0 million are included in "Revenue from Other Governments." These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) \$4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the \$4,994,000 amount was reduced to \$4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through

Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to \$4,994,000 but no payment was made. The Water Department expects to resume making the \$4,994,000 payment in Fiscal Year 2005.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of \$18,000,000 to the City's General Fund. For Fiscal Year 2004 the City has agreed to forgo the \$18,000,000 payment. The City's Five-Year Plan assumes that the \$18,000,000 payment will be made in each of Fiscal Years 2005 – 2008 and that the City will grant back such payment to PGW in each such Fiscal Year. The \$18,000,000 grant back was appropriated by the City for Fiscal Year 2005 and has been appropriated for Fiscal Year 2006.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorized PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

Revenues under the Lease Agreement with PPA – PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The amount that was transferred from the PPA to the City's Aviation Operating Fund as rent on June 30, 2004 was \$14,539,053. The City received transfers of rental payments in Fiscal Year 2002 and Fiscal Year 2003 that totaled \$15,326,571 and \$11,629,311, respectively. The Fiscal Year 2005 budget assumes a transfer in the amount of \$16,124,000 under the Lease Agreement.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.

Act 9 Litigation – On February 9, 2004, the Commonwealth enacted Act 9, which provides for the extension of the term of the Agreement of Cooperation for a period of ten (10) years. Act 9 additionally requires that the PPA turn over to the Philadelphia School District the portion of the annual revenue from on-street parking operations which it collects on behalf of the City, net of the PPA's operating and administrative costs, that exceeds \$25,000,000.

In April 2004, the City filed a lawsuit in the Commonwealth Court challenging the constitutionality of Act 9. The City named the PPA and the Governor of Pennsylvania as defendants in the lawsuit. Defendants filed preliminary objections to the lawsuit. The parties filed their briefs on the preliminary objections and oral arguments were held in September 2004. Following the Supreme Court's decision adverse to the City in related litigation, the parties filed supplemental briefs as to the impact of that decision on the Act 9 case. The Commonwealth Court ordered reargument on the case before the entire court, which occurred in early March 2005. In July 2005, the Commonwealth Court issued an order requiring additional briefing in light of a recent Pennsylvania Supreme Court decision which ruled on certain procedural issues in the enactment of the Gaming Commission legislation. Both sides have submitted the required briefs and a ruling on the preliminary objections is still pending.

Assessment and Collection of Real and Personal Property Taxes

The Board of Revision of Taxes (the "Board") appoints real estate assessors who annually assess all real estate located within the City. The assessors return assessments for each parcel of real estate to the Board. The Board may increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After the Board gives proper notice of all changes in property assessments, and after it has heard all assessment appeals, it then makes assessments and certifies the results to the Department of Revenue.

Real estate taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See the Fiscal Year 2004 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City decided to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City realized no Personal Property Tax revenues in Fiscal Year 1998 or in subsequent years. The Personal Property Tax had been levied on the value of certain personal property of the residents of the City.

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Table C-3
City of Philadelphia
Summary of
Principal Operating Funds (Debt Related)
Revenues By Major Source
Fiscal Years 1997-2006
(Legal Basis)
(Amounts in Millions of USD)

<u>Real & Personal Property Taxes^(a)</u>	<u>Wage Earnings & Net Profits Taxes^(a)</u>	<u>Business Privilege Tax^(a)</u>	<u>Sales and Use Tax^(a)</u>	<u>Other Taxes^(b)</u>	<u>Total Taxes</u>	<u>Water & Wastewater Charges</u>	<u>Airport Charges</u>	<u>Other Locally Generated Charges</u>	<u>Total Local Revenue</u>	<u>Revenue from Other Gov'ts</u>	<u>Revenue from Other City Funds</u>	<u>Total Revenues</u>
358.2	885.4 ^(c)	246.4	91.4	93.8	1,675.2	291.0	125.8	236.8	2,328.8	587.9	44.1	2,960.8
333.9 ^(d)	926.9 ^(c)	237.4	94.5	122.1	1,714.8	288.8	126.6	253.7	2,383.9	620.7	46.1	3,050.7
342.6	949.8 ^(c)	254.5	101.4	118.3	1,766.6	290.5	143.2	259.9	2,460.2	639.9	103.1	3,203.2
353.6	985.7 ^(c)	290.1	103.7	123.5	1,856.6	296.1	149.4	258.0	2,560.1	708.3	79.9	3,348.3
363.4	1,059.0 ^(e)	314.0 ^(e)	111.3	130.0 ^(e)	1,997.7	285.8	175.7	251.3	2,710.5	781.7	90.5	3,580.0
376.8	1,019.3	295.8	108.1	148.6	1,945.4	302.8	181.7	257.9	2,687.8	722.5	80.8	3,491.1
361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
377.7	1,062.6	309.2	108.0	202.2	2,059.6	383.1	235.0	207.4	2,885.1	834.2	92.1	3,811.4
392.7	1,087.3	379.5	119.9	250.9	2,230.3	419.7	246.3	200.8	3,097.1	1,082.4	71.6	4,251.1
394.3	1,100.4	316.2	114.8	217.9	2,143.5	463.1	289.9	243.8	3,140.3	1,081.3	211.1	4,432.8

See Table 5 in the Fiscal Year 2004 Comprehensive Annual Financial Report for Tax Rates.

Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.

In Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on the PICA bonds and PICA's expenses.

The City ceased collecting the Personal Property Tax in Fiscal Year 1997.

Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal Year 2001. (Wage Tax, \$50.4 million; Business Privilege, \$5.2 million; Other Taxes, \$4.3 million).

RES MAY NOT ADD DUE TO ROUNDING.

Table C-4
City of Philadelphia General Fund
Tax Revenues (a)
Fiscal Years 2001-2006
(Amounts In Millions of USD)

	2001	2002	2003	2004	Audited 2005	Adopted Budget 2006
REAL PROPERTY TAXES						
Current	325.8	333.2	329.4	332.6	353.2	346.3
Prior	<u>37.6</u>	<u>40.4</u>	<u>31.7</u>	<u>45.1</u>	<u>39.5</u>	<u>48.0</u>
Total	<u>363.4</u>	<u>373.6</u>	<u>361.1</u>	<u>377.7</u>	<u>392.7</u>	<u>394.3</u>
PERSONAL PROPERTY TAXES						
Current ^(b)	0.0	0.0	0.0	0.0	0.0	0.0
Prior	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
WAGE AND EARNINGS TAX^(c)						
Current	1,023.1 ^(d)	981.8	987.2	1,034.5	1,066.0	1,067.7
Delinquent	<u>24.1</u>	<u>24.2</u>	<u>26.2</u>	<u>15.1</u>	<u>7.6</u>	<u>19.0</u>
Total	<u>1,047.2</u>	<u>1,006.0</u>	<u>1,013.4</u>	<u>1,049.6</u>	<u>1,073.6</u>	<u>1,086.7</u>
BUSINESS TAXES						
Business Privilege						
Current	275.5	273.8	238.7	269.9	326.7	274.2
Delinquent	<u>38.5</u>	<u>22.0</u>	<u>47.4</u>	<u>39.2</u>	<u>52.8</u>	<u>42.0</u>
Sub-Total Business Privilege	<u>314.0</u>	<u>295.8</u>	<u>286.1</u>	<u>309.2</u>	<u>379.5</u>	<u>316.2</u>
Net Profits Tax						
Current	10.6	11.4	10.1	11.3	12.0	11.5
Delinquent	<u>1.2</u>	<u>2.0</u>	<u>1.6</u>	<u>1.7</u>	<u>1.7</u>	<u>2.2</u>
Sub-Total Net Profits Tax	<u>11.8</u>	<u>13.4</u>	<u>11.7</u>	<u>13.0</u>	<u>13.7</u>	<u>13.7</u>
Total Business Taxes	<u>325.8</u>	<u>309.2</u>	<u>297.8</u>	<u>322.1</u>	<u>393.2</u>	<u>329.9</u>
OTHER TAXES						
Sales and Use Tax	111.3	108.1	108.0	108.0	119.9	114.8
Amusement Tax	13.0 ^(d)	13.8	14.1	18.3	13.5	19.0
Real Property Transfer Tax	77.0	96.7	103.4	141.3	192.3	147.5
Parking Taxes	39.0 ^(d)	37.9	38.7	42.5	45.0	47.3
Other Taxes	<u>0.5</u>	<u>0.1</u>	<u>0.1</u>	<u>.1</u>	<u>0.1</u>	<u>4.1</u>
Sub-Total Other Taxes	<u>241.3</u>	<u>256.6</u>	<u>264.3</u>	<u>310.2</u>	<u>370.8</u>	<u>332.7</u>
TOTAL TAXES	<u>1,977.7</u>	<u>1,945.4</u>	<u>1,936.6</u>	<u>2,059.6</u>	<u>2,230.3</u>	<u>2,143.5</u>

a) See Table 5 in the Fiscal Year 2004 Comprehensive Annual Financial Report for Tax Rates.

b) The City ceased levying the Personal Property Tax during the latter part of Fiscal Year 1997.

c) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.

d) See Note (e) on Table C-3.

FIGURES MAY NOT ADD DUE TO ROUNDING.

**Table C-5
Ten Largest Certified Market and Assessment Values
of Tax Abated Properties
January 1, 2005**

	<u>Location</u>	<u>2005 Certified Market Value</u>	<u>Total Assessment</u>	<u>Total Taxable Assessment</u>	<u>Total Exempt Assessment</u>
1	2201 Park Towne Place	\$48,000,000	\$15,360,000	\$13,452,400	\$1,907,600
2	819-41 Chestnut Street	38,000,000	12,160,000	5,440,000	6,720,000
3	1600-18 Arch Street	37,661,200	12,051,584	2,550,400	9,501,184
4	3118-98 Chestnut Street	30,859,800	9,875,136	2,827,616	7,047,520
5	801 Market Street	30,000,000	9,600,000	1,544,000	8,056,000
6	200 West Washington Sq.	24,826,432	7,944,458	649,618	7,294,840
7	11000 East Roosevelt Blvd.	24,277,400	7,768,768	3,680,000	4,088,768
8	3175 John F. Kennedy Blvd.	24,010,000	7,683,200	2,400,000	5,283,200
9	1319-25 Market Street	22,950,000	7,344,000	1,568,000	5,776,000
10	111 South 15th Street	22,208,000	7,106,560	960,000	6,146,560

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

EXPENDITURES OF THE CITY

The major City expenditures are for personal services, employee benefits, purchase of services (including payments to SEPTA), and debt service.

Personal Services (Personnel)

As of June 30, 2005, the City employed 27,861 full-time employees with the salaries of 23,196 employees paid from the General Fund. Additional employment is supported by other funds, including the Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

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The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

**Table C-6 City of Philadelphia
Filled, Full-Time Positions – All Operating Funds**

	At June 30' Actual				Audited	Adopted Budget
	2001	2002	2003	2004	2005	2006
General Fund						
Police	7,807	7,800	7,983	7,704	7,368	7,239
Streets	2,141	2,080	2,009	1,937	1,788	1,848
Fire	2,500	2,458	2,479	2,336	2,248	2,345
Health	861	856	782	756	667	680
Courts	2,038	2,039	2,058	2,039	2,004	1,852
Other	<u>9,306</u>	<u>9,289</u>	<u>9,400</u>	<u>8,987</u>	<u>8,890</u>	<u>8,881</u>
Total General Fund	24,653	24,372	24,582	23,759	22,927	22,845
Other Funds	<u>4,649</u>	<u>4,700</u>	<u>4,659</u>	<u>5,035</u>	<u>4,649</u>	<u>5,381</u>
TOTAL	<u>29,302</u>	<u>29,072</u>	<u>29,241</u>	<u>28,794</u>	<u>27,614</u>	<u>28,226</u>

Labor Agreements

Four major bargaining units represent City employees for collective bargaining purposes. District Councils 33 and 47 of the American Federation of State, County and Municipal Employees, AFL-CIO represents approximately 15,000 non-uniformed employees. The bargaining units for uniformed employees are the Fraternal Order of Police, Lodge 5 (the "FOP") and the Philadelphia Fire Fighters Association, Local 22, International Association of Fire Fighters AFL-CIO ("Local 22"), which together represent approximately 9,400 employees. The non-uniformed employees bargain under Act 195 of 1972, which allows for the limited right to strike over collective bargaining impasses. The uniformed employees bargain under Pennsylvania Act 111 of 1968, which provides for final and binding interest arbitration to resolve collective bargaining impasses. All contract expiration dates are June 30 unless otherwise noted.

In September 2004, a collective bargaining agreement was reached with District Council 47. This four-year contract includes a \$750 payment to each member with no general wage increase in Fiscal Year 2005 and wage increases of 2, 3 and 4 percent effective July 1 of each succeeding year, respectively. In December 2004, a collective bargaining agreement was reached with District Council 33, which mirrored the agreement previously reached with District Council 47.

In 2003, an arbitration panel awarded Local 22 a 3% increase in wages effective July 1, 2002, a 3.5% wage increase effective July 1, 2003 and a 3% wage increase effective July 1, 2004. The three-year award also granted significant increases in health and welfare benefits to Local 22. That awarded contract expires in 2005. The City is currently in Act 111 interest arbitration with the firefighters. An award is expected in December 2005.

The present FOP contract contains a 3% increase in wages effective July 1, 2004, 3% effective July 1, 2005, 3% effective July 1, 2006 and a 4% increase effective July 1, 2007. The City and FOP are currently in hearings regarding the health insurance reopener for Fiscal Year 2006 and Fiscal Year 2007.

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The following table presents employee wage increases for the Fiscal Years 1998 through 2008.

**Table C-7
City of Philadelphia
Employee Wage Increases
Fiscal Years 1998-2008**

<u>Fiscal Year</u>	<u>District Council No. 33</u>	<u>District Council No. 47</u>	<u>Fraternal Order of Police</u>	<u>International Association of Fire Fighters</u>
1998	(a)	(a)	4.0%	(b) 4.0%
1999	3.0%	3.0%	3.0%	(e) 3.0%
2000	4.0%	4.0%	4.0%	(h) 4.0%
2001	No increase	No increase	3.0%	3.0%
2002	3.0%	3.0%	4.0%	4.0%
2003	3.0%	3.0%	3.0%	3.0%
2004	3.0%	3.0%	3.5%	3.5%
2005	No increase	No increase	3.0%	3.0%
2006	2.0%	2.0%	3.0%	
2007	3.0%	3.0%	4.0%	
2008	-4.0%	4.0%		

- (a) Second year of a four year contract: 3% effective December 15, 1997.
- (b) Second year of a two year contract: 4% effective September 15, 1997.
- (c) Second year of a four year contract: 4% effective September 15, 1997.
- (d) Third year of a four year contract: 3% effective December 15, 1998.
- (e) First year of a two year contract: 3% effective September 15, 1998.
- (f) Third year of a four year contract: 3% effective September 15, 1998.
- (g) Fourth year of a four year contract: 4% effective March 15, 2000.
- (h) Second year of a two year contract: 4% effective September 15, 1999.
- (i) Fourth year of a four year contract: 4% effective September 15, 1999.
- (j) First year of a four year contract: cash bonus of \$1,500 paid in August 2000.
- (k) Second year of a four year contract: 3% effective December 15, 2001.
- (l) Third year of a four year contract: 3% effective December 15, 2002.
- (m) First year of a four year contract: cash bonus of \$750 paid in October 2004 to District Council 47 members and in December 2004 to District Council 33 members.

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Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2001 through 2006 are shown in the following table.

**Table C-8 City of Philadelphia
General Fund Employee Benefit Expenditures
Fiscal Years 2001-2006
(Amounts in Millions of USD)**

	Actual					Adopted Budget
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Pension Contribution	194.2	196.6	205.7	229.4	315.5	349.8
Health/Medical/Dental	186.7	187.6	226.6	253.7	285.9	283.2
Social Security	57.8	57.4	59.4	60.6	59.9	62.6
Other	<u>44.6</u>	<u>44.2</u>	<u>48.9</u>	<u>55.2</u>	<u>43.4</u>	<u>58.9</u>
Total	<u>483.3</u>	<u>485.8</u>	<u>540.6</u>	<u>598.9</u>	<u>704.7</u>	<u>754.5</u>

Municipal Pension Fund (Related to All Funds)

The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system covering all officers and employees of the City. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

- A. Accrued actuarially determined normal costs.
- B. Amortization of the unfunded actuarial accrued liability ("UAAL") determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.
- C. Amortization in level dollar payments of the changes in the July 1, 1985 liability due to: nonactive member's benefit modifications (10 years); experience gains and losses (15 years); changes in actuarial assumptions (20 years); and active members' benefit modifications (20 years).

The pension fund was actuarially valued every two years through 1984, and beginning with the July 1, 1985 valuation report, is required to be actuarially valued each year.

The July 1, 1980 unfunded liability, as amended by subsequent reports, will be amortized over 38 years through annual contributions which will closely approximate a level percent of payroll. The Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, enacted December 18, 1984 adopted changes in funding of municipal pensions that have been reflected in the valuation report for July 1, 1985. In particular, this act generally requires that unfunded actuarial accrued liability be funded in annual level dollar payments. The City is permitted to amortize the July 1, 1985 UAAL over 40 years ending in 2025.

Based on an actuarial schedule providing payments increasing at 5.0% per annum, the unfunded accrued liability of \$1.8 billion, as of July 1, 2002 should be fully amortized by 2019.

Non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon attainment of age fifty-five. Upon retirement, non-uniformed employees may receive up to 80% of their average final compensation depending upon their years of credited service. Uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon attainment of age forty-

five. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service.

Effective January 1, 1987 the City adopted a new plan ("Plan 87") to cover employees hired after January 8, 1987, as well as members in the previous Plan who elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. Police and Fire personnel became eligible for Plan 87 on July 1, 1988. Because of Court challenges, members of District Council 33 and Local 2187 of District Council 47 were not eligible for Plan 87 until October 2, 1992.

A comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 1995 through 2004 is contained in the Fiscal Year 2004 Comprehensive Annual Financial Report.

Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2001 through 2006.

Table C-9
City of Philadelphia
Purchase of Services In The General Fund
Fiscal Years 2001-2006
(Amounts In Millions of USD)

	Actual					Adopted Budget
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Human Services (a)	360.2	393.1	452.2	493.7	511.8	565.0
Public Health	62.0	73.6	68.2	69.1	60.7	63.9
Public Property(b)	140.3	144.3	135.1	132.4	133.3	136.3
Streets(c)	49.7	50.4	54.4	53.9	54.6	60.1
Sinking Fund-Lease Debt(d)	42.6	57.8	74.3	70.8	70.7	85.8
Legal Services(e)	27.1	29.5	30.9	33.4	33.5	33.6
First Judicial District	28.8	21.9	27.5	23.0	28.3	23.5
Licenses & Inspections(f)	23.7	25.9	2.9	6.0	3.1	11.6
Emergency(g)	11.8	11.6	13.9	12.0	22.1	11.0
All Other	<u>125.6</u>	<u>142.9</u>	<u>147.7</u>	<u>156.0</u>	<u>172.0</u>	<u>163.5</u>
Total	<u>871.8</u>	<u>951.2</u>	<u>1,007.1</u>	<u>1,050.3</u>	<u>1,090.1</u>	<u>1,154.2</u>

(a) Includes payments for care of dependent and delinquent children.

(b) Includes payments for SEPTA, space rentals, utilities, and telecommunications.

(c) Includes solid waste disposal costs.

(d) Includes Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.

(e) Includes payments to the Defender Association to provide legal representation for indigents.

(f) Includes payments for demolition in Fiscal Years 2001, 2002 and 2006.

(g) Includes homeless shelter and boarding home payments.

FIGURES MAY NOT ADD DUE TO ROUNDING

City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of \$15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual \$20 million beginning in Fiscal Year 2002.

Act 9 requires that the PPA transfer to the School District at the end of each fiscal year commencing with fiscal year 2004 that portion of the net revenues derived from the system of on-street parking operations which exceeds \$25,000,000. The City has instituted a lawsuit in the Commonwealth Court challenging the constitutionality of Act 9. See "Revenues of the City - Philadelphia Parking Authority - Act 9 Litigation" above.

City Loan to PGW

The City made a loan of \$45 million to PGW during Fiscal Year 2001 to assist PGW in meeting its cash flow requirements. This loan is scheduled to mature in Fiscal Year 2007; however, the current Five-Year Plan projects that the loan will be repaid in the City's Fiscal Year 2009. The extension of the repayment date to Fiscal Year 2009 is subject to City Council approval. In addition, in order to assist PGW, (i) the City agreed to forgo the \$18 million annual rental payment in Fiscal Year 2004, and (ii) the City's Five-Year Plan contemplates that in each of the Fiscal Years 2005 - 2008, the City will make a grant to PGW equal to the annual rental payment received from PGW in such Fiscal Years. The \$18 million grant back was appropriated by the City for Fiscal Year 2005 and has been appropriated for Fiscal Year 2006.

City Payments to SEPTA

The City's Fiscal Year 2005 operating subsidy payment to SEPTA was \$57.8 million. The Fiscal Year 2006 budget projects operating subsidy payments to SEPTA of \$59.2 million. The Fourteenth Five-Year Plan provides that the City's contribution to SEPTA will increase to \$64.7 million by Fiscal Year 2010.

DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of June 30, 2005, the Constitutional debt limitation for tax-supported general obligation debt was approximately \$1,304,037,000 (based upon a formula of 13.5% of the assessed value of real estate within the City on a 10 year rolling average). The City has total authorized general obligation debt of \$1,587,471,000, including approximately \$364,474,000 of self-sustaining debt, which does not count against the constitutional debt limit. In addition, maturing serial bonds in the approximate amount of \$29,884,000 were repaid in Fiscal Year 2005. As a result, \$1,205,496,000 of general obligation debt subject to the constitutional debt limit was outstanding on June 30, 2005. A balance of \$98,541,000 remained available for future authorization as of June 30, 2005.

The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1972. Currently, the City issues revenue bonds to support the Division of Aviation, the Water Department and the PGW. Bonds so issued are excluded for purposes of the calculation of the Constitutional debt limit.

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972. Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued \$370 million of Tax and Revenue Anticipation Notes in July 2005. The notes are due on June 30, 2006. The City intends to repay these notes when due at maturity.

Long-Term Debt

Table C-10 presents a synopsis of the bonded debt of the City and its component units at the close of Fiscal Year 2005. In addition, see the Fiscal Year 2004 Comprehensive Annual Financial Report for tables setting forth a ten year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness. As of June 30, 2005, the City's tax-supported general obligation debt issued and outstanding equaled \$1,205,496,000.

Of the total balance of City tax-supported general obligation bonds outstanding at June 30, 2005, 10.8% is scheduled to mature within 5 years and 26.2% is scheduled to mature within 10 years.

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations. As of June 30, 2005, the principal amount of the outstanding bonds of each of these authorities relating to the City's contract and lease obligations was as follows:

PMA	\$230.0 million
PAID	\$1,605.3 million
Parking Authority	\$18.2 million
Redevelopment Authority	\$282.8 million
Hospitals Authority	\$23.4 million
Convention Center Authority	\$229.4 million

Source: Office of the Director of Finance

The bonds of the Parking Authority included in the previous table are payable from project revenues, and by the City only if and to the extent that net revenues are inadequate for this purpose. The City paid \$0.6 million in Fiscal Year 2004 and \$3.1 million in Fiscal Year 2005 toward the repayment of these bonds. See "Revenues of the City -- Philadelphia Parking Authority."

The Hospitals Authority has issued bonds on behalf of the Community College of Philadelphia ("CCP"). These bonds are secured by, among other things, payments to be made by the City as the local sponsor pursuant to the enabling legislation that authorized the creation of CCP. As the local sponsor, the City is obligated to pay up to 50% of the debt service on bonds issued on behalf of CCP. The principal amount of such bonds for which the City is obligated to make such payments was \$23,355,000 as of June 30, 2005; this amount represents 50% of the \$46,710,000 principal amount of bonds issued and outstanding for CCP purposes as of June 30, 2005.

Recent Financings

In June 2005, the City issued revenue bonds for the Airport, including \$41,000,000 Airport Variable Rate Revenue Bonds, Series 2005 B, which were issued to provide funding for the Airport's capital program, including

improvements to the baggage security facilities and \$189,500,000 of Airport Variable Rate Refunding Bonds, Series 2005C (the "2005C Bonds"). The 2005 C Bonds were issued to refund a portion of the Airport's 1995A bonds.

In August 2005, the City issued bonds for the Airport , including \$124,985,000 Airport Revenue Bonds, Series 2005A, which were issued to finance capital programs at the Airport included in the City's capital budget.

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Table C-10
City of Philadelphia
City Related Bond Indebtedness
June 30, 2005
(Amounts In Millions of USD)

	<u>Governmental Fund Types</u>				<u>Enterprise Funds</u>			<u>All Funds Totals</u>
	<u>City General Fund</u>	<u>Municipal Authority Fund</u>	<u>PICA</u>	<u>Gov't Fund Totals</u>	<u>Water Fund</u>	<u>Aviation Fund</u>	<u>Enterprise Funds Totals</u>	
Bond Debt Outstanding, July 1, 2004	<u>1,021.0</u>	<u>248.5</u>	<u>770.7</u>	<u>2,040.2</u>	<u>1,738.4</u>	<u>1,092.9</u>	<u>2,831.3</u>	<u>4,871.5</u>
Bonds Issued:								
General Obligation	-	-	-	-	-	-	-	-
General Obligation Refunding	-	-	-	-	-	-	-	-
Revenue Bonds	-	-	-	-	250.0	41.0	291.0	291.0
Revenue Funding	-	-	-	-	86.1	189.5	275.6	275.6
Total Bonds Issued	-	-	-	-	<u>336.1</u>	<u>230.5</u>	<u>566.6</u>	<u>566.6</u>
Bonds Matured-Refunded								
General Obligation	30.1	18.5	-	48.6	1.1	2.4	3.5	52.1
General Obligation Refunded	-	-	-	-	-	-	-	-
Revenue	-	-	-	-	70.8	35.4	106.2	106.2
Revenue Refunded	-	-	-	-	80.7	183.9	264.6	264.6
Total Bonds Matured-Refunded	<u>30.1</u>	<u>18.5</u>	-	<u>48.6</u>	<u>152.6</u>	<u>221.7</u>	<u>374.3</u>	<u>422.9</u>
Bonded Debt Outstanding June 30, 2005								
General Obligation	990.9	230.0	770.7	1,991.6	8.1	-	8.1	1,999.7
Revenue	-	-	-	-	1,913.8	1,101.7	3,015.5	3,015.5
Total Bonded Debt Outstanding	<u>990.9</u>	<u>230.0</u>	<u>770.7</u>	<u>1,991.6</u>	<u>1,921.9</u>	<u>1,101.7</u>	<u>3,023.6</u>	<u>5,015.2</u>
Linking Fund Assets Available for Payment of Principal and Interest Debt	-	-	-	-	174.0	47.0	221.0	221.0
	<u>990.9</u>	<u>230.0</u>	<u>770.7</u>	<u>1,991.6</u>	<u>1,747.9</u>	<u>1,054.7</u>	<u>2,802.6</u>	<u>4,794.2</u>

Source: Office of Director of Finance

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2006-2011 contemplates a total expenditure of \$5,494,288,000 of which \$2,288,365,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts anticipated to be spent each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2006-2011 on June 16, 2005.

**Table C-11
City of Philadelphia
Fiscal Years 2006-2011
Capital Improvement Program
(Amounts in Thousands of USD)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
New Loans	68,148	53,584	49,899	49,061	47,570	45,712	313,974
Operating Revenue	31,738	5,550	5,250	5,250	5,250	5,250	58,288
Carried Forward Loans	209,412	0	0	0	0	0	209,412
Prefinanced Loans	1,000	1,000	1,000	1,000	1,000	1,000	6,000
PICA Prefinanced Loans	<u>2,257</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,257</u>
Tax-Supported Total	312,555	60,134	56,149	55,311	53,820	51,962	589,931
New Loans	209,747	264,276	320,248	381,913	296,347	325,216	1,797,747
Operating Revenue	68,720	17,968	18,168	17,668	17,868	18,068	158,460
Self-Sustaining Operating	<u>641,785</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>641,785</u>
Self-Sustaining Total	920,252	282,244	338,416	399,581	314,215	343,284	2,597,992
Revolving Funds	<u>18,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,000</u>
Federal	308,880	114,524	85,460	67,532	64,792	64,372	705,560
Federal Off Budget	123,762	145,602	169,708	167,101	129,665	93,970	829,808
State	47,425	10,211	6,665	4,448	5,738	4,608	79,095
State Off Budget	38,154	61,012	60,800	67,195	72,928	61,628	361,717
Private	107,837	29,020	29,020	28,520	28,520	28,520	251,437
Other Governments/Agencies	54,000	0	0	0	0	0	54,000
Other Governments/Off-Budget	<u>643</u>	<u>789</u>	<u>1,115</u>	<u>1,255</u>	<u>1,621</u>	<u>1,325</u>	<u>6,748</u>
Other Than City Funds Total	<u>680,701</u>	<u>361,158</u>	<u>352,768</u>	<u>336,051</u>	<u>303,264</u>	<u>254,423</u>	<u>2,288,365</u>
Grand Total	<u>1,931,508</u>	<u>703,536</u>	<u>747,333</u>	<u>790,343</u>	<u>671,299</u>	<u>649,669</u>	<u>5,494,288</u>

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LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Aviation Division, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Aviation Division, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," (the "Tort Claims Act") establishes a \$500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of a decision upholding such constitutionality to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages in State Court cases are not subject to the \$500,000 limitation. Moreover, the limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was \$30.2 million for Fiscal Year 2001, \$30.0 million for Fiscal Year 2002, \$24.1 million for Fiscal Year 2003, \$24.5 million for Fiscal Year 2004, and \$27.5 million for Fiscal Year 2005. Estimates of settlements and judgments from the General Fund are \$23.0 million, \$25.1 million, \$25.4 million, \$24.0 million, and \$24.0 million for Fiscal Years 2006 through 2010, respectively. In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2005, payments for claims arising from labor settlements in the General Fund amounted to \$2.6 million of which \$2.0 million was paid from the indemnities account, and \$0.6 million from the operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged \$27.3 million per year over the five years from Fiscal Year 2001 through Fiscal Year 2005.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; a class action suit alleging that the City failed to properly oversee management of funds in the deferred compensation plan of City employees; two civil rights claims; a pay dispute with former and current paramedics; a claim made by a Philadelphia sports franchise alleging damages for the cancellation of a professional exhibition game allegedly because the field at Veterans' Stadium was not in playable condition; and a federal lawsuit was filed by twenty-four homeowners in the Osage-Pine neighborhood whose homes were destroyed in the MOVE altercation of 1985.

The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in the preceding paragraph are not currently predictable. Various claims in addition to the lawsuits described above have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2003 which resulted from these claims and lawsuits was \$3.9 million, \$2.9 million for Fiscal Year 2004, and \$2.3 million for Fiscal Year 2005. The Water Department's estimated liability for Water Department claims in the amount of

\$6.5 million, although the current estimate is for only \$3.0 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

CRIMINAL INVESTIGATION

The Office of the U.S. Attorney and the Federal Bureau of Investigation are currently conducting an investigation, in the course of which they have subpoenaed certain records and communication devices of the City of Philadelphia, including records of the Division of Aviation. The Administration has responded to the subpoenas and has provided the items requested.

On June 29, 2004, a federal grand jury issued indictments against twelve individuals including former City Treasurer, Corey Kemp. The indictment against Mr. Kemp charges him with, among other things, conspiracy to commit honest services fraud, extortion and money laundering. These charges relate to Mr. Kemp's activities as City Treasurer, including the appointment of firms to participate in municipal bond and other financial transactions of the City. On May 9, 2005 Mr. Kemp was convicted of a number of the charges filed against him. Of the 11 other individuals indicted, five have entered guilty pleas, one is now deceased, one has been acquitted and four have been convicted of some of the charges.

On September 29, 2004, a federal grand jury issued indictments against seven individuals including John Christmas, former special assistant to the Chief of Staff for the Mayor, and Steven Vaughn, former Chief of Staff for the City Councilperson elected to represent the Eighth District. The indictment against Mr. Christmas charged him with scheming to defraud, conspiracy to commit mail fraud, perjury and making false statements. These charges related to certain activities of Mr. Christmas which allegedly resulted in the improper awarding of a City contract. On June 14, 2005, the jury acquitted Mr. Christmas of all of the charges against him, other than a perjury charge on which it was unable to reach a verdict. The indictment against Mr. Vaughn charges him with scheming to defraud and conspiracy to commit mail fraud. These charges relate to certain activities of Mr. Vaughn which allegedly resulted in fraudulent representations made in the awarding of a City contract. Mr. Vaughn entered a plea of guilty to charges against him and has not yet been sentenced.

The City is cooperating fully with federal investigators in pursuing their case.

ADDITIONAL INFORMATION

Current City Practices

It is the practice of the City in connection with the issuance and sale of each issue of the City's bonds or notes, to require in its contract with its underwriters that the underwriters deposit the official statement of the City relating to such issue of bonds or notes with a nationally recognized municipal securities information repository (a "Repository") as soon as practicable after delivery of such official statement. It is also the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. The CAFR for the City's fiscal year ended June 30, 2004 was deposited with a Repository on February 23, 2005. The CAFR for the City's fiscal year ended June 30, 2005 was released on January 19, 2006. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the Fiscal Year ended June 30, 2005. Such a request should be request should be addressed to: Office of the Director of Finance (Attention: Accounting), Suite 1330 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. The City also expects to provide financial and other information as to the City from time to time to Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.52 million people. The City is in the heart of a nine-county metropolitan area with approximately 5.1 million residents. Air, rail, highway, and water routes provide easy access to the City.

The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest in terms of total retail sales and disposable income with approximately one-half of the population of the United States living within an overnight drive.

Quality of Life

The City is very livable with relatively low housing costs. The National Association of Realtors Affordability Index ranks the Philadelphia region as the 22nd most affordable housing market out of 180 sampled in the United States.

The City is rich in history, art, architecture, and entertainment. World-class cultural and historic attractions include the Philadelphia Museum of Art (which houses the third largest art collection in the United States), the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, the Constitution Center, the Kimmel Center, Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia, and the Rodin Museum. The South Philadelphia sports complex, currently consisting of Lincoln Financial Field, Citizen's Bank Park, the Wachovia Spectrum and the Wachovia Center, is home to the Philadelphia 76ers, Flyers, Phillies and Eagles. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell, as well as Fairmount Park, which includes Pennypack Park and the country's first zoo, within its 8,000 acres.

The City is a center for health, education, and science facilities with presently more than 30 hospitals, seven medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

The City has eighty degree-granting institutions of higher education with a total enrollment of over 110,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

The City also has major research facilities, including those located at its universities, the medical schools, the Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia has recently completed the construction of a new \$100 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. A major new cancer research center is also planned by the University of Pennsylvania.

Demographics

During the ten year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of the Philadelphia Primary Metropolitan Statistical Area ("PMSA") increased by 5.0%, less than one-half the national rate of increase.

**Table C-12
Population
City, PMSA & Nation**

	1990	2000	% Change 1990-2000
Philadelphia	1,585,577	1,517,550	-4.3%
Philadelphia PMSA*	4,856,881	5,100,931	5.0%
United States	248,709,873	281,421,906	13.2%

Source: U.S. Dept. of Commerce, Bureau of the Census.

* The Philadelphia, PA-NJ Primary Metropolitan Statistical Area includes the counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia in Pennsylvania and the counties of Burlington, Camden, and Gloucester in New Jersey. In 1993, Salem County, New Jersey was added to the Philadelphia, PA-NJ PMSA.

**Table C-13
Population Age Distribution**

Age	Philadelphia				Pennsylvania			
	1990	% of Total	2000	% of Total	1990	% of Total	2000	% of Total
0-24	563,816	35.6	551,308	36.3	4,021,585	33.8	3,877,729	32.3
25-44	490,224	30.9	444,774	29.3	3,657,323	30.8	3,515,421	29.3
45-64	290,803	18.3	307,746	20.2	2,373,629	20.0	2,701,930	22.5
65-84	217,913	13.7	186,383	12.3	1,657,270	13.9	1,666,641	13.9
85 & up	22,801	1.4	27,339	1.8	171,836	1.4	232,295	1.9
Total	1,585,577	100.0	1,517,550	100.0	11,881,643	100.0	11,994,016	100.0

Source: U.S. Dept. of Commerce, Bureau of the Census.

Age	United States			
	1990	% of Total	2000	% of Total
0-24	90,342,198	36.3	99,437,266	35.3
25-44	80,754,835	32.5	85,040,251	30.2
45-64	46,371,009	18.6	61,952,636	22.0
65-84	28,161,666	11.3	30,752,166	11.0
85 & Up	3,080,165	1.2	4,239,587	1.5
Total	248,709,873	100.0	281,421,906	100.0

Source: U.S. Dept. of Commerce, Bureau of the Census.

The Economy

Philadelphia's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major business and personal service center with strengths in insurance, law, finance, health, education, and utilities.

The cost of living in Philadelphia is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

Table C-14
Office Rental Rates in Cities
Throughout the United States

(In \$ Per Square Foot)

	Sept, 2000	March, 2001	March, 2002	March, 2003	January, 2004	January, 2005
Atlanta	20.20	22.08	21.60	23.91	23.09	21.92
Chicago	28.16	24.03	24.02	22.30	29.97	28.47
Dallas	20.87	18.51	19.77	21.32	20.58	19.71
Denver	19.70	18.27	16.58	18.29	17.84	17.24
Houston	22.61	16.30	18.20	19.97	19.29	18.21
Los Angeles	20.64	27.30	27.42	27.62	25.56	26.55
New York	43.10	53.26	47.20	43.53	45.51	45.16
Philadelphia	21.28	23.49	22.16	23.97	23.24	21.97
Phoenix	20.28	21.57	21.11	20.90	20.38	19.39
Portland	21.50	20.50	20.00	21.55	20.59	19.65
San Francisco	78.21	61.80	30.20	28.01	27.15	27.75
St. Louis	19.35	17.97	17.83	21.93	20.52	19.91
Tampa	20.25	18.93	18.89	19.66	19.23	18.01
Washington, D.C.	35.76	30.52	30.63	39.08	31.05	35.95

Source: Insignia/ESG Commercial Market Report, National Market Overview.

Employment

The employment and unemployment rates and the total number of jobs within the City are reflected in Tables C-15 and C-16, respectively.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. The City's and region's economies are diversified, with strong representation in the health care, government, and education sectors but without the domination of any single employer or industry.

In accordance with the federal government's plans to close military facilities, the City saw several major closure actions in the 1990's, including the Philadelphia Navy Shipyard and Naval Station ("Navy Yard"), the Philadelphia Naval Hospital, and the former Defense Supply Center of Philadelphia. At the time of their closures, these facilities employed in excess of 20,000 people.

Since these closure actions and the subsequent transfer of property from the federal government, the City has seen substantial progress in the revitalization of these assets and rebuilding the lost employment base. Most significant, employment at the former Navy Yard complex has begun to climb. In March 2000, the Philadelphia Authority for Industrial Development ("PAID") took ownership of more than 1,000 acres at the site and has begun to implement aggressive redevelopment activities. To date, at least 47 companies have leased or purchased in excess of 2 million square feet of facilities at the complex, now known as the Philadelphia Naval Business Center ("PNBC"). In addition to this employment, the Navy has retained more than 2 million square feet of facilities. Together, the private and Navy facilities employ more than 5,500 people. Long term plans call for more than 10 million square feet of industrial and commercial space at PNBC, with employment targeted between 15,000-20,000.

Table C-15
Labor Force Data Annual Average
Based On Residency

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Philadelphia (000)										
Labor Force	644.2	641.4	643.0	640.0	644.2	628.7	666.4	680.3	672.1	678.3
Employment	594.4	596.1	598.3	600.4	606.9	590.1	625.0	628.5	628.5	633.5
Unemployment	49.8	45.3	44.7	39.6	36.8	38.6	41.3	51.7	43.6	44.8
Unemployment Rate (%)	7.7	7.1	7.0	6.2	5.8	6.1	6.4	7.5	7.7	7.4
Philadelphia PMSA (000)										
Labor Force	2,428.5	2,464.2	2,502.1	2,493.1	2,515.4	2,503.2	2,534.8	2,649.2	2,645.0	2,660.6
Employment	2,286.3	2,334.1	2,380.5	2,385.5	2,412.9	2,403.5	2,425.1	2,502.3	2,519.5	2,544.3
Unemployment	142.2	130.1	121.6	107.6	104.6	99.8	109.7	146.9	125.2	116.3
Unemployment Rate (%)	5.9	5.3	4.9	4.3	4.1	4.0	4.3	5.5	4.7	4.4
United States (000,000)										
Labor Force	132.3	133.9	136.3	137.7	139.4	140.9	143.7	144.9	146.5	147.4
Employment	124.9	126.7	129.6	131.5	133.5	135.2	136.9	136.5	137.7	139.3
Unemployment	7.4	7.2	6.7	6.2	5.9	5.7	6.8	8.4	8.8	8.1
Unemployment Rate (%)	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	5.4	5.5

Source: Pennsylvania Department of Labor and Industry, Bureau of Research and Statistics. Pennsylvania Civilian Labor Force Series by County of Residence and Pennsylvania Civilian Labor Force Series by Labor Market Area.

(a) Important Notice: Labor force data beginning January 1994 are not comparable to earlier data due to the implementation of revised survey methodology by the U.S. Department of Labor.

* Preliminary

Table C-16
Philadelphia
Total Monthly Employment And Monthly Unemployment Rates
Based On Residency
2000 - 2004

<u>Month</u>	<u>Total Employment in 000's</u>					<u>Unemployment Rate %</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
January	582.3	589.3	590.5	612.9	661.8	6.1	6.2	7.1	8.3	7.7
February	581.7	588.9	586.1	614.1	662.2	6.1	6.4	7.3	8.4	7.4
March	583.6	592.8	589.0	618.0	667.8	5.9	6.1	7.3	7.6	7.4
April	585.3	593.4	592.8	618.8	668.0	5.5	5.7	6.6	7.3	6.8
May	586.6	596.8	594.5	618.4	672.0	6.1	6.4	7.8	7.8	7.4
June	595.2	605.6	600.0	626.2	680.9	6.2	6.6	7.7	8.0	8.1
July	598.8	609.9	605.8	631.5	687.1	6.4	6.6	8.0	7.9	7.5
August	596.9	606.0	604.1	631.7	682.2	6.1	6.5	7.7	7.3	7.6
September	586.8	600.1	596.6	622.7	676.7	6.9	6.7	7.9	7.6	7.7
October	592.4	601.1	597.2	623.6	677.0	6.5	6.7	7.7	7.8	7.6
November	594.7	602.1	598.2	627.3	679.1	6.5	6.6	7.7	7.4	7.2
December	597.0	602.9	599.6	628.5	678.3	5.3	5.8	7.2	6.5	6.6

Source: Pennsylvania Department of Labor and Industry, Bureau of Research & Statistics.

Table C-17
Philadelphia City
Non-Farm Payroll Employment*

(Amounts In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004**	2005**
Total Employment	667.5	675.3	685.2	695.9	687.8	686.8	679.0	650.8	651.1
Manufacturing	58.7	57.8	57.3	55.8	52.5	49.9	33.9	32.1	30.1
Non-Manufacturing	608.8	617.5	627.9	640.1	635.3	636.9	645.1	618.7	621.0
Construction & Mining	10.1	10.8	10.3	13.8	12.3	11.9	12.5	11.6	11.6
Transportation & Public Utilities	33.1	34.1	35.8	36.3	35.8	33.8	45.4	23.6	22.5
Wholesale & Retail Trade	117.2	112.5	112.3	118.4	118.1	120.2	122.3	66.4	65.7
Finance, Insurance & Real Estate	55.2	52.3	51.3	51.1	50.3	50.6	51.2	48.9	47.5
Services	279.5	291.8	293.1	298.8	300.3	302.8	299.2	357.5	360.8
Government	125.9	115.1	113.2	119.6	118.6	117.6	114.5	110.7	112.9

Source: Pennsylvania Department of Labor and Industry, Bureau of Research and Statistics.

* Includes persons employed within the City, without regard to residency.

** Numbers represent July 2004 and July 2005 non-farm employment reports.

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Table C-18
City of Philadelphia
Largest Non-Governmental Employers In Philadelphia
June 30, 2005
(Listed Alphabetically)

Albert Einstein Medical
Aramark Food & Support Services Group
Cardone Industries, Inc.
Children's Hospital of Philadelphia
Comcast Corporation
Drexel University
Frankford Hospital
Independence Blue Cross
Pennsylvania Hospital of the Univ. of Penn. Health
Philadelphia Newspapers, Inc.
PNC Bank
Rohm & Haas
Southeastern Pennsylvania Transportation Authority
Smith Kline Beecham Corporation
Sunoco, Inc.
Temple University
Temple University Hospital, Inc.
Tenet Health System Philadelphia, Inc.
Thomas Jefferson University
Thomas Jefferson University Hospitals
Towers, Perrin, Forster & Crosby, Inc.
University of Pennsylvania Hospital
University of Pennsylvania
Verizon Services Corporation
Wachovia Bank

Source: Philadelphia Department of Revenue

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Table C-19
Fortune 500
Largest Corporations
With Headquarters In Philadelphia, 2004

<u>Corporation</u>	<u>Type of Industry</u>	<u>Ranking</u>	<u>Revenues (\$ Millions)</u>
Comcast	Telecommunications	89	\$21,263
Cigna	Health Care/Insurance	101	18,808
Sunoco	Petroleum Refining	123	17,866
ARAMARK	Diversified Outsourcing Services	202	9,712
Crown Holdings	Metal Products	282	6,630
Rohm & Haas	Chemical	290	6,421
Lincoln National	Insurance: Life & Health	339	5,283

Source: Fortune Magazine.

Table C-20
Total Industry Employment By Establishment
Annual Averages
(000s)

Philadelphia PMSA

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004*</u>	<u>2005*</u>
Non-Agricultural Employment	2,257.5	2,315.6	2,322.1	2,394.2	2,426.9	2,413.1	2,450.8	2,734.3	2,764.1
Goods Producing	393.0	396.2	387.0	398.6	390.3	380.3	332.1	366.5	360.3
Construction & Mining	87.8	90.4	86.3	99.1	108.0	107.2	101.9	128.3	131.2
Manufacturing	305.2	305.8	300.7	299.5	282.3	273.1	230.2	238.2	229.1
Durable Goods	146.0	147.4	143.7	142.8	133.3	125.6	115.8	123.7	119.3
Nondurable Goods	159.2	158.4	157.0	156.7	149.0	147.5	114.4	114.5	109.8
Service Producing	1,864.5	1,919.4	1,935.1	1,995.6	2,036.6	2,032.8	2,118.7	2,367.8	2,403.8
Transp. & Public Utilities	106.9	109.9	113.4	114.3	113.5	112.0	489.1	89.9	91.5
Wholesale & Retail Trade	498.3	506.8	503.2	526.3	539.3	534.2	118.1	438.7	445.8
Fin., Insurance & Real Estate	157.3	161.6	162.7	169.2	170.3	168.1	177.1	221.8	221.0
Services	806.6	848.5	859.0	886.0	900.6	904.3	1,075.6	1,287.8	1,313.0
Government	295.4	292.6	296.8	299.8	312.9	314.2	315.4	329.6	332.5
Federal Government	58.1	55.9	57.7	57.8	57.2	57.5	58.0	61.7	61.4
State & Local Government	237.3	236.7	239.1	242.1	255.7	256.7	257.4	267.9	271.1

Source: Pennsylvania Department of Labor and Industry, Bureau of Labor Research and Statistics.

* Numbers represent July 2004 and July 2005 non-farm employment reports

Income

The following table presents data relating to per-capita income for the City, the PMSA, and the United States. It illustrates that, for the past few years, real per-capita income has generally outpaced the urban cost of living index, suggesting that on average, the newly created service jobs have generated positive real income growth for City wage earners.

Table C-21
Consumer Price Indices and Median Household Effective Buying Income

	1990	1997	1998	1999	2000	2001	2002	2003	2004	2005
CPI-U United States(a)	130.7	160.5	163.0	166.6	172.2	177.1	180.9	184.6	188.9	193.2
CPI-U Philadelphia PMSA(a)	135.8	166.5	168.2	171.9	176.5	181.3	183.0	188.8	196.5	202.1
Buying Income(b)										
Philadelphia	\$24,880	\$29,561	\$30,127	\$31,621	\$33,297	\$29,995	\$28,015	\$28,150		
Philadelphia Metro Area*	\$33,277	\$42,852	\$44,425	\$47,152	\$49,717	\$43,800	\$41,820	\$42,852		
United States	\$27,912	\$34,618	\$35,377	\$37,233	N/A	N/A	N/A	\$38,201		

*Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area. PMSA statistic was not available.

Source: (a) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.
(b) "2003" Survey of Buying Power"

Table C-22
Number of Households By Income Range In Philadelphia County

Income	Number of Households*		Percentage of Households*	
	1990	2000	1990	2000
Under \$ 9,999	136,335	109,237	22.6	18.5
\$10,000-14,999	59,331	49,035	9.9	8.3
\$15,000-24,999	108,405	89,059	18.1	15.0
\$25,000-49,999	190,237	171,215	31.7	29.0
\$50,000 and over	106,432	171,737	17.6	29.1
Total	600,740	590,283	100.0%	100%

Source: U.S. Department of Commerce, Bureau of the Census.

* A household includes all the persons who occupy a housing unit.

Number of Households By Income Range In United States

Income	Number of Households (000's)		Percentage of Households	
	1990	2000	1990	2000
Under \$9,999	14,214	10,067	15.5	9.5
\$10,000-14,999	8,133	6,657	8.8	6.3
\$15,000-24,999	16,124	13,536	17.5	12.8
\$25,000-49,999	31,003	30,965	33.7	29.3
\$50,000 and over	22,519	44,312	24.5	42.1
Total	91,994	105,537	100.0%	100.0%

Source: U.S. Department of Commerce, Economics and Statistics Administration, 1990 Census of Population

Retail Sales

The following table reflects taxable sales for Philadelphia from fiscal years 1995 to 2004.

Table C-23
Philadelphia
Taxable Retail Sales 1995-2004
(\$000's)

Fiscal Year	Taxable Sales
1995	8,636,921
1996	10,249,166
1997	9,637,833
1998	8,276,083
1999	9,604,970
2000	10,432,800
2001	11,107,100
2002	10,980,914
2003	10,933,524
2004	11,172,231

Source: Figures determined by dividing the Philadelphia local sales tax reported by the Pennsylvania Department of Revenue by the local sales tax rate of 0.01.

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

Table C-24
Retail Sales By Store Group (\$000)
2004

	Philadelphia	CBSA**	Pennsylvania	United States
Total Retail Sales*	\$11,366,900	\$79,892,130	\$155,423,454	\$3,906,482,160
Food	1,959,887	10,862,213	22,867,092	526,193,765
Eating & Drinking	2,315,171	7,715,123	15,121,084	383,728,199
Gen. Merchandise	670,713	7,570,987	15,693,600	504,355,625
Furniture, Furnishings	479,110	4,114,101	6,323,992	203,238,293
Automotive	1,329,972	18,365,300	35,614,264	906,076,160

Source: Sales and Marketing Management, "2004 Survey of Buying Power"

*Total Retail Sales reflects net sales (less refunds and allowances for returns) for all establishments primarily engaged in retail trade. Receipts from repairs and other services are also included, but retail sales by wholesalers and service establishments are not.

**Core Based Statistical Area (CBSA) Philadelphia-Camden-Wilmington PA-NJ-DE-MD

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Effective Buying Income and Household Income

Effective buying income ("EBI") is defined as all personal income less personal taxes, non-tax payments (fines, fees and penalties), and contributions to social security. EBI is also commonly referred to as disposable or after-tax income.

Table C-25
City And USA Effective Buying Income
2004

	Total EBI (\$000)	Median Household EBI	% of Household EBI		
			\$20,000- 34,999	\$35,000- 49,999	\$50,000 and Over
Philadelphia (City)	\$ 20,920,750	\$28,150	24.8	16.6	22.9
Bucks Co.	15,020,125	52,073	17.0	18.4	52.4
Chester Co.	12,869,483	56,649	15.4	16.3	57.2
Delaware Co.	12,030,260	44,189	20.9	18.4	42.8
Montgomery Co.	21,115,723	52,566	17.2	17.7	52.9
Burlington Co., NJ	10,050,470	49,699	17.7	20.6	49.6
Camden Co., NJ	9,697,133	41,067	20.4	20.0	39.1
Gloucester Co., NJ	5,165,255	46,751	18.4	20.8	45.4
Salem Co., NJ	1,131,108	39,366	21.4	20.9	36.6
Pennsylvania	226,703,626	36,361	24.2	19.2	32.7
United States	5,466,880,008	38,201	n/a	n/a	n/a

Source: Sales and Marketing Management, "2004 Survey of Buying Power"

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the airport and to the surrounding counties. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985. The line places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center, which opened in June 1993. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

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

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

The City owns Philadelphia International Airport ("PHL"), located seven miles southwest of Center City and a smaller reliever airport in Northeast Philadelphia. PHL is accessible by major highways within the City and from surrounding communities and SEPTA's high speed train line. PHL provides its passengers with service on

twelve domestic carriers and eight regional carriers, while six foreign flag carriers and two U.S. carriers provide international service. In addition, there are six all-cargo carriers. PHL serves as a key connecting hub for USAirways. PHL opened a new commuter terminal in 2001 and a new international terminal in May 2003. In 2004, PHL ranked 17th in the nation in terms of total passengers, according to data reported by Airports Council International.

The Port of Philadelphia is one of the busiest ports in the United States, holding a leadership position in the handling of many labor-intensive cargoes. It is the leading handler among all U.S. ports of Chilean fruit entering the country and a leader in the handling of high-quality paper and other forest products. Containerized cargo is handled at the Port's two modern container-handling facilities, Packer Avenue Marine Terminal and Tioga Marine Terminal. The Port's publicly owned facilities are now benefiting from a \$56 million Commonwealth capital program for facility modernization and expansion. The Port also services a growing number of cruise-ship calls. Foreign trade zones are located in the port district.

Water and Wastewater Systems

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area), to Aqua Pennsylvania formerly Philadelphia Suburban Corporation, and to the Bucks County Water and Sewer Authority. The City obtains approximately 55 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 471,000 properties through 3,300 miles of mains and provides fire protection through more than 25,500 fire hydrants.

The wastewater system services a total of 360 square miles of which 130 square miles are within the City and 230 square miles are in suburban areas. The total number of accounts is approximately 469,000. The wastewater system contains three water pollution control plants, a biosolids processing facility, 16 pumping stations, and approximately 3,000 miles of sewers. By order of the Delaware River Basin Commission, the City is required to achieve effluent limitations that are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act, as amended.

Municipal Solid Waste Disposal

The City is responsible for collecting solid waste from sources other than industrial or commercial institutions. Approximately 3,000 tons of solid waste per day is collected by the City. Municipal solid waste is disposed of through a combination of private and City transfer stations with the City limits, and at various landfills operated outside of the City limits. The City significantly reduced its waste disposal costs over the past eight years after entering into new contracts effective in July 1994 and again in July 1998 with private contractors for landfill space. The current disposal contracts were extended through June 2005, which was the last of three City option years. The City entered into new contracts for the period beginning July 1, 2005.

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Housing

While the City's housing market has remained relatively stable, recently home values have gone up, as shown on the table below:

Table C-26
Characteristics of Housing Units

	1990	2000
Total Housing Units		
City of Philadelphia	674,899	661,959
Philadelphia PMSA	1,491,310	1,565,641
Pennsylvania	4,938,140	5,249,750
Percent Owner Occupied		
City of Philadelphia	62.0%	59.3%
Philadelphia PMSA	68.5%	68.4%
Median Value of Owner Occupied Housing		
City of Philadelphia	\$48,400	59,700
Philadelphia PMSA	96,700	121,300
Pennsylvania	67,900	97,000
Number of Persons per Housing Unit		
City of Philadelphia	2.63	2.65

Source: U.S. Department of Commerce, Bureau of the Census.

Economic Development

The last decade found the City riding one of the biggest development waves since the development of the Center City office towers in the mid-1980's. The City's economic development policies are being strategically driven under the auspices of an initiative called the Economic Stimulus Program, which began in 1994 as a \$2.2 billion project, and was extended in 1997 for three years and continued in 2000 by the administration of Mayor John Street.

The gains of the Program are evident in a series of economic development accomplishments that include: a hotel construction boom that has given the City more than 4,000 new hotel rooms, all within walking distance of the \$500 million Pennsylvania Convention Center; the Avenue of the Arts complex capped off by the \$255 million Regional Performing Arts Center; the creation of economic development zones to enhance existing economic development efforts already underway; and the ongoing conversion of closed military installations to commercial use including the transformation of the former Philadelphia Naval Base into a world class commercial and industrial park with the most modern shipbuilding operation in North America.

Philadelphia International Airport

Philadelphia International Airport is ranked 17th among the nation's airports in terms of passenger traffic, serving 28.5 million passengers in calendar year 2004. In June 1998, a \$140 million renovation of terminals B and C was completed. A year later, construction began on a \$443 million development project to construct new international and regional terminals, funded by a 1998 Airport Revenue Bond issue. An additional \$188 million in bond financing was provided for the project in July 2001. Construction of the regional terminal was completed in June 2001 and the new international terminal was completed in May 2003. The Parking Authority completed construction of two new Airport parking garages in the spring of 2003, which provided a total of 5,100 additional parking spaces. These Airport improvements are expected to have an economic impact of more than \$2 billion over the first twenty (20) years of operation.

During the past year, the Airport issued three series of Airport Revenue Bonds, (for 2005) which included \$125 million in fixed-rate Series 2005A bonds, \$41 million variable-rate Series 2005B bonds and \$189.5 million

variable-rate Series 2005C bonds. Proceeds of the 2005A and B bonds will enable the Airport to undertake critical infrastructure projects, such as expansion and modernization of Terminals D and E, improvements to Terminal A-East, expansion of security checkpoints to Terminals B and C, and resurfacing of Runway 9R-27L. Proceeds of the 2005C bonds will be used to refund the Airport's Revenue Bond Series 1995A bonds.

Hospitality and Tourism

One of the most encouraging trends for the City's economy has been the continuing growth in the hospitality and tourism industry. As one of the cornerstones of the City's economic development efforts in the 1990s, the hospitality and tourism sector continues to represent a significant growth opportunity for the City.

Pennsylvania Convention Center

At the center of the hospitality and tourism industry is the Pennsylvania Convention Center. The existence of the Center, one of the largest in the east and the attendant development of hotels within walking distance of it, have positioned the City to attract some of the largest conventions and shows in the country. This includes the annual Flower Show with an estimated \$25 million economic impact as well as the American Library Association (an estimated \$7 million economic impact) and SAP (an estimated \$12 million economic impact). In 2000, the Republican National Convention was held in Philadelphia at the First Union Center, bringing significant revenues to the local economy. In 2003, a major labor agreement was entered into which addressed certain chronic labor problems which may have impacted the Convention Center's ability to remain competitive.

Barnes Foundation

The Barnes Foundation recently won approval from the Montgomery County Orphans Court to move its prized art collection to Center City Philadelphia from the suburban community of Lower Merion, Pennsylvania. Its collection, which includes dozens of masterpieces by Matisse, Cezanne and Renoir, among others, was arranged by Albert Barnes himself in unique ensembles that are to be preserved when the gallery moves downtown. The Barnes Foundation's proposed new facility will be on the Benjamin Franklin Parkway, in a more central location, within several blocks of the Philadelphia Museum of Art, the Renoir Museum, the Moore College of Art and numerous other cultural institutions.

New Sports Stadium Complex

The Eagles' football stadium, Lincoln Financial Field, opened to great fanfare in August 2003, and Citizens Bank Park, the new baseball stadium for the Phillies, hosted its inaugural season home opener in April 2004. This opening capped the completion of a \$1 billion investment by the City, the teams and the state to create a four-facility stadium complex that is unmatched anywhere in the United States. Both the Phillies and the Eagles signed 30-year leases.

New Center City Skyscrapers

Liberty Property Trust has begun the construction of a \$465 million project that will include two office buildings containing 1.25 million square feet as well as a glass enclosed winter garden and public plaza known as the Comcast Center. The structures will include the tallest building in Philadelphia and will be the first major Center City office tower in more than ten years. The Comcast Center anticipated completion date is spring of 2007 and it is 70% leased.

In addition, the Cira Center has been built over the railroad yards adjacent to Amtrak's 30th Street Station by Brandywine Realty Trust. The building contains more than 725,000 square feet of office space and is almost 70% leased.

Ikea

The developer, Goldenberg Group opened a new 21 acre Ikea Site, August 2004. It is Ikea's first urban store in the United States and is located at Columbus Boulevard near Snyder Avenue. The building size is 311,000 square feet with an in store restaurant that seats 300. The expected employment is 380 people.

Special Economic Development Zones

Between 1995 and 2000, three special "zones" were created in Philadelphia to promote revitalization and economic development. They are the Federal Empowerment Zone, the target areas of Frankford/Port Richmond known as the Urban Industry Initiative, and the Keystone Opportunity Zone. These zones represent initiatives over and above day-to-day economic development activity. The Keystone Opportunity Zones, Empowerment Zones and Renewal Community Designation provide place-based exemptions within specific areas targeted for economic development.

Keystone Opportunity Zones ("KOZ")/ Keystone Opportunity Expansion Zones ("KOEZ")/ Keystone Opportunity Improvement Zones. In January 1999, the Commonwealth of Pennsylvania designated 12 Keystone Opportunity Zones (KOZs) in neighborhoods throughout Philadelphia. Zones that encompass underutilized and often vacant land were formed to encourage existing businesses to expand and new businesses to relocate in the targeted locations within struggling neighborhoods. Businesses that locate within a KOZ are exempt from such taxes as the Business Privilege Tax, use and occupancy tax, real estate tax, state business taxes and state sales tax on items consumed at the site, through December of 2010. In 2001, the Commonwealth approved designation of eight new zones as part of a second round of KOZs, newly entitled Keystone Opportunity Expansion Zones (KOEZs). Tax exemptions for businesses that locate in KOEZs are effective through September 30, 2013.

On December 31, 2002, in an effort to refine the existing programs, the Governor signed an Executive Order that designated several key sites in Philadelphia as Keystone Opportunity Improvement Zones (KOIZs). This Executive Order was signed pursuant to the KOZ Bill, signed December 9, 2002, in which new subzones could be added or existing subzones could be enhanced or enlarged to incorporate new property into existing KOZ and KOEZs. Since January 1999, the City has participated in deals with 109 new and existing companies, leveraged over \$226 million in private investment, and fostered the creation of 2,472 jobs and the retention of 1,915 jobs. Over 2 million square feet has been constructed and over 1.2 million square feet has been rehabilitated.

Renewal Community Designation. This federal program offers employment and operating tax incentives to businesses locating within economically distressed areas through 2009, under the Community Renewal Tax Relief Act of 2000. In 2003, the City allocated \$12 million in Commercial Revitalization Deductions, a tax benefit accelerating depreciation for businesses located in the Renewal Community. All six qualified applicants received allocations this year, which leveraged approximately \$109 million in private investment and helped to create and retain 1,950 full-and part-time jobs. Additional Renewal Community benefits will include employment credits, increased tax deductions for environmental clean-up and capital investments, and no tax on capital gains for assets for over five years.

Philadelphia Industrial Development Corporation

The City's efforts to retain and attract industry are directed by the Philadelphia Industrial Development Corporation ("PIDC"). Established in 1958, PIDC is a non-profit venture of the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. The many programs provided by PIDC include (i) direct mortgage funding in a subordinate position at reduced interest rates for fixed asset improvement to companies who intend to build or expand in Philadelphia; (ii) tax-exempt bond funding to eligible borrowers such as non-profit institutions through PAID; (iii) offering of fully improved parcels of land for sale in more than a dozen designated industrial parks and districts across the City; and (iv) offering of development assistance and project management to a range of Philadelphia's development and non-profit corporations.

Urban Industry Initiative

Urban Industry Initiative ("UII"), a grant-funded program, was established in Fiscal Year 1997 to retain neighborhood-based manufacturing jobs in Frankford, Port Richmond, Bridesburg, Juniata Park, and Horrowgate. UII has helped strengthen individual companies and their business relationships by organizing purchasing forums, connecting small businesses to large corporations, and strengthening the relationship between resident and neighborhood-based companies. In its seventh year, UII has expanded its target area within the lower Northeast and the Hunting Park industrial area. Over the life of the initiative, UII has made 36 loans worth over \$1.8 million and assisted with 43 deals that have helped to create 230 new jobs, totaling over \$11.5 million in the public and private neighborhood investments. In an effort to promote the employment opportunities in manufacturing, UII works with manufacturers and the school district to provide plant tours and internships. This year UII and the Commerce Department are launching a "Philadelphia Made" campaign to build awareness of the quality and value offered by Philadelphia companies and entrepreneurs. The UII also works with businesses to improve their physical environment. The PRIDE (Port Richmond Industrial Development Enterprise) district is the first industrial special services district in the state and will complete over \$1 million of construction improvements to upgrade its neighborhood in 2004.

The Office of Defense Conversion Activities

PIDC serves as the City's point of contact for issues related to the acquisition and redevelopment of former military facilities. The City, as the only city in the country adversely affected by all four rounds of base closures, finds itself at the forefront of cities in converting former military installations to commercial and related uses. The largest of the City's closed facilities is the Philadelphia Navy Yard. PAID acquired these assets from the Navy in March 2000. The Philadelphia Navy Yard totals in excess of 1,000 acres and includes four discrete development zones capable of supporting all forms of industrial and commercial development. These zones include the Shipyard, the Girard Point Industrial Park, the Commerce Center and the Intermodal Yard.

With the acquisition of the Philadelphia Navy Yard in 2000, after nearly a decade of closure actions, lawsuits and negotiations, PAID has established a strong industrial presence at the site. There are more than 4 million square feet of occupied facilities on the site that are home to more than 6,000 employees. More than fifty private companies and four US Navy civilian operations are the source of this employment.

The largest and most significant industrial project at the Philadelphia Navy Yard has been the development of a state-of-the-art commercial shipbuilding facility. In partnership with local, state and federal government, Kvaerner ASA has constructed the world's most modern and technologically advanced shipyard. With construction of the \$488 million facilities completed, Kvaerner Philadelphia Inc. now employs in excess of 900 workers on the site. The first two container ships have been sold to Matson Navigation, and construction of a third ship has started. The first vessel, the MV Manukai, was delivered to Matson in July 2003.

In December 2002, PAID entered into a development agreement with Liberty Property Trust to market, develop and lease a 60-acre portion of the Philadelphia Navy Yard as a first-class office campus. This campus will include 1.4 million square feet of Class A suburban style corporate office space.

In addition, in February 2003, PIDC and Liberty announced that development of a 75,000 square foot biotechnology building for AppTec Laboratory Services, a Minnesota based biotechnology service firm. The new facility opened in the spring of 2004 and will be home to more than 200 employees, 70% of whom have Ph.D. degrees.

PIDC has also made significant gains in the acquisition and redevelopment of other closed military sites. PAID acquired the 25 acre Capehart Housing Property from the Navy in March 2000 and subsequently sold the site to a private housing developer for the construction of 230 new, single family homes. These homes are now under construction and the first phase of homes have sold for an average price of \$350,000.

In April 2000, PAID acquired the 50-acre former Philadelphia Naval Hospital. PAID entered into a lease with the Philadelphia Eagles football franchise for the eastern half of that site, where the Eagles have developed a

new practice facility, team offices and an out patient physical rehabilitation center. On the balance of the site, PIDC constructed an interim parking lot to support the adjacent construction of two new sports stadiums. This portion of the site will ultimately be made available for private development.

The final major military closure site in the City was the former Defense Supply Center Philadelphia (DSCP), located at 20th Street and Oregon Avenue. PAID completed the acquisition of this 85-acre site from the Army in October 2001. Given the existence of a major underground plume of oil that is being remediated, the acquisition was structured to allow PAID to take the property's air rights initially, with the ground rights to follow upon completion of the remediation project. In addition, PAID has entered into the following agreements with private entities: (1) sold approximately 1 million square feet of buildings to Brite Star Manufacturing, where more than 300 people are employed in the manufacturing, warehousing, and distribution of holiday decorations; (2) sold an additional 750,000 square feet of buildings to a private real estate developer to be renovated and marketed for commercial and warehousing space; (3) sold a 3.5-acre parking lot for a new 55,000 square foot Acme supermarket that opened in September 2003; and (4) sold a 44-acre parcel to Forest City Ratner Company, a national developer of retail centers that will result in the development of a 550,000 square foot, \$100 million retail center that will employ in excess of 1,000 people. The retail development began construction in October 2003 and is substantially complete.

Hospitals and Medical Centers

Hospitals and Medical Centers. The following table presents the most recent published data regarding hospitals and medical centers in Philadelphia. Due to mergers and consolidations that have occurred or may occur in the future, this table is accurate only as of its publication date.

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Table C-27
City of Philadelphia
Hospitals and Medical Centers
(As of 2005)

Institution	Beds
Albert Einstein Medical Center	561
Belmont Center for Treatment	145
Children's Hospital of Philadelphia	344
Children's Seashore House	30
Eastern PA Psychiatric Institute	109
Episcopal Hospital	21
Fairmount Behavioral Health System	146
Fox Chase Cancer Center	100
Frankford Hospital	405
Friends Hospital	192
Graduate Hospital, main campus	241
Hahnemann Hospital	437
Jeanes Hospital	161
John F. Kennedy Memorial	141
Kensington Hospital	45
Magee Rehabilitation Hospital	96
Nazareth Hospital	200
Temple East, Northeastern	170
North Philadelphia Health System	315
Northeast Hospital	166
Pennsylvania Hospital	380
Presbyterian Medical Center of the University of Pennsylvania Health System ⁽¹⁾	238
Roxborough Memorial Hospital	115
Saint Agnes Medical Center	151
Shriners Hospital for Crippled Children	59
St. Christopher's Hospital	120
St. Joseph's Hospital	146
Temple University Hospital	534
Thomas Jefferson University Hospital	812
University of Pennsylvania Medical Center	590
Veterans Affairs Medical Center	136
Wills Eye Hospital	40

Source: Delaware Valley Healthcare Council, Hospitals & Healthsystems Association of Philadelphia
 (1) Formerly Known as Presbyterian Medical Center of Philadelphia

Children's Hospital Expansion. Children's Hospital of Philadelphia announced a five-year \$650 million expansion program that began construction in February 2001 and will add more than one million square feet of treatment and research space at the Hospital's campus in West Philadelphia.

University of Pennsylvania/Civic Center. The University of Pennsylvania and Children's Hospital of Philadelphia are constructing a cancer research and treatment center on the former Civic Center site in West Philadelphia.

Additional Projects Under Construction

The following table lists additional projects currently under construction in the City.

Table C-28
Projects Under Construction

<u>Project</u>	<u>Estimated Cost</u>
University of Pennsylvania/Civic Center	\$450,000,000
City Hall Tower Restoration	200,000,000
Networks (High Tech Center)	85,000,000

Source: City of Philadelphia, Five-Year Financial Plan Fiscal Year 2003-Fiscal Year 2008.

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APPENDIX D

SUMMARIES OF THE ACT AND LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act (the "Act"), the General Gas Revenue Bond Ordinance of 1975, as amended and supplemented (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"). Also summarized herein is the Seventh Supplemental Ordinance to the 1998 General Ordinance (the "Seventh Supplemental Ordinance"), which authorizes the issuance of the Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance) (the "Sixth Series Bonds"). The summaries are not, and should not be regarded as, complete statements of the provisions of the Act, the 1975 General Ordinance or the 1998 General Ordinance. Reference is made to the Act, the 1975 General Ordinance, the 1998 General Ordinance, and the Seventh Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, 1300 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the 1975 General Ordinance, the 1998 General Ordinance and the Seventh Supplemental Ordinance and, unless otherwise stated, shall have the meanings set forth therein.

THE FIRST CLASS CITY REVENUE BOND ACT **(Act 234 of the General Assembly of the Commonwealth** **Approved October 18, 1972, P.L. 955; 53 P.S. §§ 15901-24)**

General Authorization; Definitions; Bonds to be Special Obligations

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

Project is defined to include, *inter alia*, any buildings, structures, facilities or improvements of a public nature, the related land rights or leasehold estates in land 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, 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.

Revenue 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 Revenue Bonds. The Revenue Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property other than the Project Revenues pledged therefor and against the reserve funds established in respect of the Revenue Bonds. The obligations represented by the Revenue Bonds do not constitute a debt of the City, and are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimate of Future Revenues

In order to establish that Project Revenues will be sufficient to amortize all Revenue Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Revenue 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 Revenue Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the

may be based on the final report of the head of the department or agency of the City having jurisdiction over the project involved or on a certificate of registered engineers engaged by the City to compile relevant data.

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

Details of Revenue Bonds and City Covenants

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

Sinking Fund

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

Refunding

Revenue Bonds outstanding under the Act or other bonds issued for purposes for which Revenue Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Revenue Bonds issued under the Act and such refunding Revenue Bonds are subject to the same protections and provisions required for the issuance of an original issue of Revenue Bonds, provided that the last stated maturity date of the refunding Revenue Bonds is not later than ten years after the last stated maturity date of the bonds to be refunded. The principal of and interest to payment or redemption date and redemption premium payable, if any, in respect of bonds to be refunded will no longer be deemed to be outstanding obligations of the City when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit or specified obligations of the United States or of the Commonwealth of Pennsylvania (provided such deposits or accounts are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof), which are sufficient to effect, and are irrevocably pledged to, the redemption or payment of such bonds and, in the case of redemption, notice of such redemption or

Validity of Proceedings; Suits and Limitations Thereon

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

Negotiable Instruments

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

Exemption from State Taxation

The Commonwealth pledges with the Holders from time to time of Revenue Bonds issued under the Act that such Revenue Bonds and the interest thereon 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 Revenue Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the Revenue Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania.

Defaults and Remedies

If the City should fail to pay or cause to be paid the principal of or interest on any Revenue Bond as the same shall become due, the remedy provisions of the Act permit the Holder of any such Revenue Bond, subject to the limitations described below, to recover the amount due in an action in the Court. However, a judgment rendered in favor of the bondholder in such an action is collectible only from the assessments, revenues, rates, rents, tolls and charges from the Project which are pledged for the payment of such Revenue Bond. The Holders of 25% in aggregate principal amount of any series of Revenue Bonds then outstanding which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Revenue Bonds or any bond ordinance may appoint a trustee to represent the Holders of all such Revenue Bonds, and such representation shall be exclusive for the purposes provided in the Act. Such trustee may and, upon written request of the Holders of 25% in aggregate principal amount of such Revenue Bonds then outstanding, and on being furnished with indemnity satisfactory to it, shall take one or more of the following actions which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual Holders of Revenue Bonds: (1) enforce, by proceedings at law or in equity, all rights of the Holders of the Revenue Bonds, including the right to require the City to impose and collect pledged rents, rates, tolls and charges or to require the City to carry out any other agreements with the Holders of such Revenue Bonds; (2) bring suit on the Revenue Bonds with the same effect as a suit by any Holder of the Revenue Bonds; (3) bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of any Revenue Bonds; and (4) after 30 days' written notice to the City and subject to any limitations in the bond ordinance, declare the unpaid principal of all Revenue Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Revenue Bonds until final payment, and, upon the curing of all defaults, to annul such declaration and its consequences. The Court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the Revenue Bonds. In any suit, action or proceeding by or on behalf of Holders of defaulted Revenue Bonds, the fees and expenses of a trustee, including operating costs of a Project and reasonable counsel fees, which are allowed by the Court shall be deemed additional principal due on the Revenue Bonds and shall be paid in full from any recovery prior to any distribution to the Holders of the Revenue Bonds. (The 1998 General Ordinance limits any such recovery to Project Revenues.) The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues for the payment of Revenue Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Revenue Bonds were issued, the City Council is authorized to issue and sell General Obligation Bonds to refund the principal of and interest on the Revenue Bonds.

limitations, to authorize the issuance and sale of general obligation refunding bonds of the City without limitation as to rate of interest and in such principal amount as may be required, together with other available funds to pay and redeem such Revenue Bonds, including principal, interest to the date fixed for redemption or payment and redemption premium, if any.

THE 1975 GENERAL ORDINANCE
Ordinance of City Council Approved
May 30, 1975 - Bill No. 1871
(the "1975 General Ordinance")

Pursuant to the authorization contained in the Act; the City has enacted the 1975 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 1975 General Ordinance.

Definitions Under the 1975 General Ordinance

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 the 1975 General Ordinance.

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 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.

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 the 1975 General Ordinance.

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

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquefied, synthetic or manufactured gas or in the maintenance, management or administration thereof, and 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 are defined to be Operating Expenses exclusive of City Charges.

1975 Ordinance Bond or Bonds means any gas works revenue bond of the City issued and outstanding pursuant to the Act under the 1975 General Ordinance and any supplemental ordinance thereto and shall include installment bonds, temporary bonds and interim certificates.

Operating Expenses are defined to be all costs and expenses of the Gas Works necessary and appropriate to

the manager's fee, salaries and wages, purchases of services by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or capital Project related to the Gas Works which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally acceptable municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

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

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1975 General Ordinance

Series when applied to 1975 Ordinance Bonds means collectively all of the 1975 Ordinance Bonds of a given issue authorized by Supplemental 1975 Ordinance as provided therein 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 1975 Ordinance Bonds.

Sinking Fund means the Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1975 General Ordinance.

Sinking Fund Depository means the bank named as such in Section 6.02 of the 1975 General Ordinance or its successor.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1975 General Ordinance.

Supplemental 1975 Ordinance means an ordinance supplemental to the 1975 General Ordinance enacted pursuant to the Act and the 1975 General Ordinance by the Council of the City authorizing the issuance of a series of 1975 Ordinance Bonds.

Security

The City has pledged, pursuant to the 1975 General Ordinance, for the security and payment of all 1975 Ordinance Bonds issued under the 1975 General Ordinance and has granted a lien on and security interest in, all Project Revenues, all accounts, contract rights and general intangibles representing the Project Revenues and all funds and accounts established under the 1975 General Ordinance, and in each case, the proceeds of the foregoing.

Priority in Application of Project Revenues

Prior to default, the 1975 General Ordinance establishes the following priorities in the application of Project Revenues during each Fiscal Year.

- (a) to Net Operating Expenses;
- (b) to required payments into the Sinking Fund to pay the principal of and interest on all 1975 Ordinance Bonds issued under the 1975 General Ordinance and to accumulate, or to restore any deficiency in the Sinking Fund Reserve;
- (c) 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;
- (d) to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and
- (e) to the payment of City Charges, including any Base Payment due to the City

The 1998 General Ordinance and the 2005 Note Ordinance establish a priority in application of Gas Works Revenues that modifies the application after item Second above (see the priority in application under the summary of the 1998 General Ordinance that follows).

The balance of the Project Revenues in any Fiscal Year may, upon the approval of the Gas Commission, be paid to the City, provided that in a given Fiscal Year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to the Gas Work's operating funds during the same Fiscal Year. The 1975 General Ordinance does not require the segregation of revenues upon their collection prior to default.

Rate Covenant

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

First: The sum of:

- (A) all Net Operating Expenses payable during such Fiscal Year;
- (B) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance which will become due and payable during such Fiscal Year; and
- (C) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year, or

Second: The sum of:

- (A) all Net Operating Expenses payable during such Fiscal Year; and
- (B) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding 1975 Ordinance Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

Additional Covenants

The City further covenants that: (1) it will pay or cause to be paid from the Project Revenues the principal of, premium, if any, and interest on all 1975 Ordinance Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and operate the Gas Works; and (3) it will not, in any Fiscal Year, pay from Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless, prior to or concurrently with such payment, it shall satisfy all Sinking Fund requirements on 1975 Ordinance Bonds outstanding under the 1975 General Ordinance for such Fiscal Year.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants and requirements of the 1975 General Ordinance and Supplemental 1975 Ordinances. Copies of such report will be available to bondholders and may be inspected and copied at all reasonable times by bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance Gas Works Projects by issuing general obligation bonds or revenue bonds, under authorization other than the 1975 General Ordinance and Supplemental 1975 Ordinances, for the payment of which Project Revenues may be pledged, provided that such pledge is subject and subordinate to the prior payments in

each Fiscal Year of all Sinking Fund requirements of all 1975 Ordinance Bonds issued under the 1975 General Ordinance.

Conditions of Issuing 1975 Ordinance Bonds

Prior to the issuance of any series of 1975 Ordinance Bonds, the Council of the City shall adopt an ordinance supplemental to the 1975 General Ordinance meeting the requirements of the 1975 General Ordinance.

Prior to the issuance of any series of 1975 Ordinance Bonds under the 1975 General Ordinance, 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 1975 Ordinance Bonds which shall include (i) a certified copy of the 1975 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental 1975 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; and (v) an executed copy of the Engineer's report required pursuant to the terms of the 1975 General Ordinance; 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 1975 Ordinance Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of the 1975 General Ordinance with respect thereto, that the report for the latest completed Fiscal Year of 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 the 1975 General Ordinance and all Supplemental 1975 Ordinances; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the 1975 Ordinance 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.

Sinking Fund and Sinking Fund Reserve

A Gas Works Revenue Bond Sinking Fund is established for the benefit of all 1975 Ordinance Bonds issued under the 1975 General Ordinance which shall be held in an account separate and apart from all other accounts of the City. On or before each interest and principal payment date for the 1975 Ordinance Bonds, the Director of Finance shall deposit in the Sinking Fund from Project Revenues the amount sufficient, together with interest and profits on investments held therein, to pay the principal of and interest on the 1975 Ordinance Bonds due and payable on such interest or principal payment date. The 1975 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all 1975 Ordinance Bonds or for any series of 1975 Ordinance Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository in an amount equal to the maximum amount required in any Fiscal Year to pay the debt service on the 1975 Ordinance Bonds. The Sinking Fund Reserve shall be funded from either (i) the proceeds of each series of 1975 Ordinance Bonds in an a series becoming due and payable in such Fiscal Year or (ii) the accumulation of Project Revenues over a period of not more than six Fiscal Years.

The moneys and investments (valued at market) in the Sinking Fund Reserve shall be maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance; provided, however, that the Supplemental 1975 Ordinance authorizing the issuance of any such series may provide for the funding of such amount from Project Revenues over a period of not more than six Fiscal Years after the issuance and delivery of such 1975 Ordinance Bonds. If at any time the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, are insufficient to pay when due the principal of (and premium, if any) or interest on any 1975 Ordinance Bond or Bonds, the Sinking Fund Depository shall withdraw from the Sinking Fund Reserve and pay to the Fiscal Agent the amount of such deficiency. If, by reason of such withdrawal or for any other reason, there shall be a deficiency in the Sinking Fund Reserve, the City covenants to restore such deficiency by daily deposits of at least 50% of Project Revenues.

Transfer of Income on Sinking Fund Reserve

The 1975 General Ordinance provides that all interest and income earned on moneys held in the Sinking Fund Reserve may, to the extent not required to comply with the requirements of the 1975 General Ordinance relating to the

Sinking Fund Reserve, be transferred to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues, such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of Sinking Fund Reserve Earnings transferred to the operating funds during the same Fiscal Year.

Remedies; Limitations on Liabilities of City

In addition to the remedies provided by the Act, if the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by the 1975 General Ordinance or if, for any reason, moneys in the Sinking Fund shall be insufficient to pay debt service on any 1975 Ordinance Bonds, the City shall, immediately and without notice, deposit to the Sinking Fund, on a daily basis 50% of all Project Revenues, or such greater percentage thereof as the Director of Finance shall determine, so long as the default or deficiency shall continue. The 1975 General Ordinance provides that all remedies are enforceable only against pledged Project Revenues and investments thereof, and that no decree or judgment against the City on action brought under the provisions of the 1975 General Ordinance shall order, or be construed to permit, the occupation, attachment, seizure or sale upon execution of any other property of the City.

Amendments

The 1975 General Ordinance and any Supplemental 1975 Ordinance may be amended without the consent of any bondholders (1) to cure ambiguities, formal defects or omissions, or (2) to grant to bondholders or any trustee therefor additional rights, remedies, powers or security, or (3) to comply with mandatory provisions of state or federal law or with permissive provisions of such law which do not substantially impair the security or right to payment of bondholders. The 1975 General Ordinance and any Supplemental 1975 Ordinance may be amended in such other respects as may be authorized by 67% in principal amount of the Holders of 1975 Ordinance Bonds outstanding and affected, but no alteration of the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or of the redemption provisions may be made without the consent of the Holders of all 1975 Ordinance Bonds outstanding and affected.

Amendments Not Affecting Outstanding 1975 Ordinance Bonds

The 1975 General Ordinance or any part thereof may be amended and the foregoing covenants (including the Rate Covenant) may be rescinded, amended or supplemented by further covenants and agreements, from time to time by Supplemental 1975 Ordinance, but no such amendments or further provisions, terms, covenants or agreements contained in a Supplemental 1975 Ordinance, other than those permitted by and adopted pursuant to 8.01 of the 1975 General Ordinance governing amendments generally, which shall be inconsistent with, or would impair a prior covenant in, the 1975 General Ordinance as at the time amended or supplemented, shall become effective until all 1975 Ordinance Bonds, the Holders of which are entitled to the protection of, or to force compliance with, such prior provisions or covenants, shall cease to be outstanding.

THE 1998 GENERAL ORDINANCE Ordinance of City Council Approved May 8, 1998 — Bill No. 980232 (the "1998 General Ordinance")

Pursuant to the authorization contained in the Act, the City has enacted the 1998 General Ordinance. The City has made a pledge of, and has granted a security interest in, all Gas Works Revenues and all accounts, contract rights and general intangibles representing Gas Works Revenues for the security and payment of all bonds issued under the 1998 General Ordinance.

Definitions Under the 1998 General Ordinance

Accreted Value means, with respect to any Capital Appreciation Bond as of any specified date, the Original Value of such 1998 Ordinance Bond plus interest accreted on such 1998 Ordinance Bond to such date, all as may be provided in an applicable Supplemental 1998 Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. § 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or *Holder* means the registered owner of any 1998 Ordinance Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the 1998 Ordinance Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of 1998 Ordinance Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of 1998 Ordinance Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of 1998 Ordinance Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any 1998 Ordinance Bonds issued under the 1998 General Ordinance which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

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

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issue or issuer of a Credit Facility means each issuer of a Credit Facility then in effect, and its successors. References to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of 1998 Ordinance Bonds or each issuer of a Credit Facility, as the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding 1998 Ordinance Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on 1998 Ordinance Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such 1998 Ordinance Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any 1998 Ordinance Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b) of the 1998 General Ordinance; and (iii) Debt Service

Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b) of the 1998 General Ordinance.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of 1998 Ordinance Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental 1998 Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 of the 1998 General Ordinance or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

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

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the 1998 General Ordinance. Gas Works Revenues may be divided into separate components in one or more Supplemental 1998 Ordinances and any Series of 1998 Ordinance Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental 1998 Ordinance authorizing the particular Series of 1998 Ordinance Bonds.

Government Obligations means any of the following which are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

- (a) direct general obligations of, or obligations the payment of principal of and interest on which are *unconditionally* guaranteed as to full and timely payment by the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with 1998 Ordinance Bonds or other long term indebtedness under the 1998 General Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

1998 Ordinance Bond or *Bonds* means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under the 1998 General Ordinance and any Supplemental 1998 Ordinance

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project related to the

compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any 1998 Ordinance Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means the 1998 General Ordinance, as from time to time amended.

Original Value, with respect to a Series of 1998 Ordinance Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the 1998 Ordinance Bonds, means, as of any particular date, all 1998 Ordinance Bonds which have been authenticated and delivered under the 1998 General Ordinance, except:

1998 Ordinance Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

1998 Ordinance Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such 1998 Ordinance Bonds), provided that, if such 1998 Ordinance Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 of the 1998 General Ordinance or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

1998 Ordinance Bonds in lieu of which or, in substitution for which others have been authenticated and delivered under Section 3.04 of the 1998 General Ordinance.

1998 Ordinance Bonds paid with the proceeds of any Credit Facility shall be Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the 1998 Ordinance Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665 §1 et seq. (53 P.S. §13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 General Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, mature or are payable at the option of the Holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with

Qualified Swap or Swap Agreement means, with respect to a Series of 1998 Ordinance Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding 1998 Ordinance Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount as such 1998 Ordinance Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the 1998 Ordinance Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding 1998 Ordinance Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such 1998 Ordinance Bonds at a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the 1998 Ordinance Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such 1998 Ordinance Bonds.

Qualified-Swap Provider means, with respect to a Series of 1998 Ordinance Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03 of the 1998 General Ordinance.

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding 1998 Ordinance Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding 1998 Ordinance Bonds.

Rebate Amount means the amount with respect to a Series of 1998 Ordinance Bonds, which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(1) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in the 1998 General Ordinance, such categories shall be irrespective of gradations within a category.

Senior 1998 Ordinance Bonds means 1998 Ordinance Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

Series, when applied to 1998 Ordinance Bonds, means collectively all of the 1998 Ordinance Bonds of a given issue authorized by Supplemental 1998 Ordinance as provided in Article IV of the 1998 General Ordinance and may also mean, if appropriate, a subseries of any such issue if, for any reason, the City should determine to divide any such issue into one or more subseries of 1998 Ordinance Bonds.

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01 of the 1998 General Ordinance.

Sinking Fund Depository means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04 of the 1998 General Ordinance.

Sinking Fund Reserve Requirement means, with respect to all 1998 Ordinance Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental 1998 Ordinance for such 1998 Ordinance Bonds), determined as of any particular date.

Subordinate 1998 Ordinance Bonds means those 1998 Ordinance Bonds which shall be subordinate in right of payment to Senior 1998 Ordinance Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

Supplemental 1998 Ordinance means an ordinance supplemental to the 1998 General Ordinance enacted pursuant to the Act and the 1998 General Ordinance by the Council of the City authorizing the issuance of a Series of 1998 Ordinance Bonds.

Uncertificated Bond means any 1998 Ordinance Bond which is fully registered as to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any 1998 Ordinance Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

Concerning the 1998 Ordinance Bonds

1998 Ordinance Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (each a "Supplemental 1998 Ordinance"). The 1998 General Ordinance provides for the method of setting the details and terms of the 1998 Ordinance Bonds authorized by such Supplemental 1998 Ordinance. The 1998 General Ordinance sets forth the general form and content of 1998 Ordinance Bonds, the manner of making payment of principal, interest and premium, the requirements governing such payments, the rules regarding registration, transfer and exchange of 1998 Ordinance Bonds, and general provisions governing redemption and the effect thereof. The 1998 General Ordinance authorizes the issuance of definitive and temporary 1998 Ordinance Bonds, provides for the execution of the 1998 Ordinance Bonds and provides for the issuance of 1998 Ordinance Bonds to replace mutilated, destroyed, lost or stolen 1998 Ordinance Bonds. The 1998 General Ordinance authorizes the issuance of 1998 Ordinance Bonds in book-entry form.

Purposes For Which 1998 Ordinance Bonds May Be Issued, Conditions of Issuance, Engineering Report

1998 Ordinance Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any bonds of the City issued for the foregoing purposes under the Act, (5) refund any general obligation bonds of the City issued for the foregoing purposes, or (6) finance anything else relating to the Gas Works permitted under the Act.

The City covenants that so long as any 1998 Ordinance Bonds shall remain outstanding, no 1998 Ordinance Bonds will be issued under the 1998 General Ordinance or any ordinance supplemental thereto unless the financial report of the City's chief fiscal officer, required by the Act, is filed with the City Council in connection with such issuance. Such report may be given in reliance on an engineering report of an Independent consulting engineer or an Independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must set forth the qualifications of the engineers and must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works, as they deemed necessary.

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council supported by appropriate schedules and summaries, namely: (1) a brief description of the project or projects for which the 1998 Ordinance Bonds are to be issued; (2) a statement identifying, the sources from which the pledged revenues are to be

project or projects from which the pledged project revenues are to be derived, the project or projects will, in the opinion of the engineers, yield pledged project revenues over the amortization period of such 1998 Ordinance Bonds sufficient to meet the payment or deposit requirements of operating expenses, reserve requirements, debt service of all 1998 Ordinance Bonds outstanding for which project revenues are pledged, any State taxes assumed by the City to be paid on such 1998 Ordinance Bonds and surplus requirements fixed by the 1998 General Ordinance or the Supplemental 1998 Ordinance authorizing the issuance of any Series of 1998 Ordinance Bonds, and (4) that the project revenues upon which the preceding statements are based comply with the definition of "Project Revenues" contained in the Act. The 1998 General Ordinance also requires that the engineering report state that the Gas Works rents, rates and charges on the basis of which the foregoing statements are made are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Prior to the issuance of the 1998 Ordinance Bonds, a transcript of the proceedings authorizing the issuance of the 1998 Ordinance Bonds, including the engineering report, if any, shall be filed with the Fiscal Agent.

Security

The City pledges, pursuant to the 1998 General Ordinance, for the security and payment of all 1998 Ordinance Bonds issued under the 1998 General Ordinance and thereby grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of 1998 Ordinance Bonds in the Supplemental 1998 Ordinance authorizing the issuance of such Series of 1998 Ordinance Bonds; provided, however, that the pledge of the 1998 General Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price, of and interest on any Series of 1998 Ordinance Bonds on an equal and ratable basis with the related Series of 1998 Ordinance Bonds, to the extent provided by any Supplemental 1998 Ordinance.

Subordinate 1998 Ordinance Bonds shall be subordinate to Senior 1998 Ordinance Bonds in right of payment of principal, premium, if any, and interest. Senior 1998 Ordinance Bonds and Subordinate 1998 Ordinance Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided in the 1998 General Ordinance or in a Supplemental 1998 Ordinance, over any other Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds, respectively.

Priority in Application of Gas Works Revenues

The 1998 General Ordinance provides that all Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable,

First: to Net Operating Expenses then payable:

Second: to debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance;

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

Fourth : payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds;

Fifth: to debt service on Subordinate 1998 Ordinance Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate 1998 Ordinance Bonds;

Sixth: to payments due to issuers of Credit Facilities related to Subordinate 1998 Ordinance Bonds:

- Seventh:* to required payments of the Rebate Amount to the United States;
- Eighth:* to replenishment of any deficiency in the Sinking Fund Reserve;
- Ninth:* to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues;
- Tenth:* to debt service on other general obligation bonds issued for the Gas Works; and
- Eleventh:* to the payment of City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements) except Unrelated Expenses.

The 1998 General Ordinance does not require the segregation of revenues upon their collection.

Rate Covenant

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

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;
- (iii) 150% of the amount required to pay all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;
- (iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;
- (v) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year;
- (vi) the Rebate Amount required to be paid to the United States during such Fiscal Year;
- (vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

(B) The sum of:

- (i) all Net Operating Expenses payable during such Fiscal Year;
- (ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;
- (iii) all Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve;

- (iv) the Rebate Amount required to be paid to the United States during such Fiscal Year;
- and
- (v) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year.

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the 1998 Ordinance Bonds Outstanding under the 1998 General Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

Notwithstanding the requirements of Section 4.03(b) of the 1998 General Ordinance and the pledge under Section 4.02 thereof, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental 1998 Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) of the 1998 General Ordinance applied as if the percentage in subsection A(iii) thereof were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Outstanding 1998 Ordinance Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of the 1998 General Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

Additional Covenants

The City further covenants that (1) it will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all 1998 Ordinance Bonds as the same shall become due and payable; (2) it will continuously maintain in good condition and continuously operate the Gas Works; and (3) it will not in any Fiscal Year pay from the Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding 1998 Ordinance Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with 1998 Ordinance Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants of the 1998 General Ordinance and all Supplemental 1998 Ordinances. Copies of such report will be available to Bondholders and may be inspected and copied at all reasonable times by Bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance improvements to the Gas Works by issuing (1) its general obligation bonds or (2) under authorization other than the 1998 General Ordinance and Supplemental 1998 Ordinances, obligations for the payment of which Gas Works Revenues may be pledged, subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under the 1998 General Ordinance.

Conditions of Issuing 1998 Ordinance Bonds

Prior to the issuance of any Series of 1998 Ordinance Bonds, the Council of the City shall adopt an ordinance supplemental to the 1998 General Ordinance meeting the requirements of the 1998 General Ordinance.

Prior to the issuance of any Series of 1998 Ordinance Bonds under the 1998 General Ordinance, 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 1998 Ordinance Bonds which shall include (i) a certified copy of the 1998 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental 1998 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; and (v) an opinion of Bond Counsel to the effect that (1) the Series of 1998 Ordinance Bonds has been duly issued for a permitted purpose under the Act and under the 1998 General Ordinance, (2) all conditions precedent to the issuance of the Series of 1998 Ordinance Bonds pursuant to the Act and the 1998 General Ordinance have been satisfied, (3) the Series of 1998 Ordinance Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of 1998 Ordinance Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of 1998 Ordinance Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the 1998 Ordinance 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.

Sinking Fund and Sinking Fund Reserve

The Sinking Fund is established for the benefit and security of the Holders of all 1998 Ordinance Bonds issued under the 1998 General Ordinance. The Sinking Fund shall be held in an account or accounts separate and apart from all other accounts of the City. The City covenants to deposit in the Sinking Fund from Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits on investments held therein, be sufficient to accumulate therein (exclusive of amounts in the Sinking Fund Reserve), on or before each interest and principal payment date of the 1998 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1998 Ordinance Bonds then becoming due and payable. The 1998 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all 1998 Ordinance Bonds or for any series of 1998 Ordinance Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason s/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 the 1998 Ordinance Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository. Unless otherwise provided in the applicable Supplemental 1998 Ordinance, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of 1998 Ordinance Bonds issued thereunder and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the 1998 Ordinance Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the above requirements.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any 1998 Ordinance Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is authorized pursuant to the 1998 General Ordinance and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants pursuant to the 1998 General Ordinance to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all 1998 Ordinance Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated pro rata for the Series of 1998 Ordinance Bonds or the specific 1998 Ordinance 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 (including capitalized interest) or premium in respect of particular 1998 Ordinance Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

Remedies; Limitations on Liabilities of City

If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any 1998 Ordinance Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the 1998 Ordinance Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the 1998 Ordinance Bonds or with any covenant of the City contained in the 1998 General Ordinance or an applicable Supplemental 1998 Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any 1998 Ordinance Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of 1998 Ordinance Bonds upon the occurrence of an event of default specified above, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first class mail to all Bondholders.

Any decree or judgment for the payment of money against the City by reason of default under the 1998 General Ordinance shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and investments thereof and no decree or judgment against the City upon an action brought under the 1998 General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Amendments

The 1998 General Ordinance and any Supplemental 1998 Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of 1998 Ordinance Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the 1998 Ordinance Bonds, but no amendment or modification shall be made with respect to any Outstanding 1998 Ordinance 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 1998 Ordinance Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the 1998 Ordinance Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental 1998 Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

Closure of the 1975 Ordinance

After the adoption of the 1998 General Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from 1998 Ordinance Bonds issued under the 1998 General Ordinance.

Deposit of Funds for Payment of 1998 Ordinance Bonds

When interest on, and principal or redemption price (as the case may be) of, all 1998 Ordinance Bonds issued under the 1998 General Ordinance, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the 1998 Ordinance Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into under the 1998 General Ordinance (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made under the 1998 General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established under the 1998 General Ordinance shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established thereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular 1998 Ordinance Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such 1998 Ordinance Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such 1998 Ordinance Bond or Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such 1998 Ordinance Bond or Bonds shall be deemed not to be Outstanding under the 1998 General Ordinance and the Holder or Holders thereof shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such 1998 Ordinance Bond or Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such 1998 Ordinance Bond or Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in the 1998 General Ordinance or the 1998 Ordinance Bonds, be paid to the City, and the Holders of the 1998 Ordinance Bond for which the deposit was made shall thereafter be limited to a claim against the

City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

THE SEVENTH SUPPLEMENTAL ORDINANCE
Ordinance of City Council
Approved December 22, 2005,
Bill No. 051137
(the "Seventh Supplemental Ordinance")

The Seventh Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, on behalf of the City, to borrow, by the issuance and sale of Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance) of the City (the "Sixth Series Bonds"), which may be issued in two or more subseries, designated "Sixth Series Bonds" and consecutively thereafter by letter designation and in one or more subseries within each such subseries, and with such relative priorities as the Bond Committee may deem desirable, pursuant to the Act and the 1998 General Ordinance, a sum or sums which in the aggregate shall not exceed the principal amount of Sixth Series Bonds authorized to be issued under the Seventh Supplemental Ordinance. The Sixth Series Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interests of the City and are not inconsistent with the provisions of the Seventh Supplemental Ordinance, of the Act or of the 1998 General Ordinance or any applicable law.

If a majority of the Bond Committee determines it to be in the best interests of the City, the Sixth Series Bonds may be issued in book-entry form; and in such event a majority of the Bond Committee shall also select a securities depository (the "Depository") for the Sixth Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain Credit Facilities in the form of credit enhancement and liquidity for all or a portion of the Sixth Series Bonds. If a majority of the Bond Committee determines that the entry by the City into one or more Qualified Swap Agreements will assist the City in more effectively managing its interest costs or interest rate exposure, the City may enter into one or more Qualified Swap Agreements with respect to the Sixth Series Bonds and designate in writing to the Fiscal Agent that such Qualified Swap Agreements constitute Qualified Swaps, in accordance with the requirements of the 1998 General Ordinance and the Seventh Supplemental Ordinance. The Sixth Series Bonds shall mature or be subject to mandatory redemption in such principal amounts and on such date or dates and at such rate or rates (including, without limitation, variable, adjustable or convertible rates), as shall be determined by a majority of the Bond Committee. A majority of the Bond Committee is authorized to take any and all other actions as may be necessary or appropriate in connection with the consummation of the transactions contemplated herein.

The Sixth Series Bonds are authorized to be issued under the Seventh Supplemental Ordinance in an aggregate principal amount up to \$385,000,000 to pay the cost of refunding or redeeming certain outstanding Gas Works Revenue Bonds and related Project Costs; provided that, if any of the Sixth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Sixth Series Bonds which may be issued under Seventh Supplemental Ordinance shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Sixth Series Bonds shall not exceed \$385,000,000 plus, accrued interest, if any.

The Seventh Supplemental Ordinance provides that the Sixth Series Bonds shall not pledge the City's credit or taxing power, create any debt, or charge against the tax or general revenues of the City or create any lien against any property of the City other than the revenues pledged by the 1998 General Ordinance.

The Seventh Supplemental Ordinance states that the Sixth Series Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) the refunding or redeeming of all or any portion of any or all of the outstanding City of Philadelphia, Pennsylvania Gas Works Revenue Bonds (1998 General Ordinance), of one or more of the following Series: First Series B, Second Series A, Third Series, Fourth Series and Fifth Series, upon such terms and in such amounts as shall be determined by the Director of Finance (the "Prior Bonds"); (ii) paying the costs of issuing the Sixth Series Bonds and any required deposits to the Sinking Fund Reserve; and (iii) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City or to accounts of the Gas Works of amounts advanced for Project Costs.

The City covenants that the proceeds of the Sixth Series Bonds which remain available for the payment of the costs of refunding of the Prior Bonds, after payment of the financing costs, and the required payment into the Sinking

Fund Reserve, shall be deposited, held in and disbursed from a special account of the Sinking Fund or the escrow fund to be established pursuant to the Escrow Agreement (defined below).

The City authorizes the redemption of the Prior Bonds in accordance with the terms of the 1998 General Ordinance and further authorizes the Bond Committee or the Director of Finance to enter into an Escrow Deposit Agreement (the "Escrow Agreement") providing, among other things, for the deposit and investment of all or a portion of the Sixth Series Bond proceeds and any other available funds of the City in amounts sufficient, together with interest thereon, if any, to defease the lien of such Prior Bonds and providing for payment of the Prior Bonds at maturity or redemption, as applicable, including all interest payable on such Prior Bonds to such maturity or redemption dates, as applicable. All interest and income earned on the investment of such proceeds (except for amounts to be rebated to the United States), which is not required for the refunding or redemption of the Prior Bonds, pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Gas Works Revenues in accordance with the 1998 General Ordinance.

Based on the report of the Director of Finance of the City required by the Act, the Seventh Supplemental Ordinance determined that the pledged Gas Works Revenues (as defined in the 1998 General Ordinance) will be sufficient to comply with the rate covenant contained in the 1998 General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in their order and priority stated in the 1998 General Ordinance.

The City covenants in the Seventh Supplemental Ordinance that, as long as any of the Sixth Series Bonds shall remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. Such pledged Gas Works Revenues shall be held for the security and payment of the Sixth Series Bonds and all Bonds issued under the 1998 General Ordinance to the extent, and to be applied in the order of priority, set forth in the 1998 General Ordinance. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts except as provided in the Seventh Supplemental Ordinance or as otherwise required by the 1998 General Ordinance.

The City covenants that as long as any Sixth Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its 1998 Gas Works Revenue Bond Sinking Fund created under the 1998 General Ordinance at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due; provided, however, that whenever the City shall be required to deposit moneys with the Fiscal Agent for the mandatory redemption of any of the Sixth Series Bonds, such obligation may be satisfied, in whole or in part, by the delivery by the City to the Fiscal Agent of a principal amount of Sixth Series Bonds of the maturity required to be redeemed for cancellation prior to the date specified for such redemption.

The Seventh Supplemental Ordinance authorizes the Director of Finance to make such elections under the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder with respect to the Sixth Series Bonds and to take such actions on behalf of the City with respect to the investment of the proceeds of the Sixth Series Bonds as is deemed advisable, and the Director of Finance or any member of the Bond Committee is authorized to make such covenants as may be necessary or advisable in order that the Sixth Series Bonds shall not be "arbitrage bonds" as defined in the Code.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Director of Finance is authorized to enter into one or more interest rate swap transactions consisting of a Master Agreement, Schedule and one or more Confirmations ("Sixth Series Swap"), collectively constituting a Qualified Swap Agreement, as such term is defined in the 1998 General Ordinance, with respect to the Sixth Series Bonds, as authorized and permitted pursuant to the 1998 General Ordinance. The Sixth Series Swap will be in a notional amount not to exceed the outstanding aggregate principal amount of the Sixth Series Bonds, amortizing in accordance with the principal amortization schedule of the Sixth Series Bonds. The Sixth Series Swap will be entered into with a Qualified Swap Provider, as such term is defined in the 1998 General Ordinance.

In accordance with and as permitted by the 1998 General Ordinance, the pledge and grant of a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and the Sinking Fund Reserve), and in each case, the proceeds of the foregoing, will be for the benefit of the provider of

the Sixth Series Swap and the provider of a Credit Facility securing any payments of the City to be made pursuant to the Sixth Series Swap ("Swap Credit Facility"), all to the extent and in the manner as provided therein.

All of the provisions of the 1998 General Ordinance relating to Qualified Swaps, except to the extent limited by the Seventh Supplemental Ordinance with respect to the Sinking Fund and the Sinking Fund Reserve, will apply to the Sixth Series Swap and to payments due from the City to the providers of the Sixth Series Swap and the Swap Credit Facility, respectively; provided that periodic payments scheduled to be paid by the City under the Sixth Series Swap shall be payable equally and ratably with payments of debt service on the Sixth Series Bonds and shall be secured by Gas Works Revenues equally and ratably with payments of debt service on the Sixth Series Bonds. Payments by the City to a provider of a Swap Credit Facility will have the same priority and security as the corresponding payments under the Sixth Series Swap secured by such Swap Credit Facility. The provider of the Sixth Series Swap and the provider of a Swap Credit Facility will have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve.

All of the provisions of the 1998 General Ordinance relating to Qualified Swaps shall apply to the Sixth Series Swap and to the Swap Credit Facility.

Subject to the determination by a majority of the Bond Committee referred to above, in accordance with and as permitted by the 1998 General Ordinance, the pledge and grant of a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and the Sinking Fund Reserve), and in each case, the proceeds of the foregoing, shall be for the benefit of the providers of any Credit Facilities with respect to the Sixth Series Bonds, all to the extent and in the manner as provided therein; provided, however, that any payments to a Credit Facility provider on account of principal of and interest on Sixth Series Bonds owned or deemed to be owned by a Credit Facility Provider shall be payable from and secured by Gas Works Revenues and the Sinking Fund and Sinking Fund Reserve equally and ratably with all other Sixth Series Bonds.

All of the provisions of the 1998 General Ordinance relating to Credit Facilities, except to the extent limited by the Seventh Supplemental Ordinance with respect to the Sinking Fund and the Sinking Fund Reserve, shall apply to Credit Facilities with respect to the Sixth Series Bonds and to payments due from the City to the providers of such Credit Facilities. The providers of Credit Facilities shall have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve, except as provided in the Seventh Supplemental Ordinance.

All of the provisions of the 1998 General Ordinance relating to Credit Facilities shall apply to the Credit Facilities with respect to the Sixth Series Bonds.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement ("Disclosure Agreement") is executed and delivered as of January 1, 2006 by and between The City of Philadelphia, Pennsylvania ("City") and Digital Assurance Certification, L.L.C., as dissemination agent (the "Dissemination Agent"), in connection with the issuance by the City of its \$313,390,000 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance) (the "Bonds").

The Bonds are being issued by the City under the provisions of The First Class City Revenue Bond Act, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972, P.L. 955, as amended ("Act"), the General Gas Works Revenue Bond Ordinance (Bill No. 980232), adopted by the City Council of the City on April 30, 1998, and signed by the Mayor on May 8, 1998 ("1998 General Ordinance"), as supplemented by a Seventh Supplemental Ordinance (Bill No. 051137) adopted by the City Council of the City of Philadelphia on December 15, 2005, and approved by the Mayor on December 22, 2005 (the "Seventh Supplemental Ordinance"). Certain matters concerning the Bonds have been determined pursuant to the 1998 General Ordinance by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor ("Bond Committee"), in an authorization dated January 20, 2006.

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided or unless the context clearly requires otherwise) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

"Annual Financial Information" shall mean the financial information or operating data with respect to the City and PGW delivered at least annually pursuant to Section 3 hereof, substantially similar to the type set forth in Appendix "A" attached hereto and in accordance with the Rule. The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Government Accounting Standards Board.

"Business Day" or "Business Days" shall mean any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law or contract to remain closed or a day on which the Dissemination Agent is closed.

"Disclosure Representative" shall mean the Director of Finance of the City, the City Treasurer or such other official or employee of the City as the Director of Finance or the City Treasurer shall designate in writing to the Dissemination Agent.

"Fiscal Agent" shall mean U.S. Bank National Association, as Fiscal Agent for the Bonds.

"Material Event" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement, if material within the meaning of the Rule.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement dated January 20, 2006, relating to the Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with their purchase and reoffering of the Bonds.

"PGW" means the Philadelphia Gas Works of the City of Philadelphia.

"Registered Owner" or "Owners" shall mean the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the 1998 General Ordinance, the Seventh Supplemental Ordinance and the Bonds. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book entry credits in the Bonds, except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

"Repository" or "Repositories" shall mean each nationally recognized municipal securities information repository which has received a no-action letter from the staff of the Securities and Exchange Commission recognizing it as such a repository. The Repositories as of the date of this Disclosure Agreement are set forth in Appendix "B" attached hereto and made a part hereof.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the 1998 General Ordinance.

"State Information Depository" shall mean any public or private repository designated by the Commonwealth of Pennsylvania as a state information depository within the meaning of the Rule. As of the date of this Disclosure Agreement, there is no State Information Depository.

All words and terms used in the Disclosure Agreement and defined above or elsewhere herein shall have the same meanings as set forth in the Bond Authorization, if defined therein, or in the 1998 General Ordinance, if defined therein.

2. Authorization and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the City pursuant to Section 10 of the Bond Authorization in order to enable the Participating Underwriters to comply with the requirements of the Rule.

3. Provision of Annual Financial Information

(a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2006, the Disclosure Representative shall file, with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with each Repository and with the State Information Depository, if any. The Annual Financial Information will be in the form of the City's Comprehensive Annual Financial Report and, to the extent such information is not included therein, will include the other information set forth on Appendix A, and will contain unaudited financial statements if audited financial statements are not available.

(b) As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2006, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with each Repository and the State Information Depository, if any.

4. Material Events

(a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner, to each Repository or to the MSRB and to the State Information Depository, if any, notice of any of the following events with respect to the Bonds if material within the meaning of the Rule (each a "Material Event"):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to the rights of the Holders of the security Holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the securities; and
- (11) Rating changes.

The foregoing eleven (11) events are quoted from the Rule. No mandatory redemption shall be deemed a Material Event.

(b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with each Repository or the MSRB and the State Information Depository, if any. Upon receipt, the Dissemination Agent shall promptly file such notice with each Repository or the MSRB and the State Information Depository, if any. In addition, the Dissemination Agent shall promptly file with each Repository or the MSRB and the State Information Depository, if any, notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including, any failure by the City or the Dissemination Agent to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof. Any filing with each Repository, the MSRB and the State Information Depository, if any, shall be accompanied by the form annexed hereto as Appendix "C" and made a part hereof.

(c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a) (1), (3), (4), (5), (8), or (9) notify the Disclosure Representative of the occurrence of such event and shall, within three (3) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with the MSRB and the State Information Depository, if any, unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not material within the meaning of the Rule.

(d) The Dissemination Agent shall prepare an affidavit of mailing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three (3) Business Days following the date of delivery of such notice.

(e) The Dissemination Agent shall request the return from each Repository, the MSRB and the State Information Depository, if any, of written acknowledgment or receipt of any notice delivered to each Repository, the MSRB and the State Information Depository, if any. Upon the return of all completed acknowledgments of a notice, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

Section 5. Amendment; Waiver

(a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:

(vi) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the City or the governmental operations conducted by the City;

(vii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(viii) the amendment or waiver does not materially impair the interests of the Registered Owners of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(i), (ii), and (iii) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with each Repository, and shall promptly file such notice with the MSRB and the State Information Depository, if any. The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the Bonds who have filed their names and addresses with the Fiscal Agent.

Section 6. Other Information; Duties Under the 1998 General Ordinance or the Bond Authorization

(a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under the 1998 General Ordinance, the Seventh Supplemental Ordinance or the Bond Authorization.

(c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners, the MSRB, any Repository or State Information Depository.

Section 7. Default

(a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of a series of the Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

(b) A default under the Disclosure Agreement shall not be or be deemed to be an Event of Default under the Bonds, the 1998 General Ordinance, the Seventh Supplemental Ordinance, the Bond Authorization, the Act or any other agreement related thereto and the sole remedy in the event of a failure of the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8. Concerning the Dissemination Agent

(a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

(b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement.

(c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any proceeding under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.

Section 9. Term of Disclosure Agreement

This Disclosure Agreement shall terminate upon (1) payment or provision for payment in full of the Bonds, or (2) repeal or rescission of Section (b)(5) of the Rule; or (3) a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10. Beneficiaries

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. Notices

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid or in a recognized form of overnight mail or by telecopy with confirmation of receipt, addressed:

(a) To the Dissemination Agent at:

DAC, Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Attention: Nicole Sheehan
Fax: (407) 515-6513

(b) To the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947; or

City of Philadelphia
Office of the City Treasurer
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815

(c) To the MSRB at:

Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314
Attention: CDI
Fax: (703) 797-6700

or such other addresses as may be designated in writing to all parties hereto.

Section 12. No Personal Recourse

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation, the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

Section 13. Controlling Law

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of the Dissemination Agent

The City has appointed the Dissemination Agent as exclusive Dissemination Agent under this Disclosure Agreement. The City may, upon thirty days' written notice to the Dissemination Agent and the Fiscal Agent, replace or appoint a successor Dissemination Agent. Upon termination of the Dissemination Agent's services as Dissemination Agent, whether by notice of the City or the Dissemination Agent, the City agrees to appoint a successor Dissemination Agent or, alternately, agrees to assume all responsibilities of Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable until payment in full for any and all sums owed and payable to the Dissemination Agent. The Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

Section 15. Successors and Assigns

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 16. Headings for Convenience Only

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 17. Counterparts

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 18. Entire Agreement

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA, has caused this Disclosure Agreement to be executed by the Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its duly authorized officers all as of the day and year first above written.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By: _____
Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C, as Dissemination Agent

By: _____
Authorized Officer

APPENDIX "A"

1. Commencing with the fiscal year ending June 30, 2006, a copy of the Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units; and

2. Commencing with the Fiscal Year of the Philadelphia Gas Works ending August 31, 2006, to the extent such information is not contained in the CAFR, an update of the information set forth in the financial statements of the Philadelphia Gas Works for the Fiscal Years ended August 31, 2005 and August 31, 2004 included in Appendix A to the Official Statement.

APPENDIX "B"

REPOSITORIES AND DEPOSITORIES

Any information to be provided to the Repositories pursuant to this Disclosure Agreement shall be sent via United States mail, first class postage prepaid, or a recognized form overnight mail to each of the Repositories. The names and addresses of the Repositories and Depositories designated as such as of the date hereof are as follows:

Nationally Recognized Municipal Securities Information Repositories

BLOOMBERG MUNICIPAL REPOSITORIES

100 Business Park Drive
Skillman, NJ 08558
(609) 279-3225 (phone)
(609) 279-5962 (fax)
E-mail: Munis@bloomberg.com

FT INTERACTIVE DATA

Attn: NRMSIR
100 William Street
New York, NY 10038
(212) 771-6999 (phone)
(212) 771-7390 (fax) (Secondary Market Information)
(212) 771-7391 (Primary Market information)
E-mail: NRMSIR@FTHD.com

DPC DATA, INC.

One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701 (phone)
(201) 947-0107 (fax)
E-mail: nrmsir@dpcdata.com

STANDARD & POOR'S J.J. KENNY REPOSITORY

55 Water Street
45th Floor
New York, NY 10041
(212) 438-4595 (phone)
(212) 438-3975 (fax)
E-mail: nrmsir_repository@sandp.com

APPENDIX "C"

MUNICIPAL SECONDARY MARKET DISCLOSURE

INFORMATION COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

City's and/or Other Obligated Person's Name: _____ CUSIP Numbers
(attach additional sheet if necessary): _____

Nine-Digit CUSIP Number(s) to which this material event notice relates:

Information relates to all securities issued by issuer having the following six-digit numbers:

Number of pages of attached material event notice: _____

Description of Material Events Notice (Check One)

- 1. _____ Principal and interest payment delinquencies
- 2. _____ Non-Payment-related defaults
- 3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
- 4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
- 5. _____ Substitution of credit or liquidity providers, or their failure to perform
- 6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
- 7. _____ Modifications to rights of securities Holders
- 8. _____ Bond calls
- 9. _____ Defeasances
- 10. _____ Release, substitution, or sale of property-securing repayment of the security
- 11. _____ Rating charges
- 12. _____ Failure to provide annual financial information as required
- 13. _____ Other material event notice (specify)
- 14.* _____ Financial information: Please check all appropriate spaces:
 _____ CAFR (a) ___ includes ___ does not include Annual Financial information
 (b) ___ Audited? Yes ___ No ___
 _____ Annual Financial Information: Audited? Yes ___ No ___
 _____ Operating Data
 Fiscal Period Covered: _____

*Financial Information should not be filed with the MSRB.

I hereby represent that I am authorized by the City and/or Other Obligated Person as an agent of either to distribute this information publicly:

Signature: _____
Name: _____
Title: _____
Employer: _____
Address: _____
City, State, Zip Code: _____
Voice Telephone Number _____

Please print the material event notice attached to this cover sheet in 10-point type or larger.

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APPENDIX F

PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

January __, 2006

Re: \$ _____ City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

We have acted as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the authorization, issuance and sale of Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance) ("Bonds") of the City of Philadelphia, Pennsylvania.

The Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the Act of the General Assembly of the Commonwealth, approved October 18, 1972 (P.L. 955) ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Seventh Supplemental Ordinance to the General Ordinance (Bill No. 051137), enacted by the Council of the City ("City Council") on December 15, 2005 and approved by the Mayor of the City on December 22, 2005 ("Seventh Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated January 20, 2006 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Bond Authorization, the General Ordinance or the Seventh Supplemental Ordinance.

The Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) the advance refunding of all or a portion of the City's Gas Works Revenue Bonds (1998 General Ordinance), First Series B, Second Series A, Third Series and Fourth Series; and (ii) paying the costs of issuing the Bonds and making any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance.

The Bonds, together with all Senior Bonds presently Outstanding under the 1998 General Ordinance and any parity obligations hereafter issued under the 1998 General Ordinance (collectively, "1998 Ordinance Senior Bonds"), are equally and ratably payable solely from and secured solely by a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Pursuant to the 1998 General Ordinance, all 1998 Ordinance Senior Bonds are subordinate in right of payment and security to bonds issued under the City's General Gas Works Revenue Bond Ordinance of 1975.

To The Purchasers of the Within-Described Bonds

January __, 2006

Page 2

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution of the Commonwealth; (b) the Act; (c) the 1998 General Ordinance; (d) the Seventh Supplemental Ordinance; (e) the Bond Authorization; and (f) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, including, without limitation, a certification of officials of the City and of the Philadelphia Gas Works ("PGW") having responsibility for issuing the Bonds ("Tax Compliance Certificate"), intended to satisfy certain provisions of the Internal Revenue Code of 1986, as amended ("Code"), and applicable Treasury Regulations, and the other documents and instruments listed on the Closing Index filed with U.S. Bank National Association, as Fiscal Agent, on the date of delivery of the Bonds. We have also examined a fully executed and authenticated Bond.

In rendering the opinion set forth below, we have assumed that all documents, records, certifications and other instruments examined by us are genuine (including the signatures thereon), accurate and complete and we have not undertaken, by independent investigation, to verify the factual matters set forth in any such documents, records, certifications and other instruments.

Except with respect to Paragraph 5 below, our opinion is given only with respect to the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Seventh Supplemental Ordinance and the Bonds and to issue the Bonds for the purposes set forth in the Seventh Supplemental Ordinance.
2. The City has duly and properly authorized the issuance of the Bonds.
3. The Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except to the extent that enforcement may be limited by bankruptcy, insolvency, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.
4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Bonds are exempt from personal property taxes in Pennsylvania.

To The Purchasers of the Within-Described Bonds

January __, 2006

Page 3

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes and will not be a specific preference item for purposes of computing the alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit).

In rendering this opinion, we have assumed continuing compliance by the City with its covenants contained in the 1998 General Ordinance, the Seventh Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate and that the City will comply with the applicable requirements of the Code including requirements relating to, inter alia, the use of proceeds of the Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants and requirements could result in the interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Owners of the Bonds should consult their own tax advisors as to the applicability and effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on passive investment income of S corporations, as well as the applicability and effect of any other federal income tax consequences.

We call to your attention that the Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance. The Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien against property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law which may hereafter occur or changes in facts or circumstances which may hereafter come to our attention. We express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Official Statement prepared in respect of the Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No. N

Effective Date

Premium: \$

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

APPENDIX H

CERTAIN INFORMATION CONCERNING THE BANKS

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association ("JPMCB") is a wholly owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2005, JPMorgan Chase Bank, National Association, had total assets of \$1,008.4 billion, total net loans of \$386.9 billion, total deposits of \$529.4 billion, and total stockholder's equity of \$85.1 billion. These figures are extracted from JPMCB's unaudited Consolidated Reports of Condition and Income as at September 30, 2005, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2004, of JPMorgan Chase & Co., the 2004 Annual Report of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed or furnished with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in this Appendix relates to and has been obtained from JPMCB. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMCB since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

THE BANK OF NOVA SCOTIA

The Bank of Nova Scotia ("Scotiabank" or the "Bank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With 48,000 employees, Scotiabank and its affiliates serve over 10 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2005, Scotiabank recorded total assets of CDN\$314.0 billion (US\$265.8 billion) and total deposits of CDN\$217.4 billion (US\$184.1 billion). Net income for the fiscal year ended October 31, 2005 equaled CDN\$3.209 billion (US\$2.717 billion), compared to CDN\$2.931 billion (US\$2.481 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2005 (1.0000 United States dollar equals 1.1812 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26th Floor, New York, NY, 10006. Attention: Public Finance Department.

The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by the Bank shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this disclosure

WACHOVIA BANK, NATIONAL ASSOCIATION

Wachovia Bank, National Association (the "Bank") is a subsidiary of Wachovia Corporation (the "Corporation"), whose principal office is located in Charlotte, North Carolina. The Corporation is the fourth largest bank holding company in the United States based on approximately \$532 billion in total assets as of September 30, 2005.

The Bank is a national banking association with its principal office in Charlotte, North Carolina and is subject to examination and primary regulation by the Office of the Comptroller of the Currency of the United States. The Bank is a commercial bank offering a wide range of banking, trust and other services to its customers. As of September 30, 2005, the Bank had total assets of approximately \$478 billion, total net loans of approximately \$255 billion, total deposits of approximately \$327 billion and equity capital of approximately \$47 billion.

The Bank submits quarterly to the Federal Deposit Insurance Corporation (the "FDIC") a "Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices" (each, a "Call Report", and collectively, the "Call Reports"). The publicly available portions of the Call Reports with respect to the Bank (and its predecessor banks) are on file with the FDIC, and copies of such portions of the Call Reports may be obtained from the FDIC, Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434, (877) 275-3342, at prescribed rates. In addition, such portions of the Call Reports are available to the public free of charge at the FDIC's web site at <http://www.fdic.gov>.

The Corporation is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such documents can be read and copied at the Commission's public reference room in Washington, D.C. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. In addition, such documents are available to the public free of charge at the SEC's web site at <http://www.sec.gov>. Reports, documents and other information about the Corporation also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

Upon request, the Bank will provide at no cost to any person to whom this Official Statement is delivered copies of the most recent Wachovia Corporation Annual Report to Shareholders, the publicly available portion of the most recent Call Report that the Bank has filed with the FDIC and the Corporation's most recent periodic reports under the Securities Exchange Act of 1934 on Form 10-K and Form 10-Q and any Current Report on Form 8-K subsequent to its most recent report on Form 10-K. Copies of these documents may be requested by writing to or telephoning the Bank at the following address and telephone number: Wachovia Corporation, Investor Relations, 301 South College Street, Charlotte, NC 28288-0206, (704) 374-6782.

The information contained in this Appendix relates to and has been obtained from the Bank. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information regarding the Bank is qualified in its entirety by the detailed information appearing in the documents referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained in this section is correct as of any time subsequent to its date.

THE CREDIT FACILITY IS AN OBLIGATION OF THE BANK AND IS NOT AN OBLIGATION OF THE CORPORATION. NO BANKING OR OTHER AFFILIATE CONTROLLED BY THE CORPORATION, EXCEPT THE BANK, IS OBLIGATED TO MAKE PAYMENTS UNDER THE CREDIT FACILITY.

APPENDIX I

DEFINITIONS OF CERTAIN TERMS PERTAINING TO THE BONDS

The terms pertaining to the Bonds defined below are among those used in the Official Statement:

"Authorized Denominations" means \$100,000 and integral multiples of \$5,000 in excess of \$100,000.

"Banks" means, collectively, JPMorgan Chase Bank, National Association, The Bank of Nova Scotia, acting through its New York Agency, and Wachovia Bank, National Association, and each of their respective successors and assigns, as providers of the initial liquidity facility in the form of the Standby Purchase Agreement, and the bank or other financial institution issuing any replacement liquidity facility.

"Bank Bonds" shall have the meaning given to such term in the Standby Purchase Agreement.

"Bond Authorization" means the determination by the Bond Committee of the City (consisting of the Mayor, the City Controller and the City Solicitor), or a majority of them, dated January 20, 2006, with respect to the Bonds.

"Bondholder," "Holder," "Beneficial Owner" or "Owner" means the registered owner of any Bond.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banking institutions in the Commonwealth of Pennsylvania or the State of New York, or in any other city where the designated office of the Fiscal Agent or the Remarketing Agent or any Bank is located are required or authorized by law (including executive order) to close or on which the designated office of the Fiscal Agent, the Remarketing Agent or any Bank is closed for reasons not related to financial condition or (iii) a day on which the New York Stock Exchange is closed.

"Conversion Date" means any date on which the Rate Mode of the Bonds (or portions thereof with respect to conversion, in part, of Bonds to the Fixed Mode) is converted to another Rate Mode pursuant to the Bond Authorization, provided that if any Conversion Date that is an Interest Payment Date is not a Business Day, the Conversion Date shall be the first Business Day immediately following such Interest Payment Date.

"Event of Default" means any of the events specified in the Bond Authorization or the Standby Purchase Agreement, as the case may be, to be an Event of Default.

"Expiration Date" means the stated expiration date of the Standby Purchase Agreement, as such date may be extended from time to time by the Banks.

"Fixed Rate" means the fixed annual rate of interest borne by the Bonds (or portions thereof converted) from and after a conversion of the Bonds to a fixed rate of interest in accordance with the terms of the Bond Authorization.

"Fixed Mode" means the mode of bearing interest on the Bonds at a Fixed Rate.

"Interest Payment Date" means (i) with respect to interest while Bonds are in the Weekly Mode, the first Business Day of each calendar month, commencing March 1, 2006, and any Conversion Date which is not an Interest Payment Date, (ii) with respect to interest while the Bonds are in a Term Mode, each Semiannual Date, (iii) with respect to interest following conversion of the Bonds to the Fixed Rate, each Semiannual Date, (iv) the maturity date of the Bonds, and (v) with respect to Bank Bonds, as provided in the Liquidity Facility.

"Nominal Term Rate Period" means, with respect to a Term Mode, a period of one or more Semiannual Periods.

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a governmental unit or an agency, political subdivision or instrumentality thereof or any other group or organization of individuals.

"Prevailing Market Conditions" means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of the establishment of an interest rate for the Bonds in accordance with the Bond

plus accrued interest thereon; (b) interest rates for comparable securities (i) with interest rate periods and demand purchase options substantially the same as the Bonds and bearing interest at a variable rate intended to maintain their secondary market price at the principal amount thereof, plus accrued interest thereon, and (ii) rated by a national credit rating agency in the same category as the Bonds if rated at the time; (c) other financial market rates and indices that may have a bearing on the rate of interest (which may include, without limitation, rates and rate periods borne by comparable securities, commercial paper, urban renewal project notes and United States Treasury obligations, commercial bank prime rates, certificate of deposit rates, federal funds rates, and the London Interbank Offered Rate); (d) general financial market conditions (including current forward supply) that may have a bearing on the rate of interest; (e) the financial condition, results of operations and credit standing of any Bank, the Bond Insurer and/or the City, but only to the extent such standing has a bearing on the rate of interest of the Bonds; and (f) any other relevant factor effecting the marketability of the Bonds.

"Purchase Date" means (a) with respect to any optional tender for purchase pursuant to the Bond Authorization of Bonds in the Weekly Mode, any Business Day designated as the date of such purchase pursuant to the Bond Authorization; (b) with respect to any mandatory purchase pursuant to the Bond Authorization, (1) in the case of Bonds which are to be purchased upon conversion from one Rate Mode to another Rate Mode pursuant to the Bond Authorization, the Conversion Date or, if such Conversion Date is not a Business Day, the first Business Day succeeding such Conversion Date and (2) in the case of Bonds which are to be purchased upon expiration of a Term Rate Period, the first Business Day following the end of such Term Rate Period; (d) with respect to any mandatory purchase pursuant to the Bond Authorization in the case of Bonds which are to be purchased in anticipation of the expiration of the Standby Purchase Agreement, the Interest Payment Date next preceding such expiration; and (e) the termination of the Standby Purchase Agreement following the Fiscal Agent's receipt of notice from the Liquidity Agent that an Event of Default has occurred under the Standby Purchase Agreement and directing the Fiscal Agent to cause of mandatory tender of the Bonds, or in the event of a substitution of a new liquidity facility, the mandatory tender date determined pursuant to the Bond Authorization.

"Rate Mode" means the Weekly Mode, a Term Mode or the Fixed Mode.

"Remarketing Agent" means, initially, J.P. Morgan Securities Inc., and its successor for the time being in such capacity as provided in the Bond Authorization.

"Remarketing Agreement" means the Remarketing Agreement dated January 26, 2006 between the City and the Remarketing Agent or any subsequent remarketing agreement executed by the City and any successor Remarketing Agent appointed pursuant thereto.

"Semiannual Date" means each date selected by the City and set forth in a notice of conversion to a Term Mode or the Fixed Mode delivered pursuant to the Bond Authorization, which dates shall be the first or last day of a calendar month and shall not be more than six months apart and the first date which shall be not more than six (6) months from the Conversion Date.

"Semiannual Period" means a six-month period (i) (except it may mean a shorter period in the case of the initial Semiannual Period following conversion to a Term Mode or a Fixed Mode and (ii) in the case of the final Semiannual Period ending on the maturity date of the Bonds) commencing on a Semiannual Date and ending on and concluding the day immediately preceding the next Semiannual Date.

"Senior 1998 Ordinance Bonds" shall have the same meaning given to the term "Senior Bonds" in the 1998 Ordinance.

"Series Issue Date" means January 26, 2006, the date of original issuance of the Bonds.

"Standby Purchase Agreement" means that certain Standby Bond Purchase Agreement, dated January 26, 2006, by and among the City, the Banks, JPMorgan Chase Bank, National Association, as Liquidity Agent, and the Fiscal Agent.

"Term Mode" means the mode of bearing interest on the Bonds at Term Rates based on a constant Nominal Term Rate Period.

“Term Rate Calculation Date” means a Business Day not more than 15 days and not less than one day prior to the first day of the corresponding Term Rate Period.

“Term Rate Period” means a period of one or more Semiannual Periods equal to the applicable Nominal Term Rate Period determined pursuant to the Bond Authorization commencing on the Semiannual Date immediately following the last day of the immediately preceding Term Rate Period and continuing through and including the day immediately preceding the Semiannual Date which follows such commencement date by a period equal to such Nominal Term Rate Period, except that the first Term Rate Period after conversion from a Weekly Rate to a Term Rate shall commence on the related Conversion Date and end on the day immediately preceding the Semiannual Date which follows the Semiannual Date occurring on or immediately preceding such Conversion Date by a period equal to the applicable Nominal Term Rate Period.

“Term Rate Period End Interest Payment Date” means the Semiannual Date immediately following the last day of a Term Rate Period.

“2005 Note Ordinance” means the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. 051138, approved December 22, 2005), as amended or supplemented from time to time.

“Weekly Mode” means, with respect to the Bonds, the mode of bearing interest thereon at a Weekly Rate.

“Weekly Rate” means the rate of interest borne by the Bonds determined and adjusted weekly for each Weekly Rate Period pursuant to the Bond Authorization.

“Weekly Rate Calculation Date” means, while the Bonds are in the Weekly Mode, Wednesday in each calendar week or, if any Wednesday is not a Business Day, the first Business Day preceding such Wednesday.

“Weekly Rate Period” means, while the Bonds bear interest at a Weekly Rate, the weekly period which begins on Thursday of each calendar week and ends at the close of business on Wednesday of the immediately following calendar week; except that (i) if the Bonds are initially issued in the Weekly Mode, the first Weekly Rate Period shall commence on the Series Issue Date and end on and include the first Wednesday occurring after the Series Issue Date, (ii) the first Weekly Rate Period following a conversion from a Term Mode to the Weekly Mode shall commence on the Conversion Date and end on and include the first Wednesday occurring after such date, and (iii) in the case of conversion from the Weekly Mode to a Term Mode or the Fixed Mode, the last Weekly Rate Period prior to such conversion shall end on and include the last day immediately preceding the Conversion Date.

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Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.5. Supply projected capital requirements and sources of Company, Parent and System (consolidated) for each of future three years.

RESPONSE:

Attached is PGW's sources and uses of cash for capital improvement expenditures for Fiscal Years 2005 through 2012.

PHILADELPHIA GAS WORKS
SOURCES AND USES OF CASH FOR CAPITAL IMPROVEMENT EXPENDITURES
FISCAL YEARS 1998 THROUGH 2012
(000's)

	<u>Actual</u>	<u>Estimate</u>	<u>Budget</u>	<u>FORECAST</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
SOURCES:								
Bond Proceeds @ Par	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds From Capital Leasing				-	-			
Other Financings/ IGF	(924)	5,088	3,113	18,597	47,912	70,818	61,587	59,920
Total Sources	<u>149,076</u>	<u>5,088</u>	<u>153,113</u>	<u>18,597</u>	<u>47,912</u>	<u>70,818</u>	<u>61,587</u>	<u>59,920</u>
USES:								
Changes in Capital Improvement Fund	62,207	(62,969)	60,111	(60,000)	(39,843)	-	-	-
Discount & Issuance Exp.	9,825		9,600		-	-	-	-
Deposit to Sinking Fund	8,129		8,250		-	-	-	-
Lease Debt Service	2,005			-				
Funds Deposited in Escrow								
Capital Expenditures	66,910	68,057	75,152	78,597	87,755	70,818	61,587	59,920
Total Uses	<u>149,076</u>	<u>5,088</u>	<u>153,113</u>	<u>18,597</u>	<u>47,912</u>	<u>70,818</u>	<u>61,587</u>	<u>59,920</u>
Capital Improvement & Lease Funds								
Deposit	129,532		132,150	-	-	-	-	-
Drawdown	(67,325)	(62,969)	(72,039)	(60,000)	(39,843)	-	-	-
Changes in Fund	62,207	(62,969)	60,111	(60,000)	(39,843)	-	-	-
Balance End of Period	<u>\$ 102,701</u>	<u>\$ 39,732</u>	<u>\$ 99,843</u>	<u>\$ 39,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Revised

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.6. Provide a schedule of debt and preferred stock of Company, Parent and System (consolidated) as of test year-end and latest date, detailing for each issue (if applicable):

- II.A.6.a. Date of issue
- II.A.6.b. Date of maturity
- II.A.6.c. Amount issued
- II.A.6.d. Amount outstanding
- II.A.6.e. Amount retired
- II.A.6.f. Amount reacquired
- II.A.6.g. Gain on reacquisition
- II.A.6.h. Coupon rate
- II.A.6.i. Discount or premium at issuance
- II.A.6.j. Issuance expenses
- II.A.6.k. Net proceeds
- II.A.6.l. Sinking Fund requirements
- II.A.6.m. Effective interest rate
- II.A.6.n. Dividend rate
- II.A.6.o. Effective cost rate
- II.A.6.p. Total average weighted effective Cost Rate

RESPONSE:

Please see the attached debt schedule for the response to:

a, b, c, d, e, h, i, j, k, l, and m.

f Not applicable

g Not applicable

n Not applicable

o Not applicable

p Not applicable

**PHILADELPHIA GAS WORKS
DEBT SCHEDULE**

<u>Name of Bond</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Amount Retired</u>	<u>Coupon Rate</u>	<u>Discount at Issuance</u>	<u>Premium at Issuance</u>	<u>Issuance Expenses</u>	<u>Net Proceeds</u>
1975 Bond Ordinance										
Series 11 "C" T.E.C.A	January 1, 1989	2012	\$ -	\$ 12,608,704.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 11 "C"	January 1, 1889	2015	132,520,000.00	5,064,435.00	127,455,565.00	6.10%-7.25%	1,546,508.40	-	1,710,361.90	129,263,129.70
Series 15 th	January 1, 1994	2024	183,880,000.00	14,800,000.00	169,080,000.00	3.00%-5.25%	3,607,424.75	-	3,961,349.00	176,311,226.25
Series 16 th	June 1, 1999	2015	62,315,000.00	43,375,000.00	18,940,000.00	4.00%-5.50%	-	(1,474,644.60)	1,218,352.40	62,571,292.20
Series 17 th	April 2, 2003	2026	186,705,000.00	169,300,000.00	17,405,000.00	4.00%-5.375%	1,853,228.21	(9,893,346.85)	12,026,138.58	182,918,980.06
Series 18 th	October 14, 2004	2021	57,820,000.00	56,425,000.00	1,395,000.00	5.00%-5.25%	421,894.35	(4,850,688.50)	1,551,080.57	60,697,713.58
				<u>301,573,139.00</u>						
1998 Bond Ordinance										
FIRST SERIES "A"	June 1, 1998	2026	161,640,000.00	117,850,000.00	43,790,000.00	4.50%-5.50%	-	(3,600,075.50)	3,140,361.02	162,099,714.48
FIRST SERIES "C"	June 1, 1998	2014	21,995,000.00	12,915,000.00	9,080,000.00	3.85%-5.00%	130,201.40	-	455,146.87	21,409,651.73
SECOND SERIES	June 1, 1999	2029	113,965,000.00	23,140,000.00	90,825,000.00	4.625%-5.375%	4,043,373.25	-	2,872,303.55	107,249,323.20
THIRD SERIES	June 1, 2001	2013	120,225,000.00	17,680,000.00	102,545,000.00	4.00%-5.50%	226,845.95	-	6,220,239.17	113,777,914.88
FOURTH SERIES	December 30, 2002	2032	125,000,000.00	118,490,000.00	6,510,000.00	4.00%-5.25%	855,757.34	-	10,049,029.32	114,095,213.34
FIFTH SERIES	October 14, 2004	2034	120,000,000.00	120,000,000.00	-	4.00%-5.25%	939,086.18	(5,974,875.65)	8,417,214.70	116,618,574.77
FIFTH SERIES "A"	October 14, 2004	2035	30,000,000.00	30,000,000.00	-	VARIABLE	119,436.03	-	374,464.50	29,506,099.47
SIXTH SERIES	January 20, 2006	2031	313,390,000.00	313,390,000.00	-	VARIABLE	949,571.70	-	13,396,135.30	299,044,293.00
				<u>753,465,000.00</u>						

<u>BOND DEBT</u>	<u>1975 Ordinance</u>	<u>1998 Ordinance</u>	<u>L</u>	<u>Total Outstanding Debt</u>	<u>Interest Expense</u>	<u>M</u>	
			<u>Sinking Fund Requirements</u>			<u>Effective Interest Rate</u>	
2006	41,948,769.00	51,770,616.00	93,719,385.00	FY 2005-06 Revenue Bonds	1,055,038,138.12	51,798,880.00	4.9097%

**PHILADELPHIA GAS WORKS
DEBT SCHEDULE**

<u>Name of Bond</u>	<u>A</u> <u>Date of Issue</u>	<u>B</u> <u>Date of Maturity</u>	<u>C</u> <u>Amount Issued</u>	<u>D</u> <u>Amount Outstanding</u>	<u>E</u> <u>Amount Retired</u>	<u>H</u> <u>Coupon Rate</u>	<u>I</u> <u>Discount at Issuance</u>	<u>I</u> <u>Premium at Issuance</u>	<u>J</u> <u>Issuance Expenses</u>	<u>K</u> <u>Net Proceeds</u>
1975 Bond Ordinance										
Series 11 "C" T.E.C.A.	January 1, 1989	2012	\$ -	\$ 13,913,252.00	\$ -	-	\$ -	\$ -	\$ -	\$ -
Series 11 "C"	January 1, 1989	2015	132,520,000.00	5,084,435.00	127,455,565.00	6.10%-7.25%	1,548,508.40	-	1,710,381.90	129,263,129.70
Series 15 th	January 1, 1994	2024	183,880,000.00	14,800,000.00	169,080,000.00	3.00%-5.25%	3,607,424.75	-	3,961,349.00	176,311,226.25
Series 16 th	June 1, 1999	2015	62,315,000.00	34,850,000.00	27,465,000.00	4.00%-5.50%	-	(1,474,644.60)	1,218,352.40	62,571,292.20
Series 17 th	April 2, 2003	2028	188,705,000.00	158,585,000.00	28,120,000.00	4.00%-5.375%	1,653,228.21	(8,893,346.85)	12,026,138.58	182,918,980.06
Series 18 th	October 14, 2004	2021	57,820,000.00	54,835,000.00	3,185,000.00	5.00%-5.25%	421,894.35	(4,850,888.50)	1,551,080.57	60,697,713.58
				<u>281,847,687.00</u>						
1998 Bond Ordinance										
FIRST SERIES A	June 1, 1998	2028	161,640,000.00	106,770,000.00	54,870,000.00	4.50%-5.50%	-	(3,600,075.50)	3,140,361.02	162,099,714.48
FIRST SERIES C	June 1, 1998	2014	21,995,000.00	11,545,000.00	10,450,000.00	3.85%-5.00%	130,201.40	-	455,148.87	21,409,651.73
SECOND SERIES	June 1, 1999	2029	113,965,000.00	20,825,000.00	93,140,000.00	4.625%-5.375%	4,043,373.25	-	2,672,303.55	107,249,323.20
THIRD SERIES	June 1, 2001	2013	120,225,000.00	16,715,000.00	103,510,000.00	4.00%-5.50%	226,845.95	-	6,220,239.17	113,777,814.88
FOURTH SERIES	December 30, 2002	2032	125,000,000.00	117,205,000.00	7,795,000.00	4.00%-5.25%	855,757.34	-	10,049,029.32	114,095,213.34
FIFTH SERIES	October 14, 2004	2034	120,000,000.00	120,000,000.00	-	4.00%-5.25%	939,086.18	(5,974,875.65)	8,417,214.70	116,618,574.77
FIFTH SERIES A	October 14, 2004	2035	30,000,000.00	30,000,000.00	-	VARIABLE	119,436.03	-	374,464.50	29,508,099.47
SIXTH SERIES	January 20, 2006	2031	313,390,000.00	313,390,000.00	-	VARIABLE	949,571.70	-	13,396,135.30	299,044,293.00
SEVENTH SERIES	March 20, 2007	2032	150,000,000.00	150,000,000.00	-	6.500%	1,050,000.00	-	8,550,000.00	140,400,000.00
				<u>886,450,000.00</u>						

<u>BOND DEBT</u>	<u>1975 Ordinance</u>	<u>1998 Ordinance</u>	<u>L</u> <u>Sinking Fund Requirements</u>		<u>Total Outstanding Debt</u>	<u>Interest Expense</u>	<u>M</u> <u>Effective Interest Rate</u>	
2007	35,747,550.00	63,300,000.00	99,047,550.00	FY 2006-07	Revenue Bonds	1,168,297,687.00	58,437,000.00	4.4831%

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.7—II.A.10

RESPONSE: Not applicable to a municipally-owned, cash flow method company.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.11. Provide AFUDC charged by company at test year-end and latest date, and explain method by which rate was calculated.

RESPONSE:

	12 Months Ended <u>August 31, 2006</u>	Two Months Ended <u>November 30, 2006</u>
Philadelphia Gas Works	\$980,835	\$164,652

AFUDC is calculated in accordance with the formula prescribed by the Federal Energy Regulatory Commission.

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.12. Set forth provisions of Company's and Parent's charter and indentures (if applicable) which describe coverage requirements, limits on proportions of types of capital outstanding, and restrictions on dividend payouts.

RESPONSE:

The following documents are attached:

General Gas Works Revenue Bond Ordinance of 1975

General Gas Works Revenue Bond Ordinance of 1998

Commercial Paper Notes Ordinance



(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 depository, 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 account-~~

ing 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 con-

trol 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
by (Facsimile Signature) 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

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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 or 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 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.

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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.

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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 re-

quired 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

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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 request 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

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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 Eng-~~

lish 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 Depository 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 redemp-

tion 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 Depository 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 Depositories, 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 Depository shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liqui-

date 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 Depository 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.

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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 depository, and so long as such default shall continue, immediately upon such~~

default deposit in the Sinking Fund, on a daily basis of all pledged revenues of the Gas Works, or a percentage thereof as the Director of Finance may determine. The covenant of this Section 7.02 shall be enforceable by any trustee appointed under Section 20 of the Act or if there be no such trustee appointed, then by the Holder of any Bond outstanding.

SECTION 7.03. Remedies Not Exclusive; Effect of Exercise of Remedies. No remedy herein conferred upon or reserved to the trustee, if a Holder of any bond is intended to be exclusively (as specifically provided in the Act) of any other remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy hereunder or now or hereafter existing at law 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 impair the right or power or shall be construed to be a waiver of such default, or an acquiescence therein; and the remedy given by this Article, by the Act may be exercised from time to time, and as and when deemed expedient.

~~SECTION 7.04. Remedies to be Enforced against Pledged Revenues.~~ Any decree or judgment of money against the City by reason of a default under shall be enforceable only against the revenues and the investments thereof and no decree or judgment against the City upon an action brought shall order or be construed to permit the attachment, seizure, or sale upon execution of any property of the City.

SECTION 8.

ARTICLE VIII
AMENDMENTS AND MODIFICATIONS

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

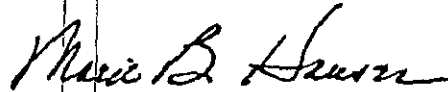
Charles H. Sawyer Jr

Chief Clerk of the Council

Bill No. 980232

Certified Copy

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



Marie B. Hauser
Chief Clerk of the City Council



(Bill No. 980232)

AN ORDINANCE

Authorizing, generally, the issuance of Gas Works Revenue Bonds of the City of Philadelphia which shall be subordinate to bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, which ordinance is hereby amended to limit issuances of bonds thereunder, prescribing the form of bonds issued hereunder and providing for their execution, transfer, exchange, payment and redemption, prescribing the conditions precedent to the issue of specific series of bonds, including supplemental authorizing ordinances, pledging certain revenues of the Gas Works 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 depository, establishing a Sinking Fund, including a Sinking Fund Reserve, and providing for its management, providing remedies upon default, and providing 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 et seq.), as amended, for the purpose of authorizing the issuance from time to time of revenue bonds of the City to be secured by a pledge of certain revenues of the Gas Works as security, in such principal amounts as shall from time to time be authorized by further ordinances of the Council of the City as more particularly hereinafter set forth. This Ordinance shall be known as the General Gas Works Revenue Bond Ordinance of 1998.

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:

Accreted Value means, with respect to any Capital Appreciation Bond, as of any specified date, the Original Value of such Bond, plus interest accreted on such Bond to such date, all as may be provided in an applicable Supplemental Ordinance.

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in this Ordinance.

City of Philadelphia

Bill No. 980232

Certified Copy

Exchange Agreement, any right, remedy or claim under or by reason of this Ordinance or any covenants, condition or stipulation therefor; and all the covenants, stipulations, promises and agreements in this Ordinance by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiscal Agent, the Holders of Bonds and each provider of a Credit Facility, Qualified Swap or Exchange Agreement.

SECTION 11.04. Repeals. All ordinances and parts of ordinances heretofore adopted to the extent that the same are inconsistent herewith are hereby repealed.

City of Philadelphia

Bill No. 980232

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Bond or Bonds means any Gas Works revenue bond or note of the City issued and outstanding pursuant to the Act under this Ordinance and any Supplemental Ordinance.

Bond Counsel means any firm of nationally recognized bond counsel acceptable to the City.

Bondholder or Holder means the registered owner of any Bond.

Bond Register means the list of the names and addresses of Bondholders and the principal amounts and numbers of the Bonds held by them maintained by the Fiscal Agent on behalf of the City.

Bond Year for any Series of Bonds means each one-year period (or shorter period from the date of issue) that ends at the close of business on the date in the calendar year that is selected by the City as permitted under the Code. If no day is selected by the City before the earlier of the final maturity date of the Series of Bonds or the date that is five (5) years after the issue date, the Bond Year with respect to such Series of Bonds shall end on each anniversary of the issue date and on the final maturity date.

Business Day means a day other than a Saturday, Sunday or holiday on which the Fiscal Agent is authorized or required to be closed under applicable state or federal law.

Capital Appreciation Bonds means any Bonds issued hereunder which do not pay interest until maturity or until a specified date prior to maturity, but whose Original Value accretes periodically to the amount due on the maturity date.

City means The City of Philadelphia, Pennsylvania.

City of Philadelphia

Bill No. 980232

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

City Controller means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

City Solicitor means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

Code means the Internal Revenue Code of 1986, as amended, or any successor legislation, and the regulations and published rulings promulgated thereunder or applicable thereto.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P not lower than "A."

Credit Facility Issuer or issuer of a Credit Facility means each issuer of a Credit Facility then in effect, and its successors. References herein to the Credit Facility Issuer shall be read to mean the issuer of the Credit Facility applicable to a particular Series of Bonds or each issuer of a Credit Facility, as

City of Philadelphia

Bill No. 980232

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exclusively to the funds so deposited for any claims of whatsoever nature with respect to such Bond or Bonds, and the Fiscal Agent shall hold such funds in trust for the Holder or Holders of such Bond or Bonds.

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in this Ordinance or the Bonds, be paid to the City, and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

SECTION 11.02. 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 VIII and the laws of the Commonwealth of Pennsylvania.

SECTION 11.03. Parties Interested Herein. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Holders of Bonds, the Fiscal Agent, and each provider of a Credit Facility, Qualified Swap or

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Deposit of Funds for Payment of Bonds. When interest on, and principal or redemption price (as the case may be) of, all Bonds issued hereunder, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into hereunder (other than termination payments), have been paid, or there shall have been deposited with the Fiscal Agent an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility, Qualified Swap and Exchange Agreement entered into hereunder (other than termination payments), the pledge and grant of security interest in the Gas Works Revenues made hereunder shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established hereunder shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established hereunder.

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on such Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. From and after such deposit, such Bond or Bonds shall be deemed not to be Outstanding hereunder and the Holder or Holders thereof shall have recourse solely and

the context requires.

Debt Service Requirements means, for a specified period, the sum of (i) the principal of (whether at maturity or pursuant to mandatory redemption) and interest (other than capitalized interest) on Outstanding Bonds payable during the period and (ii) all net amounts due and payable by the City under Qualified Swaps and Exchange Agreements during the period. For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond tendered for payment and cancellation before its stated maturity date shall be deemed to accrue on the date required for payment pursuant to such tender; (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap or an Exchange Agreement shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or Exchange Agreement or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap or Exchange Agreement adjusted, in the case of variable rate obligations, as provided in Section 4.03(b); and (iii) Debt Service Requirements with respect to Variable Rate Bonds shall be subject to adjustments as permitted by Section 4.03(b).

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as Director of Finance under applicable law.

Exchange Agreement means, with respect to a Series of Bonds, or any portion thereof to the extent from time to time permitted by applicable law, any interest exchange agreement,

interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap, authorized, recognized and approved by a Supplemental Ordinance as an Exchange Agreement and providing for payments to and from an entity whose senior long term debt obligations, other senior unsecured long term obligations, or claims paying ability or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated not less than A3 by Moody's, A- by S&P or A- by Fitch, or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into, which payments are calculated by reference to fixed or variable rates and constituting a financial accommodation between the City and the counterparty.

Fiscal Agent means any bank, bank and trust company or trust company named as such in Section 6.02 or its successor.

Fiscal Year means the fiscal year of the Gas Works.

Fitch means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Fitch are specified in this Ordinance, such categories shall be irrespective of gradations within a category.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of this Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

ARTICLE X

CLOSURE OF 1975 ORDINANCE

SECTION 10.01. Limits on Issuances Under 1975 Ordinance. After the adoption of this Ordinance, the City shall not issue any bonds under the 1975 Ordinance except to refund bonds issued under the 1975 Ordinance or to replace bonds issued thereunder which have been mutilated, destroyed, lost or stolen as provided therein or in substitution for bonds issued thereunder upon transfer or exchange as provided therein.

SECTION 10.02. Designation of Refunding Bonds Under 1975 Ordinance. Any refunding bonds issued under the 1975 Ordinance shall include in the title of such bonds a designation indicating that such bonds relate to the 1975 Ordinance in order to distinguish such bonds from Bonds issued under this Ordinance.

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of money against the City by reason of default hereunder shall be enforceable only against the Gas Works Revenues, amounts in the Sinking Fund Reserve and other amounts which may be specifically pledged therefor and the investments thereof and no decree or judgment against the City upon an action brought hereunder shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

ARTICLE IX

AMENDMENTS AND MODIFICATIONS

SECTION 9.01. In addition to the adoption of Supplemental Ordinances supplementing 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 make such provisions in regard to matters or questions arising hereunder or thereunder which shall not be inconsistent with the provisions hereof or thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with

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

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenue shall not include revenue from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b). Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

Government Obligations means any of the following which

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are noncallable and which at the time of investment are legal investments under the Act for the moneys proposed to be invested therein:

(a) direct general obligations of, or obligations the payment of principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America;

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association; participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; or

(c) obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are

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applicable Supplemental Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies provided in the Act, including the appointment of a trustee; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price of (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds.

Upon the occurrence of an event of default specified in this Section 8.01, the Fiscal Agent shall, within thirty (30) days, give written notice thereof by first-class mail to all Bondholders.

SECTION 8.02. Remedies Not Exclusive; Effect of Delay In Exercise of Remedies. No remedy herein or in the Act conferred upon or reserved to the trustee, if one be appointed, or to the Holder of any Bond is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

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

SECTION 8.03. Remedies to be Enforced Only Against Pledged Revenues. Any decree or judgment for the payment

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SECTION 7.03. Valuation of Funds and Accounts. In computing the assets of any fund or account established hereunder, investments and accrued interest therein shall be deemed a part thereof. Such investments shall be valued on June 30 of each Fiscal Year at the current market value thereof, valuing any Credit Facility held for the Sinking Fund Reserve at the amount which can then be drawn thereunder; provided that any fund or account created by a Supplemental Ordinance may be valued as provided in such Supplemental Ordinance. The annual valuation shall apply for all purposes of this Ordinance except if Bonds are issued or a deficit in the Sinking Fund Reserve occurs, in which cases a valuation shall be made on the date Bonds are issued or the deficit is eliminated, as the case may be. Investment earnings shall be included in Gas Works Revenues and, to the extent not required to be retained in the fund or account to which such earnings relate, shall be transferred to the operating accounts of the Gas Works.

ARTICLE VIII

DEFAULTS AND REMEDIES

SECTION 8.01. Defaults and Statutory Remedies. If the City shall fail or neglect to pay or to cause to be paid the principal of, or the redemption premium, if any, or the interest on, any Bond, whether at stated maturity or upon call for prior redemption, or if the City, after written notice to it, shall fail or neglect to make any payment owed by it to the provider of a Credit Facility, a Qualified Swap or an Exchange Agreement provided with respect to the Bonds and such provider gives the Fiscal Agent written notice of such failure or neglect, or if the City shall fail to comply with any provision of the Bonds or with any covenant of the City contained in this Ordinance or an

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issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act.

Independent means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

Interim Debt means any bond anticipation notes or other temporary borrowing which the City anticipates permanently financing with Bonds or other long term indebtedness under this Ordinance or otherwise.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of the Gas Works, as presently or hereafter amended, or any successor agreement which may be entered into by the City pertaining to the management of the Gas Works.

Manager means Philadelphia Facilities Management Corporation, currently managing the Gas Works pursuant to the Management Agreement, or its successor or such other person, corporation, board, commission or department of the City which may be designated by the City to manage the Gas Works.

Mayor means the Mayor of the City.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State

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of Delaware, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of Moody's are specified in this Ordinance, such categories shall be irrespective of gradations.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

1975 Ordinance means the General Gas Works Revenue Bond Ordinance of 1975, as amended.

Office of the Fiscal Agent means the corporate trust office of the Fiscal Agent designated by the Fiscal Agent.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment

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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 pro rata for the Series of Bonds 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 (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

ARTICLE VII

INVESTMENT OF FUNDS

SECTION 7.01. Management of Funds and Accounts. The moneys on deposit in the funds and accounts established hereunder, to the extent not currently required, shall be invested and secured as required by Section 9 of the Act, all at the direction and under the management of the Director of Finance.

SECTION 7.02. Investment of Funds and Accounts. All moneys deposited in any fund or account established hereunder or under any Supplemental Ordinance may be invested by the Fiscal Agent, at the oral or written direction of the Director of Finance, in any investments then permitted by law; provided that any investments with respect to amounts on deposit in the funds and accounts established hereunder shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts.

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gross income for Federal income tax purposes of interest on the Bonds the interest on which is intended to be so excluded, (2) each such Credit Facility permits the Fiscal Agent to make a draw thereon up to the principal amount thereof if the Sinking Fund Reserve is needed to cover a shortfall in the Sinking Fund and other moneys in the Sinking Fund Reserve are insufficient and (3) each such Credit Facility provides that a draw will be made thereon to replenish the Sinking Fund Reserve on the expiration thereof unless the City has otherwise made such deposit to the Sinking Fund Reserve or has obtained another Credit Facility meeting the requirements of this Section 6.04.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depository is hereby authorized and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depository promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

SECTION 6.05. 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

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by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

Ordinance means this Ordinance, as from time to time amended.

Original Value, with respect to a Series of Bonds issued as Capital Appreciation Bonds, means the principal amount paid by the initial purchasers thereof on the date of original issuance.

Outstanding, when used with reference to the Bonds, means, as of any particular date, all Bonds which have been authenticated and delivered under this Ordinance, except:

(a) Bonds canceled after purchase in the open market or because of payment or redemption prior to maturity;

(b) Bonds for the payment or redemption of which sufficient moneys shall have been theretofore deposited with the Fiscal Agent (whether upon or prior to the maturity or redemption date of any such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Section 5.02 or arrangements satisfactory to the Fiscal Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Fiscal Agent shall have been filed with the Fiscal Agent; and

(c) Bonds in lieu of which or in substitution for which others have been authenticated and delivered under Section 3.04.

Bonds paid with the proceeds of any Credit Facility shall be

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Outstanding until the issuer of such Credit Facility has been reimbursed for the amount of the payment or has presented the Bonds for cancellation.

Philadelphia Home Rule Charter means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, sec. 1 et seq. (53 P.S. 13101 et seq.).

Prior Obligations means the obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of this Ordinance.

Qualified Escrow Securities means funds which are represented by (i) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (ii) if at the time permitted under the Act, obligations of any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by

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in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, Bonds.

Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

SECTION 6.04. Sinking Fund Reserve. There is hereby established a Sinking Fund Reserve which shall be held by the Sinking Fund Depository as part of the Sinking Fund but for which a separate account 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 and/or Gas Works Revenues an amount which, together with other amounts in the Sinking Fund Reserve, will cause the amount in the Sinking Fund Reserve to equal the Sinking Fund Reserve Requirement. The money and investments (valued at market) in the Sinking Fund Reserve and amounts which can be drawn under Credit Facilities held for the Sinking Fund Reserve shall be held and maintained in an amount equal to the Sinking Fund Reserve Requirement.

In lieu of a deposit to the Sinking Fund Reserve or in substitution for amounts in the Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three highest rating categories by Moody's or S&P, provided that (1) in the case of a substitution for moneys in the Sinking Fund Reserve, an opinion of Bond Counsel is delivered to the Fiscal Agent that such substitution will not adversely affect the exclusion from

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use of moneys therein. Without limiting the generality of the preceding sentence, moneys deposited in the Sinking Fund to pay the redemption price of particular Bonds shall be held in separate accounts and applied only for such redemption.

SECTION 6.02. Fiscal Agent. Such state or federally chartered bank, bank and trust company or trust company 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 Series of Bonds. The Fiscal Agent shall also act as Sinking Fund Depository of the Sinking Fund and as paying agent and registrar of the Bonds in respect of which it is the Fiscal Agent, unless others are appointed in such capacities by the City. 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 Depositories, 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 canceled Bonds, 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 Depository shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund

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any Rating Agency in the highest rating category assigned by such Rating Agency to obligations of the same type, or (iii) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, mature or are payable at the option of the holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

Qualified Swap or Swap Agreement means, with respect to a Series of Bonds or any portion thereof, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series or portion thereof, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount of such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement or (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series or portion thereof at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at a

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variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to such Bonds.

Qualified Swap Provider means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least as high as Aa by Moody's and AA by S&P, or the equivalent thereof by any successor thereto.

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

Rating Agency means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on any of the Outstanding Bonds or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on any of the Outstanding Bonds.

Rebate Amount means the amount with respect to a Series of Bonds which is required to be paid to the United States of America, as of any computation date, in compliance with the restrictions imposed by Section 148(f) of the Code.

S & P means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State

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same Series and maturity as the unredeemed portion of the Bond or Bonds so presented.

ARTICLE VI

SINKING FUND

SECTION 6.01. Establishment and Investment of Sinking Fund. There is hereby established a sinking fund to be known as the City of Philadelphia 1998 Ordinance 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 Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate therein (exclusive of the amount in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and 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.

The Fiscal Agent shall establish such accounts in the Sinking Fund as it deems appropriate to identify the source or

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Fiscal Agent shall mail a similar notice to The Bond Buyer and each Rating Agency then maintaining a rating on such Bonds, but failure to mail any such notice referred to in this paragraph or any defect in such mailed notice or in the mailing thereof shall not affect the validity of the redemption notice.

Not more than sixty (60) days following the applicable redemption date, a further notice shall be mailed as provided above to the Bondholders of any Bonds called for redemption and not then presented for payment containing substantially the same information set forth above.

SECTION 5.03. Effect of Redemption; Payment. Notice having been given in the manner hereinbefore provided in this Article V 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 Depository in a special account in the Sinking Fund, on or 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. 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.

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 aggregate principal amount equal to and of the

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of New York, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City. Whenever rating categories of S&P are specified in this Ordinance, such categories shall be irrespective of gradations within a category.

Senior Bonds means Bonds which shall be first in right of payment and as to which the coverage requirement under the Rate Covenant shall be 150%.

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

Sinking Fund means the 1998 Ordinance Gas Works Revenue Bond Sinking Fund established by Section 6.01.

Sinking Fund Depository means the Fiscal Agent or any other bank, bank and trust company or trust company appointed as such by the City.

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

Sinking Fund Reserve Requirement means, with respect to all Bonds secured by the Sinking Fund Reserve, an amount equal to the greatest amount of Debt Service Requirements payable in any Fiscal Year (except that such Debt Service Requirements will be computed as if any Qualified Swap did not exist and the Debt Service Requirements attributable to any

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Variable Rate Bonds may be based upon the fixed rate of interest as set forth in the Supplemental Ordinance for such Bonds), determined as of any particular date.

Subordinate Bonds means those Bonds which shall be subordinate in right of payment to Senior Bonds and as to which the coverage requirement under the Rate Covenant shall be 100%.

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

Uncertificated Bond means any Bond which is fully registered as a to principal and interest and which is not represented by an instrument.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Variable Rate Bond means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

SECTION 2.02. Interpretation. All references in this Ordinance to articles, sections and other sub-divisions are to the designated articles, sections or other sub-divisions of this Ordinance as from time to time amended. 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 subdivision.

SECTION 2.03. Descriptive Headings. The descriptive

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Office of the Fiscal Agent, and that from and after such date, interest thereon shall cease to accrue; provided, however, that the Holders of any Bonds being redeemed may file written waivers of notice with the Fiscal Agent, and if so waived, such Bonds may be redeemed and all rights and liabilities of said Holders shall mature and accrue on the date set for such redemption without the requirement of written notice. If a notice is given with respect to an optional redemption prior to moneys for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and such notice shall be of no effect unless such moneys are so deposited.

The notices required to be given by this Section 5.02 shall state that no representation is made as to correctness or accuracy of the CUSIP numbers listed in such notice or stated on the Bonds.

The notice to Bondholders shall be deposited by the Fiscal Agent in the United States mail, first-class postage prepaid, at least thirty (30) days, but not more than sixty (60) days, unless otherwise provided with respect to any Series of Bonds in the Supplemental Ordinance authorizing such Series of Bonds, prior to the redemption date, addressed to the Holders of Bonds called for redemption at the addresses appearing in the Bond Register. Any notice of redemption mailed in accordance with the requirements set forth herein shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds.

When notice of redemption is mailed to Bondholders, the

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specified in the Bonds or the pertinent Supplemental Ordinance, Bonds subject to optional redemption may be redeemed in such order of maturity as specified by the Director of Finance and within a maturity by lot. Whenever Bonds to be redeemed are required to be selected by lot, the Fiscal Agent shall be authorized to draw by lot the numbers of the Bonds to be redeemed in any manner deemed reasonable by the Fiscal Agent. In the case of a Bond of a denomination greater than the minimum authorized denomination, the Fiscal Agent shall treat such Bond as representing such number of separate Bonds as is obtained by dividing the actual principal amount of such Bond by the minimum authorized denomination.

SECTION 5.02. Notice of Redemption. Unless otherwise provided by Supplemental Ordinance, when the City shall determine to redeem Bonds, upon prior written notice to the Fiscal Agent of the redemption date and the principal amount of Bonds to be redeemed, or whenever the Fiscal Agent shall be required to redeem Bonds from moneys in the Sinking Fund without action on the part of the City, the Fiscal Agent, at the City's expense, shall cause a notice of redemption to be mailed to the Holders of the Bonds being redeemed. Such notice shall specify (i) the complete official name of the Series of Bonds being redeemed; (ii) if less than all then Outstanding Bonds of a Series are to be redeemed, the numbers, including CUSIP numbers if applicable, of the Bonds to be redeemed, which may, if appropriate, be expressed in designated blocks of numbers, (iii) the date of issue of each Bond being redeemed as originally issued, (iv) the rate of interest borne by each Bond being redeemed, (v) the maturity date of each Bond being redeemed and (vi) any other descriptive information considered appropriate by the City to accurately identify the Bonds being redeemed. Such notice shall also state the redemption price and the date fixed for redemption, that on such date the Bonds called for redemption will be due and become payable at the

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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 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, and this Ordinance or said Bonds shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

ARTICLE III

CONCERNING THE BONDS

SECTION 3.01. Forms Generally. All Bonds shall be in substantially the form set forth in this Article III, with such appropriate insertions, omissions, substitutions and other variations, including, without limitation, provisions for optional and mandatory redemption, variable interest rates, capital appreciation, book entry and coupon form, as are required or permitted by this Ordinance or any Supplemental 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, legends or endorsements placed thereon, as may, consistently with this Ordinance and the Act, be determined by a Supplemental Ordinance or by the Director of Finance. The Supplemental Ordinance or the Director of Finance shall also determine whether or not a Series of Bonds is to be issued in a manner whereby interest thereon

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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 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, and provided further that proceeds of the sale of any Series of Bonds representing capitalized interest on such Series of Bonds shall be deposited in a separate account in the Sinking Fund and applied, together with any profit from investment thereof, only to pay interest on such Series of Bonds.

If the City shall, by Supplemental Ordinance, authorize the

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PRINCIPAL AMOUNT:

DOLLARS

The City of Philadelphia, Pennsylvania (the "City"), for value received, hereby promises to pay, but only out of Pledged Amounts (as hereinafter defined), to the Registered Owner identified above or registered assigns (the "Holder"), on the Maturity Date identified above, upon the presentation and surrender hereof, the Principal Amount identified above and to pay (but only out of the Pledged Amounts) interest on said Principal Amount at the annual rate specified above, from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for, or, if no interest has been paid, from
on _____ and
in each year (each an "Interest Payment Date"), commencing _____, until payment of the principal sum shall have been made or provided for.

The principal of this Bond, upon maturity or redemption, is payable at the Principal Office of _____, or its successor, as Fiscal Agent (the "Fiscal Agent"). Interest on this Bond will be paid by the Fiscal Agent on each Interest Payment Date by check or draft mailed to the person in whose name this Bond is registered on the registration books of the City (the "Bond Register") maintained by the Fiscal Agent and at the address appearing thereon on the [last] [fifteenth] day of the month preceding such Interest Payment Date (the "Record Date") or in lieu thereof, if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant Interest Payment Date by a Bondholder of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in a bank located in the United States designated by such Bondholder. Any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered owner hereof as of the Record Date and shall be

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payable to the person who is the registered owner hereof at the close of business on the fifteenth (15th) day prior to the date set for the payment of such defaulted interest (the "Special Payment Date"). Such Special Payment Date shall be fixed by the Fiscal Agent in accordance with Section 2.03 of the Ordinance (as hereinafter defined). The principal of and interest on this Bond are payable in lawful money of the United States of America.

Interest on this Bond shall be paid on each Interest Payment Date and shall be computed on the basis of a year of 360 days consisting of twelve 30-day months and the actual number of days elapsed.

This Bond is fully registered in the name of the owner on the Bond Register kept for that purpose at the Office of the Fiscal Agent. No transfer shall be valid as against the City or the Fiscal Agent unless made by the registered owner in person or by his duly authorized attorney or legal representative and similarly noted upon the Bond Register and hereon. Upon any such transfer or exchange, the City and the Fiscal Agent shall execute and deliver to or upon the order of the registered owner, a new registered Bond or Bonds, in authorized denominations aggregating the principal amount hereof, maturing on the same date, bearing interest at the same rate, bearing the same series designation as this Bond and registered in such names as shall be requested.

The City and the Fiscal Agent may treat the person in whose name this Bond is registered as the absolute owner of this Bond for all purposes whether or not this Bond shall be overdue, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. All payments of the principal, interest or redemption price made to the registered owner hereof in the manner set forth herein and in the Ordinance (as hereinafter defined) shall be valid and effectual to satisfy and discharge the

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so that the Bonds may not be deemed to be "arbitrage bonds" as such term is defined in the Code and applicable regulations, all as the Council of the City 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 9.01 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; and (v) an opinion of Bond Counsel to the effect that (1) the Series of Bonds has been duly issued for a permitted purpose under the Act and under this Ordinance, (2) all conditions precedent to the issuance of the Series of Bonds pursuant to the Act and this Ordinance have been satisfied, (3) the Series of Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the

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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 of the City 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 required by Section 8 of the Act that the Gas Works 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

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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 action taken by such registered owner pursuant to the provisions of the Ordinance shall be conclusive and binding upon such registered owner, such owner's heirs, successors and assigns, and upon all transferees hereof, whether or not notation thereof be made hereon or on any Bond issued in exchange therefor.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds (1998 General Ordinance) 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, as amended, 53 P.S. 15901 et seq.) (the "Act") under the General Gas Works Revenue Bond Ordinance of 1998 (the "Ordinance") and the supplemental ordinance dated (the "Supplemental Ordinance"). (Terms used herein, unless defined herein, shall have the meanings given in the Ordinance or the Supplemental Ordinance.) The Bonds, together with all previous bonds of the City, if any, issued under the Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the Ordinance and all subsequent supplemental ordinances, are and will be secured under the 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 "Gas Works Revenues") and amounts held in the Sinking Fund Reserve established under the Ordinance (collectively, the "Pledged Amounts"). This Bond is a [Senior] [Subordinate] Bond and is [prior] [subordinate] in right of payment to other bonds issued under the Ordinance except other [Senior]

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[Subordinate] Bonds, as to which it is equally and ratably secured. The Ordinance requires Gas Works Revenues to be applied in order of priority to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, as amended, and amounts required to be paid into the sinking fund reserve thereunder, (3) debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the Ordinance, (4) payments due to issuers of Credit Facilities related to Senior Bonds, (5) debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds, (7) required payments of the Rebate Amount to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve, (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, out of the Sinking Fund, in the semi-

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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 obligations for the payment of which Gas Works Revenues may be pledged subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under 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 that the Supplemental Ordinance authorizing any Series of Bonds hereunder shall not otherwise provide pursuant to Section 4.06:

(a) All Bonds shall be sold at public, private or invited sale upon such terms not inconsistent with the Act 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 3.03, shall be determined by

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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 in accordance with generally recognized municipal accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Manager 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. Parity and Priority of Bonds. All Bonds issued hereunder shall be secured by the pledge of, and grant of a security interest in, the Gas Works Revenues, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds. Subordinate Bonds shall be subordinate to Senior Bonds in right of payment of principal, premium, if any, and interest. Senior Bonds and Subordinate Bonds shall not have any preference, priority or distinction as to lien or otherwise, except as otherwise provided herein or in a Supplemental Ordinance, over any other Senior Bonds or Subordinate Bonds, respectively.

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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 the 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, plus, in the case of redemption, all interest accrued to the redemption date.

Reference is hereby made to the 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 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 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, except for bonds issued under the General Gas Works Revenue Bond Ordinance of 1975 (which has been closed to future bond issuances other than refunding bonds and bonds issued upon exchanges, transfers or replacements), and in the case of Subordinate Bonds, outstanding and future Senior Bonds, (i) 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 (ii) 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 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing

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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 Ordinance in respect of Gas Works revenue bonds issued and outstanding thereunder.

[Insert redemption provisions.]

Notice of Redemption

When the City shall determine to redeem Bonds, upon prior written notice to the Fiscal Agent of the redemption date and the principal amount of Bonds to be redeemed, or whenever the Fiscal Agent shall be required to redeem Bonds from moneys in the Sinking Fund, without action on the part of the City, the Fiscal Agent, at the City's expense, shall cause a notice of redemption to be mailed to the Bondholders. Such notice shall, among other things, state the redemption price and the date fixed for redemption, that on such date the Bonds called for redemption will be due and become payable at the Office of the Fiscal Agent, and that from and after such date interest thereon shall cease to accrue; provided, however, that the Holders of any Bonds to be redeemed may file written waivers of notice with the Fiscal Agent, and if so waived, such Bonds may be redeemed and all rights and liabilities of said Holders shall mature and accrue on the date set for such redemption without the requirement of written notice. If a notice is given with respect to an optional redemption prior to moneys for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of moneys with the Fiscal Agent on or before the date fixed for redemption and such

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from gross income for Federal income tax purposes of interest on any Outstanding Bonds the interest on which is intended to be so excluded. Proceeds received from any such securitization and sale shall be excluded from Gas Works Revenues in all calculations relating to the Rate Covenant and, notwithstanding any provision of this Ordinance to the contrary, may be used to redeem or refund obligations issued to finance the related assets designated as non-performing.

(c) It will pay or cause the Fiscal Agent or any paying agent appointed by the City to pay from the Gas Works Revenues deposited in the Sinking Fund the principal of, and premium, if any, and interest on, all Bonds as the same shall become due and payable 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 Gas Works Revenues any City Charges or deposit from the Gas Works Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges then payable in respect of Outstanding Bonds shall have been deposited in the Sinking Fund, all amounts then payable in respect of obligations of the Gas Works which are on a parity with Bonds shall have been paid, all amounts then payable to issuers of Credit Facilities and providers of Qualified Swaps and Exchange Agreements shall have been paid and all deposits then required to the Sinking Fund Reserve shall have been made.

(f) It will, not later than 120 days following the close of each Fiscal Year, file with the Fiscal Agent a report of the

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over a period of up to the maximum term permitted by the Act, but not in excess of the useful life of the assets to be financed, on an approximately level debt service basis and bear interest at the average interest rate on bonds of a similar maturity and credit rating (without any credit enhancement) as the Bonds Outstanding under this Ordinance and (2) Variable Rate Bonds will bear interest at a rate equal to the average interest rate on such Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months immediately preceding the date of calculation or during such shorter period that such Variable Rate Bonds have been Outstanding.

The Gas Commission is 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.

Notwithstanding the requirements of this Section 4.03(b) and the pledge under Section 4.02, the City may, at such time as there are no bonds outstanding under the 1975 Ordinance, pursuant to a Supplemental Ordinance, securitize and sell that portion of the Gas Works rents, rates and charges which relate to assets which are designated as non-performing by the Gas Commission and as to which the Gas Commission has designated specific rents, rates or charges; provided that prior to any such securitization and sale the City delivers to the Fiscal Agent (1) an Engineer's report including a statement that, for the three year period following such securitization and sale, the Gas Works rents, rates and charges (excluding those securitized and sold) are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03(b) applied as if the percentage in subsection A(iii) were 175% rather than 150% and (2) an opinion of Bond Counsel that such securitization and sale will not adversely affect the exclusion

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notice shall be of no effect unless such moneys are so deposited.

The notice to Bondholders shall be deposited by the Fiscal Agent in the United States mail, first-class postage prepaid, at least thirty (30) days, but not more than sixty (60) days prior to the redemption date, addressed to the Holders of Bonds called for redemption at the addresses appearing upon the Bond Register. Any notice of redemption mailed in accordance with the requirements set forth herein shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholder. No defect in the notice with respect to any Bond (whether in the form of notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds.

No covenant or agreement contained in this Bond or in the Ordinance shall be deemed to be a covenant or agreement of any official, officer, agent or employee of the City in his individual capacity, and any official executing this Bond nor any such officer, agent or employee shall be liable personally on this Bond or under the Ordinance or the Supplemental Ordinance or be subject to any personal liability or accountability by reason of the issuance or sale of this Bond, all such liability of such members, officers, agents and employees being released as a condition of and as consideration for the adoption of the Ordinance and the Supplemental Ordinance and the issuance of this Bond.

THIS BOND IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM THE PLEDGED AMOUNTS AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THIS BOND, NOR SHALL THIS BOND BE DEEMED TO BE A GENERAL OBLIGATION OF THE CITY.

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It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 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, Pennsylvania 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

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By: _____
Fiscal Agent

Countersigned and Attested
by (Facsimile Signature)

By: _____
Authorized Officer

City Controller

By: _____
Authorized Officer

SECTION 3.03. General Form, Content and Payment of Bonds. The Bonds shall be generally designated as Gas Works Revenue Bonds (1998 General Ordinance) 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,

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United States during such Fiscal Year; and

(vii) the amounts required to be paid to the issuers of Credit Facilities and the providers of Qualified Swaps and Exchange Agreements during such Fiscal Year; or

B. The sum of:

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

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

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

(iv) the Rebate Amount required to be paid to the United States during such Fiscal Year; and

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

For purposes of estimating Sinking Fund deposits with respect to Interim Debt and Variable Rate Bonds, the City shall be entitled to assume that (1) Interim Debt will be amortized

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(cc) a statement that, in the opinion of the Engineer, 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 Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

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

(ii) all principal of and interest on bonds issued and outstanding under the 1975 Ordinance payable during such Fiscal Year and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate Bonds and other obligations of the Gas Works on a parity with Subordinate Bonds payable during such Fiscal Year;

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

(vi) the Rebate Amount required to be paid to the

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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 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 (including, without limitation, variable, adjustable and convertible rates), shall be subject to optional redemption at such times and upon such terms, shall be designated as Senior Bonds or Subordinate Bonds (and within such categories may be designated as subordinate to other Bonds in such category and may be limited as to source of payment to one or more specific components of Gas Works Revenues), 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.

If permitted by applicable law, any Series of Bonds may be issued as Uncertificated Bonds and the foregoing provisions specifying the form of Bonds shall be inapplicable to such Series of Bonds.

A Series of Bonds may be secured by a Credit Facility meeting the requirements of this Ordinance and the applicable Supplemental Ordinance. In connection with the issuance of its Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the City also may enter into Qualified

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Swaps or Exchange Agreements if a majority of the Mayor, the City Controller and the City Solicitor determines that such Qualified Swap or Exchange Agreement will assist the City in more effectively managing its interest costs or its interest rate exposure. The City's payment obligation under any Qualified Swap or Exchange Agreement shall be made only from Gas Works Revenues. Unless otherwise acknowledged by each Rating Agency by virtue of its confirmation of the existing credit ratings on the City's Outstanding Bonds, the City will not enter into any Qualified Swap or Exchange Agreement unless it gives at least fifteen (15) days advance notice of its intention to do so to each of the Rating Agencies, which notice shall specify the identify of the Qualified Swap Provider or Exchange Agreement counterparty, as the case may be.

The principal of, premium, if any, and interest on Bonds issued hereunder shall be payable in lawful money of the United States of America, which at the time of payment is legal tender for the payment of public and private debts; provided that, if applicable law permits, the principal or redemption price of and the interest on a Series of Bonds may be payable in such foreign currency as may be specified in the Supplemental Ordinance authorizing such Series of Bonds. Principal of and premium, if any, on Bonds shall be payable at the Office of the Fiscal Agent, upon presentation and surrender of the Bonds as the same shall become due and payable. Interest on the Bonds shall be paid by the Fiscal Agent on each interest payment date by check or draft mailed to the person in whose name a Bond is registered on the registration books maintained by the Fiscal Agent (as hereinafter provided) at the close of business on the associated record date, and at the address appearing on such registration books or in lieu thereof, if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date by a Bondholder of \$1,000,000 or more in aggregate principal amount of Bonds, by

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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 is filed with the Council of the City. Such report may be given in reliance on 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 "Engineer") setting forth the qualifications of the Engineer and

(i) containing a statement that the Engineer has 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 it 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(h); and

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(including notes issued under the City's General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993, or any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds, (7) required payments of the Rebate Amount to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve, (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses. The foregoing provisions shall not be construed to require the segregation of revenues upon collection.

Neither the Bonds nor the City's reimbursement or other contractual obligations with respect to any Credit Facility, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the Bonds or the making of any payments hereunder. The Bonds and the obligations evidenced thereby and by the foregoing agreements shall not constitute a lien on any property of the City other than the Gas Works Revenues.

SECTION 4.03. Particular Covenants. The City

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wire transfer to an account in a bank located in the United States designated by such Bondholder. Any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered owner thereof as of the associated record date, and shall be payable to the person who is the registered owner thereof (or of one or more predecessor bonds) at the close of business on the special record date preceding the special payment date set by the Fiscal Agent whenever moneys become available for payment of such interest. Notice of such special payment date shall be given by the Fiscal Agent to registered owners as of the special record date not less than ten (10) days prior to the special payment date. All Bonds shall provide that principal or redemption price and interest in respect thereof shall be payable only out of Gas Works Revenues, moneys in the Sinking Fund Reserve and proceeds of any applicable letter of credit, bond insurance policy or other Credit Facility then in effect.

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, and, notwithstanding anything to the contrary contained in this Ordinance, such new Bond shall be so dated that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

The foregoing provisions of this Section 3.03, 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.

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SECTION 3.04. Registration, Transfer and Exchange of Bonds; Persons Treated as Bondholders. The Fiscal Agent shall maintain and keep on behalf of the City, at its Principal Office, the Bond Register, which shall, at all reasonable times, be open for inspection by the City; and, upon presentation for such purpose of any Bond entitled to registration or registration of exchange or transfer at the Office of the Fiscal Agent, the Fiscal Agent shall register or register the exchange or transfer of such Bond in the Bond Register, under the provisions hereof and such reasonable regulations as the City and the Fiscal Agent may prescribe. The Fiscal Agent shall make all necessary provisions to permit the exchange or transfer of Bonds at its Principal Office.

The transfer of any Bond shall be registered in the Bond Register at the written request of the Bondholder thereof or his attorney duly authorized in writing, upon surrender and cancellation thereof at the Office of the Fiscal Agent, together with a written instrument of transfer satisfactory to the Fiscal Agent duly executed by the Bondholder or his duly authorized attorney. Upon the registration of transfer of any such Bond or Bonds, the City shall issue in the name of the transferee, in authorized denominations, a new fully registered Bond or Bonds in the same aggregate principal amount and of like tenor as the surrendered Bond or Bonds.

The Bonds, upon surrender thereof at the Office of the Fiscal Agent, may, at the option of the Bondholder thereof or his attorney duly authorized in writing, be exchanged for an equal aggregate principal amount of any authorized denominations of Bonds of the same Series and maturity and having the same interest rate as the surrendered Bonds.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the City shall execute and the

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The City hereby pledges for the security and payment of all Bonds issued under this Ordinance and hereby grants a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under this Ordinance, and in each case, the proceeds of the foregoing, except as limited for a Series of Bonds in the Supplemental Ordinance authorizing the issuance of such Series of Bonds; provided, however, that the pledge of this Ordinance may also be for the benefit of the provider of a Credit Facility, Qualified Swap or Exchange Agreement, or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of Bonds on an equal and ratable basis with the related Series of Bonds, to the extent provided by any Supplemental Ordinance. 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. All Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable, to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the 1975 Ordinance and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance, (3) debt service on Senior Bonds, payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the Ordinance, (4) payments due to issuers of Credit Facilities related to Senior Bonds, (5) debt service on Subordinate Bonds and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds

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in lieu of any Bond 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 so alleged to be destroyed, lost or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefit of this Ordinance with all other Bonds issued under this Ordinance.

SECTION 3.09. Credit Enhancement; Exchange Agreements; Qualified Swaps. As provided by Supplemental Ordinance and subject to the requirements of this Ordinance, the City may provide for a Credit Facility, Exchange Agreement or Qualified Swap with respect to any Series of Bonds or portion thereof.

ARTICLE IV

ISSUANCE OF BONDS; PLEDGE OF REVENUES; COVENANTS

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 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, of refunding general obligation bonds of the City issued for the foregoing purposes or of financing anything else relating to the Gas Works permitted under the Act.

SECTION 4.02. Pledge of Revenues; Grant of Security Interest; Application of Revenues; Limitation on Recourse.

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Fiscal Agent shall authenticate and deliver Bonds in accordance with the provisions of this Ordinance. For every such exchange or transfer of Bonds, whether temporary or definitive, the City or the Fiscal Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer.

The Fiscal Agent shall not be required to make any exchange or transfer of any Bonds during the period of fifteen Business Days next preceding any interest payment date for such Bonds or during the period of twenty Business Days next preceding the first mailing of any notice of redemption of such Bonds or to make any exchange or transfer of any Bonds called for redemption.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of surrendered 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.

The City and the Fiscal Agent may deem and treat the Bondholder of any Bond as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. All such payments so made to any such Holder or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid. Any consent, waiver or other action taken by the Holder of any Bond pursuant to the provisions of this

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Ordinance shall be conclusive and binding upon such Holder, such Holder's heirs, successors or assigns and upon all transferees of such Bond, whether or not notation thereof is made on such Bond or any Bond issued in exchange therefor.

SECTION 3.05. 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 3.04, and in the Bonds.

SECTION 3.06. Temporary Bonds. Until Bonds in definitive form are ready for delivery, the City and the Fiscal Agent may execute and deliver to the purchasers thereof, subject to the provisions, limitations and conditions set forth above, one or more Bonds in temporary form, whether printed, typewritten, lithographed or otherwise produced, substantially in the form of the definitive Bonds, with appropriate omissions, variations and insertions, and in authorized denominations. Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the lien and benefit of this Ordinance, including the right to transfer and exchange any Bond in temporary form for other Bonds in temporary form. Upon the presentation and surrender of any Bond or Bonds in temporary form, the City and the Fiscal Agent shall, without unreasonable delay, prepare, execute and deliver to the Holder or Holders thereof, in exchange therefor, a Bond or Bonds in definitive form. Such exchange shall be made without making any charge therefor to the Holders of such Bonds in temporary form.

SECTION 3.07. 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

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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 City 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. Any such Bonds 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, 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 such Bonds any such person shall not have been such officer.

SECTION 3.08. 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 has been mutilated, destroyed, lost or stolen, and of indemnity satisfactory to both of them, the City and the Fiscal Agent shall execute and deliver a new Bond of the same Series, maturity date, principal amount and interest rate in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond or in lieu of and in substitution for the Bond so destroyed, lost or stolen.

The City may, for each new Bond authenticated and delivered under the provisions of this Section 3.08, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in connection therewith. In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the City, in its discretion, may, instead of issuing a new Bond, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Bond issued under the provisions of this Section 3.08



PHILADELPHIA GAS COMMISSION

ONE PARKWAY BUILDING, 1515 ARCH STREET, 9th FLOOR, PHILADELPHIA, PENNSYLVANIA 19102
EXECUTIVE OFFICES (215) 683-0900 FAX (215) 683-0911 Office.Admin@philagascom.net

January 31, 2006

Gregory J. Stunder, Esquire
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, Pennsylvania 19122

**Re: Philadelphia Gas works' Request for Approval to Issue Commercial
Paper Notes up to the \$150 Million Ordinance Maximum**

Dear Mr. Stunder:

Attached is a copy of an Order properly signed and executed, adopted at the Commission Meeting held on Thursday, January 19, 2006 pertaining to the above-referenced.

Sincerely,

A handwritten signature in cursive script that reads "Lucille M. Bajo".

Lucille M. Bajo

Attachment

cc: All Philadelphia Gas Commissioners
Philip A. Bertocci, Esq., Public Advocate
Andre C. Dasent, Esq.
Abby L. Pozefsky, Senior Vice President & General Counsel
Leslie B. Hope, Senior Attorney, Law Department
Julio J. Lastra, Esq., Associate Hearing Examiner
Janet Parrish, Esq., Executive Director
Tarleton D. Williams, Hearing Examiner
Members of the PFMC Board

**BEFORE
THE
CITY OF PHILADELPHIA - GAS COMMISSION**

PUBLIC MEETING HELD: January 19, 2006

**In Re: Philadelphia Gas Works' Request for Approval to Issue
Commercial Paper Notes up to the \$150 Million
Ordinance Maximum**

ORDER

INTRODUCTION

After legal and public notice, the Gas Commission held a meeting on January 19, 2006 at which a quorum was present. At this meeting, the Philadelphia Gas Works' ("PGW") request for approval to issue commercial paper notes up to the \$150 million ordinance maximum was before the Gas Commission for deliberation and decision. Commissioner Royal E. Brown presented a recommendation and motion to the Gas Commission for its consideration. Having considered this matter as well as the recommendation and motion of Commissioner Brown, good cause exists for the action stated in this Order.

APPLICABLE STANDARDS

1. LEGAL STANDARDS

Section VI(9) of the Agreement Between The City Of Philadelphia And The Philadelphia Facilities Management Corporation For The Management And Operation Of The Philadelphia Gas Works ("PFMC Management Agreement/Ordinance") makes the Gas Commission responsible for overseeing the operation of PGW by the PFMC.¹ Section VI(7) requires PFMC

¹ Bill No. 455 passed by City Council on December 29, 1972 as since amended.

to keep the Gas Commission fully informed of its plans for operation, improvement, extension and betterment of PGW. Section I(6) imposes on PFMC the duty to apply the highest standards of management practice and diligence to the operation of the PGW.

Section IV(3) of the PFMC Management Agreement/Ordinance as recently amended by Bill No. 051138² states that loans not exceeding \$150 million "in aggregate principal amount at any time outstanding" may be incurred by the City of Philadelphia on behalf of PGW for financing accounts receivable and the purchase of inventory as authorized by applicable law. Section IV(3) further provides that plans for such loans must be submitted to the Gas Commission and the Director of Finance for approval of the aggregate principal amount which may be outstanding at a single time. Under Section IV(3) the aggregate principal amount also must be submitted to City Council for approval by resolution or ordinance.

City Council originally provided such approval through the General Inventory and Receivables Gas Works Revenue Note Ordinance of 1993 which required that the aggregate principal amount of commercial paper issued, authenticated, and delivered not exceed \$100 million "at any one time outstanding".³ Council subsequently renewed authorization for this program at the \$100 million maximum⁴ and recently increased the authorized maximum to \$150 million.⁵

2. GAS COMMISSION DIRECTIVE

Prior to the increase to a \$100 million ordinance level, the maximum was \$85 million. When the maximum was increased to \$100 million, the Gas Commission adopted an order dated

² See Section 8.03 of An Ordinance Authorizing, Generally, the Continued Issuance and Sale by the City of Philadelphia of Gas Works Revenue Notes of the City, Prescribing the Forms of Notes and Providing for Their Execution and Payment, Pledging Certain Revenues of the Gas Works as Security, Adopting a Rate Covenant and Directing the Imposition and Collection of Rates and Charges Sufficient to Comply Therewith, Prescribing the Conditions Precedent to the Issuance of Specific Series of Notes, Including a Resolution Passed by the Bond Committee Providing for Establishment of Credit Support for Notes, Providing for Designation of a Fiscal Agent and Sinking Fund Depository, Providing for Establishment of a Sinking Fund and its Management, Providing Remedies upon Default, and Providing for Amendments and Modifications (Bill No. 051138 passed by City Council on December 15, 2005 and signed by Mayor John F. Street on December 22, 2005).

³ See Section 3.02(a) of An Ordinance Authorizing, Generally, the Continued Issuance and Sale by the City of Gas Works Revenue Notes of the City of Philadelphia Prescribing the Forms of Notes, Their Execution and Payment, Pledging the Revenues of the Gas Works as Security, Adopting a Rate Covenant, and Directing the Gas Commission and the Manager of the Gas Works to Impose and Collect Rates Sufficient to Comply Therewith, Prescribing the Conditions Precedent to the Issue of Specific Series of Notes, Including a Resolution Passed by the Bond Committee, Providing for Establishment of Credit Support for Notes, Providing for Designation of a Fiscal Agent and Sinking Fund Depository, Providing for Establishment of a Sinking Fund and its Management, Providing Remedies upon Default, and Providing for Amendments and Modifications (Bill No. 523 passed by City Council on May 27, 1993).

⁴ Most recently, Council reauthorized the program at the \$100 million maximum in 2002. See Section 3.02(a) of An Ordinance Authorizing, Generally, the Continued Issuance and Sale by the City of Philadelphia of Gas Works Revenue Notes of the City Prescribing the Forms of Notes, and Providing for Their Execution and Payment, Pledging Certain Revenues of the Gas Works as Security, Adopting a Rate Covenant, and Directing the Imposition and Collection of Rates and Charges Sufficient to Comply Therewith, Prescribing the Conditions Precedent to the Issue of Specific Series of Notes, Including a Resolution Passed by the Bond Committee Providing for Establishment of Credit Support for Notes, Providing for Designation of a Fiscal Agent and Sinking Fund Depository, Providing for Establishment of a Sinking Fund and its Management, Providing Remedies upon Default, and Providing for Amendments and Modifications (Bill No. 020245 passed by City Council on May 9, 2002).

⁵ See generally Bill No. 051138 (passed by City Council on December 15, 2005).

May 30, 1994 directing that should PGW wish to issue notes in excess of \$85 million it must first obtain Gas Commission approval.⁶

BACKGROUND/PROCEDURAL HISTORY

1. PRIOR APPROVED ISSUANCES

Under the framework created by our Order And Resolution dated May 30, 1994 PGW has sought and obtained the Gas Commission's approval to borrow up to the previously-applicable \$100 million maximum on five occasions: in September 1994, February 1998, February 1999, November 1999 and June 2005.⁷

2. CURRENT PGW REQUEST

By letter dated December 22, 2005 PGW requested that the Gas Commission approve the issuance of an additional \$50 million in commercial paper notes up to the new authorized maximum level of \$150 million. By transmittal letter dated January 6, 2006 PGW filed additional supporting documentation in response to a request from the Executive Director of the Gas Commission. PGW submitted copies of the following documents:

- Section 4 of the Credit Agreement for PGW's \$100 million commercial paper letter of credit (amended and restated as of August 8, 2005) setting forth the applicable credit terms and fees;
- a summary of PGW's fee schedule;
- a Budget of Cash Receipts and Disbursements for the Fiscal Year ("FY") ending August 31, 2006 (updated as of January 6, 2006); and
- a Daily Cash Forecast for January 2006.

By letter dated January 11, 2006 the Public Advocate expressed his support of PGW's request. During our meeting held on January 19, 2006 PGW provided additional information about

⁶ See In Re: Tax Exempt Commercial Paper Program, Order And Resolution (May 30, 1994), at 1 and at 2 (Ordering Paragraph 2) (Public Meeting Held May 3, 1994).

⁷ See In Re: Tax Exempt Commercial Paper Program, Order And Resolution (October 20, 1994), at 2 (Public Meeting Held September 13, 1994). See In Re: PGW Request for Commission Authorization to Increase Commercial Paper From \$85 Million to \$100 Million, Order (February 20, 1998), at 2 (Ordering Paragraph 1) (Public Meeting Held February 5, 1998). See In Re: PGW Request for Gas Commission Authorization to Increase the Limit on Outstanding Tax-Exempt Commercial Paper from \$85 Million to \$100 Million Until December 31, 1999, Order (February 3, 1999), at 3 (Ordering Paragraph 1) (Public Meetings Held January 12, 1999 and January 19, 1999). See In Re: PGW Request for Gas Commission Authorization to Increase the Limit on Outstanding Tax-Exempt Commercial Paper from \$85 Million to \$100 Million, Order (November 24, 1999), at 3 (Ordering Paragraph 1) (Public Meetings Held October 5, 1999 and November 16, 1999). See In Re: PGW Request for Approval to Issue \$20 Million in Commercial Paper Notes up to the \$100 Million Ordinance Maximum, Order (July 12, 2005), at 4 (Public Meeting Held June 21, 2005).

the applicable interest rate for its commercial paper.⁸

DISCUSSION

Based on our review of this matter, we believe that PGW's request should be approved. PGW states that this additional \$50 million of liquidity would be used to meet short-term working capital requirements and for any arbitrage opportunities that may arise. PGW represents that the terms and fees for this \$50 million increment would be the same as for the current \$100 million letter of credit.

During the early months of the heating season, PGW's cash receipts are traditionally lower than its expenditures. Considering the substantial price increases reflected in the natural gas supply bills which PGW must pay this winter, the additional \$50 million liquidity is necessary, starting with the bill due on January 25, 2006. PGW's most recent projections show that the January bill for natural gas supply will exceed \$100 million. Further, PGW forecasts that the collection factor for FY 2006 will be 93%, rather than the budgeted 94.5%.

IT IS HEREBY ORDERED THAT:

PGW's request for authority to issue \$50 million in additional commercial paper notes, up to the maximum aggregate principal amount of \$150 million, is approved in accordance with the terms set forth in PGW's letter dated December 22, 2005.

By: Marian B. Tasco
Marian B. Tasco (Chairwoman)

Dated: 1/30/06

⁸ See Meeting Transcript, at 7 - 8.

City of Philadelphia



(Bill No. 051138)

AN ORDINANCE

Authorizing, generally, the continued issuance and sale by the City of Philadelphia of Gas Works Revenue Notes of the City, prescribing the forms of notes and providing for their execution and payment, pledging certain revenues of the Gas Works as security, adopting a rate covenant and directing the imposition and collection of rates and charges sufficient to comply therewith, prescribing the conditions precedent to the issuance of specific series of notes, including a resolution passed by the Bond Committee providing for establishment of credit support for notes, providing for designation of a fiscal agent and sinking fund depository, providing for establishment of a sinking fund and its management, providing remedies upon default, and providing for amendments and modifications.

THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

ARTICLE I

AUTHORIZATION, SCOPE AND PURPOSE - SHORT TITLE

This Ordinance is enacted pursuant to the provisions of The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act (Act No. 231, approved December 7, 1982) (the "Act") for the purpose of authorizing the issuance from time to time of Gas Works Revenue Notes of the City to be secured by a pledge of certain revenues of the Gas Works as security, in an aggregate principal amount not exceeding one hundred fifty million dollars (\$150,000,000) at any one time outstanding, as shall from time to time be authorized by resolution of the Bond Committee (or any two of them as provided by the Act) as more particularly hereinafter set forth. This Ordinance is intended to continue the authority for issuance of Gas Works Revenue Notes contained in ~~the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2002, Bill No. 020245, approved May 29, 2002 (the "2002 Ordinance"), subject to the terms and conditions hereof.~~ At such time as Gas Works Revenue Notes are issued pursuant to the authority contained in this Ordinance, no additional Gas Works Revenue Notes shall be issued under the 2002 Ordinance. For so long as any Gas Works Revenue Notes are outstanding under the 2002 Ordinance, the principal amount thereof shall be included for purposes of calculating the maximum principal amount of Gas Works Revenue Notes that may be issued and outstanding under this Ordinance. This Ordinance shall be known as the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005.

City of Philadelphia

BILL NO. 051138 continued

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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 act of December 7, 1982 (P.L. 827, No. 231) known as The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act (53 P.S. 1699.1 to 1699.21), as amended from time to time.

Bond Committee means the Mayor, the City Controller and the City Solicitor, or any two of them, being the bond committee referred to in the Act.

Chief Fiscal Officer means the person appointed by the Manager as chief fiscal officer of PGW or, in the absence of such an appointed person, the person acting as chief fiscal officer of PGW.

City means The City of Philadelphia.

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

City Controller means the controller of the City, including a person acting as controller under applicable law.

City Solicitor means the solicitor of the City, including a person acting as solicitor under applicable law.

~~**Code** means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder and applicable thereto.~~

CP Notes means the City of Philadelphia Gas Works Revenue Notes, CP Series, authorized to be issued hereunder, as more particularly described in Sections 3.01(b) and 3.02(b) hereof.

Credit Support Entity means any bank, insurance company or other appropriate entity providing a Credit Support Instrument with respect to any Notes.

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Credit Support Instrument means a letter of credit, line of credit, standby purchase agreement, policy of insurance or other mechanism for providing funds to be drawn upon by the City or by the Fiscal Agent on behalf of or as trustee for the Noteholders to pay the principal of or interest on any Notes or to make a deposit in the Sinking Fund.

Dealer means any securities dealer, broker or other entity acting as purchaser of, or broker for, the Notes pursuant to an agreement with the City.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter, including a person acting as director of finance under applicable law.

Final Maturity means, as to a series of CP Notes, the date stated in the Resolution authorizing such series as the final maturity date of such series, which shall be not later than August 31, 2010.

Fiscal Agent means any bank, bank and trust company or trust company named as such pursuant to Section 5.02 hereof or its successor.

Fiscal Year means each fiscal year of PGW.

Gas Commission means the Gas Commission provided for by the Philadelphia Home Rule Charter as presently constituted or hereafter reconstituted in accordance with law.

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

Gas Works Revenue Bonds means Gas Works revenue bonds of the City presently or hereafter issued pursuant to the Act of October 18, 1972 (P.L. 955, No. 234) known as The First Class City Revenue Bond Act (53 P.S. 15901 to 15924), or other applicable statute, ~~the General Gas Works Revenue Bond Ordinance of 1975 (Bill No. 1871, approved May 30, 1975, as amended and supplemented), the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved April 30, 1998, as amended and supplemented, and as the same may be further amended) and any other ordinance enacted pursuant to The First Class City Revenue Bond Act.~~

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas

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distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities *unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto* shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g. activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232) or any similar provision in any successor to such ordinance.

Installment means any issuance of CP Notes intended to be treated as part of a single issue under Section 1.150-1 (c)(4)(ii) of the Treasury Regulations promulgated under the Code.

Inventory means any fuel, materials or supplies acquired by PGW, used directly or indirectly to provide service to the public, and which would be shown as a current asset on a balance sheet of PGW prepared in accordance with generally accepted accounting principles.

Management Agreement means the Agreement dated December 29, 1972 between the City and the Manager for the management and operation of PGW, as presently or hereafter amended, or any subsequent agreement which may be entered into by the City pertaining to the management of PGW.

Manager means Philadelphia Facilities Management Corporation currently managing PGW pursuant to the Management Agreement, or its successor or such other person, corporation, commission or department of the City that may be designated by the City to manage PGW.

Mayor means the Mayor of the City, including a person acting as mayor under applicable law.

~~**Natural Gas Choice and Competition Act** means the Act of June 22, 1999, P.L. 122, No. 21, as amended from time to time.~~

Net Operating Expenses means Operating Expenses exclusive of City Charges.

Note or Notes means any Gas Works revenue note or notes of the City, issued and outstanding pursuant to the Act and this Ordinance, including Refunding Notes, CP Notes and Revenue Notes.

Noteholder or Holder means the holder of any Note.

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Operating Expenses means all costs and expenses of PGW necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement therefor for any work or project related to the Gas Works which does not have a probable useful life of at least five (5) 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 accounting principles consistently applied, but shall exclude depreciation, interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.

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Outstanding means, when used with reference to the Notes, as of any particular date, the aggregate of all Notes authenticated and delivered under this Ordinance, except:

(a) Notes cancelled by the Fiscal Agent or delivered to the Fiscal Agent for cancellation;

(b) Notes for the payment of which payments in the necessary amount have been theretofore deposited in an account in the Sinking Fund for the holders such Notes; and

(c) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to Section 3.08 hereof.

Project means the Inventory or Receivables, or both, or any part thereof.

Project Costs means all costs of acquisition or funding of a Project including, but not limited to, costs, fees and expenses of financial advisors, attorneys and other experts engaged in connection with the Project, fees and expenses of the Fiscal Agent and rating agencies, financing costs including bond discount, additional security costs including fees and expenses related to a Credit Support Instrument, interest on money borrowed to finance the Project if capitalized, the repayment of temporary loans made in connection with the Project and reimbursement for any of the foregoing costs incurred or paid prior to or after the issuance of Notes.

Public Utility Commission means the Pennsylvania Public Utility Commission as presently constituted or hereafter reconstituted in accordance with law.

Rate Covenant means the rate covenant contained in Section 4.03(b) hereof.

Receivables means accounts receivable billed to customers of PGW, but not yet paid, as would be shown as a current asset on a balance sheet of PGW prepared in accordance with generally accepted accounting principles.

Refunding Notes means Notes issued to provide funds to pay the principal of and interest on Notes or 2002 Notes previously issued, including prior issues of Refunding Notes; Refunding Notes may be issued as Notes or Revenue Notes.

Reimbursement Agreement means any agreement between the City and a Credit Support Entity governing the terms and conditions upon which a Credit Support Instrument will be provided and the terms and conditions of the Reimbursement Obligation.

Reimbursement Obligation means the obligation of the City to repay to a Credit Support Entity amounts provided under a Credit Support Instrument, together with premium, if any, and interest thereon; the Reimbursement Obligation may be evidenced by a promissory note or notes of the City.

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Resolution means a resolution duly passed by the Bond Committee authorizing the issuance of the Notes hereunder or taking any other action required or permitted hereunder.

Revenue Notes means the City of Philadelphia Gas Works Revenue Notes, authorized to be issued hereunder, as more particularly described in Section 3.01(c) and 3.02(c) hereof.

Sinking Fund means a sinking fund established pursuant to Section 5.01 hereof.

Sinking Fund Depository means the Fiscal Agent named pursuant to Section 5.02 hereof or its successor.

Stated Maturity means, as to a particular CP Note, the maturity date of such CP Note, which shall be not less than one (1) day after the issue date of such CP Note and not later than two hundred seventy (270) days from the date of issuance of the particular CP Note; provided, however, that the Stated Maturity shall not be later than the earlier of 13 months following the date of initial issuance of any Installment of CP Notes or the Final Maturity.

2002 Notes means any gas works revenue note or notes of the City issued and outstanding pursuant to the Act and the 2002 Ordinance.

Unrelated Expenses means expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto.

Section 2.02. **Interpretation.** All references in this Ordinance to articles, sections and other subdivisions of this Ordinance are to the designated articles, sections or other subdivisions 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 subdivision, except as otherwise specifically provided.

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 Note issued pursuant hereto or the application thereof to any person or circumstance shall for any reason be held to be invalid, the remainder of this Ordinance or such Note and the application of such provision to other persons or circumstances, shall not be affected thereby, unless the court finds that the valid provisions are so essentially and inseparably connected with, and so dependent upon, the void provision or application, that it cannot be presumed that City Council

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would have enacted or provided for the remaining valid provisions without the void provision; or unless the court finds that the remaining valid provisions, standing alone, are incomplete and are incapable of being executed in accordance with the intent of City Council.

Section 2.05. **Powers Preserved.** Nothing in this Ordinance is intended to or shall be construed to affect the authority of the Gas Commission under Section 5-902 of the Philadelphia Home Rule Charter or the Management Agreement, to the extent consistent with the Natural Gas Choice and Competition Act.

ARTICLE III

CONCERNING THE NOTES

Section 3.01. **Forms of Notes.**

(a) All Notes shall be in substantially the forms set forth in this Article III, with such appropriate insertions, omissions, substitutions and other variations, including variations deemed necessary to issue the Notes in book-entry form, as may, consistently with this Ordinance and the Act, be determined by or in the manner specified by the Bond Committee in a Resolution. The Notes may be printed, lithographed or typewritten with or without steel engraved borders. The Notes 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 Notes. The Notes may also have printed thereon or on the reverse thereof or attached thereto a Credit Support Instrument or the text thereof. Any portion of the text of any Note may be set forth on the reverse thereof with an appropriate reference on the face of the Note.

(b) CP Notes shall be in substantially the following form:

(Form of CP Note)

~~THE CITY OF PHILADELPHIA, PENNSYLVANIA~~

~~GAS WORKS REVENUE NOTE~~

CP Series [Letter Designation]

Principal Sum _____ Issue Date _____

Interest on Stated Maturity _____ Stated Maturity _____

Due at Stated Maturity _____ Number of Days _____

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Interest Rate _____

The City of Philadelphia (the "City"), for value received, hereby promises to pay in lawful money of the United States of America to the bearer hereof, on the Stated Maturity set forth above, the Principal Sum set forth above and to pay interest on said Principal Sum for each day from the Issue Date set forth above until payment of said Principal Sum has been made or duly provided for at the Interest Rate per annum set forth above, calculated on the basis of a three hundred sixty-five (365) day year or three hundred sixty-six (366) day year, as applicable, payable on the Stated Maturity set forth above. The principal of and interest on this Note are payable in immediately available funds at the office of Fiscal Agent of the City, at _____.

This Note is one of a duly authorized issue of Notes of the City designated as its Gas Works Revenue Notes of the Series designated hereon (the "CP Notes"), issued pursuant to the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. _____ approved _____, 2005) of the City (the "General Ordinance") and a Resolution dated _____ of the Bond Committee referred to in the General Ordinance. The City covenants to pay the CP Notes and interest thereon when due and such payments shall be made out of the Gas Works Revenues (as defined in the General Ordinance), except to the extent paid from the proceeds of Refunding Notes issued under the General Ordinance or funds provided by a Credit Support Instrument (as defined in the General Ordinance). All notes issued under the General Ordinance (the "Notes"), including the CP Notes, are secured equally and ratably by the pledge of and grant of a security interest in the Gas Works Revenues.

This Note is a special obligation which the City is obligated to pay solely from the Gas Works Revenues and from the proceeds of Refunding Notes. The CP Notes are not general obligations of the City and do not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City. As defined in the General Ordinance, Gas Works Revenues include all operating and nonoperating revenues of the Philadelphia Gas Works (the "Gas Works") derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. The General Ordinance requires the Gas Works Revenues to be applied to net operating expenses of the Gas Works and the payment of debt service on certain Gas Works Revenue Bonds and certain other obligations of the Gas Works payable from Gas Works Revenues prior to payment of the principal of and interest on the Notes.

[Any Credit Support Instrument for the benefit of the Noteholders may be described here.]

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IN WITNESS WHEREOF, the City has caused this Note to be duly signed in its name by the manual or facsimile signatures of the Mayor, City Controller and City Solicitor and the seal of the City or a facsimile thereof to be affixed or imprinted hereon, and has caused this Note to be countersigned by two (2) duly authorized officers of _____, the duly authorized Fiscal Agent of the City.

THE CITY OF PHILADELPHIA

By: _____
Mayor

[Seal]

By: _____
City Controller

By: _____
City Solicitor

COUNTERSIGNED: [FISCAL AGENT]

Fiscal Agent

By: _____

By: _____
Authorized Officers

(c) Revenue Notes shall be in substantially the following form:

(Form of Revenue Note)

THE CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE NOTE
Series [Letter Designation]

No. _____
Principal Sum _____

Issue Date _____
Stated Maturity _____
Interest Rate _____

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 hereof, on the Maturity Date set forth above, the Principal Sum set forth above and to pay interest

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on said Principal Sum for each day from the Issue Date set forth above until payment of said Principal Sum has been made or duly provided for at the Interest Rate per annum set forth above, calculated on the basis of a three hundred sixty-five (365) day year or three hundred sixty-six (366) day year, as applicable, payable on the Maturity Date set forth above. The principal of and interest on this Note are payable in immediately available funds at the office of Fiscal Agent of the City, at _____.

This Note is one of a duly authorized issue of Notes of the City designated as its Gas Works Revenue Notes of the Series designated hereon (the "Revenue Notes"), issued pursuant to the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2005 (Bill No. _____ approved, _____, 2005) of the City (the "General Ordinance") and a Resolution dated _____ of the Bond Committee referred to in the General Ordinance. The City covenants to pay the Revenue Notes and interest thereon when due and such payments shall be made out of the Gas Works Revenues (as defined in the General Ordinance), except to the extent paid from the proceeds of Refunding Notes issued under the General Ordinance or funds provided by a Credit Support Instrument (as defined in the General Ordinance). All notes issued under the General Ordinance (the "Notes"), including the Revenue Notes, are secured equally and ratably by the pledge of and grant of a security interest in the Gas Works Revenues.

This Note is a special obligation which the City is obligated to pay solely from the Gas Works Revenues and from the proceeds of Refunding Notes. The Revenue Notes are not general obligations of the City and do not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City. As defined in the General Ordinance, Gas Works Revenues include all operating and nonoperating revenues of the Philadelphia Gas Works (the "Gas Works") derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. The General Ordinance requires the Gas Works Revenues to be applied to net operating expenses of the Gas Works and the payment of debt service on certain Gas Works Revenue Bonds and certain other obligations of the Gas Works payable from Gas Works Revenues prior to payment of the principal of and interest on the Notes.

[Any Credit Support Instrument for the benefit of the
Noteholders may be described here.]

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IN WITNESS WHEREOF, the City has caused this Note to be duly signed in its name by the manual or facsimile signatures of the Mayor, City Controller and City Solicitor and the seal of the City or a facsimile thereof to be affixed or imprinted hereon, and has caused this Note to be countersigned by two (2) duly authorized officers of _____, the duly authorized Fiscal Agent of the City.

THE CITY OF PHILADELPHIA

By: _____
Mayor

[Seal]

By: _____
City Controller

By: _____
City Solicitor

COUNTERSIGNED: [FISCAL AGENT]

Fiscal Agent

By : _____

By : _____
Authorized Officers

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Section 3.02. General Form and Content of Notes.

(a) Notes shall be generally designated as Gas Works Revenue Notes of the City and shall be issued in such series and within such series in such sub-series as may from time to time be determined by or in the manner prescribed by a Resolution. The aggregate principal amount of Notes which may be issued, authenticated and delivered under this Ordinance may not exceed one hundred fifty million dollars (\$150,000,000) at any one time Outstanding, and prior to issuance of each series of Notes, the Bond Committee shall adopt a Resolution authorizing such series. For the purpose of calculating the maximum principal amount of Notes which may be issued and Outstanding hereunder, the aggregate principal amount of any outstanding 2002 Notes shall be deemed to be Outstanding hereunder.

Subject to the provisions of this Ordinance, Notes may be issued in such denominations in bearer or in fully registered form; may be issued in Installments; shall bear such identifying designation or title; shall be dated; shall be payable at such rate or rates of interest, including supplemental, contingent or variable interest, payable on such dates; may be subject to such provisions for redemption in whole or in part or both, at such prices, at such times and places; shall be stated to mature on such date or dates, not later than August 31, 2010; shall be payable as to principal or interest, or both, at such places by the City or by such paying agent or Fiscal Agent of the City as the City appoints; may provide for the payment by the City of such tax or taxes on the Notes; and may contain such other terms, provisions, statements or covenants, not inconsistent with the Act or this Ordinance as may be determined in or in the manner specified in a Resolution.

(b) Each series of CP Notes shall be issued from time to time, subject to the limitations set forth in this Ordinance, in such principal amounts as from time to time shall be determined by the Bond Committee. The CP Notes of a series shall be (i) dated as of their respective dates of issuance, (ii) numbered serially in consecutive numerical order from 1 upwards, (iii) issued in minimum denominations of one hundred thousand dollars (\$100,000) or any integral multiples of one thousand dollars (\$1,000) in excess thereof, (iv) issued without coupons and payable to bearer or such other person or entity designated by the City, including a depository or person designated by a depository if the CP Notes are issued in book-entry form, (v) issued as interest-bearing CP Notes (provided that interest shall accrue thereon from and including the date of issuance thereof to, but not including or after, the stated maturity thereof), (vi) have interest payable and principal amounts maturing at such times as are stated therein, but in no event later than the Final Maturity of such series of CP Notes, (vii) payable as to principal and interest at Stated Maturity in immediately available funds in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Fiscal Agent, and (viii) authenticated by the Fiscal Agent and delivered by the Fiscal Agent to, or as directed by, the Dealer, from time to time in the manner provided for and subject to the conditions specified herein and in any agreement

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hereafter entered into by the City and the Dealer or Fiscal Agent, promptly upon receipt by the Fiscal Agent of a request specifying, as to each of the CP Notes then being issued, (A) the date of issue, Stated Maturity, serial number and principal amount, (B) the rate of interest to be carried thereby, (C) the total of principal and interest to be due thereon at the Stated Maturity thereof, (D) the name of the payee, if other than bearer, and (E) the aggregate purchase price to be paid therefor by the Dealer or such other person or entity as such request shall specify. Delivery of the CP Notes by the Fiscal Agent to, or as directed by, the Dealer shall be against payment made in the manner specified herein.

(c) Each series of Revenue Notes shall be issued from time to time, subject to the limitations set forth in this Ordinance, in such principal amounts as from time to time shall be determined by the Bond Committee. The Revenue Notes of a series shall be (i) dated as of their respective dates of issuance, (ii) numbered serially in consecutive numerical order from 1 upwards, (iii) issued in minimum denominations of five thousand dollars (\$5,000), or any integral multiples thereof, (iv) issued without coupons and payable to bearer or such other person or entity designated by the City, (v) issued as interest-bearing Revenue Notes (provided that interest shall accrue thereon from and including the date of issuance thereof to, but not including or after, the stated maturity thereof), (vi) have interest payable and principal amounts maturing at such times as are stated therein, but in no event later than August 31, 2010, (vii) payable as to principal and interest at maturity in immediately available funds in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Fiscal Agent, and (viii) authenticated by the Fiscal Agent and delivered by the Fiscal Agent to the Dealer from time to time in the manner provided for an subject to the conditions specified herein and in any agreement hereafter entered into by the City and the Dealer or Fiscal Agent, promptly upon receipt by the Fiscal Agent of a request specifying, (A) as to the series of Revenue Notes then being issued, (i) the date of issue, (ii) maturity date, (iii) rate of interest to be carried thereby, and (B) as to each Revenue Note within such series, (i) the serial number and principal amount, (ii) the name of the payee, other than the bearer, and (iii) the aggregate purchase price to be paid therefor by the Dealer or such other person or entity as such request shall specify. Delivery of the Revenue Notes by the Fiscal Agent to the Dealer shall be against payment made in the manner specified herein.

~~The foregoing provisions of this Section 3.02, any other provisions in this Ordinance to the contrary notwithstanding, are subject to the express understanding that the City shall have no obligation to pay the Notes except from the Gas Works Revenues and from the proceeds of Refunding Notes. The Notes shall be limited obligations of the City payable solely from Gas Works Revenues and from proceeds of Refunding Notes and shall not pledge the City's general credit or taxing power or create any debt or charge against the general revenues of the City.~~

Section 3.03. **Payment of Notes at Maturity.** The Notes and any interest thereon shall be payable in lawful money of the United States of America at the

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office of the Fiscal Agent, or at the principal office of a paying agent designated in such Notes, but only upon presentation and surrender of such Notes, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Notes.

Section 3.04. **Notes are Negotiable Instruments.** The Notes shall have the qualities of negotiable instruments under the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania.

Section 3.05. **Transfer of Notes.** All Notes shall be negotiable and title thereto shall pass by delivery.

Section 3.06. **Ownership of Notes.** The City, the Fiscal Agent and any paying agent designated in any Note may treat the bearer of any Note as the absolute owner of such Note for all purposes whether or not such Note 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 bearer of any Note pursuant to the provisions of this Ordinance shall be conclusive and binding upon such holder, his heirs, successor or assigns, and upon all transferees of such Note whether or not notation of such consent, waiver or other action shall have been made on such Note or on any Note issued in exchange therefor.

Section 3.07. **Execution of Notes.** The Notes shall be executed on behalf of the City by the manual or facsimile signatures of the Mayor, City Solicitor, and City Controller 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 signatures of two duly authorized officers of the Fiscal Agent, or in such other manner as shall be authorized by law and prescribed by a Resolution. Any such Notes may be executed, issued and delivered notwithstanding that one or more of the officers signing such Notes or whose facsimile signature shall be upon such Notes or any thereof, shall have ceased to be such officer or officers at the time when such Notes shall actually be delivered, and although at the nominal date of the Note, any such person shall not have been such officer.

Section 3.08. **Mutilated, Destroyed, Lost or Stolen Notes.** Upon receipt ~~by the Fiscal Agent and the City of evidence satisfactory to both of them that any Outstanding Note 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 Note, if alleged to have been lost or stolen, has been acquired by a bona fide purchaser, or if a Note has been mutilated, the City in its discretion may execute and deliver a new Note of the same series and same maturity and of like tenor in exchange and substitution for, and upon surrender and cancellation of, the mutilated Note or in lieu of and in substitution for the Note so destroyed, lost or stolen.~~

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The City may, for each new Note authenticated and delivered under the provisions of this Section 3.08, 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 Note has become, or is about to become, due and payable, the City, in its discretion, may, instead of issuing a new Note, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Note issued under the provisions of this Section 3.08 in lieu of any Note alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Note 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 Notes under this Ordinance.

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ARTICLE IV

ISSUANCE OF NOTES

Section 4.01. **Purpose of Notes.** The Notes issued under this Ordinance shall be issued for the purpose of financing or refunding the Project Costs of a Project or any part thereof, to refund Notes previously issued hereunder or to refund 2002 Notes issued under the 2002 Ordinance.

Section 4.02. **Pledge of Gas Works Revenues; Grant of Security Interest; Application of Gas Works Revenues.** The City hereby pledges for the security and payment of all Notes issued under this Ordinance, and hereby grants a security interest in the Gas Works Revenues, including all accounts, general intangibles, cash proceeds, non-cash proceeds, chattel paper, whether tangible or electronic, and supporting obligations, as each term is defined in the Pennsylvania Uniform Commercial Code and all Proceeds, as such term is defined in the Pennsylvania Uniform Commercial Code.

For the purpose of the financing statements to be filed under the Uniform Commercial Code, the Fiscal Agent shall be deemed to be, and the City hereby recognizes the Fiscal Agent as, the representative of the Noteholders.

All Gas Works Revenues as and when collected in each Fiscal Year shall be applied in order of priority, to the extent then payable, to (1) Net Operating Expenses then payable, (2) debt service on bonds issued under the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "1975 Ordinance") and amounts required to be paid into the sinking fund reserve under the 1975 Ordinance, (3) debt service on Senior Bonds issued under and as defined in the General Gas Works Revenue Bond Ordinance of 1998, as amended and as may be further amended (the "1998 Ordinance"), payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements (as each such term is defined in the 1998 Ordinance) related to Senior Bonds and payments due in respect of obligations of the Gas Works to The Philadelphia Municipal Authority existing on the date of adoption of the 1998 Ordinance, (4) payments due to issuers of Credit Facilities (as defined in the 1998 Ordinance) related to Senior Bonds, ~~(5) debt service on Subordinate Bonds (as defined in the 1998 Ordinance)~~ and payments due in respect of obligations of the Gas Works on a parity with Subordinate Bonds (including the Notes issued under this Ordinance and notes issued under any similar ordinance, and amounts payable to the provider of a Credit Facility in respect of such notes) and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements related to Subordinate Bonds, (6) payments due to issuers of Credit Facilities related to Subordinate Bonds and payments (other than termination payments) due to the issuers of Qualified Swaps and Exchange Agreements with respect to bonds issued under the 1975 Ordinance to the extent that the 1998 Ordinance is hereafter amended to provide for the Qualified Swaps and Exchange

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Agreements with respect to such bonds, (7) required payments of the Rebate Amount (as defined in the 1998 Ordinance) to the United States, (8) replenishment of any deficiency in the Sinking Fund Reserve (as defined in the 1998 Ordinance), (9) payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues, (10) debt service on other general obligation bonds issued for the Gas Works, and (11) City Charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses. The foregoing provisions shall not be construed to require the segregation of revenues upon collection.

The security interest granted in this Section 4.02 shall be subject and subordinate in all respects to the security interests granted in the 1975 Ordinance and the 1998 Ordinance and any financing statement filed to evidence the security interest granted in this Section 4.02 shall contain a statement to that effect.

Section 4.03. Particular Covenants. The City covenants with the holders of all Notes front time to time outstanding under this Ordinance that, so long as any such Notes shall remain Outstanding:

(a) No Notes will be initially issued by the City hereunder unless there is first filed with the Bond Committee:

(i) the financial report of the Chief Fiscal Officer required by Section 8(1) of the Act containing the statements and opinion required thereby; and

(ii) the legal opinion of the City Solicitor required by Section 8(2) of the Act.

(b) It will, at a minimum, impose, charge and collect in each Fiscal Year such rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, produce funds sufficient to pay the Notes and any interest thereon after all other applications of Gas Works Revenues which are prior to the Notes in right of payment; provided that for so long as the Notes are secured by a Credit Support Instrument and the Credit Support Entity is obligated thereon to provide funds sufficient to pay the Notes and is not in default under such Credit Support Instrument, the City may treat the Notes as payable over the period of time during which the City is required to pay the Credit Support Entity pursuant to its Reimbursement Obligation.

The Manager 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 and, as provided in the Natural Gas Choice and Competition Act, the Public Utility Commission shall approve rates and charges sufficient to comply with the foregoing Rate Covenant, all in accordance with the Natural Gas Choice and Competition Act.

City of Philadelphia

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(c) In addition to the limitations contained in Section 3.01 hereof, the aggregate principal amount of Notes and 2002 Notes Outstanding shall not exceed Project Costs on the date of issuance of the Notes.

(d) It will pay or cause the Fiscal Agent or paying agent to pay the Notes when due from the Gas Works Revenues deposited in the Sinking Fund (except to the extent paid from the proceeds of Refunding Notes or funds provided by a Credit Support Instrument).

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

(f) It will not pay from the Gas Works Revenues any City Charges unless there is then existing no default in payment of the Notes.

(g) It has, in Section 4.03(b) hereof, authorized the imposition, charging and collection of rates and charges sufficient from time to time to comply with the Rate Covenant set forth in Section 4.03(b) hereof and it will not repeal or materially adversely dilute such authorization.

Section 4.04. Tax Covenants of the City. *The City hereby covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the holders of the Notes of the interest on the Notes under Section 103 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Code"). The City hereby further covenants that it will not directly or indirectly use or permit the use of any proceeds of the Notes or any other funds of the City, or take or omit to take any action that would cause the Notes to be "arbitrage bonds" within the meaning of Section 148(a) of the Code and that it will comply with all requirements of Section 148 of the Code to the extent applicable to the Notes. In the event that at any time the City is of the opinion that for purposes of this covenant it is necessary to restrict or limit the yield on the investment of any money held by the Fiscal Agent, the City shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary to comply with such instructions.*

Without limiting the generality of the foregoing, the City shall pay or cause to be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Notes from time to time. This rebate obligation shall survive payment in full of the Notes.

The Chief Fiscal Officer is hereby authorized and directed to make any elections on behalf of the City permitted by the Code or any Treasury Regulations he deems

City of Philadelphia

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necessary or appropriate to enable the City to comply with the requirements of this covenant.

The foregoing covenant shall not apply to any series of Notes, the interest on which is not intended to be excludable from gross income of the holders thereof for federal income tax purposes.

Section 4.05. Notes to be Parity Instruments. All Notes issued hereunder shall be equally and ratably secured by the pledge of and grant of a security interest in the Gas Works Revenues created in Section 4.02 hereof without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Note over any other Note.

Section 4.06. Sale of Notes; Terms and Provisions. All Notes shall be sold at public or private sale on such terms and at such prices as may be determined by or in the manner prescribed in the Resolution.

Section 4.07. Conditions of Issuing Notes; Filing of Transcript; Further Action. Prior to the issuance of the first Notes of any series of Notes, the Bond Committee shall adopt a Resolution specifying the aggregate principal amount, and *authorizing the issuance of such series of Notes; stating that such Notes are issued for the purposes specified in Section 4.01 hereof; and making a finding based on the report of the Chief Fiscal Officer required by Section 8 of the Act that the Gas Works 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 hereof; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution.*

Except to the extent specified herein, the Resolution shall specify the terms and provisions of the Notes to be issued thereunder, a particular method of sale, the terms upon which, or the prices for which, the Notes are to be sold or exchanged, including, if applicable, competitive bidding specifications and an agreement with any Dealer appointed for the Notes; may contain or authorize such further covenants and agreements, including such additional covenants as may be appropriate under existing regulations so that the Notes may not be deemed to be "arbitrage bonds" as such term is defined in the Code; may specify the agreement with the Fiscal Agent and provisions governing the execution and delivery of Notes and the deposit and payment of moneys and other appropriate matters; may specify the Reimbursement Agreement with any Credit Support Entity providing a Credit Support Instrument, including the maturity, interest rate, terms and conditions of the City's Reimbursement Obligation and provisions for a security interest in the Gas Works Revenues and the proceeds from the sale of the Notes to the same extent as granted in this Ordinance with respect to the Notes; shall specify provisions for a Sinking Fund pursuant to Article V hereof; and may contain such other

City of Philadelphia

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provisions as the Bond Committee may deem appropriate and proper and as shall be authorized and permitted by the Act.

Prior to the issuance of the first Notes of any series, the Director of Finance shall comply with the transcript filing provisions of the Act, and such Notes will not be issued until the approval of the Court of Common Pleas of Philadelphia County has been obtained in the manner prescribed by the Act.

The Director of Finance, the City Controller, the City Solicitor and such other officers of the City as may be appropriate are authorized in connection with the issuance of any series of Notes 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 Notes and as may be required or appropriate to comply with applicable state or federal laws or regulations.

In addition, the Director of Finance is authorized to make such elections under the Code with respect to the Notes as he or she deems advisable, and to take such action on behalf of the City with respect to the investment of the proceeds of the Notes, and the Director of Finance and any member of the Bond Committee are authorized to make such covenants and certifications as may be necessary or advisable in order to further implement the tax covenant set forth in Section 4.04 hereof.

Section 4.08. **Credit Support.** In the event that any Notes are to be further secured by a Credit Support Instrument, the Bond Committee may enter into a Reimbursement Agreement with the Credit Support Entity. The Reimbursement Agreement may contain such terms and provisions as may be approved in a Resolution, including the maturity, rate of interest and other terms of the Reimbursement Obligation, provisions pledging and granting a security interest in the Gas Works Revenues and the proceeds of the Notes in order to secure the City's obligations under the Reimbursement Agreement to the same extent as granted by this Ordinance with respect to the Notes, and representations, covenants, indemnification provisions and other terms not inconsistent with this Ordinance and the Act; provided, however, that the Reimbursement Obligation with respect to any funds advanced by the Credit Support Entity shall not be later than August 31, 2010 and the City shall not have any obligation to pay any liability arising out of the Reimbursement Agreement except from the Gas Works Revenues or the proceeds of Refunding Notes. Any Reimbursement Obligation shall not be a general obligation of the City and shall not pledge its general credit or taxing power or create any debt or charge against the general revenues of the City.

ARTICLE V

SINKING FUND

City of Philadelphia

BILL NO. 051138 continued

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Section 5.01. **Establishment of Sinking Fund.** Each Resolution shall establish a Sinking Fund for the benefit and security of the holders of the Notes of a particular series.

The City covenants to deposit in the Sinking Fund from the Gas Works Revenues, such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Notes, the amounts required, after taking into account any amounts paid from the proceeds of Refunding Notes or pursuant to a Credit Support Instrument, to pay the Notes then becoming due and payable.

Section 5.02. **Fiscal Agent.** Such state or federally chartered bank, bank and trust company or trust company as may from time to time be appointed by the Bond Committee in a Resolution, shall act as Fiscal Agent in respect of one or more series of Notes issued under this Ordinance. The Fiscal Agent shall also act as Sinking Fund Depository of the Sinking Fund, and as authenticating agent and paying agent of the Notes in respect of which it is the Fiscal Agent. A Credit Support Entity may also act as 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 Depositories, authenticating agents or paying agents of the Notes or any series thereof, but there shall be only one Fiscal Agent at a particular time for a series of Notes.

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 authentication of Notes, the disposal of canceled Notes, 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 5.03. **Payments from the Sinking Fund.** The Fiscal Agent shall liquidate investments on direction of the Director of Finance, or, if for any reason he or she should fail to give such direction, as necessary so as to have available in cash not later than the due date thereof, an amount required to pay the Notes.

Except as otherwise provided in a Resolution, any excess moneys in the Sinking Fund and moneys for the payment of the Notes unclaimed after the due date for two (2) 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 5.04. **Management of the Sinking Fund.** Except as otherwise provided in a Resolution, all moneys deposited by the City held in the Sinking Fund, to the extent not currently required, shall be invested as authorized by the Act, or deposited

City of Philadelphia

BILL NO. 051138 continued

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in interest-bearing accounts authorized by the Act, all at the direction of the Director of Finance. All deposits, including interest-bearing deposits, of moneys deposited by the City in the Sinking Fund, to the extent not insured as provided in the Act, shall be secured as required by the Act. Interest and profits from such investments shall be added to the Sinking Fund and credited in reduction of or to complete required deposits by the City into the Sinking Fund.

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.01. **Defaults and Statutory Remedies.** If the City shall fail or neglect to pay or to cause to be paid any Note when due, or if the City shall fail to comply with any provision of the Notes or with any covenant of the City contained in this Ordinance or a Resolution then, under and subject to the terms and conditions stated in the Act, the holder or holders of any Note or Notes shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act.

Section 6.02. **Remedies Not Exclusive; Effect of Delay in Exercise of Remedies.** No remedy herein or in the Act conferred upon or reserved to the trustee, if any, or to the holder of any Note is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission of the trustee, if one be appointed, or of any Noteholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by this Article VI, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

Section 6.03. **Remedies to be Enforced Only Against Gas Works Revenues.** Any decree or judgment for the payment of money against the City by reason of default hereunder shall be enforceable only against the Gas Works Revenues and no decree or judgment against the City upon an action brought hereunder shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

ARTICLE VII

AMENDMENTS AND MODIFICATIONS

Section 7.01. **Amendments and Modifications.** This Ordinance may be supplemented, modified or amended:

City of Philadelphia

BILL NO. 051138 continued

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(a) to cure any ambiguity or defective or inconsistent provision, omission or mistake, or manifest error herein or therein;

(b) to grant to or confer upon Noteholders, or a trustee, if any, for the benefit of Noteholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred;

(c) to add to, modify or delete any of the provisions hereof in a manner which will affect only Notes issued after the amendment or modification becomes effective; and

(d) 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 Notes, but no amendment or modification shall be made with respect to any outstanding Notes to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon without the written consent of the holders of all affected Outstanding Notes;

(e) except as aforesaid, in such other respect as may be authorized in writing by the holders of a majority in principal amount of the Notes Outstanding and affected.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. **Ordinance and Resolutions are Contracts with Noteholders.** This Ordinance and Resolutions adopted pursuant hereto are contracts with the holders of all Notes from time to time Outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VI hereof and the laws of the Commonwealth of Pennsylvania.

Section 8.02. **Repeals.** All ordinances and parts of ordinances heretofore adopted pursuant to the Act to the extent that the same are inconsistent herewith are hereby repealed.

Section 8.03. **Amendment of Management Agreement.** City Council hereby authorizes the amendment of that certain Agreement Between The City of Philadelphia and the Philadelphia Facilities Management Corporation for the Management and Operation of the Philadelphia Gas Works, originally dated December 29, 1972, authorized pursuant to an Ordinance of City Council, approved December 29, 1972 (Bill No. 455), as further amended as authorized by Ordinance on numerous other occasions, as follows:

City of Philadelphia

BILL NO. 051138 continued

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To revise Paragraph 3 of Sections IV (Accounting Methods) to read as follows, with new text double-underlined in italics and deleted text with ~~double strikethrough~~.

3. Temporary Financing

Short-term loans not exceeding twenty million dollars in amount or twelve months in duration may be negotiated in anticipation of revenues, except that short-term loans exceeding twenty million dollars but not exceeding forty-five million dollars in amount may be negotiated in anticipation of revenues for Fiscal Year 1982 of the Gas Works and may be outstanding during the period July 1, 1981 through June 30, 1982. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of amount of loan. The amount of any such loan shall also be subject to the approval by resolution or by ordinance of City Council.

The Gas Works; may also receive temporary advances from the City in anticipation of revenues which are anticipated to be received by the Gas Works provided that such advances do not exceed twenty million dollars in amount or twenty-four months in duration; provided further, however, that during the period June 30, 1981 through June 30, 1983 and the period September 1, 2000 through August 31, 2002, such advances may exceed twenty million dollars but shall not exceed forty-five million dollars in amount and may exceed twenty-four months but not exceed seventy-two months in duration. The amount of each such advance shall be subject to the prior approval of the Director of Finance and the Gas Commission and to the approval by resolution or by ordinance of City Council.

In addition to the foregoing authorized borrowings, loans not exceeding ~~one hundred million dollars~~ one hundred fifty million dollars in aggregate principal amount at any time outstanding may be incurred for financing accounts receivable and the purchase of inventory for the Gas Works, as authorized by applicable law. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of the aggregate principal amount of such loans which may be outstanding at any single time. Such aggregate principal amount shall also be subject to ~~approval by resolution or by ordinance of City Council.~~

City of Philadelphia

BILL NO. 051138 continued

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CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on December 15, 2005. The Bill was Signed by the Mayor on December 22, 2005.



Patricia Rafferty
Chief Clerk of the City Council

Philadelphia Gas Works' Base Rate Filing

II. RATE OF RETURN

II.A.13. Attach copies of the summaries of the projected 2 year's Company's budgets (revenue, expense and capital).

RESPONSE:

Philadelphia Gas Works' Fiscal Year 2006-2007 Operating Budget and Five Year Forecast for Fiscal Years 2008 through 2012 are attached.

PHILADELPHIA GAS WORKS

Joseph R. Bogdonavage
Senior Vice President - Finance



800 W. Montgomery Avenue

Philadelphia, PA 19122

Telephone: (215) 684-6444

Fax: (215) 684-6243

E-mail: JBogdona@pgworks.com

September 22, 2006

The Honorable Marian B. Tasco
Chairwoman
PHILADELPHIA GAS COMMISSION
One Parkway Building
1515 Arch Street, 9th Floor
Philadelphia, PA 19102

Re: Philadelphia Gas Works Five-Year Forecast - Fiscal Years 2008-2012

Dear Chairwoman Tasco:

Enclosed for your consideration is an original along with eight (8) copies of PGW's updated Operating Budget Five-Year Forecast for the fiscal periods 2008 through 2012.

If there are any questions regarding this filing, please feel free to contact me at 215-684-6444.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph R. Bogdonavage". The signature is fluid and cursive, with a large loop at the beginning.

Joseph R. Bogdonavage
Senior Vice President - Finance

JRB/de

Enclosures

cc: All Gas Commissioners
Philip Bertocci, Esq.
Andre C. Dasent, Esq.
Joseph F. Golden, Jr.
Steven P. Hershey
Vincent J. Jannetti
Thomas E. Knudsen
Janet Parrish, Esq.
Abby Pozefsky, Esq.
Gregory J. Stunder, Esq.
Craig E. White

PHILADELPHIA GAS WORKS
2006-2007 OPERATING BUDGET &
FIVE YEAR FORECAST

Primary Assumptions

Revenues & Sales

- * 4,555 Degree Day basis of normal weather utilized for revenue projections, WNA in effect.
- * Sales forecasts (net) utilized for the six-year period and GCR factors are as follows:
- * Proposed \$100.0 M Base Rate Increase in FY 2007, effective 9/1/07 through FY 2012.
- * Customer Responsibility Program participant levels 70,500 through out the forecast period.

	<u>Sales in (Mmcf)</u>			<u>Total</u>
	<u>Firm</u>	<u>Interrupt</u>	<u>Transport</u>	
FY 2007	52,451	3,199	13,323	68,973
FY 2008	52,654	3,282	13,744	69,680
FY 2009	52,712	3,383	14,097	70,192
FY 2010	52,849	3,511	14,440	70,800
FY 2011	52,982	3,661	14,751	71,394
FY 2012	53,194	3,833	15,032	72,059

	<u>Billed Gas Revenues (000's)*</u>				<u>Total</u>	<u>Projected GCR @ Mcf</u>
	<u>Firm</u>	<u>Interrupt</u>	<u>Transport</u>			
FY 2007	\$ 904,264	\$ 41,192	\$ 7,256	\$ 952,712	\$ 10.9400	
FY 2008	1,029,971	42,678	7,889	1,080,538	11.7000	
FY 2009	996,284	42,485	8,461	1,047,230	11.0700	
FY 2010	935,557	42,305	8,983	986,845	9.8800	
FY 2011	928,163	44,036	9,465	981,664	9.7300	
FY 2012	917,607	45,891	9,908	973,406	9.5100	

- * Universal Service Charge effective includes CRP, Sr. Citizen Discount & Conservation.
- * Customer utilization (residential) is anticipated to remain constant throughout the forecast period with minimal growth in firm sales.
- * Restructuring surcharge anticipated to be eliminated reflecting new rate design as a result of the proposed \$100.0 million base rate increase effective 9/1/07.

Operating Expenses

- * Personnel levels are expected to decline through attrition, and productivity and efficiency enhancements.

	<u>Average Personnel Level</u>
FY 2007	1,740
FY 2008	1,720
FY 2009	1,700
FY 2010	1,680
FY 2011	1,660
FY 2012	1,640

PHILADELPHIA GAS WORKS

2006-2007 OPERATING BUDGET & FIVE YEAR FORECAST

PRIMARY ASSUMPTIONS

Operating Expenses (Continued)

Page Two

- * Wage increases of 3% effective September 1, 2006, 2.5% effective May 16, 2007 were assumed with 2% each subsequent year of the forecast period.
- * General inflation rates of 2.0% were utilized throughout the forecast period absent any specific departmental information regarding expenses. i.e., (Health Insurance).
- * Health insurance cost increases were projected based on information provided by PGW's health care consultant.

	<u>Health Premiums</u>		
	<u>Active</u>	<u>Retiree</u>	<u>Total</u>
FY 2007	\$19,126	\$18,758	\$37,884
FY 2008	21,379	20,565	41,944
FY 2009	23,481	22,423	45,904
FY 2010	25,447	24,207	49,654
FY 2011	27,578	26,141	53,719
FY 2012	29,890	28,236	58,126

- * Pension expense based on the August 2006 actuarial report prepared by PGW's actuarial consultant dated June 6, 2006.
- * Overtime expense budgeted at \$9,906,000 in Fiscal Year 2006-07.
- * Environmental expenditures covered by insurance recovery through FY 2008 with amortization continuing through the forecast period.
- * Property & Public Liability Insurance premiums forecasted to rise by 4.0%.
- * Bad Debt Expense forecasted between \$71.1M in FY 2007 and \$76.0 M in FY 2012.
- * Collection factor projected at 94.0% of billed revenues in FY 2007 and 93% in FY 2008 through through FY 2012, reflecting the proposed \$100.0 million base rate increase effective 9/1/07.

Financing & Capital Spending

- * Interest earnings on PGW's Revenue Bond Sinking Fund are reduced throughout the forecast period reflecting the August 2002 Guaranteed Investment Contract.
- * Interest earnings rates assumed at 4.0% under 12 months, 4.5% 12-60 months.
- * City of Philadelphia \$18.0 million payment made in FY 2011 and FY 2012.
- * New money financing of \$150,000,000 fixed rate anticipated to close by December 2006. No new capital financings expected as a result of the proposed \$100.0 million base rate increase. Additional Debt reduction of \$70. 0 million anticipated by August 2012.

* Capital Improvement Fund Balances for capital expenditures at 8/31:

FY 2007	\$ 99,843,000	\$150,000,000 Bond Sale 12/1/06 proceeds \$132,150,000.
FY 2008	\$ 39,843,000	
FY 2009	\$ -	
FY 2010	\$ -	
FY 2011	\$ -	
FY 2012	\$ -	

PHILADELPHIA GAS WORKS
2006-2007 OPERATING BUDGET & FIVE YEAR FORECAST
PRIMARY ASSUMPTIONS
Financing & Capital Spending (Continued)
Page Three

* Revenue Bond Sales were forecasted to provide partial funding of capital expenditures in the following years:

FY 2007 December, 2006 \$150.0 Million @ 6.5%

* Commercial Paper Program & \$45.0 million City Loan outstanding level and cash balance assumptions at 8/31: Commercial Paper renewal at \$150.0 Million effective 1/06.

	<u>TXCP</u>	<u>City Loan</u>	<u>Cash</u>	<u>Available Liquidity</u>
FY 2007	\$70.0 million	\$43.0 million	\$16.2 million	\$96.2 million
FY 2008	\$45.0 million	\$0 million	\$5.5 million	\$110.5 million
FY 2009	\$20.0 million	\$0 million	\$11.2 million	\$141.2 million
FY 2010	\$0 million	\$0 million	\$12.3 million	\$162.3 million
FY 2011	\$20 million	\$0 million	\$11.6 million	\$141.6 million
FY 2012	\$35 million	\$0 million	\$10.6 million	\$125.6 million

* Capital Spending and the funding sources are forecasted at the following levels:

	<u>Spending</u>	<u>Capital Fund Draw</u>	<u>Other Funding</u>	<u>Total Funding</u>
FY 2007	\$75,152,000	\$72,000,000	\$3,152,000	\$75,152,000
FY 2008	62,597,000	60,000,000	2,597,000	62,597,000
FY 2009	64,755,000	39,843,000	24,912,000	64,755,000
FY 2010	63,018,000	0	63,018,000	63,018,000 *IGF
FY 2011	61,587,000	0	61,587,000	61,587,000 *IGF
FY 2012	59,920,000	0	59,920,000	59,920,000 *IGF

* Debt Service Coverage Ratios were forecasted at the following levels:

	<u>1975 Sr. Debt</u>	<u>1998 Sr. Debt</u>	<u>Fixed Coverage Charge</u>
FY 2007	3.93	1.97	1.31
FY 2008	6.53	2.80	1.95
FY 2009	6.64	2.73	1.92
FY 2010	6.91	2.62	1.88
FY 2011	5.98	2.35	1.86
FY 2012	5.74	2.50	1.54

* Debt Capitalization Ratios & City Equity:

	<u>Capitalization</u>	<u>Long-Term Debt</u>	<u>City Equity</u>
FY 2007	83.20%	\$1,181,441,000	\$238,524,000
FY 2008	77.62%	1,133,014,000	326,618,000
FY 2009	72.67%	1,085,178,000	408,093,000
FY 2010	68.11%	1,036,085,000	485,113,000
FY 2011	64.63%	986,355,000	539,868,000
FY 2012	59.48%	866,617,000	590,295,000

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	FORECAST 2007-08	FORECAST 2008-09	FORECAST 2009-10	FORECAST 2010-11	FORECAST 2011-12
OPERATING REVENUES								
Non-Heating	\$ 114,880	\$ 114,212	\$ 115,556	\$ 117,461	\$ 113,177	\$ 106,738	\$ 106,455	\$ 106,065
Gas Transport Service	4,679	6,147	7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	829,900	855,188	825,592	771,124	765,744	757,433
Proposed Base Rate	-	-	-	100,000	100,000	100,000	100,000	100,000
Weather Normalization Adjustment	(1,365)	12,500	-	-	-	-	-	-
Unbilled Adjustment	(803)	2,513	(732)	1,711	(376)	(713)	(58)	(89)
Total Gas Revenues	830,550	956,562	951,980	1,082,249	1,046,854	986,132	981,606	973,317
Appliance Repair & Other Revenues	10,895	10,669	10,532	10,743	10,957	11,177	11,400	11,628
Other Operating Revenues	21,912	17,865	18,219	20,530	19,897	18,750	18,652	18,495
Total Other Operating Revenues	32,807	28,534	28,751	31,273	30,854	29,927	30,052	30,123
Total Operating Revenues	\$863,357	\$985,096	\$980,731	\$1,113,522	\$1,077,708	\$1,016,059	\$1,011,658	\$1,003,440
OPERATING EXPENSES								
Natural Gas	\$ 509,700	\$ 639,180	\$ 630,836	\$ 658,487	\$ 623,363	\$ 562,396	\$ 558,243	\$ 550,889
Other Raw Material	4	5	5	5	5	5	5	5
Sub-Total Fuel	509,704	639,185	630,841	658,492	623,368	562,401	558,248	550,894
CONTRIBUTION MARGINS	\$353,653	\$345,911	\$349,890	\$455,030	\$454,340	\$453,658	\$453,410	\$452,546
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	29,391	29,768	30,279	30,849	31,416	32,016
Distribution	15,115	15,382	16,566	16,837	17,152	17,477	17,832	18,217
Collection	10,971	9,225	7,944	7,771	7,872	7,974	8,101	8,230
Customer Service	12,512	12,026	14,125	14,168	14,398	14,657	14,863	15,152
Account Management	7,695	7,928	7,625	7,690	7,787	7,825	7,922	8,019
Bad Debt Expense	70,424	61,519	60,737	69,842	71,523	72,072	72,527	72,831
Marketing	2,592	2,470	3,217	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	50,623	49,412	49,903	50,589	51,347	52,209
Health Insurance	33,571	34,804	37,884	41,944	45,904	49,654	53,719	58,126
Capitalized Fringe Benefits	(10,348)	(10,099)	(11,261)	(11,547)	(12,158)	(12,844)	(13,461)	(14,180)
Capitalized Administrative Charges	(6,706)	(6,603)	(7,950)	(7,258)	(7,529)	(7,379)	(7,220)	(7,008)
Amortization of Restructuring Costs	1,087	1,087	-	-	-	-	-	-
Pensions	14,702	17,297	17,593	17,257	16,933	16,600	16,281	15,964
Taxes	6,218	5,678	6,574	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments	-	-	(1,103)	603	250	250	-	-
Cost / Labor Savings	-	(1,105)	(5,798)	-	-	-	-	-
Sub-Total Other Oper. & Maintenance	248,263	241,123	241,882	263,456	269,886	275,746	281,856	288,608
Depreciation	35,904	36,928	38,213	39,565	40,825	42,091	43,531	43,515
Cost of Removal	3,643	3,200	3,200	3,200	3,200	3,200	3,200	3,200
To Clearing Accounts	(4,502)	(3,062)	(3,217)	(3,311)	(3,177)	(3,227)	(3,211)	(3,232)
	35,045	37,066	38,196	39,454	40,848	42,064	43,520	43,483
Sub Total Other Oper. & Maint. & Depreciation	\$ 283,308	\$ 278,189	\$ 280,078	\$ 302,910	\$ 310,734	\$ 317,810	\$ 325,376	\$ 332,091
TOTAL OPERATING EXPENSES	\$793,012	\$917,374	\$910,919	\$861,402	\$934,102	\$880,211	\$883,624	\$882,985
OPERATING INCOME	70,345	67,722	69,812	152,120	143,606	135,848	128,034	120,455
Other Income	4,778	8,198	9,627	10,105	9,083	9,519	9,734	9,770
INCOME BEFORE INTEREST	\$75,123	\$75,920	\$79,439	\$162,225	\$152,689	\$145,367	\$137,768	\$130,225
INTEREST								
Long-Term Debt	\$53,856	\$51,778	\$56,437	\$56,698	\$54,265	\$51,809	\$48,884	\$46,024
Other	6,123	9,561	13,186	13,229	13,134	13,028	12,941	12,805
AFUDC	(907)	(1,168)	(1,202)	(1,002)	(1,036)	(1,008)	(985)	(959)
Loss From Extinguishment of Debt	4,779	5,332	5,557	5,206	4,851	4,518	4,173	3,928
Total Interest	63,851	65,503	73,978	74,131	71,214	68,347	65,013	61,798
NET INCOME	11,272	10,417	5,461	88,094	81,475	77,020	72,755	68,427
City Payment	-	-	-	-	-	-	-	-
Net Earnings	\$11,272	\$10,417	\$5,461	\$88,094	\$81,475	\$77,020	\$72,755	\$68,427

PHILADELPHIA GAS WORKS
CASHFLOW STATEMENT
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	FORECAST 2007-08	FORECAST 2008-09	FORECAST 2009-10	FORECAST 2010-11	FORECAST 2011-12
SOURCES								
Net Income	\$11,272	\$10,417	\$5,461	\$88,094	\$81,475	\$77,020	\$72,755	\$68,427
Depreciation & Amortization	42,281	43,928	46,007	47,128	47,959	48,821	49,864	49,501
Earnings on Restricted Funds	(3,265)	3,899	38	(262)	(1,366)	(1,901)	(2,366)	5,895
Elimination of Accrued Interest on Refunded Debt	-	3,186	-	-	-	-	-	-
Increased/(Decreased) Other Assets/Liabilities	(6,917)	(1,024)	911	716	808	915	(8,203)	(11,639)
Available From Operations	<u>43,371</u>	<u>60,406</u>	<u>52,417</u>	<u>135,676</u>	<u>128,876</u>	<u>124,855</u>	<u>112,050</u>	<u>112,184</u>
Funds Required for Capital	68,000	60,195	72,000	60,000	39,843	-	-	-
Grant Income	18,000	18,000	18,000	18,000	18,000	18,000	-	-
Capital Leasing Funds Debt Service	2,005	-	-	-	-	-	-	-
Capitalized Interest Debt Service	2,283	5,924	-	-	-	-	-	-
Release of Sinking Fund Asset	6,038	3,680	-	-	-	-	-	-
Temporary Financing	-	20,100	-	-	-	-	20,000	15,000
TOTAL SOURCES	<u>\$139,697</u>	<u>\$168,305</u>	<u>\$142,417</u>	<u>\$213,676</u>	<u>\$186,719</u>	<u>\$142,855</u>	<u>\$132,050</u>	<u>\$127,184</u>
USES								
Net Construction Expenditures	\$66,910	\$68,057	\$75,152	\$62,597	\$64,755	\$63,018	\$61,587	\$59,920
Funded Debt Reduction:								
Revenue Bonds	35,387	29,906	36,675	47,010	46,530	47,920	39,479	36,020
PMA Lease/Subordinate Debt	1,255	1,310	1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	0	-	-	-	-	-	-
Debt Reduction Funding	-	-	-	15,000	30,000	(5,000)	15,000	15,000
Post Retirement Benefit Funding	-	-	-	-	-	-	-	-
Temporary Financing Repayment	850	0	-	25,000	25,000	20,000	-	-
City Loan Repayment/Status	-	-	2,000	43,000	-	-	-	-
Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Additions To (Reductions of)								
Non-Cash Working Capital	3,793	55,433	3,853	12,278	(4,700)	(3,723)	(3,001)	(2,437)
Cash Needs	128,142	172,706	137,050	224,315	181,085	141,780	132,705	128,218
Cash Surplus (Shortfall)	11,555	(4,401)	5,367	(10,639)	5,634	1,075	(655)	(1,034)
TOTAL USES	<u>\$139,697</u>	<u>\$168,305</u>	<u>\$142,417</u>	<u>\$213,676</u>	<u>\$186,719</u>	<u>\$142,855</u>	<u>\$132,050</u>	<u>\$127,184</u>
Cash - Beginning of Period	\$3,666	\$15,221	\$10,820	\$16,187	\$5,548	\$11,182	\$12,257	\$11,602
Cash - Surplus (Shortfall)	11,555	(4,401)	5,367	(10,639)	5,634	1,075	(655)	(1,034)
ENDING CASH	<u>\$15,221</u>	<u>\$10,820</u>	<u>\$16,187</u>	<u>\$5,548</u>	<u>\$11,182</u>	<u>\$12,257</u>	<u>\$11,602</u>	<u>\$10,568</u>
Outstanding Commercial Paper	\$49,900	\$70,000	\$70,000	\$45,000	\$20,000	\$0	\$20,000	\$35,000
City Loan Outstanding	\$45,000	\$45,000	43,000	-	\$-	\$-	\$-	\$-
Internally Generated Funds	\$-	\$-	\$-	\$-	\$ 24,912	\$ 63,018	\$ 61,587	\$ 59,920

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

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	FORECAST 2007-08	FORECAST 2008-09	FORECAST 2009-10	FORECAST 2010-11	FORECAST 2011-12
FUNDS PROVIDED								
Total Gas Revenues	\$830,550	\$956,562	\$951,980	\$1,082,249	\$1,046,854	\$986,132	\$981,606	\$973,317
Other Operating Revenues	32,807	28,534	28,751	31,273	30,854	29,927	30,052	30,123
Total Operating Revenues	863,357	985,096	980,731	1,113,522	1,077,708	1,016,059	1,011,658	1,003,440
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	9,665	9,843	7,717	7,618	7,368	15,665
City Grant	18,000	18,000	18,000	18,000	18,000	18,000		
AFUDC (Interest)	907	1,168	1,202	1,002	1,036	1,008	985	959
TOTAL FUNDS PROVIDED	\$883,777	\$1,016,361	\$1,009,598	\$1,142,367	\$1,104,461	\$1,042,685	\$1,020,011	\$1,020,064
FUNDS APPLIED								
Fuel Costs	509,704	639,185	630,841	658,492	623,368	562,401	558,248	550,894
Other Operating Costs	283,308	278,189	280,078	302,910	310,734	317,810	325,376	332,091
Total Operating Expenses	793,012	917,374	910,919	961,402	934,102	880,211	883,624	882,985
Less: Non-Cash Expenses	39,338	40,554	41,887	43,300	44,612	45,907	47,385	47,404
TOTAL FUNDS APPLIED	\$753,674	\$876,820	\$869,032	\$918,102	\$889,490	\$834,304	\$836,239	\$835,581
Funds Available to Cover Debt Service	\$130,103	\$139,541	\$140,566	\$224,265	\$214,971	\$208,381	\$183,772	\$184,483
1975 Ordinance Bonds Debt Service	\$38,806	\$41,949	\$35,748	\$34,368	\$32,368	\$30,155	\$30,745	\$32,164
Debt Service Coverage 1975 Bonds	3.35	3.33	3.93	6.53	6.64	6.91	5.98	5.74
Net Available after Prior Debt Service	\$91,297	\$97,592	\$104,818	\$189,897	\$182,603	\$178,226	\$153,027	\$152,319
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	\$89,299	\$97,592	\$104,818	\$189,897	\$182,603	\$178,226	\$153,027	\$152,319
1998 Ordinance Bonds Debt Service	\$45,999	\$32,467	\$53,313	\$67,813	\$66,852	\$67,966	\$65,143	\$60,885
New Proposed Bond Debt Service	-	-	-	-	-	-	-	-
Total New Debt Service	45,999	32,467	53,313	67,813	66,852	67,966	65,143	60,885
Debt Service Coverage 1998 Bonds	1.94	3.01	1.97	2.80	2.73	2.62	2.35	2.50
Net Available after 1998 Debt Service	\$43,300	\$65,125	\$51,505	\$122,084	\$115,751	\$110,260	\$87,884	\$91,434
1998 Ordinance Subordinate Bond Debt Ser	\$1,987	\$1,986	\$1,987	\$1,986	\$1,990	\$1,986	\$1,988	\$1,984
Debt Service Coverage Subordinate Bonds	21.79	32.79	25.92	61.47	58.17	55.52	44.21	46.09
Net Available To Service Aggregate Debt Serv	\$ 111,075	\$ 114,154	\$ 118,837	\$ 202,681	\$ 194,573	\$ 188,439	\$ 182,273	174,667
Aggregate Debt Service	\$ 88,790	\$ 76,402	\$ 91,048	\$ 104,167	\$ 101,210	\$ 100,107	\$ 97,876	\$ 95,033
Fixed Coverage Charge	1.25	1.49	1.31	1.95	1.92	1.88	1.86	1.84
Fixed Coverage Charge Including \$18.0 City Fee	1.04	1.21	1.09	1.66	1.63	1.60	1.57	1.55

**PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)**

	Actual 8/31/05	Estimate 8/31/06	Budget 8/31/07	Forecast 8/31/08	Forecast 8/31/09	Forecast 8/31/10	Forecast 8/31/11	Forecast 8/31/12	
ASSETS									
Utility Plant Net	981,722	1,012,851	1,049,790	1,072,822	1,096,752	1,117,679	1,135,735	1,152,140	
Sinking Fund Reserve	104,530	93,800	102,050	102,050	102,050	102,050	102,050	102,050	
Capital Improvement Fund	102,701	39,732	99,843	39,843	-	-	-	-	
Debt Reduction Funding	-	-	-	15,262	46,828	43,529	60,895	-	
Cash	15,221	10,820	16,187	5,548	11,182	12,257	11,602	10,568	
Gas	273,805	264,254	259,256	268,271	274,738	276,849	278,599	279,788	
Other	12,522	785	506	352	350	350	350	350	
Accrued Gas Revenues	8,787	11,300	10,568	12,279	11,903	11,190	11,132	11,043	
Reserve for Uncollectible	(207,480)	(191,631)	(186,968)	(186,710)	(188,133)	(190,105)	(192,532)	(195,363)	
Accounts Receivable:	87,634	84,708	83,362	94,192	98,858	98,284	97,549	95,798	
Materials & Supplies	129,984	183,784	180,389	176,809	162,083	159,236	155,999	152,694	
Other Current Assets	(164)	2,986	3,056	3,236	3,441	3,596	3,751	3,906	
Deferred Debits	2,796	8,448	3,228	2,487	2,362	2,262	2,337	2,387	
Unamortized Bond Issuance Expense	39,094	42,089	46,912	43,166	39,574	36,138	32,868	29,740	
Unamortized Extraordinary Loss	38,494	55,859	50,301	45,095	40,244	35,726	31,552	27,624	
Deferred Environmental	9,513	9,513	9,513	8,000	6,500	5,000	3,500	2,000	
Other Assets	8,297	3,411	2,881	2,925	3,030	3,138	3,250	3,365	
TOTAL ASSETS	1,519,822	1,548,001	1,647,512	1,611,435	1,612,704	1,618,895	1,641,088	1,582,272	
EQUITY & LIABILITIES									
City Equity	222,648	233,063	238,524	326,618	408,093	485,113	539,868	590,295	590,295
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,057,915	1,008,430	967,311	859,576	929,576
TECA Accretions	14,313	12,608	13,913	15,314	18,818	18,434	10,933	-	-
Unamortized Discount	(9,484)	(5,113)	(5,683)	(5,201)	(4,738)	(4,295)	(3,885)	(3,509)	(3,509)
Unamortized Premium	22,901	20,797	18,826	18,958	15,183	13,516	11,996	10,550	10,550
Capital Equipment Leasing	-	-	-	-	-	-	-	-	-
Long Term Debt:	1,073,101	1,070,722	1,181,441	1,133,014	1,085,178	1,036,085	988,355	866,617	936,617
Notes Payable	49,900	70,000	70,000	45,000	20,000	-	20,000	35,000	-
City Loan	45,000	45,000	43,000	-	-	-	-	-	-
Accounts Payable	63,918	72,285	59,468	57,930	52,987	53,688	53,234	52,826	-
Customer Deposits	6,280	8,250	9,000	8,750	8,500	8,000	7,500	7,000	-
Other Current Liabilities	3,734	3,431	2,129	2,137	2,195	2,254	2,313	2,372	-
Deferred Credits	14,608	5,814	4,724	1,323	1,326	1,331	1,336	1,341	-
Accrued Interest	9,591	12,224	14,374	13,945	13,526	13,097	12,725	12,385	-
Accrued Taxes & Wages	3,861	4,231	2,796	2,817	3,088	3,609	4,130	2,900	-
Accrued Distribution to City	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	-
Other Liabilities	24,183	19,981	19,056	16,901	14,811	12,718	10,827	8,536	-
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,647,512	1,611,435	1,612,704	1,618,895	1,641,088	1,582,272	Normal

<u>Capitalization</u>	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	<u>\$70.0 M</u>	<u>Normal</u>
								<u>Reduction</u>	<u>Amortiz.</u>
								FY2012	FY2012
Total Capitalization	1,295,747	1,303,785	1,419,965	1,459,632	1,493,271	1,521,198	1,526,223	1,456,912	1,526,912
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,085,178	1,036,085	986,355	866,617	936,617
Debt to Equity Ratio	0.83	0.82	0.83	0.78	0.73	0.68	0.65	0.59	0.61
Capitalization Ratio	4.82	4.59	4.95	3.47	2.66	2.14	1.83	1.47	1.59
Total Capitalization Excluding Leases	1,295,747	1,303,785	1,419,965	1,459,632	1,493,271	1,521,198	1,526,223	1,456,912	1,526,912
Total Long Term Debt Excluding Leases	1,073,101	1,070,722	1,181,441	1,133,014	1,085,178	1,036,085	986,355	866,617	936,617
Debt to Equity Ratio	0.83	0.82	0.83	0.78	0.73	0.68	0.65	0.59	0.61
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,779,152	1,843,907	1,906,925	1,968,512	1,968,512
Regulatory Asset Securitization Capital - 106&107	56,300	68,057	75,152	62,597	64,755	63,018	61,587	59,920	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,779,152	1,843,907	1,906,925	1,968,512	2,028,432	2,028,432
Accumulated Depreciation	(591,624)	(628,552)	(666,765)	(706,330)	(747,155)	(789,246)	(832,777)	(876,292)	(876,292)
Net Utility Plant	981,722	1,012,851	1,049,790	1,072,822	1,096,752	1,117,679	1,135,735	1,152,140	1,152,140

**PHILADELPHIA GAS WORKS
GAS SALES**

	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>	<u>Forecast</u> <u>2007-08</u>	<u>Forecast</u> <u>2008-09</u>	<u>Forecast</u> <u>2009-10</u>	<u>Forecast</u> <u>2010-11</u>	<u>Forecast</u> <u>2011-12</u>
NON HEATING								
Residential	1,955	1,444	1,346	1,275	1,204	1,131	1,059	988
CRP Residential	0	158	160	160	160	160	160	160
Commercial	1,755	1,673	1,705	1,693	1,680	1,667	1,653	1,640
Industrial	327	310	345	378	411	444	477	509
Municipal	278	243	263	263	263	263	263	263
Housing Authority	-	-	-	-	-	-	-	-
Total Firm Non-Heating	4,315	3,828	3,819	3,769	3,718	3,665	3,612	3,560
BPS - Small	205	148	163	153	145	139	135	132
BPS - Large	2,795	1,486	1,931	2,074	2,225	2,387	2,559	2,741
BPS - A/C	0	123	109	114	115	114	113	111
LBS - L Direct	97	17	21	21	21	21	21	21
LBS - L Indirect	391	191	375	323	278	241	211	186
LBS - S Indirect	787	371	528	534	543	558	576	599
LBS - XL Direct	10	4	2	2	2	2	2	2
LBS - XL Indirect	62	37	54	49	44	41	38	36
Co-Generation - Indirect	47	22	16	12	10	8	6	5
LNG - Direct	-	-	-	-	-	-	-	-
GTS - Sales	116	5	-	-	-	-	-	-
NGV Indirect	-	-	-	-	-	-	-	-
Off System Sales	-	-	-	-	-	-	-	-
Total Interruptibles	4,510	2,404	3,199	3,282	3,383	3,511	3,661	3,833
Total Non Heating	8,825	6,232	7,018	7,051	7,101	7,176	7,273	7,393
HEATING								
Residential	39,033	26,635	28,887	28,838	28,660	28,557	28,451	28,417
CRP Residential	0	7,759	8,676	8,679	8,676	8,676	8,676	8,679
Commercial	8,363	7,806	8,498	8,751	8,997	9,245	9,492	9,742
Industrial	711	640	735	784	833	882	931	980
Municipal	826	850	1,006	1,007	1,007	1,007	1,007	1,007
Adjustment	-	-	-	-	-	-	-	-
Housing Authority	560	754	830	826	821	817	813	809
Total Heating	49,493	44,444	48,632	48,885	48,994	49,184	49,370	49,634
Net Billed Sales	58,318	50,676	55,650	55,936	56,095	56,360	56,643	57,027
GTS Volumes	11,624	11,140	13,323	13,744	14,097	14,440	14,751	15,032
Total Billed Sales	69,942	61,816	68,973	69,680	70,192	70,800	71,394	72,059
Total Firm Sales	53,808	48,272	52,451	52,654	52,712	52,849	52,982	53,194
Total Residential Sales	40,988	35,996	39,069	38,952	38,700	38,524	38,346	38,244
Unbilled volumes	(91)	29	5	3	1	2	2	3
Total Sales	69,851	61,845	68,978	69,683	70,193	70,802	71,396	72,062

**PHILADELPHIA GAS WORKS
OTHER INCOME
(Dollars in Thousands)**

	<u>Actual 2003-04</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>	<u>Forecast 2007-08</u>	<u>Forecast 2008-09</u>	<u>Forecast 2009-10</u>	<u>Forecast 2010-11</u>	<u>Forecast 2011-12</u>
<u>Interest Earnings on:</u>									
Capital Improvement Fund	662	232	330	2,804	2,723	349	-	-	-
Capital Lease Fund	33	1	-	-	-	-	-	-	-
Capital Fund 5th Series A-1	-	2,177	1,627	303	-	-	-	-	-
Capital Fund 5th Series A-2	-	395	-	-	-	-	-	-	-
Capitalized Interest Fund	-	155	73	-	-	-	-	-	-
Debt Reduction Fund	-	-	-	-	262	1,366	1,901	2,366	2,902
Revenue Bond Sinking Fund	748	429	1,684	1,766	2,119	2,119	2,119	2,119	2,119
Notes Receivable - Internl House	16	12	9	5	2	-	-	-	-
Gain(Loss) on Investments	-	-	-	-	-	-	-	-	-
Temporary Investments	15	644	3,441	4,000	4,250	4,500	4,750	4,500	4,000
Natural Gas Refunds	7	2	1	-	-	-	-	-	-
Total Interest Income	1,481	4,047	7,165	8,878	9,356	8,334	8,770	8,985	9,021
<u>Non-Utility Income:</u>									
LNG Trailers	19	18	19	19	19	19	19	19	19
Property Adjacent to Richmond	70	47	45	45	45	45	45	45	45
Miscellaneous	32	(53)	35	35	35	35	35	35	35
Total Rental Income	121	12	99	99	99	99	99	99	99
<u>Miscellaneous Income:</u>									
Additional Income/Revenue Enhancement	-	-	-	-	-	-	-	-	-
Demutualization Proceeds Life Insurance	1,000	-	202	-	-	-	-	-	-
Dept. of Energy Oil Refund	-	-	108	-	-	-	-	-	-
A F U D C	-	-	-	-	-	-	-	-	-
Penalties Regulatory	-	-	(101)	(50)	(50)	(50)	(50)	(50)	(50)
Penalties Suppliers Gas Choice	33	67	100	75	75	75	75	75	75
Swap Option Proceeds	320	27	-	-	-	-	-	-	-
Guaranteed Investment Contract Proceeds	625	625	625	625	625	625	625	625	625
Total Miscellaneous Income	1,978	719	934	650	650	650	650	650	650
TOTAL OTHER INCOME	3,580	4,778	8,198	9,627	10,105	9,083	9,519	9,734	9,770
Capital Spending	60,671	66,032	68,057	75,152	62,597	64,755	63,018	61,587	59,920
Capital Drawdown	55,601	68,000	60,195	72,000	60,000	39,843	-	-	-
Total AFUDC	907	907	1,168	1,202	1,002	1,036	1,008	985	959
AFUDC Interest	831	934	1,033	1,152	960	637	-	-	-
AFUDC Other Income	-	-	-	-	42	399	1,008	985	959
TRANSFERS TO THE INCOME PACKAGE									
TOTAL OTHER INCOME	3,580	4,778	8,198	9,627	10,105	9,083	9,519	9,734	9,770
AFUDC - INTEREST	(907)	(907)	(1,168)	(1,202)	(960)	(637)	-	-	-
DRAWDOWN	55,601	68,000	60,195	72,000	60,000	39,843	-	-	-

In The Matter Of:

**PHILADELPHIA GAS WORKS'
FISCAL YEAR 2006-2007
OPERATING BUDGET FILING**

Filed: May 26, 2006

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PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Budget <u>2005-06</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
OPERATING REVENUES				
1. Non-Heating	\$114,880	\$110,823	\$114,212	\$115,556
2. Gas Transportation Service	4,679	7,210	6,147	7,256
3. Heating	713,159	797,812	821,190	829,900
4. Weather Normalization Adjustment	(1,365)	-	12,500	-
5. Unbilled Gas Adjustment	(803)	319	2,513	(732)
6. Total Gas Revenues	<u>830,550</u>	<u>916,164</u>	<u>956,562</u>	<u>951,980</u>
7. Appliance Repair & Other Service Revenues	10,895	10,975	10,669	10,532
8. Other Operating Revenues	21,912	21,793	17,865	18,219
9. Total Other Revenues	<u>32,807</u>	<u>32,768</u>	<u>28,534</u>	<u>28,751</u>
10. Total Operating Revenues	<u>\$863,357</u>	<u>\$948,932</u>	<u>\$985,096</u>	<u>\$980,731</u>
OPERATING EXPENSES				
11. Natural Gas	\$509,701	\$578,362	\$639,180	\$630,836
12. Other Raw Material	3	5	5	5
13. Sub-Total Fuel	<u>509,704</u>	<u>578,367</u>	<u>639,185</u>	<u>630,841</u>
14. Contribution Margins	\$353,653	\$370,565	\$345,911	\$349,890
15. Labor & Fringe Benefits	\$136,719	\$139,023	\$139,727	\$147,305
16. Bad Debt Expense	70,424	55,132	61,519	60,737
17. Other Expenses & Depreciation	76,165	71,535	76,943	73,139
18. Sub-Total Other O&M & Depreciation	<u>283,308</u>	<u>265,690</u>	<u>278,189</u>	<u>281,181</u>
19. Total Operating Expenses	<u>\$793,012</u>	<u>\$844,057</u>	<u>\$917,374</u>	<u>\$912,022</u>
20. Operating Income	\$70,345	\$104,875	\$67,722	\$68,709
21. Other Income	\$4,778	\$24,635	\$8,198	\$9,627
22. Income Before Interest	<u>\$75,123</u>	<u>\$129,510</u>	<u>\$75,920</u>	<u>\$78,336</u>
INTEREST				
23. Long Term Debt	\$53,856	\$53,589	\$51,778	\$56,437
24. Other Interest	6,123	7,496	9,561	13,186
25. AFUDC	(907)	(986)	(1,168)	(1,202)
26. Loss from Extinguishment of Debt	4,779	4,535	5,332	5,557
27. Total Interest Expense	<u>\$63,851</u>	<u>\$64,634</u>	<u>\$65,503</u>	<u>\$73,978</u>
28. Net Earnings	<u>\$11,272</u>	<u>\$64,876</u>	<u>\$10,417</u>	<u>\$4,358</u>

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Budget <u>2005-06</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>	
<u>OPERATING REVENUES</u>					
1.	Non-Heating	\$114,880	\$110,823	\$114,212	\$115,556
2.	Gas Transportation Service	4,679	7,210	6,147	7,256
3.	Heating	713,159	797,812	821,190	829,900
4.	Weather Normalization Adjustment	(1,363)	-	12,500	-
5.	Unbilled Gas Adjustment	(803)	319	2,513	(732)
6.	Total Gas Revenues	<u>830,552</u>	<u>916,164</u>	<u>956,562</u>	<u>951,980</u>
7.	Appliance Repair & Bill Paid Turn-Ons	10,895	10,975	10,669	10,532
8.	Other Operating Revenues	21,912	21,793	17,865	18,219
9.	Total Other Operating Revenues	<u>32,807</u>	<u>32,768</u>	<u>28,534</u>	<u>28,751</u>
10.	Total Operating Revenues	<u>\$863,359</u>	<u>\$948,932</u>	<u>\$985,096</u>	<u>\$980,731</u>
<u>OPERATING EXPENSES</u>					
11.	Natural Gas	\$509,701	\$578,362	639,180	630,836
12.	Other Raw Material	3	5	5	5
13.	Sub-Total Fuel	<u>509,704</u>	<u>578,367</u>	<u>639,185</u>	<u>630,841</u>
14.	CONTRIBUTION MARGINS	<u>\$353,655</u>	<u>\$370,565</u>	<u>\$345,911</u>	<u>\$349,890</u>
15.	Gas Processing	18,584	15,590	16,206	15,715
16.	Field Services	28,455	30,768	27,377	29,391
17.	Distribution	15,115	16,130	15,382	16,566
18.	Collection	10,971	10,540	9,225	7,944
19.	Customer Service	12,512	12,918	12,026	14,125
20.	Account Management	7,695	7,824	7,928	7,625
21.	Bad Debt Expense	70,424	55,132	61,519	60,737
22.	Marketing	2,592	3,399	2,470	3,217
23.	Administrative & General	43,391	47,958	47,931	50,623
24.	Health Insurance	33,571	36,461	34,804	37,884
25.	Capitalized Fringe Benefits	(10,348)	(9,714)	(10,099)	(11,261)
26.	Capitalized Administrative Charges	(6,706)	(7,142)	(6,603)	(7,950)
27.	Amortization of Restructuring Costs	1,087	1,087	1,087	-
28.	Pensions	14,702	15,192	17,297	17,593
29.	Taxes	6,218	6,296	5,678	6,574
30.	Labor/Cost Savings	-	(12,891)	(1,105)	(5,798)
31.	Sub-Total Other Oper. & Maintenance	<u>248,263</u>	<u>229,548</u>	<u>241,123</u>	<u>242,985</u>
32.	Depreciation	35,904	37,589	36,928	38,213
33.	Cost of Removal	3,643	3,200	3,200	3,200
34.	To Clearing Accounts	<u>(4,502)</u>	<u>(4,647)</u>	<u>(3,062)</u>	<u>(3,217)</u>
35.		35,045	36,142	37,066	38,196
36.	Sub-Total Other Oper. & Maint. & Depreciation	<u>283,308</u>	<u>265,690</u>	<u>278,189</u>	<u>281,181</u>
37.	TOTAL OPERATING EXPENSES	<u>\$793,012</u>	<u>\$844,057</u>	<u>\$917,374</u>	<u>\$912,022</u>
38.	OPERATING INCOME	70,347	104,875	67,722	68,709
39.	Other Income	4,778	24,635	8,198	9,627
40.	INCOME BEFORE INTEREST	<u>\$75,125</u>	<u>\$129,510</u>	<u>\$75,920</u>	<u>\$78,336</u>
INTEREST					
41.	Long-Term Debt	\$53,856	\$53,589	\$51,778	\$56,437
42.	Other	6,123	7,496	9,561	13,186
43.	AFUDC	(907)	(986)	(1,168)	(1,202)
44.	Loss From Extinguishment of Debt	4,779	4,535	5,332	5,557
45.	Total Interest	<u>63,851</u>	<u>64,634</u>	<u>65,503</u>	<u>73,978</u>
46.	NET EARNINGS	<u>\$11,274</u>	<u>\$64,876</u>	<u>\$10,417</u>	<u>\$4,358</u>

**PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)**

Line No.	<u>SOURCES</u>	Actual 2004-05	Budget 2005-06	Estimate 2005-06	Budget 2006-07
1.	Net Income	\$11,272	\$64,876	\$10,417	\$4,358
2.	Depreciation & Amortization	42,281	43,655	43,928	46,007
3.	Earnings on Restricted Funds	(3,265)	69	3,899	38
4.	Elimination of Accrued Interest on Refunded Debt	-	-	3,186	-
5.	Increased/(Decreased) Other Assets\Liabilities	(6,917)	(1,015)	(1,024)	911
6.	Available From Operations	<u>43,371</u>	<u>107,585</u>	<u>60,406</u>	<u>51,314</u>
7.	Funds Required for Capital	68,000	65,751	60,195	72,000
8.	Grant Income	18,000	-	18,000	18,000
9.	Lease Funds Debt Service	2,005	-	-	-
10.	Capitalized Interest	2,283	5,924	5,924	-
11.	Release of Sinking Fund Asset	6,038	-	3,680	-
12.	Temporary Financing	-	19,900	20,100	-
13.	TOTAL SOURCES	<u>\$139,697</u>	<u>\$199,160</u>	<u>\$168,305</u>	<u>\$141,314</u>
	<u>USES</u>				
14.	Net Capital Expenditures	\$66,910	\$65,751	\$68,057	\$75,152
	Funded Debt Reduction:				
15.	Revenue Bonds	35,387	36,651	29,906	36,675
16.	Subordinate Revenue Bonds	1,255	1,310	1,310	1,370
17.	Capital Lease	1,947	-	-	-
18.	Temporary Financing Repayment	850	40,000	-	-
19.	City Loan Repayment/Status	-	-	-	2,000
20.	Distribution of Earnings	18,000	18,000	18,000	18,000
	Additions to (Reductions of)				
21.	Non-Cash Working Capital	<u>3,793</u>	<u>31,293</u>	<u>55,433</u>	<u>2,900</u>
22.	Cash Needs	128,142	193,005	172,706	136,097
23.	Cash Surplus (Shortfall)	11,555	6,155	(4,401)	5,217
24.	TOTAL USES	<u>\$139,697</u>	<u>\$199,160</u>	<u>\$168,305</u>	<u>\$141,314</u>
25.	Cash - Beginning of Period	\$3,666	\$46,215	\$15,221	\$10,820
27.	Cash - Surplus (Shortfall)	11,555	6,155	(4,401)	5,217
28.	Ending Cash	<u>\$15,221</u>	<u>\$52,370</u>	<u>\$10,820</u>	<u>\$16,037</u>
29.	Outstanding Commercial Paper	\$49,900	\$59,700	\$70,000	\$70,000
30.	City Loan Outstanding	\$45,000	\$45,000	\$45,000	\$43,000

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

Line No.	Actual <u>2004-05</u>	Budget <u>2005-06</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>FUNDS PROVIDED</u>				
1. Total Gas Revenues	\$830,550	\$916,164	\$956,562	\$951,980
2. Other Operating Revenues	32,807	32,768	28,534	28,751
3. Total Operating Revenues	863,357	948,932	985,096	980,731
4. Other Income Less Restricted Funds	1,513	24,704	12,097	9,665
5. Grant Income	18,000	-	18,000	18,000
6. AFUDC (Interest)	907	986	1,168	1,202
7. TOTAL FUNDS PROVIDED	\$883,777	\$974,622	\$1,016,361	\$1,009,598
<u>FUNDS APPLIED</u>				
8. Fuel Costs	\$509,704	\$578,367	\$639,185	\$630,841
9. Other Operating Costs	283,308	265,690	278,189	281,181
10. Total Operating Expenses	793,012	844,057	917,374	912,022
11. Less: Non-Cash Expenses	39,338	41,371	40,554	41,887
12. TOTAL FUNDS APPLIED	\$753,674	\$802,686	\$876,820	\$870,135
13. Funds Available to Cover Debt Service	130,103	171,936	139,541	139,463
14. 1975 Ordinance Bonds Debt Service	\$38,806	\$41,949	\$41,949	\$35,748
15. Debt Service Coverage 1975 Revenue Bonds	3.35	4.10	3.33	3.90
16. Net Available After Prior Debt Service	\$91,297	\$129,987	\$97,592	\$103,715
17. PMA and Other Capital Leases	1,998	-	-	-
18. Net Available After Prior Capital Leases	89,299	129,987	97,592	103,715
19. 1998 Ordinance Bonds Debt Service	\$45,999	\$49,580	\$32,467	\$53,313
20. Debt Service Coverage 1998 Revenue Bonds	1.94	2.62	3.01	1.95
21. Net Available After 1998 Debt Service	\$43,300	\$80,407	\$65,125	\$50,402
22. 1998 Ordinance Subordinate Bond Debt Service	1,987	1,986	1,986	1,987
23. Debt Service Coverage Subordinate Bond	21.79	40.49	32.79	25.37
24. Net Available To Service Aggregate Debt Service	\$111,075	\$166,638	\$114,154	\$117,734
25. Aggregate Debt Service	\$88,790	\$93,515	\$76,402	\$91,048
26. Fixed Coverage Charge on Long Term Debt	1.25	1.78	1.49	1.29
27. Fixed Coverage Charge including \$18.0 M City Fee	1.04	1.49	1.21	1.08

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

Line No.	Actual <u>8/31/2005</u>	Budget <u>8/31/2006</u>	Estimate <u>8/31/2006</u>	Budget <u>8/31/2007</u>	
<u>ASSETS</u>					
1.	Utility Plant Net	\$981,722	\$1,012,338	\$1,012,851	\$1,049,790
2.	Sinking Fund Reserve	104,530	101,615	93,800	102,050
3.	Capital Improvement Fund	102,701	32,479	39,732	99,843
4.	Cash	15,221	52,370	10,820	16,037
Accounts Receivable:					
5.	Gas Receivable	273,805	282,506	264,254	259,256
6.	Other	12,522	436	785	506
7.	Accrued Gas Revenues	8,787	9,935	11,300	10,568
8.	Reserve for Uncollectible	(207,480)	(210,119)	(191,631)	(186,968)
9.	Accounts Receivable Net	<u>87,634</u>	<u>82,758</u>	<u>84,708</u>	<u>83,362</u>
10.	Materials & Supplies	129,984	146,547	183,784	180,389
11.	Other Current Assets	(164)	3,081	2,986	3,056
12.	Deferred Debits	2,796	2,175	8,448	2,275
13.	Unamortized Bond Issuance Expense	39,094	36,227	42,089	46,912
14.	Unamortized Extraordinary Loss	38,494	33,959	55,859	50,301
15.	Other Assets	8,297	4,985	3,411	2,881
16.	Deferred Environmental	9,513	-	9,513	9,513
17.	TOTAL ASSETS	<u><u>\$1,519,822</u></u>	<u><u>\$1,508,534</u></u>	<u><u>\$1,548,001</u></u>	<u><u>\$1,646,409</u></u>
<u>EQUITY & LIABILITIES</u>					
18.	City Equity	\$222,648	\$275,996	\$233,063	\$237,421
Long Term Debt:					
19.	Revenue Bonds	1,048,290	1,007,410	1,042,430	1,154,385
20.	TECA Accretions	11,394	12,608	12,608	13,913
21.	Unamortized Discount	(9,484)	(8,816)	(5,113)	(5,883)
22.	Unamortized Premium	22,901	20,843	20,797	18,826
23.	Notes Payable	49,900	59,700	70,000	70,000
24.	City Loan	45,000	45,000	45,000	43,000
Accounts Payable:					
25.	Natural Gas	49,185	38,803	56,465	43,033
26.	General	14,733	21,190	15,820	16,435
27.	Customer Deposits	6,280	6,000	8,250	9,000
28.	Other Current Liabilities	3,734	1,578	3,431	2,129
29.	Deferred Credits	14,608	(1,528)	5,814	4,724
Accrued Credits:					
30.	Interest	9,591	10,984	12,224	14,374
31.	Taxes & Wages	3,861	3,769	4,231	2,796
32.	Distribution to City	3,000	3,000	3,000	3,000
33.	Other Liabilities	24,183	11,997	19,981	19,056
34.	TOTAL EQUITY & LIABILITIES	<u><u>\$1,519,822</u></u>	<u><u>\$1,508,534</u></u>	<u><u>\$1,548,001</u></u>	<u><u>\$1,646,409</u></u>

PHILADELPHIA GAS WORKS
OPERATING REVENUES
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
1. Non-Heating	\$114,880	\$114,212	\$115,556
2. Gas Transportation Service	4,679	6,147	7,256
3. Heating	713,159	821,190	829,900
4. Weather Normalization Adjustment	(1,365)	12,500	-
5. Unbilled Gas Adjustment	<u>(803)</u>	<u>2,513</u>	<u>(732)</u>
6. Sub-Total Gas Revenues	830,550	956,562	951,980
7. Appliance Repair & Other Service Revenues	10,895	10,669	10,532
8. Other Operating Revenues	<u>21,912</u>	<u>17,865</u>	<u>18,219</u>
9. Sub-Total Other Revenues	32,807	28,534	28,751
10. Total Operating Revenues	<u><u>\$863,357</u></u>	<u><u>\$985,096</u></u>	<u><u>\$980,731</u></u>

PGW
RECONCILIATION OF BILLED REVENUES
(Dollars In Thousands)

Line No.	2004-05 ACTUAL	Billed <u>Revenues</u>	2003-04 GCR <u>Under Recovery</u>	2004-05 GCR <u>Over Recovery</u>	Total <u>Revenues</u>
1.	Firm Non-Heating	\$71,415	(\$595)	(\$617)	\$70,203
2.	Interruptible	44,677			44,677
3.	Total Non Heating	116,092	(595)	(617)	114,880
4.	Gas Transportation Service	4,679			4,679
5.	Heating *	725,958	(7,197)	(6,967)	711,794
6.	Total Revenues	<u>\$846,729</u>	<u>(\$7,792)</u>	<u>(\$7,584)</u>	<u>\$831,353</u>
	2005-06 ESTIMATE				
		Billed <u>Revenues</u>	2004-05 GCR <u>Over Recovery</u>	2005-06 GCR <u>Under Recovery</u>	Total <u>Revenues</u>
7.	Firm Non-Heating	\$79,640	\$617	\$499	\$80,756
8.	Interruptible	33,456			33,456
9.	Total Non Heating	113,096	617	499	114,212
10.	Gas Transportation Service	6,147			6,147
11.	Heating	821,013	6,967	5,710	833,690
12.	Total Revenues	<u>\$940,256</u>	<u>\$7,584</u>	<u>\$6,209</u>	<u>\$954,049</u>
	2006-07 BUDGET				
		Billed <u>Revenues</u>	2005-06 GCR <u>Under Recovery</u>		Total <u>Revenues</u>
13.	Firm Non-Heating	\$74,863	(\$499)		\$74,364
14.	Interruptible	41,192			41,192
15.	Total Non Heating	116,055	(499)		115,556
16.	Gas Transportation Service	7,256			7,256
17.	Heating	835,610	(5,710)		829,900
18.	Total Revenues	<u>\$958,921</u>	<u>(\$6,209)</u>		<u>\$952,712</u>

* The 2004-2005 fiscal period reflects a \$1.4 million WNA credit to customers reflecting the impact of the colder winter heating season, while the 2005-2006 fiscal period reflects a \$12.5 million WNA charge to customers reflecting the significantly warmer winter heating season.

PHILADELPHIA GAS WORKS
GAS REVENUES
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>NON HEATING</u>			
1. Residential	\$37,132	\$34,732	\$30,764
2. CRP Residential	-	3,326	3,148
3. CRP Shortfall	(1,595)	(1,844)	(1,483)
4. Commercial	26,980	32,907	31,665
5. Industrial	5,036	6,073	6,315
6. Municipal	3,862	4,443	4,454
7. Housing Authority	-	3	-
8. Total Firm Non-Heating	<u>\$71,415</u>	<u>\$79,640</u>	<u>\$74,863</u>
9. BPS - Small	\$2,705	\$2,408	\$2,597
10. BPS - Large	29,289	21,688	26,317
11. BPS - A/C	-	1,359	1,111
12. BPS - H Indirect	-	-	-
13. LBS-L Direct	765	197	220
14. LBS-L Indirect	3,165	2,285	4,089
15. LBS-S Indirect	6,502	4,666	6,051
16. LBS-XL Direct	83	54	30
17. LBS-XL Indirect	512	488	599
18. Co-Generation - Indirect	371	213	172
19. GTS - Sales	<u>1,285</u>	<u>98</u>	<u>6</u>
20. Total Interruptibles	44,677	33,456	41,192
21. Total Non Heating	<u>\$116,092</u>	<u>\$113,096</u>	<u>\$116,055</u>
<u>HEATING</u>			
22. Residential	\$626,071	\$541,730	\$547,532
23. CRP Residential	0	157,839	163,777
24. CRP Shortfall	(59,493)	(87,496)	(77,172)
25. Commercial	129,073	153,393	155,817
26. Industrial	11,048	12,621	13,472
27. Municipal	12,041	15,503	16,903
28. Housing Authority	8,583	14,923	15,281
29. WNA	<u>(1,365)</u>	<u>12,500</u>	<u>-</u>
30. Total Heating	725,958	821,013	835,610
31. Net Billed Revenues	842,050	934,109	951,665
32. GTS Revenues	<u>4,679</u>	<u>6,147</u>	<u>7,256</u>
33. Total Billed Revenues	<u><u>\$846,729</u></u>	<u><u>\$940,256</u></u>	<u><u>\$958,921</u></u>
34. Degree Days	4,327	3,825	4,525

PHILADELPHIA GAS WORKS
GAS SALES
(MCF's)

Line No.		Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>NON HEATING</u>				
1.	Residential	1,955	1,444	1,346
2.	CRP Residential	-	158	160
3.	Commercial	1,755	1,673	1,705
4.	Industrial	327	310	345
5.	Municipal	278	243	263
6.	Housing Authority	-	-	-
7.	Total Firm Non-Heating	<u>4,315</u>	<u>3,828</u>	<u>3,819</u>
8.	BPS - Small	205	148	163
9.	BPS - Large	2,795	1,486	1,931
10.	BPS - A/C	-	123	109
11.	LBS - L Direct	97	17	21
12.	LBS - L Indirect	391	191	375
13.	LBS - S Indirect	787	371	528
14.	LBS - XL Direct	10	4	2
15.	LBS - XL Indirect	62	37	54
16.	Co-Generation - Indirect	47	22	16
17.	GTS - Sales	116	5	-
18.	Total Interruptibles	<u>4,510</u>	<u>2,404</u>	<u>3,199</u>
19.	Total Non Heating	<u>8,825</u>	<u>6,232</u>	<u>7,018</u>
<u>HEATING</u>				
20.	Residential	39,033	26,635	28,887
21.	CRP Residential	-	7,759	8,676
22.	Commercial	8,363	7,806	8,498
23.	Industrial	711	640	735
24.	Municipal	826	850	1,006
25.	Housing Authority	560	754	830
26.	Total Heating	<u>49,493</u>	<u>44,444</u>	<u>48,632</u>
27.	Net Billed Sales	58,318	50,676	55,650
28.	GTS Volumes	11,624	11,140	13,323
29.	Total Billed Sales	<u><u>69,942</u></u>	<u><u>61,816</u></u>	<u><u>68,973</u></u>
30.	Firm Sales	53,808	48,272	52,451
31.	Residential Sales	40,988	35,996	39,069

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2004-05 ACTUAL
(Dollars in Thousands)

Line No.		<u>Billed</u>	<u>(To) Inventory</u>	<u>From Inventory</u>	<u>Refunds</u>	<u>Seasonal Adjustment</u>	<u>Total</u>
1.	September	\$ 30,341	\$ (14,975)	\$ 457	\$ -	\$ (3,558)	\$ 12,265
2.	October	31,719	(7,802)	2,966	(35)	(1,505)	25,343
3.	November	50,343	(5,082)	2,153	(50)	1,514	48,878
4.	December	61,863	(219)	15,170	(14)	5,090	81,890
5.	January	62,753	(377)	30,631	-	7,378	100,385
6.	February	57,958	(179)	18,059	-	5,355	81,193
7.	March	72,955	(13,541)	10,487	(55)	3,366	73,212
8.	April	34,957	(2,403)	4,707	(55)	(948)	36,258
9.	May	44,085	(27,474)	648	(55)	(3,425)	13,779
10.	June	32,791	(18,904)	383	(55)	(4,458)	9,757
11.	July	33,450	(16,184)	480	(207)	(4,403)	13,136
12.	August	<u>29,231</u>	<u>(13,023)</u>	<u>1,866</u>	<u>(63)</u>	<u>(4,406)</u>	<u>13,605</u>
13.	Total	<u>\$542,446</u>	<u>\$ (120,163)</u>	<u>\$ 88,007</u>	<u>\$ (589)</u>	<u>\$ -</u>	<u>\$ 509,701</u>

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2005-06 ESTIMATE
(Dollars in Thousands)

Line No.		<u>Billed</u>	<u>(To) Inventory</u>	<u>From Inventory</u>	<u>Refunds</u>	<u>Seasonal Adjustment</u>	<u>Total</u>
1.	September	\$ 36,293	\$ (16,826)	\$ 1,091	\$ (51)	\$ (3,570)	\$ 16,937
2.	October	66,982	(28,212)	2,211	-	(1,743)	39,238
3.	November	80,975	(21,786)	7,468	-	1,151	67,808
4.	December	107,432	(4,090)	26,376	-	4,617	134,335
5.	January	77,499	(1,212)	26,570	(186)	6,695	109,366
6.	February	62,023	(1,281)	33,671	-	4,676	99,089
7.	March	62,689	(5,413)	18,179	-	2,801	78,256
8.	April	45,692	(12,869)	5,903	-	(531)	38,195
9.	May	45,072	(23,904)	656	-	(2,788)	19,036
10.	June	38,095	(23,114)	624	-	(3,812)	11,793
11.	July	36,743	(21,023)	640	-	(3,747)	12,613
12.	August	32,465	(16,842)	640	-	(3,749)	12,514
13.	Total	<u>\$ 691,960</u>	<u>\$ (176,572)</u>	<u>\$ 124,029</u>	<u>\$ (237)</u>	<u>\$ -</u>	<u>\$ 639,180</u>

**PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2006-07 BUDGET**
(Dollars in Thousands)

Line No.		<u>Billed</u>	(To) <u>Inventory</u>	From <u>Inventory</u>	<u>Refunds</u>	Seasonal <u>Adjustment</u>	<u>Total</u>
1.	September	\$ 26,433	\$ (9,702)	\$ 620	\$ -	\$ (3,406)	\$ 13,945
2.	October	35,465	(4,261)	644	-	(1,489)	30,359
3.	November	42,184	(5,482)	23,054	-	948	60,704
4.	December	68,188	(2,689)	33,032	-	4,793	103,324
5.	January	81,114	-	40,491	-	6,839	128,444
6.	February	65,092	-	33,355	-	4,622	103,069
7.	March	62,254	(2,077)	21,659	-	2,738	84,574
8.	April	60,022	(17,837)	644	-	(709)	42,120
9.	May	53,955	(29,705)	666	-	(2,886)	22,030
10.	June	44,286	(27,324)	644	-	(3,859)	13,747
11.	July	43,670	(26,222)	666	-	(3,795)	14,319
12.	August	43,033	(25,702)	666	-	(3,796)	14,201
13.	Total	<u>\$625,696</u>	<u>\$ (151,001)</u>	<u>\$ 156,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 630,836</u>

PHILADELPHIA GAS WORKS LABOR & FRINGE BENEFITS

(Dollars in Thousands)

Line No.	Actual 2004-05	Estimate 2005-06	Budget 2006-07
OPERATING LABOR			
1. Payroll	\$102,821	\$101,277	\$105,887
2. To Capital & Clearing Accounts	<u>(22,187)</u>	<u>(21,429)</u>	<u>(22,733)</u>
3. Total Operating Labor	80,634	79,848	83,154
PENSIONS			
4. Beneficiaries	31,204	31,478	32,454
5. Payments to (Withdrawals from) Fund	<u>(16,502)</u>	<u>(14,181)</u>	<u>(14,861)</u>
6. Total Pensions	14,702	17,297	17,593
INSURANCE			
7. Group Life	1,594	2,100	2,100
8. Health	<u>33,571</u>	<u>34,804</u>	<u>37,884</u>
9. Total Insurance	35,165	36,904	39,984
TAXES			
10. FICA - OASI	6,290	6,207	6,436
11. FICA - Medical	1,485	1,485	1,530
12. State Unemployment	116	100	150
13. Federal Unemployment	0	0	0
14. Tax Rebate/Settlements	0	(614)	0
15. Allocated to Capital Projects	<u>(1,673)</u>	<u>(1,500)</u>	<u>(1,542)</u>
16. Total Taxes	6,218	5,678	6,574
17. Total Labor & Fringe Benefits	<u>\$136,719</u>	<u>\$139,727</u>	<u>\$147,305</u>

PHILADELPHIA GAS WORKS
DETAIL OF DIRECT LABOR EXPENSES
(Dollars in Thousands)

Line No.	Actual 2004-05		Estimate 2005-06		Budget 2006-07	
	Average Personnel	Payroll	Average Personnel	Payroll	Average Personnel	Payroll
1. Administration	50	\$5,050	50	\$5,605	50	\$5,587
2. Finance	45	2,260	46	2,340	46	2,451
3. Customer Activities	383	20,004	383	19,642	383	20,629
4. Marketing & Planning	65	3,750	64	3,710	63	3,730
5. Operations	983	57,366	963	56,459	958	59,074
6. Systems & Services	246	14,049	253	14,311	253	14,849
7. Cost Savings/Retirements	-	-	(19)	(1,105)	(13)	(798)
8. Philadelphia Gas Commission	5	342	5	315	5	365
9. Total Personnel & Payroll	1,777	\$102,821	1,745	\$101,277	1,745	\$105,887
10. Allocated to Capital & Clearing Accounts		(22,187)		(21,429)		(22,733)
11. Net Operating Labor	1,777	\$80,634	1,745	\$79,848	1,745	\$83,154

**PHILADELPHIA GAS WORKS
DETAIL OF OTHER EXPENSES
(Dollars in Thousands)**

LINE NO.	<u>OTHER EXPENSES</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
1.	Appropriation for Reserves and Other Losses	\$3,083	\$3,340	\$2,847
2.	Advertising	1,400	1,745	1,977
3.	General Material	6,051	6,720	6,454
4.	Insurance	3,485	3,478	3,827
5.	Contracted Maintenance	7,610	5,644	6,008
6.	Utilities	3,801	3,669	3,616
7.	Rentals	804	784	790
8.	Purchased Services	21,154	20,885	23,740
9.	Postage	2,163	2,433	2,601
10.	Promotion	25	-	532
11.	Non-Utility Revenues	(128)	(147)	(141)
12.	Labor Related Fringe Benefits and A&G Charged to Capital	(17,054)	(16,702)	(19,211)
13.	Depreciation	39,547	40,128	41,413
14.	Less: Cleared to Capital	(1,022)	(349)	(458)
15.	Miscellaneous	<u>5,246</u>	<u>5,315</u>	<u>(856)</u>
16.	Total Other Expenses	<u>\$76,165</u>	<u>\$76,943</u>	<u>\$73,139</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

**APPROPRIATION FOR RESERVE
AND OTHER LOSSES**

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Risk Management	\$3,000	\$3,062	\$2,257
Compensated Absences	60	218	115
Corporate Settlements	23	60	475
Grand Total	<u>\$3,083</u>	<u>\$3,340</u>	<u>\$2,847</u>

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
ADVERTISING			
Field Services	\$266	\$283	\$377
Collection & Revenue Recovery	561	350	350
Marketing	2	10	35
Corporate Communications	119	651	725
Human Resources	58	75	110
VP Customer Affairs	300	300	300
PUC	21	25	25
VP Compliance & Bus Trans	-	-	-
Gas Commission	6	10	10
Information Services	1	-	1
Telecommunications	10	7	10
Materials Management	56	34	34
Grand Total	<u>\$1,400</u>	<u>\$1,745</u>	<u>\$1,977</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

GENERAL MATERIAL	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Gas Processing	\$2,113	\$2,079	\$2,134
Distribution	2,346	2,031	2,131
Field Services	2,976	2,730	2,730
Collection & Revenue Recovery	324	182	242
Commercial Resource Center	1	-	1
Customer Service	56	56	69
Account Management	394	735	667
Marketing	28	18	30
Corporate Communications	18	18	18
Gas Control & Acquisition	12	19	19
Human Resources	20	20	20
Risk Management	2	2	2
Accounting & Reporting	12	13	13
Treasury	18	10	11
President & CEO	2	3	3
Sr VP Legal & Genl Counsel	17	24	24
VP Customer Affairs	37	39	39
COO	1	2	4
Security	13	5	5
VP Reg & External Affairs	1	1	1
Sr VP Finance	1	2	2
Strategic Planning	1	1	2
Rates & Gas Planning	3	4	4
Customer Review	4	4	7
PMO	1	1	-
VP Gas Management	1	1	2
VP Labor, Safety, Preparedness	10	29	46
Internal Auditing	-	2	2
Sr VP Operations	5	4	-
VP Marketing & Corp Comm	-	1	1
Operation System Support	1	-	-
VP Support Services	1	1	1
VP Compliance & Bus Trans	3	6	6
Policies & Compliance	1	5	6
Chemical Laboratory Services	15	16	20
Organization Development	-	60	15
Gas Commission	3	7	12
Utility Gas Use	(702)	(708)	(708)
Emergency Operations	(16)	-	-
LNG Terminal Project	1	-	-
Income Tax Program	-	-	-
Facilities Management	529	662	644
Engineering Services	13	22	23
Information Services	152	212	204
Telecommunications	21	20	20
Fleet Operations	1,168	1,636	1,506
Materials Management	(3,556)	(3,255)	(3,524)
Grand Total	\$6,051	\$6,720	\$6,454

DETAIL OF OTHER OPERATING EXPENSES C-4

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
INSURANCE			
Human Resources	\$35,155	\$36,904	\$39,984
Risk Management	3,435	3,418	3,757
VP Labor, Safety, Preparedness	17	17	20
Gas Commission	<u>43</u>	<u>43</u>	<u>50</u>
Sub-Total	38,650	40,382	43,811
Less Group Life & Health	<u>35,165</u>	<u>36,904</u>	<u>39,984</u>
Grand Total	<u><u>\$3,485</u></u>	<u><u>\$3,478</u></u>	<u><u>\$3,827</u></u>

CONTRACTED MAINTENANCE

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Maintenance Contractors	\$4,424	\$3,272	\$3,588
Maintenance Software	1,460	1,604	1,706
Maintenance - Capital	876	20	26
Maintenance Office Equipment	<u>850</u>	<u>748</u>	<u>688</u>
Grand Total	<u><u>\$7,610</u></u>	<u><u>\$5,644</u></u>	<u><u>\$6,008</u></u>

UTILITIES

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Electric	\$2,052	\$2,108	\$2,093
Purchased Telephone	1,306	1,177	1,127
Water	<u>443</u>	<u>384</u>	<u>396</u>
Grand Total	<u><u>\$3,801</u></u>	<u><u>\$3,669</u></u>	<u><u>\$3,616</u></u>

RENTALS

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Other Rents	\$293	\$298	\$302
Equipment Rentals & Leasing	<u>511</u>	<u>486</u>	<u>488</u>
Grand Total	<u><u>\$804</u></u>	<u><u>\$784</u></u>	<u><u>\$790</u></u>

DETAIL OF OTHER OPERATING EXPENSES C-4

Maintenance Contractors	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gas Processing	\$3,663	\$2,120	\$2,245
Distribution	285	346	606
Account Management	-	-	-
Human Resources	4	10	6
Security	-	-	-
Chem Lab	1	2	2
Emergency Operations	-	-	-
Environmental	-	-	-
Facilities Management	302	465	439
Engineering Services	4	9	7
Information Services	40	68	59
Telecommunications	1	3	3
Fleet Operations	97	155	130
Materials Management	27	94	91
Grand Total	<u>\$4,424</u>	<u>\$3,272</u>	<u>\$3,588</u>

Maintenance Software	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Distribution	5	30	28
Field Services	26	43	44
Customer Service	37	44	45
Gas Control & Acquisition	42	86	84
Risk Management	-	19	19
Accounting & Reporting	21	22	22
Rates & Gas Planning	25	26	28
Facilities Management	6	12	13
Engineering Services	7	9	10
Information Services	1,245	1,254	1,356
Telecommunications	14	16	14
Fleet Operations	8	15	14
Materials Management	24	28	29
Grand Total	<u>1,460</u>	<u>\$1,604</u>	<u>\$1,706</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

Maintenance Office Equip	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Customer Service	8	-	-
Account Management	134	115	-
Corporate Communications	-	1	1
Legal	-	5	5
VP Customer Affairs	-	-	-
Gas Commission	1	1	2
Maintenance Office Equip	-	-	-
Facilities Management	9	9	9
Engineering Services	4	3	3
Information Services	260	174	283
Telecommunications	373	388	333
Fleet Operations	5	7	7
Materials Management	56	45	45
Grand Total	<u>\$850</u>	<u>\$748</u>	<u>\$688</u>

Electric	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gas Processing	\$1,070	\$1,054	\$1,071
Distribution	33	40	40
Facilities Management	770	797	788
Engineering	9	14	13
Information Services	103	116	107
Telecommunications	4	6	6
Fleet Operations	29	43	33
Materials Management	34	38	35
Grand Total	<u>\$2,052</u>	<u>\$2,108</u>	<u>\$2,093</u>

Purchased Telephone	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Facilities Management	\$24	\$20	\$20
Engineering Services	9	6	6
Information Services	72	66	62
Telecommunications	1,158	1,044	1,002
Fleet Operations	10	16	13
Materials Management	33	25	24
Grand Total	<u>\$1,306</u>	<u>\$1,177</u>	<u>\$1,127</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

<u>Water</u>	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Gas Processing	\$296	\$251	\$263
Facilities Management	119	104	107
Engineering Services	2	2	2
Information Services	16	15	14
Telecommunications	1	1	1
Fleet Operations	4	6	4
Materials Management	5	5	5
Grand Total	\$443	\$384	\$396

<u>Other Rents</u>	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Distribution	\$18	\$8	\$9
Customer Service	223	242	243
Gas Commission	52	48	50
Grand Total	\$293	\$298	\$302

DETAIL OF OTHER OPERATING EXPENSES C-4

	Actual	Estimate	Budget
<u>Equipment Rentals & Leasing</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gas Processing	\$90	\$62	\$78
Distribution	57	61	72
Field Services	14	7	7
Collection & Revenue Recovery	18	32	30
Customer Service	20	23	22
Account Management	5	5	5
Marketing	10	10	10
Gas Control & Acquisition	1	1	1
Human Resources	13	8	10
Risk Management	10	4	4
Accounting & Reporting	4	3	3
President & CEO	16	12	12
Sr VP General Counsel & Legal	14	14	14
VP Customer Affairs	3	5	7
COO	7	10	10
Security	7	5	5
VP Reg & External Affairs	1	1	1
Sr VP Finance	2	3	3
Strategic Planning	8	3	3
Customer Review	3	1	4
VP Gas Management	1	1	1
VP Labor, Safety, Preparedness	5	4	4
Internal Auditing	3	2	2
Sr VP Operations	2	1	-
VP Marketing & Corp Comm	-	1	1
VP Compliance & Bus Trans	-	1	2
Policies And Compliance	-	-	-
Chemical Lab	6	4	4
Gas Commission	16	16	17
Maintenance Office Equip	-	-	-
Facilities Management	4	10	9
Engineering Services	2	2	2
Information Services	69	66	43
Telecommunications	-	-	-
Fleet Operations	48	59	50
Materials Management	52	49	52
Grand Total	<u><u>\$511</u></u>	<u><u>\$486</u></u>	<u><u>\$488</u></u>

DETAIL OF OTHER OPERATING EXPENSES C-4

<u>Purchased Services</u>	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gas Processing	\$470	\$765	\$505
Distribution	260	447	571
Field Services	763	531	965
Collection & Revenue Recovery	1,962	868	626
Commercial Resource Center	-	-	3
Customer Service	200	172	368
Account Management	2,312	2,221	1,794
Marketing	158	120	165
Corporate Communications	191	425	360
Gas Control & Acquisition	54	46	45
Human Resources	734	760	880
Risk Management	821	766	750
Accounting & Reporting	50	23	25
Treasury	274	309	443
President & CEO	6	5	5
Officers/PFMC	1	-	-
Sr VP Gen'l Counsel & Legal	277	170	170
VP Customer Affairs	2,751	2,693	3,375
COO	20	1	28
Security	2,334	2,123	2,616
VP Reg & External Affairs	-	45	130
Sr VP Finance	1	5	5
Public Utility Commission	462	500	1,050
Strategic Planning	50	5	5
Rates & Gas Planning	92	100	100
Customer Review	242	165	105
PMO	293	335	-
VP Gas Management	1	2	5
VP Labor, Safety, Preparedness	373	409	465
Internal Auditing	78	50	350
Sr VP Operations	35	20	-
VP Marketing & Corp Comm	-	1	4
VP Support Services	183	83	10
VP Compliance & Bus Trans	2	30	20
Policies & Compliance	132	59	75
Chemical Laboratory Services	7	38	13
Organization Development	-	425	450
Gas Commission	398	338	408
FERC Matters	180	105	160
Special Legal	281	381	750
Administrative Consultants	793	1,093	1,341
Emergency Operations	15	-	-
LNG Terminal Project	844	514	-
Utility Merger	305	504	50
Executive Search	10	-	-
Environmental	-	-	-
Facilities Management	268	439	1,067
Engineering Services	473	554	598
Information Services	1,756	1,914	2,162
Telecommunications	11	3	9
Fleet Operations	96	147	400
Materials Management	135	176	314
Grand Total	<u>\$21,154</u>	<u>\$20,885</u>	<u>\$23,740</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

POSTAGE

	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
Gas Processing	-	-	-
Distribution	2	3	2
Field Services	124	272	336
Collection & Revenue Recovery	110	99	105
Customer Service	3	8	9
Account Management	1,619	1,782	1,894
Marketing	6	6	25
Corporate Communications	1	1	1
Human Resources	6	8	6
Risk Management	-	1	1
Treasury	17	24	24
President & CEO	-	1	1
Sr VP General Counsel & Legal	3	5	5
VP Customer Affairs	257	205	174
Metered Mail	11	5	5
VP Reg & External Affairs	1	-	-
Strategic Planning	-	1	-
Customer Review	2	1	1
VP Gas Management	-	-	1
VP Labor, Safety, Preparedness	-	1	1
VP Support Services	-	1	1
Gas Commission	-	1	1
Materials Management	1	8	8
Grand Total	<u>\$2,163</u>	<u>\$2,433</u>	<u>\$2,601</u>

PROMOTION

	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
Marketing	\$25	-	\$532
Grand Total	<u>\$25</u>	<u>-</u>	<u>\$532</u>

NON-UTILITY REVENUE

	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
Customer Service	(63)	(60)	(60)
Account Management	(63)	(57)	(60)
Facilities Management	-	(1)	-
Information Services	-	(2)	(1)
Telecommunications	-	(24)	(17)
Material Management	-	(2)	(2)
Fleet Operations	(2)	(1)	(1)
Grand Total	<u>(\$128)</u>	<u>(\$147)</u>	<u>(\$141)</u>

DETAIL OF OTHER OPERATING EXPENSES C-4

**LABOR RELATED FRINGE BENEFITS &
A&G CHARGED to CAPITAL**

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Construction Overheads	(\$10,348)	(\$10,099)	(\$11,261)
A & G Additive	<u>(6,706)</u>	<u>(6,603)</u>	<u>(7,950)</u>
Grand Total	<u><u>(\$17,054)</u></u>	<u><u>(\$16,702)</u></u>	<u><u>(\$19,211)</u></u>

MISCELLANEOUS

	Actual	Estimate	Budget
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Expense of Employees	\$453	\$840	\$954
Dues & Subscriptions	2,881	3,294	3,676
Taxes	24	24	28
PFMC - Management Fee	325	371	372
Deferred Compensation	334	343	355
Amortization Restructuring Costs	1,087	1,087	-
Cost Savings	-	-	(5,000)
LNG Inventory	(290)	(1,083)	(1,568)
Capital Lease Amortization	-	-	-
Amortization	432	439	327
PA State Sales Tax	-	-	-
Grand Total	<u><u>\$5,246</u></u>	<u><u>\$5,315</u></u>	<u><u>(\$858)</u></u>

DETAIL OF OTHER OPERATING EXPENSES C-4

<u>Expense of Employees</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
Gas Processing	\$27	\$29	\$32
Distribution	35	53	53
Field Services	35	44	44
Collection & Revenue Recovery	5	9	9
Commercial Resource Center	1	1	1
Customer Service	9	12	16
Account Management	-	1	2
Marketing	23	35	49
Corporate Communications	2	10	10
Gas Control & Acquisition	14	40	39
Human Resources	16	20	20
Risk Management	1	3	3
Accounting & Reporting	16	13	15
Treasury	3	15	10
President & CEO	9	10	10
Sr VP General Counsel & Legal	14	22	22
VP Customer Affairs	27	73	53
COO	14	15	47
Security	3	5	10
VP Reg & External Affairs	21	8	8
Sr VP Finance	3	10	15
Strategic Planning	10	30	19
Rates & Gas Planning	-	5	10
Customer Review	-	2	3
PMO	1	-	-
VP Gas Management	2	1	3
VP Labor, Safety, Preparedness	3	16	16
Internal Auditing	5	10	10
SR VP Operations	1	1	-
VP Marketing & Corp Comm	1	5	22
VP Support Services	1	10	5
VP Compliance & Bus Trans	6	30	37
Policies & Compliance	7	14	15
Chemical Laboratory Services	1	7	8
Organization Development	-	12	12
Gas Commission	1	1	3
Relocation Expense	23	25	25
Facilities Management	4	7	8
Engineering Services	3	8	8
Information Services	91	193	247
Telecommunications	8	5	5
Fleet Operations	2	11	10
Materials Management	5	19	20
Grand Total	\$453	\$840	\$954

DETAIL OF OTHER OPERATING EXPENSES C-4

<u>Dues & Subscriptions</u>	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Gas Processing	\$2	\$2	\$2
Distribution	1	2	3
Field Services	1	2	2
Commercial Resource Center	-	-	1
Customer Service	2	1	1
Account Management	-	1	1
Marketing	21	24	25
Corporate Communications	2	3	3
Gas Control & Acquisition	25	38	36
Human Resources	106	20	15
Risk Management	-	1	1
Accounting & Reporting	1	2	2
Treasury	1	1	1
President & CEO	-	1	1
Sr VP Genl Counsel & Legal	26	18	18
VP Customer Affairs	1	1	4
COO	2	2	3
Security	1	1	2
VP Reg & External Affairs	1	1	1
Sr VP Finance	-	2	2
PUC	2,084	2,388	2,450
Strategic Planning	-	1	1
Rates & Gas Planning	25	24	25
PMO	-	-	-
VP Gas Management	-	-	1
VP Labor, Safety, Preparedness	2	5	7
Internal Auditing	-	10	25
Sr VP Operations	1	1	-
VP Marketing & Corporate Comm	-	1	1
VP Support Services	-	2	2
VP Compliance & Bus Trans	-	6	6
Policies & Compliance	-	1	1
Chemical Laboratory Services	-	-	-
Organization Development	-	142	410
Gas Commission	2	2	3
Company Dues & Subscriptions	551	551	585
Facilities Management	4	2	2
Engineering Services	7	9	9
Information Services	3	7	6
Fleet Operations	5	9	7
Materials Management	4	10	11
Grand Total	\$2,881	\$3,294	\$3,676

DETAIL OF OTHER OPERATING EXPENSES C-4

	Actual	Estimate	Budget
<u>Taxes</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gas Commission	\$24	\$24	\$28
Grand Total	\$24	\$24	\$28

	Actual	Estimate	Budget
<u>Amortization</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Human Resources	\$21	\$21	\$21
Accounting & Reporting	(59)	68	68
Treasury	-	127	127
Public Utility Commission	134	111	
VP Labor, Safety, Preparedness	21	21	21
Policies & Compliance	31	31	31
Environmental	-	-	-
Emergency Operations	-	-	-
Relocation Expenses	-	-	-
Regulatory Asset	-	-	
Facilities Management	1	-	
Engineering Services	1	-	
Information Services	161	39	39
Fleet Operations	1	1	
Materials Management	120	30	30
Grand Total	\$432	\$449	\$337

PHILADELPHIA GAS WORKS
OTHER INCOME
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>Interest Earnings On:</u>			
1. Capital Improvement Fund	\$ 2,804	\$ 1,957	\$ 3,107
2. Capital Lease Fund	1	-	-
3. Revenue Bond Sinking Fund	429	1,684	1,766
4. Temporary Investments	644	3,441	4,000
5. Natural Gas Refunds	2	1	-
6. Notes Receivable - Intl House	12	9	5
Total Interest Earnings	\$ 3,892	\$ 7,092	\$ 8,878
7. Miscellaneous Income	\$ (54)	\$ 35	\$ 35
8. Rental Income	65	64	64
9. Penalties Suppliers Gas Choice	67	100	75
10. Penalties Regulatory	-	(101)	(50)
11. Guaranteed Investment Contract Proceeds	625	625	625
12. Capitalized Interest	156	73	-
13. Swap Option Proceeds	27	-	-
14. Dept. of Energy Oil Refund	-	108	-
15. Demutualization Proceeds Life Insurance	-	202	-
Total Other Income	\$ 4,778	\$ 8,198	\$ 9,627

**PHILADELPHIA GAS WORKS
REVENUE BOND DEBT SERVICE**
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2004-05	Estimate 2005-06	Budget 2006-07
<u>Interest Payments</u>					
1.	1989	11th C TECA	-	-	-
2.	1990	12th A TECA	3,023	3,144	-
3.	1994	15th	1,031	812	777
4.	1999	16th	3,152	2,746	2,320
5.	2003	17th	9,534	9,309	8,837
6.	2004	18th	2,275	2,833	2,784
7.	1998	1st A	7,026	6,538	6,181
8.	1998	1st B	5,190	2,595	-
9.	1999	2nd	5,285	3,178	1,166
10.	2001	3rd	6,221	901	901
11.	2003	4th	6,184	6,010	6,010
12.	2004	5th	2,283	6,000	6,000
13.	2004	5th Variable	497	900	1,050
14.	2006	6th	-	5,544	11,485
15.	2006	7th	-	-	4,875
16.	Total Interest Payments		<u>\$51,701</u>	<u>\$50,510</u>	<u>\$52,386</u>
<u>Interest Accruals</u>					
17.	1989	11th C TECA	\$1,131	\$1,215	\$1,305
18.	1990	12th A TECA	521	224	-
19.	1994	15th	1,649	808	777
20.	1999	16th	3,084	2,675	2,245
21.	2003	17th	9,496	9,231	8,748
22.	2004	18th	2,511	2,828	2,777
23.	1998	1st A	6,944	6,479	6,080
24.	1998	1st B	5,190	2,079	-
25.	1999	2nd	5,269	2,777	1,148
26.	2001	3rd	6,213	2,990	897
27.	2003	4th	5,287	6,047	6,006
28.	2004	5th	5,284	6,000	6,000
29.	2004	5th Variable	546	900	1,050
30.	2006	6th	-	6,859	11,485
31.	2006	7th	-	-	7,312
32.	Total Interest Accruals		<u>\$53,125</u>	<u>\$51,112</u>	<u>\$55,830</u>

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	<u>Year Issued</u>	<u>Series</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
<u>Interest Payments</u>					
1.	1997	Capital Lease	\$ 51	\$ -	\$ -
2.	1998	1st C Subordinate	<u>732</u>	<u>676</u>	<u>617</u>
3.	Total Interest Payments		<u>\$ 783</u>	<u>\$ 676</u>	<u>\$ 617</u>
 <u>Interest Accruals</u>					
4.	1997	Capital Lease	\$ 9	\$ -	\$ -
5.	1998	1st C Subordinate	<u>722</u>	<u>666</u>	<u>607</u>
6.	Total Interest Accruals		<u>\$ 731</u>	<u>\$ 666</u>	<u>\$ 607</u>

PHILADELPHIA GAS WORKS
OTHER INTEREST
(Dollars in Thousands)

Line No.	<u>Other Interest</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
1.	Tax-Exempt Commercial Paper	\$2,759	\$6,585	\$8,935
2.	Variable Rate - 5th Series A-2	560	552	552
3.	Variable Rate - 6th Series	-	261	922
4.	Bond Discount, Issuance & Premium Expense	1,703	1,668	2,237
5.	Customer Deposits	211	495	540
6.	Miscellaneous Interest Expense	890	-	-
	Total Other Interest	<u>\$ 6,123</u>	<u>\$ 9,561</u>	<u>\$ 13,186</u>
7.	Extraordinary Loss	<u>\$ 4,779</u>	<u>\$ 5,332</u>	<u>\$ 5,557</u>
8.	AFUDC *	<u>\$ (907)</u>	<u>\$ (1,168)</u>	<u>\$ (1,202)</u>
9.	* Total AFUDC	(\$907)	(\$1,168)	(\$1,202)

**PHILADELPHIA GAS WORKS
CAPITAL FUNDING & EXPENDITURES
(Dollars In Thousands)**

Line No.		<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
SOURCES:				
1.	Capital Improvement Fund	\$68,000	\$60,195	\$72,000
2.	Other Funding Sources	(1,090)	7,862	3,152
3.	Total Sources	<u>\$66,910</u>	<u>\$68,057</u>	<u>\$75,152</u>
USES:				
Capital Expenditures:				
4.	Gas Processing	\$5,008	\$4,262	\$4,486
5.	Distribution	43,572	45,211	45,224
6.	Field Services	5,288	6,111	9,398
7.	Information Technology	2,965	3,119	4,817
8.	Transportation	2,918	3,685	4,640
9.	Field Operations Initiative	5,129	1,766	2,454
10.	Other Departments	2,030	3,903	4,133
11.	Total Uses	<u>\$66,910</u>	<u>\$68,057</u>	<u>\$75,152</u>

**PHILADELPHIA GAS WORKS
REVENUE BOND DEBT SERVICE**
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>Principal Payments</u>					
1.	1989	11th C	\$ -	\$ -	\$ -
2.	1990	12th A	1,632	1,511	-
3.	1994	15th	4,395	705	-
4.	1999	16th	7,735	8,120	8,525
5.	2003	17th	5,610	11,795	10,715
6.	2004	18th	420	975	1,790
7.	1998	1st A	9,280	6,800	11,080
8.	1999	2nd	2,120	-	2,315
9.	2001	3rd	2,130	-	965
10.	2003	4th	2,065	-	1,285
11.	Total Principal Payments		<u>\$ 35,387</u>	<u>\$ 29,906</u>	<u>\$ 36,675</u>

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	Year <u>Issued</u>	<u>Series</u>	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
<u>Principal Payments</u>					
1.	1997	Capital Lease	\$ 1,947	\$ -	\$ -
2.	1998	1st C Subordinate	<u>1,255</u>	<u>1,310</u>	<u>1,370</u>
3.	Total Principal Payments		<u><u>\$ 3,202</u></u>	<u><u>\$ 1,310</u></u>	<u><u>\$ 1,370</u></u>

PHILADELPHIA GAS WORKS
WORKING CAPITAL DETAIL
(Dollars in Thousands)

Line No.	Actual Balance <u>8/31/05</u>	Estimate Balance <u>8/31/06</u>	Budget Balance <u>8/31/07</u>	
ASSETS				
1.	Accounts Receivable	\$286,327	\$265,039	\$259,762
2.	Accrued Gas Revenues	8,787	11,300	10,568
3.	Uncollectible Reserve	<u>(207,480)</u>	<u>(191,631)</u>	<u>(186,968)</u>
4.	Net Accounts Receivable	87,634	84,708	83,362
5.	Materials & Supplies	129,984	183,784	180,389
6.	Other Current Assets	<u>2,632</u>	<u>11,434</u>	<u>5,331</u>
7.	Total Assets	<u><u>\$220,250</u></u>	<u><u>\$279,926</u></u>	<u><u>\$269,082</u></u>
LIABILITIES				
Accounts Payable:				
8.	Natural Gas	\$49,185	\$56,465	\$43,033
9.	General	<u>14,733</u>	<u>15,820</u>	<u>16,435</u>
10.	Total Accounts Payable	63,918	72,285	59,468
11.	Other Current Liabilities	<u>38,074</u>	<u>33,950</u>	<u>33,023</u>
12.	Total Liabilities	<u><u>\$101,992</u></u>	<u><u>\$106,235</u></u>	<u><u>\$92,491</u></u>
13.	Total Working Capital	<u><u>\$118,258</u></u>	<u><u>\$173,691</u></u>	<u><u>\$176,591</u></u>
14.	Net Increase/(Decrease)	\$3,793	\$55,433	\$2,900

**PHILADELPHIA GAS WORKS
WORKING CAPITAL CHANGES**
(Dollars in Thousands)

Line No.	Actual Change <u>8/31/05</u>	Estimate Change <u>8/31/06</u>	Budget Change <u>8/31/07</u>	
ASSETS				
1.	Accounts Receivable	(\$27,423)	(\$21,288)	(\$5,277)
2.	Accrued Gas Revenues	(803)	2,513	(732)
3.	Uncollectible Reserve	<u>22,736</u>	<u>15,849</u>	<u>4,663</u>
4.	Net Accounts Receivable	(\$5,490)	(\$2,926)	(\$1,346)
5.	Materials & Supplies	\$31,517	\$53,800	(\$3,395)
6.	Other Current Assets	<u>(\$11,385)</u>	<u>\$8,802</u>	<u>(\$6,103)</u>
7.	Total Assets	<u><u>\$14,642</u></u>	<u><u>\$59,676</u></u>	<u><u>(\$10,844)</u></u>
LIABILITIES				
Accounts Payable:				
8.	Natural Gas	(\$3,682)	\$7,280	(\$13,432)
9.	General	<u>(5,427)</u>	<u>1,087</u>	<u>615</u>
10.	Total Accounts Payable	(\$9,109)	\$8,367	(\$12,817)
11.	Other Current Liabilities	<u>\$19,958</u>	<u>(\$4,124)</u>	<u>(\$927)</u>
12.	Total Liabilities	<u><u>\$10,849</u></u>	<u><u>\$4,243</u></u>	<u><u>(\$13,744)</u></u>
13.	Total Working Capital	<u><u>\$3,793</u></u>	<u><u>\$55,433</u></u>	<u><u>\$2,900</u></u>

PHILADELPHIA GAS WORKS
MATERIALS & SUPPLIES BALANCE @ 8/31

	<u>Estimate</u> <u>2005-06</u>			<u>Budget</u> <u>2006-07</u>		
Non-Gas Inventory		Dollars			Dollars	
Storerooms:						
Belfield	\$ 85,000			\$ 87,000		
Castor	60,000			61,000		
Field Operations / Tioga	2,250,000			2,295,000		
Meter Shop	80,000			81,000		
Montgomery	975,000			995,000		
Passyunk Mini	45,000			45,000		
Passyunk Plant	1,050,000			1,071,000		
Porter	100,000			102,000		
Richmond Plant	3,750,000			3,825,000		
Stationery	75,000			77,000		
Transportation	400,000			408,000		
Other Miscellaneous	21,000			21,000		
Sub Total	\$ 8,891,000			\$ 9,068,000		
	<u>Estimate</u> <u>2005-06</u>			<u>Budget</u> <u>2006-07</u>		
Natural Gas Storages	Volume (Mcf)	Dollars	Avg. Price	Volume (Mcf)	Dollars	Avg. Price
GSS - Transco	3,725,894	\$ 31,398,544	\$ 8.43	2,963,151	\$ 27,721,119	\$ 9.36
WSS	3,213,785	26,866,879	8.36	2,417,844	21,224,554	8.78
SS 1A	2,545,687	22,036,939	8.66	1,901,714	18,091,579	9.51
GSS - Tetco	3,316,496	27,795,468	8.38	2,923,667	27,924,982	9.55
Equitrans - Keystone	387,206	3,302,526	8.53	367,532	3,628,867	9.87
S-2	383,651	3,069,230	8.00	318,809	2,920,953	9.16
SS 1B	2,367,811	20,448,648	8.64	1,843,398	17,674,886	9.59
Eminence 1	465,118	3,648,679	7.84	459,058	4,277,773	9.32
Eminence 2	631,997	5,158,319	8.16	577,792	5,236,868	9.06
Sub Total	17,037,645	\$143,725,232	\$ 8.44	13,772,965	\$ 128,701,561	\$ 9.34
Richmond LNG	3,038,777	26,904,227	8.85	3,985,538	36,712,298	9.21
Passyunk LNG	258,669	1,991,085	7.70	258,669	2,066,471	7.99
Processing Costs	-	2,272,456		-	3,840,670	
Sub Total	3,297,446	31,167,768		4,244,207	42,619,439	
Total Gas Storage	20,335,091	\$174,893,000	\$ 8.60	18,017,172	\$ 171,321,000	\$ 9.51
Total Material & Supplies		\$183,784,000			\$ 180,389,000	

PHILADELPHIA GAS WORKS
DETAIL OF NON-CASH EXPENSES
(Dollars in Thousands)

Line No.	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
DEPRECIATION			
1.	\$39,547	\$40,128	\$41,413
2.	(1,022)	(349)	(458)
	<u>38,525</u>	<u>39,779</u>	<u>40,955</u>
SUBORDINATE PAYMENTS			
3.	909	830	973
4.	556	570	584
5.	(652)	(625)	(625)
	<u>813</u>	<u>775</u>	<u>932</u>
6.	<u>\$39,338</u>	<u>\$40,554</u>	<u>\$41,887</u>

DETAIL OF DEPRECIATION & AMORTIZATION			
	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
7.	\$35,904	\$36,928	\$38,213
8.	1,598	1,668	2,237
9.	4,779	5,332	5,557
10.	<u>\$42,281</u>	<u>\$43,928</u>	<u>\$46,007</u>

NET CHANGE OTHER LONG TERM			
	Actual <u>2004-05</u>	Estimate <u>2005-06</u>	Budget <u>2006-07</u>
11.	(\$8,142)	\$4,809	\$530
12.	2,596	(4,128)	(924)
13.	(1,371)	(1,705)	1,305
14.	<u>(\$6,917)</u>	<u>(\$1,024)</u>	<u>\$911</u>

**PHILADELPHIA GAS WORKS
INSURANCE EXPENSE**
(Dollars in Thousands)

Line No.	<u>Insurance Type</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>
1.	Property	\$827	\$1,067	\$1,067
2.	Public Liability	2218	2,002	2,289
3.	Workers' Compensation	390	349	401
4	Miscellaneous	50	60	70
5	Sub-Total	<u>\$3,485</u>	<u>\$3,478</u>	<u>\$3,827</u>
6	Employees' Health	33,571	34,804	37,884
7	Employees' Group Life	1,594	2,100	2,100
8	Sub-Total	<u>\$35,165</u>	<u>\$36,904</u>	<u>\$39,984</u>
9.	Total Insurance	<u><u>\$38,650</u></u>	<u><u>\$40,382</u></u>	<u><u>\$43,811</u></u>

**PHILADELPHIA GAS WORKS
PERSONNEL & PAYROLL DETAIL
(Dollars in Thousands)**

DEPARTMENTS	Actual 2004-05		Estimate 2005-06		Budget 2006-07	
	Average Personnel	Payroll	Average Personnel	Payroll	Average Personnel	Payroll
ADMINISTRATION						
Officer's Salaries	0	\$2,212	0	\$2,367	0	\$2,340
Incentive Bonus	0	\$0	0	\$500	0	\$500
President & Chief Executive Officer	3	60	2	62	2	63
Internal Auditing	2	121	3	213	3	222
Senior VP General Counsel & Legal	15	940	14	826	14	768
Human Resources	13	733	9	484	9	500
VP Labor, Safety, Preparedness	10	521	9	445	9	458
Organizational Development	0	0	4	156	4	165
Policies & Compliance	3	207	4	248	4	256
Corporate Communications	4	256	5	304	5	317
Total	50	\$5,050	50	\$5,605	50	\$5,587
FINANCE						
Chief Financial Officer	0	\$0	0	\$0	0	\$0
Accounting & Reporting	24	1,251	23	1,094	21	1,032
SR VP Finance	2	54	5	277	7	389
Risk Management	6	343	6	332	6	341
Treasury	13	612	12	637	12	689
Total	45	\$2,260	48	\$2,340	46	\$2,451
CUSTOMER ACTIVITIES						
VP Customer Affairs	15	\$723	37	\$2,014	39	\$2,538
Collections	125	6,566	118	5,863	92	4,745
Bonus Awards	0	91	0	100	0	100
Commercial Resource Center	1	75	4	217	7	421
Account Management	46	2,311	42	2,131	38	2,070
Customer Review Unit	14	702	13	704	13	714
Customer Service	176	9,140	166	8,452	194	10,043
PMO	6	396	3	161	0	0
Total	383	\$20,004	383	\$19,642	383	\$20,629
MARKETING & PLANNING						
VP Marketing	1	\$49	2	\$48	2	\$50
Marketing	29	1,686	28	1,603	28	1,684
Strategic Planning	4	187	5	281	5	291
VP Regulatory & External Affairs*	4	169	2	80	2	49
Gas Control & Acquisitions	21	1,313	21	1,311	20	1,277
Rates & Gas Planning	6	346	6	367	6	399
Total	65	\$3,750	64	\$3,710	63	\$3,730
OPERATIONS						
Chief Operating Officer	5	\$281	5	\$357	7	\$522
Senior VP Operations	8	592	3	173	0	0
VP Gas Management	2	39	2	40	2	41
Field Services	352	20,258	346	19,950	342	21,163
Distribution	474	26,881	469	26,630	470	28,056
Gas Processing	137	9,112	134	9,067	133	9,043
Operations Systems Support	4	203	4	242	4	249
Total	983	\$57,368	963	\$56,459	958	\$59,074
SYSTEMS & SERVICES						
Information Services	57	\$3,289	65	\$3,821	65	\$3,969
VP Compliance, Technical & Transformation*	5	288	9	549	10	635
VP Support Services	3	210	3	118	3	120
Procurement	7	387	6	351	6	359
Engineering Services	9	579	8	510	8	535
Facilities Management	53	2,645	50	2,473	49	2,405
Telecommunications	4	177	4	222	4	228
Security	3	168	2	118	2	122
Materials Management	59	3,486	59	3,444	59	3,574
Chemical Services	4	223	4	243	4	251
Fleet Operations	42	2,597	43	2,462	43	2,651
Total	246	\$14,049	253	\$14,311	253	\$14,849
SUB-TOTAL	1,772	\$102,479	1,758	\$102,067	1,753	\$108,320
Labor Savings			(19)	(\$1,105)	(13)	(\$788)
SUB-TOTAL	1,772	\$102,479	1,740	\$100,962	1,740	105,522
Philadelphia Gas Commission	5	342	5	315	5	365
GRAND TOTAL PAYROLL	1,777	\$102,821	1,745	\$101,277	1,745	\$105,887
Capitalized Full Time Equivalents	383	22,187	369	21,429	375	22,733

* Restated due to Organizational Changes

**PHILADELPHIA GAS WORKS
REMAINING NORMALIZED EXPENSES**

<u>Line No.</u>	<u>Description</u>	<u>Department</u>	<u>Estimate 2005-06</u>	<u>Budget 2006-07</u>	<u>Forecast 2007-08</u>
1.	Management Audit	PUC	\$ 111,134	\$ -	\$ -
2.	Restructuring	Amortization of Restructuring Costs	1,086,695	-	-
3.	HRIS - Payroll	Human Resources	20,925	20,925	10,463
4.	HRIS - Payroll	VP Labor, Safety, & Preparedness	20,925	20,925	10,463
5.	HRIS - Payroll	Treasury	84,969	84,969	42,484
6.	Oracle 11i Upgrade	Accounting & Reporting	64,029	64,029	64,029
7.	Oracle 11i Upgrade	Treasury	42,335	42,335	42,335
8.	Oracle 11i Upgrade	Material Management	21,168	21,168	21,168
9.	Oracle 11i Upgrade	Procurement	21,168	21,168	21,168
10.	Oracle 11i Upgrade	Information Services	42,335	42,335	42,335
11.	Noetix	Accounting & Reporting	4,214	4,214	4,214
12.	Business Continuity	Policies & Compliance	<u>30,104</u>	<u>30,933</u>	<u>30,342</u>
13.	Total		<u>\$ 1,550,000</u>	<u>\$ 353,000</u>	<u>\$ 289,000</u>

**PHILADELPHIA GAS WORKS
ENVIRONMENTAL EXPENSES FY 2005 THROUGH FY 2012**

Environmental	Actual FY 2005	Estimate FY 2006	Budget FY 2007	Forecast FY 2008	Forecast FY 2009	Forecast FY 2010	Forecast FY 2011	Forecast FY 2012					
Cost of Removal (Net)	\$ -	\$ 1,547,000	\$ 400,000	\$ 455,000	\$ -	\$ -	\$ -	\$ -	\$ 2,402,000				
Labor													
Technical Support	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000				
Total	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 700,000			
Purchased Service													
Purchased Service	\$ -	\$ 92,588	\$ 666,000	\$ 435,000	\$ 384,000	\$ 180,000	\$ 218,000	\$ 127,000					
Assessment Study	-	430,000	75,000	-	-	-	-	-					
Total	\$ -	\$ 522,588	\$ 741,000	\$ 435,000	\$ 384,000	\$ 180,000	\$ 218,000	\$ 127,000	\$ 2,587,588				
Maint. Contractors													
Misc. Contractors	\$ -	\$ 1,392,000	\$ 1,426,500	\$ 2,433,477	\$ 1,451,067	\$ 341,067	\$ 341,067	\$ 341,067					
Total	\$ -	\$ 1,392,000	\$ 1,426,500	\$ 2,433,477	\$ 1,451,067	\$ 341,067	\$ 341,067	\$ 341,067	\$ 7,726,245				
Total	\$ -	\$ 2,014,588	\$ 2,267,500	\$ 2,968,477	\$ 1,915,067	\$ 621,067	\$ 659,067	\$ 568,067	\$ 11,013,833				
Cumulative	\$ -	\$ 2,014,588	\$ 4,282,088	\$ 7,250,565	\$ 9,165,632	\$ 9,786,699	\$ 10,445,766	\$ 11,013,833	Total	\$ 13,415,833			
Expense	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
Labor	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000					
Purchased Serv.	-	-	-	-	72,800	36,000	43,600	25,400					
Maint. Contractors	-	-	-	-	290,213	68,213	68,213	68,213					
Amortization	-	-	-	-	-	383,013	507,227	639,040	752,654	369,640	245,427	113,613	
Total	\$ -	\$ -	\$ -	\$ -	\$ 383,013	\$ 507,227	\$ 639,040	\$ 752,654	\$ 752,654	\$ 369,640	\$ 245,427	\$ 113,613	
Cumulative	\$ -	\$ -	\$ -	\$ -	\$ 383,013	\$ 890,240	\$ 1,529,280	\$ 2,281,934	\$ 3,034,588	\$ 3,404,228	\$ 3,649,655	\$ 3,763,268	
5 Year Amortization	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
Cash	\$ -	\$ -	\$ -	\$ -	\$ 1,915,067	\$ 621,067	\$ 659,067	\$ 568,067					
Expense	-	-	-	-	383,013	124,213	131,813	113,613					
Deferred	-	-	-	-	1,532,054	498,854	527,254	454,454					
Cumulative L-T Deferred	-	-	-	-	1,532,054	2,028,907	2,173,147	2,120,374	1,481,334	728,880	359,040	113,613	
Less Current Amortiz.	-	-	-	-	-	(383,013)	(507,227)	(639,040)	(752,654)	(369,640)	(245,427)	(113,613)	
Remaining L-T Deferred	\$ -	\$ -	\$ -	\$ -	\$ 1,532,054	\$ 1,645,894	\$ 1,665,921	\$ 1,481,334	\$ 728,680	\$ 359,040	\$ 113,613	\$ -	
Deferred Costs	-	-	-	-	\$ 1,532,054	\$ 498,854	\$ 527,254	\$ 454,454					
Current Costs	-	2,014,588	2,267,500	2,968,477	383,013	507,227	639,040	752,654	752,654	369,640	245,427	113,613	
Cost of Removal	-	1,547,000	400,000	455,000	-	-	-	-	-	-	-	-	
Total	\$ -	\$ 3,561,588	\$ 2,667,500	\$ 3,423,477	\$ 1,915,067	\$ 621,067	\$ 659,067	\$ 568,067					
Cumulative	\$ -	\$ 3,561,588	\$ 6,229,088	\$ 9,652,565	\$ 11,567,632	\$ 12,188,699	\$ 12,847,766	\$ 13,415,833					
Settlement Proceeds	08/31/2005	08/31/2006	08/31/2007	08/31/2008	08/31/2009	08/31/2010	08/31/2011	08/31/2012					
Settlement Proceeds	\$ 9,513,000	\$ 2,544,000	\$ 1,621,565										
Expenses / Amortization	\$ (4,026,000)	\$ (3,561,588)	\$ (2,667,500)	\$ (3,423,477)	\$ (1,915,067)	\$ (621,067)	\$ (659,067)	\$ (568,067)					
Settlement Balance	\$ 5,487,000	\$ 4,489,412	\$ 3,423,477	\$ 0									

PHILADELPHIA GAS WORKS
DEFERRED RESTRUCTURING EXPENSES

	<u>Actual</u> FY 2002	<u>Actual</u> FY 2003	<u>Estimate</u> FY 2004	<u>Budget</u> FY 2005	<u>Forecast</u> FY 2006	<u>Original</u> Total
<u>Legal Fees</u>	\$ 131,543	\$ 250,627	\$ -	\$ -	\$ -	\$ 382,170
<u>Consultants/Information Services</u>	890,480	1,624,270	-	-	-	2,514,750
<u>PGW Training Labor</u>	126,654	44,464				171,118
<u>Customer Education/ Duplicating Postage/Advertising</u>	8,193	187,723	-	-	-	195,916
<u>Other Expenses</u>	218	6,157	251	-	-	6,626
Total Cash Impact	\$ 1,157,088	\$ 2,113,241	\$ 251	\$ -	\$ -	\$ 3,270,580
Cumulative Cash Impact	\$ 1,157,088	\$ 3,270,329	\$ 3,270,580	\$ 3,270,580	\$ 3,270,580	
Outstanding Balance			\$ 2,180,387	\$ 1,090,193	\$ (1)	

Amortization Recovery
Period Three Years

	<u>Original</u>
FY 2004	\$ 1,090,193
FY 2005	1,090,193
FY 2006	1,090,194
Total	\$ 3,270,580

PHILADELPHIA GAS WORKS
ACCOUNTS RECEIVABLE & BAD DEBT EXPENSE

<u>Accounts Receivable</u>	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Beginning Receivable Balance	\$ 313,750	\$ 286,327	\$ 265,039
Billed Gas Revenues	846,729	940,256	958,921
Other Operating Revenues/Adjustments	<u>45,710</u>	<u>42,638</u>	<u>43,135</u>
Total Revenues	892,439	982,894	1,002,056
	94.86%	93.09%	94.00%
Collections Current Revenues	(846,592)	(915,000)	(941,933)
Adjustments	19,890	(11,570)	
Net Write-Offs	<u>(93,160)</u>	<u>(77,612)</u>	<u>(65,400)</u>
Total Credit / Reductions	<u>(919,862)</u>	<u>(1,004,182)</u>	<u>(1,007,333)</u>
Ending Receivable Balance	<u>286,327</u>	<u>265,039</u>	<u>259,762</u>
 <u>Bad Debt Expense</u>			
Current Year Net Receivable	286,327	265,039	259,762
Adjusted Net Receivable	286,327	265,039	259,762
Reserve Factor	<u>24.60%</u>	<u>23.25%</u>	<u>23.25%</u>
Total Bad Debt Expense	70,424	61,519	60,737
<u>Write Off Gas Accounts</u>	92,979	77,500	65,000
<u>Write Off Other</u>	181	112	400
 <u>Reserve Balance</u>			
Beginning Reserve Balance - Gas	228,842	206,287	190,306
Net Write-Off - Gas	(92,979)	(77,500)	(65,000)
Appropriation to Reserve - Gas	<u>70,424</u>	<u>61,519</u>	<u>60,737</u>
Ending Reserve Balance Gas	206,287	190,306	186,043
OAR Reserve	1,412	1,300	900
M & J Reserve	<u>(219)</u>	<u>25</u>	<u>25</u>
Total Reserve Balance	<u>207,480</u>	<u>191,631</u>	<u>186,968</u>
	0.7246	0.7230	0.7198
Net Accounts Receivable	78,847	73,408	72,794
 <u>OTHER OPERATING REVENUES</u>			
	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Billed Revenue	846,729	940,256	958,921
New Billed Revenues	846,729	940,256	958,921
Other Operating Rev.	21,912	17,865	18,219
Sales Tax	12,902	14,104	14,384
Appliance Repair & Other Revenues	<u>10,896</u>	<u>10,669</u>	<u>10,532</u>
	45,710	42,638	43,135
	892,439	982,894	1,002,056
Sales Tax %	0.0152	0.0150	0.0150
Other Oper Rev %	0.0259	0.0190	0.0190

**PHILADELPHIA GAS WORKS
COLLECTIBILITY STUDY - APRIL 2006**

Classification	Balance Per Study		Reserve %	\$ Uncollectible
	Receivable	Collectible		
Active Non-budget Agreement				
Commercial	845,166.79	598,320.34	29.21%	246,846.45
Residential	<u>19,049,674.86</u>	<u>14,467,847.23</u>	24.05%	<u>4,581,827.63</u>
Total	19,894,841.65	15,066,167.57	24.27%	4,828,674.08
Off - Curb & Dig				
Commercial	325,610.16		100.00%	325,610.16
Residential	<u>3,697,145.08</u>	<u>718,566.23</u>	80.56%	<u>2,978,578.85</u>
Total	4,022,755.24	718,566.23	82.14%	3,304,189.01
Finals				
Commercial	4,622,013.07	1,064,505.48	76.97%	3,557,507.59
Residential	<u>73,439,249.24</u>	<u>6,672,950.23</u>	90.91%	<u>66,766,299.01</u>
Total	78,061,262.31	7,737,455.71	90.09%	70,323,806.60
Non-Budget Non-Agreement				
Commercial	46,562,537.09	39,611,652.55	14.93%	6,950,884.54
Residential	<u>142,076,254.20</u>	<u>86,196,320.46</u>	39.33%	<u>55,879,933.74</u>
Total	188,638,791.29	125,807,973.01	33.31%	62,830,818.28
Sub-Total Before CRP	\$ 290,617,650.49	\$ 149,330,162.52	48.62%	\$ 141,287,487.97
CRP AGREEMENTS				
CRP Current Program	9,339,903.44	5,490,224.60	41.22%	3,849,678.84
CRP Program ****	640,693.94	293,315.72	54.22%	347,378.22
CRP Arrears	70,241,643.64	32,157,285.94	54.22%	38,084,357.70
CRP Regulatory Asset				
Total CRP	\$ 80,222,241.02	\$ 37,940,826.26	52.71%	42,281,414.76
Inactive Accounts	\$ 8,718,282.01	\$ 2,899,566.77	66.74%	5,818,715.24
Credit Balances	\$ (10,620,160.42)			
Grand Total	\$ 368,938,013.10	\$ 190,170,555.55		\$ 189,387,617.97
Cycle 22, 23 GTS & Unfrozen Pay.	\$ 2,218.94			
Total AR	\$ 368,940,232.04			

****CRP Program includes CRP Liheap Make-Up (CRP-LL), CRP Relief Loan (CRP-RL), Non-Gas Charges Billed (CRP-LN) and Non-Gas Charges from Current year not billed (CRP-LD)

NATURAL GAS PRICE - VOLUME ANALYSIS

	<u>Budget</u> <u>2006-07</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>Over(Under)</u> <u>Estimate</u>
N.G. Utilization (Mcf)	58,518,925	55,375,359	3,143,566
COMMODITY	\$563,454,415	\$576,117,816	(\$12,663,401)
Average Price	9.6286	10.4039	(0.7753)
DEMAND	<u>\$67,381,823</u>	<u>\$63,298,737</u>	<u>\$4,083,086</u>
Total Demand & Commodity	\$630,836,238	\$639,416,553	(\$8,580,315)
Average Price	10.7800	11.5470	(0.7669)
REFUNDS	-	(236,876)	236,876
TOTAL	<u><u>\$630,836,238</u></u>	<u><u>\$639,179,677</u></u>	<u><u>(\$8,343,439)</u></u>
 <u>CHANGE DUE TO:</u>			
Commodity Price	(\$45,368,640)	(0.7753)	(7.45%)
Volume	32,705,239	3,143,566	5.68%
Demand	<u>4,083,086</u>		
Total Demand & Commodity	(8,580,315)	(0.7669)	(6.64%)
Refunds	<u>236,876</u>		
TOTAL CHANGE	<u><u>\$ (8,343,439)</u></u>		

PHILADELPHIA GAS WORKS
DETAIL OF OTHER OPERATING REVENUES

(Dollars in Thousands)

	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Budget</u> <u>2006-07</u>
Finance Charges	\$ 21,594	\$ 17,580	\$ 17,933
Returned Check Charges	296	260	260
Credit Card Charge Back Fees	16	19	20
Suspended Service Revenues	<u>6</u>	<u>6</u>	<u>6</u>
Total	<u>\$ 21,912</u>	<u>\$ 17,865</u>	<u>\$ 18,219</u>

Estimated Weather 3,825 degree days
 City Loan \$45.0 M Fully Outstanding @ 8/31/06
 TXCP \$180.0 M with \$70.0 MM Outstanding @ 8/31/06
 Collection Factor 93.0%
 \$18.0 M City Payment Made and Granted Back to PGW
 Deferred gas payments \$22.0 M paid in FY 2006
 Debt Service reduced by \$12.0M refunding @ 1/25/06
 05/23/06

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
 FISCAL YEAR ENDING AUGUST 31, 2006
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	TOTAL
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES \$49.9 TXCP RECEIPTS	15.2	12.8	59.0	31.7	26.3	38.9	49.3	88.3	98.0	134.8	143.9	101.7	15.2
Gas	40.2	47.2	54.2	67.3	106.5	109.5	132.3	98.8	79.0	65.0	55.0	51.0	906.0
Other	17.1	0.5	0.8	0.7	1.2	0.3	4.2	1.3	6.2	3.5	0.5	1.9	39.0
Drawn from Capital Funds - Principal (\$100.0MM)	0.0	0.0	0.0	34.7	0.0	20.0	0.0	0.0	6.2	0.0	0.0	(0.7)	60.2
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	0.0	0.0	(1.0)	2.8
Drawn from Lease Funds - Principal (\$0.0MM)	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 - 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 Draw	0.0	0.0	0.0	5.7	1.4	1.4	1.4	1.4	1.4	1.8	0.0	0.0	14.5
City Loan	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
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RECEIPTS	57.3	47.7	54.8	108.4	109.1	131.2	137.9	101.5	98.6	88.3	55.5	51.2	1,039.5
TOTAL	72.5	60.5	113.8	140.1	135.4	168.1	187.2	189.8	194.6	222.9	199.4	152.9	1,054.7
DISBURSEMENTS													
Labor	12.8	10.7	11.3	12.3	11.0	10.8	12.8	11.0	12.0	11.5	11.4	12.0	139.4
Natural Gas	26.6	30.5	58.8	94.0	106.9	84.4	69.2	69.8	30.6	36.5	35.0	32.0	675.8
Debt Service	3.1	0.0	0.1	0.1	14.9	6.3	4.0	0.0	5.7	1.0	39.3	7.0	81.5
TXCP: Interest	0.1	0.0	0.0	0.4	1.0	0.1	0.0	0.0	1.5	0.5	0.5	0.4	4.7
Repayment of City Loan	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
	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
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	17.2	9.6	12.1	6.9	13.4	18.1	12.9	11.2	11.5	11.5	11.5	10.8	144.7
TOTAL DISBURSEMENTS	59.7	50.8	82.1	113.7	149.2	117.5	99.9	91.8	61.3	79.0	97.7	62.3	1,064.0
MONTHLY CASH FLOW	(2.4)	(3.1)	(27.3)	(5.3)	(40.1)	13.7	39.0	9.7	35.3	9.3	(42.2)	(11.1)	(24.5)
CUMULATIVE CASH FLOW	(2.4)	(5.5)	(32.8)	(38.2)	(78.3)	(64.6)	(25.6)	(15.9)	19.4	28.7	(13.5)	(24.5)	
OPENING TXCP	49.9	49.9	49.9	99.2	99.2	99.2	149.9	148.6	148.6	148.6	149.9	149.9	149.9
TXCP ISSUED DURING MONTH	0.0	49.3	0.0	0.0	50.7	0.0	0.0	0.0	149.9	0.0	0.0	0.0	249.9
TXCP PAID DOWN DURING MONTH	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0	148.6	0.0	0.0	79.9	229.8
ENDING TXCP	49.9	99.2	99.2	99.2	149.9	148.6	148.6	148.6	149.9	149.9	149.9	70.0	70.0
OPENING BALANCE - CASH	15.2	12.8	59.0	31.7	26.3	38.9	49.3	88.3	98.0	134.8	143.9	101.7	15.2
MONTHLY CASH FLOW	(2.4)	(3.1)	(27.3)	(5.3)	(40.1)	13.7	39.0	9.7	35.3	9.3	(42.2)	(11.1)	(24.5)
NET TXCP ACTIVITY MONTHLY	0.0	49.3	0.0	0.0	50.7	(1.3)	0.0	0.0	1.3	0.0	0.0	(79.9)	20.1
ENDING BALANCE - CASH	12.8	69.0	31.7	26.3	38.9	49.3	88.3	98.0	134.8	143.9	101.7	10.8	10.8
CITY LOAN AVAILABLE - END OF 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
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(82.1)	(65.2)	(112.5)	(117.9)	(158.0)	(144.3)	(105.3)	(95.6)	(60.3)	(51.0)	(93.2)	(104.2)	

Budgeted Weather 4,525 degree days
 City Loan \$43.0 MM Outstanding @ 8/31/07
 TXCP \$150.0 MM with \$70.0 MM Outstanding @ 8/31/07
 Collection Factor 94.0%
 \$15.0 MM City Payment Made and Granted Back to PGW

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
 FISCAL YEAR ENDING AUGUST 31, 2007
 (Millions of Dollars)

	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	TOTAL
05/23/06	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug		
OPENING BALANCE - CASH INCLUDES \$70.0 TXCP RECEIPTS	10.8	70.7	71.4	64.7	73.1	67.3	65.1	95.2	119.8	126.3	115.5	58.8	10.8	
Gas	48.7	52.2	53.8	72.5	96.8	114.2	126.1	111.8	92.4	68.4	55.1	52.2	941.8	
Other	0.8	0.8	2.4	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8	2.8	13.2	
Drawn from Capital Funds - Principal	0.0	0.0	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.0	
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	3.1	
Drawn from Lease Funds - Principal	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 - 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 Draw	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	17.3	
City Loan	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	
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0	
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL RECEIPTS	48.9	54.4	57.6	74.7	102.9	116.4	128.3	114.2	94.8	88.7	57.4	127.3	1,065.4	
TOTAL	59.7	125.1	129.1	139.4	176.0	183.7	193.3	209.4	214.8	214.9	172.9	184.1	1,076.2	
DISBURSEMENTS														
Labor	11.4	12.2	12.8	12.2	13.0	12.0	12.1	11.6	12.3	11.4	12.1	13.1	146.2	
Natural Gas	32.5	26.4	35.5	42.2	66.2	81.1	65.1	62.2	60.0	54.0	44.3	43.7	615.2	
Debt Service	4.0	1.0	1.0	1.0	10.8	6.3	4.0	1.0	1.0	1.0	44.8	15.5	91.0	
TXCP: Interest & Variable Rate Debt Fees	0.6	1.3	0.8	0.8	1.3	0.8	0.8	1.3	0.8	0.8	1.3	0.6	10.9	
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0	
City Fee	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	
Other Disbursements	20.4	12.8	14.3	10.2	15.6	18.5	16.2	13.5	14.2	14.3	13.8	13.2	178.9	
TOTAL DISBURSEMENTS	68.9	53.7	64.3	66.3	108.7	118.7	98.1	89.6	88.3	99.4	118.1	88.1	1,060.2	
MONTHLY CASH FLOW	(20.0)	0.7	(6.7)	8.4	(5.8)	(2.2)	30.1	24.6	6.4	(10.6)	(58.7)	39.1	5.2	
CUMULATIVE CASH FLOW	(20.0)	(19.3)	(26.0)	(17.6)	(23.4)	(25.6)	4.5	29.1	35.6	24.8	(33.9)	5.2		
OPENING TXCP	70.0	70.0	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	70.0
TXCP ISSUED DURING MONTH	79.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	79.9	
TXCP 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	79.9	79.9	
ENDING TXCP	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	149.9	70.0	70.0	
OPENING BALANCE - CASH	10.8	70.7	71.4	64.7	73.1	67.3	65.1	95.2	119.8	126.3	115.5	58.8	10.8	
MONTHLY CASH FLOW	(20.0)	0.7	(6.7)	8.4	(5.8)	(2.2)	30.1	24.6	6.4	(10.6)	(58.7)	39.1	5.2	
NET TXCP ACTIVITY MONTHLY	79.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(79.9)	0.0	
ENDING BALANCE - CASH	70.7	71.4	64.7	73.1	67.3	65.1	95.2	119.8	126.3	115.5	58.8	16.0	16.0	
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0	
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	43.0	43.0	
CASH POSITION NET OF TXCP AND CITY LOAN	(124.2)	(123.5)	(130.2)	(121.8)	(127.6)	(129.8)	(99.7)	(75.1)	(68.6)	(79.4)	(138.1)	(97.0)		

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PREPARED DIRECT TESTIMONY
OF
JOSEPH R. BOGDONAVAGE
ON BEHALF OF
PHILADELPHIA GAS WORKS

Q. Please state your name and business address.

A. My name is Joseph R. Bogdonavage. 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 in the capacity of Senior Vice President - Finance.

Q. What are your principal responsibilities as Senior Vice President - Finance?

A. My principal responsibilities include the oversight of PGW's Accounting & Reporting, Budget & Financial Forecasting, Treasury, and Procurement & Contract Services Departments. I am currently responsible for the overall preparation of the Operating and Capital Budgets, review of operating budgets prepared by the individual departments, and the coordination, analysis, issuance and overall control of the complete annual Operating Budget filing. These activities include the preparation of analyses for the purpose of generating financial data to support the company's financial planning and decision-making processes. In addition, documentation is prepared regarding financial initiatives; i.e., proposed revenue bonds, commercial paper program offerings and base rate case presentations. Finally, in coordination with the Controller, the Budget area acts as a liaison between all departmental budget representatives regarding budgeting and financial forecasting procedures and variance analysis reporting.

1 **Q. Have you previously presented testimony before the Philadelphia Gas**
2 **Commission?**

3 A. Yes, on numerous occasions. I have most recently presented testimony
4 before this Commission on matters associated with PGW's 2005-2006
5 Operating Budget proceedings and Five Year Forecast. Prior to the above
6 occasion, I presented testimony on PGW's proposed annual Operating &
7 Capital Budgets and multiple base rate increase requests.

8 **Q. What are your responsibilities in connection with PGW's filing that is the**
9 **subject of these hearings?**

10 A. I am responsible for the overall development and preparation of the
11 financial documentation, exhibits and part of the supporting
12 documentation included in PGW's proposed 2006-2007 Operating Budget
13 filing.

14 **Q. Please describe the factors that impacted the current 2005-2006 Estimate**
15 **and also went into the development of the 2006-2007 Operating Budget**
16 **and your involvement.**

17 A. My direct involvement has been to facilitate the departmental interaction
18 associated with PGW's Operating Budget process. This includes the
19 review of all Operating Budgets prepared by the individual departments,
20 updates to that information and the coordination, analysis, control and
21 issuance of the complete 2006-2007 Operating Budget document. I have
22 interacted with the City Finance Director, PGW's Senior Team, and, in
23 particular, Mr. Joseph F. Golden, Jr., PGW's Controller, in developing
24 PGW's financial plan. PGW developed a financial plan for the 2006-2007
25 Operating Budget which takes into account the corporate goal of
26 reducing operating and maintenance expenses and certain corporate
27 initiatives, including the continuing Collection effort and to maintain a safe
28 and reliable distribution system, while keeping PGW in a position of
29 financial stability and competitiveness. During the 2005-2006 fiscal period,

1 PGW's bond rating remained above investment grade with a negative
2 outlook by Standard & Poor's and Fitch Ratings', Moody's Investor's
3 Services assigned a stable outlook. Fitch Ratings' assigned a negative
4 watch to the rating, which usually entails a six month period to ascertain
5 whether the factors that resulted in the change have been addressed in a
6 positive manner. The negative outlook and watch result from on-going
7 liquidity issues and the collection risks presented by the significantly higher
8 natural gas prices. The City of Philadelphia, in conjunction with City
9 Council, assisted PGW in improving its liquidity by foregoing the \$18.0
10 million annual payment for five years starting in fiscal year 2004 and
11 delaying the final repayment date of the \$45.0 million City loan until
12 August 2008. Also, in January 2006 PGW increased the size of its
13 Commercial Paper program to \$150.0 million, an increase of \$50.0 million,
14 through negotiations with its lending banks to provide additional
15 borrowing capacity for working capital requirements, mainly higher
16 natural gas costs. These actions were some of the necessary steps taken
17 to bolster PGW's overall cash flow, and combined with stable collection
18 rates, PGW anticipates that it will be able to demonstrate improved
19 sustainable financial performance to the financial community. The
20 company realized a substantial rise in its overall collection rate from 91.4%
21 for fiscal year 2004 to 94.9% during the fiscal period ended August 2005.
22 Currently, the collection rate stands at 92.0% through April 2006, with an
23 expected August 2006 year end level of 93.0%. This level is expected to
24 be achieved in spite of the substantially higher customer billings during the
25 most recent winter period. PGW completed the \$313.4 million 6th Series
26 (1998 Ordinance) refunding bond issue in January 2006, which was
27 comprised of all variable rate bonds. This transaction resulted in over
28 \$14.6 million in overall debt service savings (5.14% present value savings)
29 with nearly \$10.5 million applicable to the 2006 fiscal period.

1 The 2005-2006 heating season reflects an approximately 16.0% warmer
2 than normal winter and heating customers are expected to be charged
3 \$12.5 million through the Weather Normalization adjustment (WNA). The
4 2005-2006 fiscal period reflected significantly higher natural gas prices and
5 higher customer accounts receivable balances. The impact of higher
6 customer accounts receivable balances on bad debt expense,
7 additional maintenance costs for the LNG cascade plant; additional
8 actuarial funding costs for PGW's employee pension plan and higher
9 depreciable utility plant expense were some of the main reasons for the
10 \$12.5 million or 4.7% increase in overall operating and maintenance costs
11 in the 2005-2006 Estimate compared to the 2005-2006 Budget Year as
12 detailed on Exhibit A-1, Line 18. The higher natural gas prices for storage
13 injections continue to put a strain on PGW's already thin cash liquidity
14 position as the Company heads into next year's winter operating season, a
15 period of PGW's largest working capital requirements. One of the
16 underlying assumptions that present a risk in the 2006-2007 Operating
17 Budget is PGW's ability to sustain or improve upon its historic collection
18 factor of 92.0%. In the 2006-2007 fiscal period PGW expects to bill nearly
19 \$1.0 billion to customers while collecting over \$940.0 million, which would
20 be the highest levels in PGW's history. PGW will continue to utilize the \$45.0
21 million City Loan for working capital purposes and is committed to
22 reducing expenses and increasing collections in an effort to minimize the
23 level of required short term borrowing needs. PGW anticipates that a
24 \$150.0 million new money bond issue will be required in December 2006 to
25 provide funds for its capital expenditures during the 2006-2007 and 2007-
26 2008 fiscal periods.

27 **Q. What is the purpose of your testimony in this proceeding?**

28 **A.** The purpose of my testimony is to provide the documentation and
29 supporting methodology for the schedules and exhibits, provide detailed

1 information regarding certain income and expense items and, where
2 necessary, explain the reasons for variations between the fiscal periods.

3 **Q. Please describe the financial statements which support the 2006-2007**
4 **Operating Budget submission.**

5 A. The Operating Budget for the 2006-2007 fiscal year has been summarized
6 to indicate the functional expenses similar to previous Gas Commission
7 presentations for comparative purposes. To facilitate an understanding
8 and to illustrate the trend and level of operating expenditures by key
9 functionality, data is provided on the Statement of Income, Exhibit A-1, of
10 the Operating Budget presentation for the 2004-2005 Actual, the 2005-
11 2006 Budget and Estimate and the proposed 2006-2007 Budget periods.
12 The Cash Flow Statement, Exhibit A-2, reflects the sources and uses of cash
13 and is one of the basic documents for financial planning at PGW. The
14 Revenue Bond Debt Service Coverage Statement is prepared in
15 accordance with the Rate Covenant of the 1975 General Ordinance, as
16 amended, and the 1998 General Ordinance, authorizing the issuance of
17 revenue bonds. In compliance with the provisions of the Ordinances,
18 PGW prepares and forwards a report to the Director of Finance of the City
19 of Philadelphia within 120 days of the conclusion of each fiscal year
20 detailing compliance with the revenue bond debt service requirements
21 for such fiscal year. A calculation for the 2005-2006 and 2006-2007 fiscal
22 periods is included with the Company's filing on Exhibit A-3.

23 **Q. Who will explain the details of these documents?**

24 A. I will present a financial summary of the impacts of the revenue and fuel
25 cost data, which were filed and subsequently revised as part of the on-
26 going Gas Cost Rate ("GCR") filings with the PaPUC, and will continue
27 through the Statement of Income to explain the impacts of financing and
28 other financial considerations on the Cash Flow Statement and Revenue
29 Bond Debt Service Coverage schedule.

1 **Q. Would you proceed with your explanation of the Statement of Income.**

2 A. The Statement of Income, presented as Exhibit A-1, includes projected
3 operating revenues for fiscal year 2006-2007 of \$980.7 million.

4 **Total Operating Revenues** (Line 10) are forecasted to decrease by \$4.4
5 million to \$980.7 million less than 1.0% when compared to the 2005-2006
6 Estimate of \$985.1 million. The major portion of the change in revenues
7 reflects the return to a normal heating season with the commensurate
8 increase in sales to firm heating customers. The 2006-2007 Budget Year
9 represents 4,525 degree days which is PGW's new 30 year average level,
10 while the 2005-2006 fiscal period reflects 3,825 degree days, 700 degree
11 days or approximately 15.5% less than the normal level. However, based
12 on recent customer utilization data the 2006-2007 Budget Year assumes
13 that firm heating sales are expected to be approximately 5.0 Bcf less than
14 the 2005-2006 forecasted Budget Year reflecting added conservation. This
15 will result in a substantial decline in the projected margin to cover fixed
16 costs. A reduction in the 2006-2007 Gas Cost Rate of \$1.62 per Mcf from
17 the current level of \$12.56 per Mcf to \$10.94 per Mcf further contributed to
18 the lower revenue projections, while added revenues from gas
19 transportation customers are anticipated reflecting increased sales
20 volumes.

21 **Non-Heating Revenues** (Line 1) for the 2006-2007 Budget Year are
22 projected at \$115.6 million, an increase of \$1.4 million or 1.0% over the
23 \$114.2 million expected during the 2005-2006 period. Additional sales to
24 interruptible customers totaling .8 Bcf more than offset the 7.5% decline in
25 the average price per Mcf resulting in a \$7.7 million rise in revenues. A
26 decrease in firm non-heating billed revenues of \$4.8 million is mainly due
27 to a lower GCR in effect. The GCR, the Universal Service Charge ("USC")
28 and the Restructuring Charges for fiscal year 2005-2006 are anticipated to
29 be under recovered by \$6.2 million with \$.5 million applicable to non-

1 heating revenues. The impact on firm non-heating revenues of the
2 applicable charges for the fiscal periods 2004-2005 and 2005-2006 is
3 anticipated to lower reported revenues by \$1.6 million.

4 Gas Transportation Service Revenues (Line 2) are anticipated to rise by
5 \$1.1 million or 18.0% to \$7.3 million from the prior year's level of \$6.2 million
6 due primarily to additional volumes of gas being transported for
7 customers of 2.2 Bcf.

8 Heating Revenues (Line 3) during the 2006-2007 fiscal year are projected
9 to total \$829.9 million, \$3.8 million, or less than a 1% decrease from the
10 \$833.7 million expected in the 2005-2006 period. The major factors for the
11 \$14.6 million increase in billed revenues in the 2006-2007 Budget Year
12 reflect a 4.2 Bcf increase in usage due to the return to a normal 4,525
13 degree day heating season. A lower GCR in effect during the 2006-2007
14 Budget Year is expected to partially offset the above increase. The GCR,
15 USC and the Restructuring charges are expected be under recovered by
16 \$6.2 million with \$5.7 million applicable to heating revenues. The impact
17 on firm heating revenues of the applicable charges for the fiscal periods
18 2004-2005 and 2005-2006 is anticipated to lower reported revenues by
19 \$18.4 million.

20 The Weather Normalization Adjustment (Line 4) is expected to result in a
21 \$12.5 million charge to heating customers during the 2005-2006 fiscal
22 period as a result of the warm winter heating season. The 2006-2007
23 Budget Year anticipates a normal winter heating season which would not
24 result in a WNA adjustment.

25 The Unbilled Gas Adjustment (Line 5) is anticipated to decline by \$.7
26 million to a total of \$10.6 million due mainly to a lower average price per
27 Mcf of gas used but not yet billed at August 2007. At August 2006,
28 unbilled gas revenues of \$11.3 million are expected to be \$2.5 million
29 above the level of the prior period reflecting a higher average price per

1 Mcf.

2 **Q. What are the major components of Appliance Repair & Other Service**
3 **Revenues?**

4 A. The major components of Appliance Repair & Other Service Revenues are as
5 follows:

6 **Appliance Repair and Other Service Revenues** (Line 7) totaling \$10.5 million in
7 the 2006-2007 Budget Year are associated with the parts and labor plan
8 contracts for house heaters, automatic water heaters and other appliances,
9 and for appliance repairs and service calls. Also included in this category
10 are reconnection charges generated by customer bill paid turn-ons. The
11 reduced revenues forecasted in the 2006-2007 Budget Year totaling \$.1
12 million mainly result from slightly lower collection related activities associated
13 with customer service restorations. The 2006-2007 Budget Year projects 72,100
14 Parts & Labor Plans to be in force the same level as the previous year, with no
15 planned change in price.

16 The following schedule details appliance repair and other service revenues
17 for the three fiscal years:

18 **Appliance Repair and Other Service Revenues**

19 **(Dollars in Thousands)**

	<u>Actual</u>	<u>Estimate</u>	<u>Budget</u>
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
20 Parts & Labor Plans	\$7,793	\$7,538	\$7,538
21 Paid & Charge-for-Service	561	237	237
22 Reconnection, Turn on Charges	<u>2,541</u>	<u>2,894</u>	<u>2,757</u>
23			
24			
25 TOTAL	<u>\$10.895</u>	<u>\$10.669</u>	<u>\$10.532</u>

26 **Other Operating Revenues** (Line 8) principally reflect finance charges on
27 delinquent customer account balances. The 2006-2007 Budget projects
28 an increase of \$.3 million to \$18.2 million due to higher customer gas
29 billings and commensurate delinquent balances.

1 **Q. Would you proceed with your explanation of the Statement of Income?**

2 A. The Statement of Income includes projected **Total Operating Expenses**
3 (Line 19) for the 2006-2007 Budget Year of \$912.0 million, a \$5.4 million or
4 less than a 1.0% decrease from the prior year. The major reasons for the
5 variation in costs are explained below.

6 **Natural Gas** (Line 11) - Natural gas costs are forecasted to total \$630.8
7 million in the 2006-2007 Budget Year, \$8.4 million or 1.3% below the \$639.2
8 million level projected for the 2005-2006 fiscal period. The decline from
9 the 2005-2006 Estimate of natural gas costs primarily reflects reduced
10 commodity pipeline prices of 77.5 cents per Mcf totaling \$45.4 million,
11 while additional supply requirements of 3.1 Bcf are expected to result in a
12 \$32.7 million increase. Demand charges are forecasted to rise by \$4.1
13 million. The 2005-2006 fiscal period reflected the receipt of natural gas
14 refunds totaling \$.2 million. No natural gas refunds are projected to be
15 received in the 2006-2007 Budget Year.

16 **Contribution Margins** (Line 14) - PGW forecasts that the margins to cover
17 fixed overhead and other costs and interest expense are expected to
18 total \$349.9 million in the 2006-2007 Budget Year, a rise of \$4.0 million from
19 the \$345.9 million level projected in the 2005-2006 Estimate. This margin
20 represents the funds (total operating revenues less the cost of fuel)
21 available to meet PGW's operational and financial requirements

22 **Labor and Fringe Benefits** (Line 15) - This expense item, the second largest
23 expense that PGW incurs, is budgeted to increase by \$7.6 million or 5.4% to
24 \$147.3 million. The main factors that contribute to the added labor and
25 benefits costs of \$7.6 million are as follows: (1) Operating labor costs in the
26 2006-2007 Budget Year are anticipated to increase by \$3.3 million to \$83.1
27 million from the current year level of \$79.8 million. The 2006-2007 Budget
28 Year reflects an average PGW personnel level of 1,740 employees
29 approximating the level anticipated in the 2005-2006 period as detailed

1 on Exhibit C-3-1, Line 11. Currently, PGW has approximately 1,767
2 employees as of April 2006. As shown on Exhibit A-1-1 (Line 30), PGW has
3 projected cost reductions totaling \$5.8 million of which the labor cost
4 component in the 2006-2007 fiscal period is \$.8 million, the remaining \$5.0
5 million will be detailed in the discussion of other expenses. This decrease
6 can be attributed, in part, to the consolidation of overall workforce
7 resources that can then be utilized in the most cost effective and
8 productive way. During the 2005-2006 fiscal period the unionized
9 workforce received a 1% general wage increase. The 2006-2007 Budget
10 provides funding for a 3% general wage increase effective September 1,
11 2006 and 2½ % effective May 15, 2007 for all unionized employees and
12 when combined with normal merit and progression increases adds nearly
13 \$3.3 million to costs when comparing the 2005-2006 and 2006-2007 fiscal
14 periods. The 2006-2007 Budget provides funding for a 3% wage increase
15 for union exempt employees in September 2006. A rise in capitalized
16 labor charges is anticipated for the 2006-2007 Budget Year lowering
17 operating labor by \$1.3 million, while overtime costs are projected to rise
18 by \$.4 million. (2) Pension expenses are anticipated to rise by \$.3 million to
19 \$17.6 million in the 2006-2007 Budget Year reflecting the most recent
20 information from its actuarial consultant to update the current pension
21 funding requirements. (3) The \$3.1 million rise in health insurance reflects
22 premium increases for prescription drug and medical coverage for both
23 active and retired employees. (4) Payroll taxes are expected to total \$6.6
24 million in the 2006-2007 Budget Year, an increase of \$.9 million from the
25 prior year. The 2005-2006 fiscal period included a non-recurring refund
26 settlement associated with Pennsylvania sales tax liability. A more
27 detailed explanation of labor and fringe benefits (Exhibit C-3) will be
28 provided later in my testimony.

29 **Bad Debt Expense** (Line 16) - PGW has provided separate supporting

1 documentation for the Accounts Receivable and Bad Debt expense
2 calculations (SD-5) and the most recent collectibility study as of April 2006
3 identifying the bad debt reserve requirement (SD-6). PGW anticipates a
4 \$60.7 million expense related to bad debt for the 2006-2007 Budget Year
5 and \$61.5 million for the current 2005-2006 fiscal period. The forecasted
6 decrease in this expense reflects an improvement in PGW's overall
7 collection rate currently 92.0% as of April 2006. PGW expects to attain a
8 93.0% collection rate for the 2005-2006 fiscal period, while a 94.0%
9 collection rate target is reflected in the 2006-2007 Budget Year. PGW's
10 collection initiative remains at the forefront of all company activities as
11 improvement in overall customer collections is paramount to improving
12 cash flow and liquidity.

13 **Other Expenses and Depreciation** (Line 17) - The principal reasons for the
14 \$3.8 million decline in these expense categories for the 2006-2007 Budget
15 Year of \$73.1 million resulted from reductions in the appropriation for
16 reserves and losses, lower material and \$5.0 million in projected overall
17 cost savings throughout PGW's operations. Also, an increase in the
18 allocation of fringe benefits and administrative and general charges to
19 capital projects reflecting higher capital spending further contributed to
20 the reduced costs. These decreases were partially offset by higher
21 renewal premiums for public liability insurance, additional costs for
22 contracted maintenance, outside purchased services, advertising,
23 promotion and depreciation costs. A more detailed explanation of other
24 expenses and depreciation (Exhibit C-4) will be presented later in my
25 testimony.

26 **Other Income** (Line 21) - PGW expects a \$1.4 million rise in other income
27 during the 2006-2007 Budget Year primarily as a result of earnings on
28 restricted funds and short term investments reflecting higher projected
29 investable balances and rising interest rates.

1 Interest Expense (Line 27) - Total interest expense of \$74.0 million in the
2 2006-2007 Budget Year represents an increase of \$8.5 million from the
3 2005-2006 fiscal period. Long-term debt (Line 23) interest costs are
4 budgeted to increase by \$4.7 million due mainly to the effect of the
5 proposed 7th Series 1998 Ordinance \$150.0 million new money bond issue
6 offset by scheduled long-term debt maturities. Other interest (Line 24)
7 expense is anticipated to rise by \$3.6 million in the 2006-2007 Budget Year
8 primarily as a result of interest costs associated with PGW's Tax-Exempt
9 Commercial Paper Program which is anticipated to be maintained at the
10 \$150.0 million level in the 2006-2007 fiscal period. Also, fees associated
11 with PGW's variable rate debt and higher bond discount and issuance
12 expenses are anticipated to further increase interest expense. The Loss
13 from the Extinguishment of Debt (Line 26) of \$5.5 million in the 2006-2007
14 Budget Year is expected to be \$.2 million greater than the prior period
15 reflecting the continued expense amortization of prior bond refundings.

16 Net Earnings (Line 28) - The net earnings from Operations are forecasted at
17 \$4.4 million for the 2006-2007 Budget Year. This reflects a \$6.0 million
18 decrease from the 2005-2006 fiscal period projected earnings of \$10.4
19 million.

20 **Q. Proceeding to Exhibit A-2, the Cash Flow Statement, would you please**
21 **identify the individual items which account for the total sources of \$141.3**
22 **million for the 2006-2007 Budget Year shown on Line 13?**

23 **A.** The Cash Flow Statement is one of PGW's primary financial planning and
24 control documents. Through this format, the transition from an accrual
25 accounting methodology applied in the Statement of Income is now
26 presented on a cash basis. The principal sources of funds to PGW are net
27 income, borrowings to support capital expenditures, and the tax-exempt
28 commercial paper program.

29 Net Income (Line 1) totaling \$4.4 million is a transfer from Line 28, Exhibit A-

1 1, Statement of Income. It is the net result of PGW's operations after
2 combining revenues and other income, less operating and interest
3 expenses.

4 **Depreciation and Amortization** (Line 2) are sources of funds, as these items
5 represent those (non-cash) costs chargeable to expense in the current
6 period, although the actual cash payments were made primarily in prior
7 periods. In the 2006-2007 Budget Year, this category is projected to
8 increase by \$2.1 million to \$46.0 million as a result of higher depreciation
9 expense on depreciable utility plant, bond discount, issuance and
10 premium charges and higher extinguishment of debt costs.

11 **Earnings on Restricted Funds** (Line 3) represent cash withdrawals from
12 restricted funds, principally the revenue bond sinking and capital
13 improvement funds. In the 2005-2006 and 2006-2007 fiscal periods, interest
14 withdrawn from these funds is expected to be \$3.9 million and \$.1 million
15 greater than the interest earned, respectively. This resulted from earnings
16 in prior periods not being withdrawn or restricted in use during the fiscal
17 period in which the earnings occurred.

18 **Elimination of Accrued Interest on Refunded Debt** (Line 4) the \$3.2 million
19 represents accrued interest payable eliminated by the 6TH Series refunding
20 bond issue.

21 **Increased/(Decreased) Other Assets/Liabilities** (Line 5) reflects a change
22 between the 2005-2006 and 2006-2007 fiscal years of \$2.0 million. The
23 main components that are reflected in this source of cash are deferred
24 operating expenses and payments and interest accruals that continue to
25 be made on the long term debt portion of tax-exempt capital
26 appreciation ("TECA") bonds. These payments account for a portion of
27 the change between the fiscal years.

28 The sum of net income and the previously mentioned adjustments is
29 reported on (Exhibit A-2, Line 6) as available from Operations and totals

1 \$51.3 million in the 2006-2007 Budget Year, \$9.1 million lower than
2 forecasted in the 2005-2006 fiscal year.

3 **Funds Required for Capital** (Line 7) represents one of the components of
4 PGW's cash management process. The funds withdrawn from the Capital
5 Improvement Fund are utilized to fund PGW's capital expenditures. The
6 2005-2006 fiscal period anticipates \$60.2 million being withdrawn from the
7 Capital Improvement Fund to support capital spending for the period.
8 The 2006-2007 Budget Year projects that \$72.0 million will be withdrawn
9 from the capital fund to provide the necessary funding for capital
10 spending. No internally generated funds will be generated during the
11 2005-2006 and 2006-2007 fiscal periods. PGW's \$75.2 million capital
12 expenditure program in the 2006-2007 Budget Year is expected to be
13 financed entirely by debt financing.

14 **Grant Income** (Line 8) – The \$18.0 million represents the grant back of the
15 City Payment to PGW to be used as project revenues available to cover
16 debt service in the coverage calculation.

17 **Capitalized Interest** (Line 10) - PGW will utilize capitalized interest fund
18 proceeds to make the debt service payments on the 5th Series A-1 bonds
19 totaling \$5.9 million in the 2005-2006 fiscal year. This restricted fund was set
20 up at the time of the October 2004 bond sale.

21 **Release of Sinking Fund Proceeds** (Line 11) – Since the highest principal
22 and interest payments associated with 1975 Ordinance Bonds has been
23 made, PGW expects that \$3.7 million will be released from this restricted
24 account during the 2005-2006 year.

25 **Temporary Financing** (Line 12) - In the current 2005-2006 fiscal period,
26 PGW's outstanding level of tax-exempt commercial paper notes is
27 anticipated to be \$70.0 million at August 31, 2006. The full amount of
28 commercial paper notes was first repaid on May 17, 2006. PGW, for the
29 remaining portion of the fiscal year, anticipates reissuing notes, as

1 needed, to assist in meeting projected working capital requirements and
2 available arbitrage opportunities. The level of outstanding notes between
3 August 2005 (\$49.9 million) and August 2006 (\$70.0 million) (Line 29)
4 increased by \$20.1 million. The 2006-2007 Budget Year anticipates that
5 during the major part of the fiscal year, the maximum level of notes \$149.8
6 million will be outstanding and required to assist in meeting working
7 capital requirements and arbitrage opportunities. The outstanding level of
8 notes at August 2007 is forecasted at \$70.0 million. PGW, during the 2000-
9 2001 fiscal period, received a \$45.0 million interest free loan from the City
10 of Philadelphia to assist in meeting working capital requirements. It is
11 anticipated that this loan will be fully utilized at August 2006 and \$43.0
12 million is expected to be outstanding at August 2007. The loan was
13 restructured and full repayment is now anticipated in August 2008. The
14 overall impact of PGW's operations including collection improvements,
15 the forgiveness of the \$18.0 million City payment and the continued
16 utilization of the \$45.0 million City loan during the 2006-2007 Budget Year is
17 projected to leave PGW with a cash balance of \$16.0 million, compared
18 to the \$10.8 million anticipated at the close of the 2005-2006 fiscal period.
19 The **Total Sources** (Line 13) of \$141.3 million in the 2006-2007 fiscal year are
20 expected to be \$27.0 million less than the level projected in fiscal year
21 2005-2006 mainly reflecting reduced earnings from Operations and
22 restricted accounts.

23 **Q. How are these Total Sources applied within PGW?**

24 **A.** The Total Sources are utilized as detailed on the lower part of Exhibit A-2
25 under the category **Total Uses** (Line 24) of \$141.3 million. The primary areas
26 of expenditures are as follows:

27 **Net Capital Expenditures** (Line 14) represent expenses for approved
28 capital budget projects. These costs totaling \$75.2 million in the 2006-2007
29 Budget Year are projected to increase by \$7.1 million from the 2005-2006

1 fiscal period level of \$68.1 million. These expenditures include: (1) direct
2 charges for labor, material, equipment, contractors and transportation
3 services; (2) allocated expenses for fringe benefits, and administrative and
4 general expenses; and (3) an Allowance for Funds Used During
5 Construction ("AFUDC"). The total costs are reported net of contributions,
6 reimbursements and salvage.

7 **Funded Debt Reduction** (Lines 15 & 16) - This expense represents the
8 payment of the principal portion of PGW's long-term debt under pre-
9 determined debt amortization schedules. These payments include
10 revenue bond debt service principal repayments. In the 2006-2007
11 Budget Year, these payments are expected to total \$38.0 million, a rise of
12 \$6.8 million from the \$31.2 million paid in the 2005-2006 fiscal period.

13 **Temporary Financing/City Loan Repayments** (Lines 18 & 19) - The 2006-
14 2007 Budget Period anticipates a \$2.0 million repayment of the \$45.0
15 million City loan resulting in an outstanding balance at August 31, 2007 of
16 \$43.0 million.

17 **Distribution of Earnings** (Line 20) - This represents the annual \$18.0 million
18 payment made to the City of Philadelphia under the Philadelphia
19 Facilities Management Corporation Agreement/Ordinance. This payment
20 will be made to the City of Philadelphia and it will then be granted back
21 to PGW to be utilized as project revenues.

22 **Additions to (Reductions of) Non-Cash Working Capital** (Line 21) - This
23 category represents PGW's continuing effort to shift from the accrual
24 method of accounting to a cash basis. The detail of Working Capital is
25 presented on Exhibit H-1, and the annual changes in working capital,
26 which specifically support Line 21 of Exhibit A-2 are detailed on Exhibit H-2.

27 **Q. Would you please explain the major factors that resulted in the working**
28 **capital requirements for the 2005-2006 fiscal year and the continuing**
29 **impact on the proposed 2006-2007 Budget Year.**

1 A. The \$55.4 million net increase in working capital requirements during the
2 2005-2006 Period (Exhibit H-2, Line 13) reflects changes in both assets and
3 liabilities. The 2005-2006 fiscal period anticipates a decrease in accounts
4 receivable (Exhibit H-2, Line 1) of \$21.3 million and a commensurate
5 reduction in the reserve for bad debts (Exhibit H-2, Line 3) of \$15.8 million
6 resulting in a net gas accounts receivable decline (Line 4) of \$10.1 million.
7 Unbilled gas revenues (Line 2) of \$11.3 million at August 2006 are
8 projected to rise by \$2.5 million reflecting a higher average price per Mcf
9 for gas used but not yet billed. The reduction in accounts receivable was
10 mainly the result of the receipt of \$11.5 million in environmental related
11 insurance proceeds during the 2005-2006 fiscal period. PGW will be
12 consulting with its outside auditors to ascertain the required reserve for
13 uncollectible accounts and has presented separate supporting
14 documentation, which details the accounts receivable balance, reserve
15 for uncollectible accounts and bad debt expense. Materials and Supplies
16 (Exhibit H-2, Line 5) increased by \$53.8 million principally due to a
17 substantially higher price for natural gas and the volume in storage
18 inventories, while Other Current Assets (Exhibit H-2, Line 6) rose by \$8.8
19 million due mainly to a projected under recovery for the 2005-2006 GCR,
20 USC and restructuring charges of \$6.2 million. Liabilities, namely accounts
21 payables (Exhibit H-2, Line 10), are expected to rise by \$8.4 million
22 principally due to higher prices for natural gas purchases totaling \$7.3
23 million, while general trade payables are projected to rise by \$1.1 million.
24 In addition, Other Current Liabilities (Exhibit H-2, Line 11) are expected to
25 decline by \$4.1 million mainly as a result of the of the return to customers
26 of the \$7.6 million over recovery of the 2004-2005 GCR, USC and
27 restructuring charges, while higher accrued interest of \$2.6 million on long
28 term debt reflects the January 2006 6th Series bond refunding issue. The net
29 impact of these working capital changes resulted in an increased

1 requirement in the 2005-2006 fiscal year.

2 The 2006-2007 Budget Year projects overall working capital requirements
3 of \$2.9 million (Exhibit H-2, Line 13). The \$1.3 million net decrease in
4 Accounts Receivable (Exhibit H-2, Line 4) reflects the targeted goal of a
5 94.0% collection rate which is expected to lower outstanding customer
6 receivables, while providing the necessary requirement in the reserve for
7 bad debt. Materials and Supplies (Exhibit H-2, Line 5) are forecasted to
8 decline by \$3.4 million mainly reflecting a 2.3 Bcf decline in the volume of
9 natural gas in storage offset by higher average prices of nearly 91.0 cents
10 per Mcf or 10.6%. Other Current Assets (Exhibit H-2, Line 6) are expected
11 to decline by \$6.1 million reflecting the charge to customers of the \$6.2
12 million 2005-2006 under recovery associated with GCR, USC and
13 restructuring costs. Accounts Payable (Exhibit H-2, line 10) are expected
14 to decrease by \$12.8 million reflecting lower year end natural gas costs.
15 Other Current Liabilities (Exhibit H-2, Line 11) are anticipated to decrease
16 by \$.9 million reflecting lower accrued wages and the reserve for Injuries
17 and Damages, offset by higher accrued interest associated with the
18 proposed 7th Series \$150.0 million bond issue. These asset and liability
19 changes result in the additional net working capital requirement of \$2.9
20 million for the 2006-2007 Budget Year (Exhibit H-2, Line 13).

21 PGW's ending Cash Balance (Exhibit A-2, Line 28) at August 2006 is
22 expected to total \$10.8 million, \$104.2 million less than the combined
23 outstanding level of \$70.0 million of commercial paper notes and the
24 \$45.0 million City Loan. This year end cash balance is lower than the \$15.2
25 million actual cash balance in 2004-2005 which was \$79.7 million below
26 the combined outstanding level of \$49.9 million in commercial paper
27 notes and the \$45.0 million City Loan. The 2006-2007 Budget Year projects
28 a cash balance at year end of \$16.0 million, \$97.0 million less than the
29 combined outstanding commercial paper level of \$70.0 million and the

1 \$43.0 million City Loan. The ultimate goal for PGW in the future is to
2 continue to improve upon its historic collection rate so that much needed
3 liquidity can be generated to reduce short term borrowings and partially
4 support the financing of its capital programs with internally generated
5 funds.

6 **Q. Could you explain the income and expense components that are utilized**
7 **when computing the Revenue Bond Debt Service Coverage Ratio for the**
8 **2006-2007 Budget Year on Exhibit A-3?**

9 A. The coverage ratio is calculated based on the 1975 Ordinance and the
10 1998 Ordinance which sets the priority of payments of outstanding long-
11 term debt. In deriving data for the coverage calculation, several non-
12 cash adjustments are made to both revenue and expense items:

13 **Total Funds Provided** (Exhibit A-3, Line 7) - The funds provided in the
14 proposed 2006-2007 Operating Budget total \$1,009.6 billion and are
15 comprised of: (1) total gas and other operating revenues, (2) other
16 income adjusted to include actual cash withdrawals from both the
17 Capital Improvement and Revenue Bond Sinking funds (rather than only
18 the interest earned in the fiscal period), the \$18.0 million in Grant Income,
19 and (3) AFUDC on borrowed funds for capital expenditures.

20 **Total Funds Applied** (Line 12) - The funds applied reflect operating
21 expenses from Exhibit A-1, Line 19, totaling \$912.0 million, less certain non-
22 cash and subordinate expenses (Exhibit A-3, Line 11) totaling \$41.9 million.
23 The components of the non-cash expenses include: (1) depreciation
24 expense included in operating expenses, (2) payments to the City of
25 Philadelphia for miscellaneous services rendered, including Philadelphia
26 Gas Commission expenses.

27 **Funds Available to Cover Revenue Bond Debt** (Line 13) are projected to
28 be \$139.5 million in the 2006-2007 Budget Year.

29 **Revenue Bond Debt Service** (Line 14) - The total funds applied to 1975

1 Revenue Bond Debt Service are \$35.7 million, representing the scheduled
2 cash payments of principal which are due annually with interest paid
3 semi-annually.

4 **Debt Service Coverage Ratio 1975 Revenue Bonds** (Line 15) - The debt
5 service coverage ratio for 1975 Ordinance Revenue Bonds is obtained by
6 dividing Funds Available to cover 1975 Debt Service (\$139.5 million) by
7 Funds Applied to 1975 Debt Service Revenue Bonds (\$35.7 million). The
8 result produces a coverage ratio of 3.90 times. The mandatory coverage
9 ratio for 1975 Senior Debt Service is 1.5 times. The remaining coverage
10 ratios, as set forth in the 1998 Ordinance, are now calculated. Net
11 available after 1975 Debt Service (Line 16) totaling \$103.7 million is utilized
12 to calculate the coverage ratio on 1998 Ordinance Senior Debt Service
13 (Line 19) of \$53.3 million at a mandatory 1.5 times. The projected
14 calculation for this ratio is shown at 1.95 times (Line 20). The final
15 component of the coverage calculation under the 1998 Ordinance is
16 shown on (Lines 21 through 23). Net available after the 1998 Debt Service
17 (Line 21) of \$50.4 million is used to calculate coverage on 1998
18 Subordinate Debt Service (Line 22) of \$2.0 million. The result is shown on
19 (Line 23) as Debt Service Coverage Subordinate Bonds of 25.37 times. The
20 mandatory requirement is 1.0 times on subordinate debt service. The
21 projected coverage ratios for the current 2005-2006 fiscal period are
22 expected to be 3.33 times on 1975 Ordinance debt service and 3.01 times
23 on 1998 Ordinance debt service, while the coverage ratio on 1998
24 Subordinate debt service is expected to be 32.79 times.

25 **Q. Returning to the Statement of Income (Exhibit A-1), could you explain in**
26 **detail the items that are included under the category Labor and Fringe**
27 **Benefits on Exhibit A-1, Line 15.**

28 **A.** This category includes payroll costs (excluding that portion chargeable to
29 capital activities), payments made to beneficiaries of PGW's employee

1 pension plan and corresponding withdrawals from the pension fund. This
2 category also includes the cost of premiums paid for employees' (both
3 active and retired) health and group life insurance coverage, payroll
4 taxes associated with FICA and Medicare and state unemployment taxes
5 (exclusive of those taxes chargeable to capital activities) as detailed on
6 Exhibit C-3.

7 **Q. Are contractual labor escalations included in the periods covered on**
8 **Exhibit A-1?**

9 A. Yes, a three year contract is in effect with the Gas Works Employees' Union
10 for the period from May 16, 2005 to May 15, 2008. A 1% general wage
11 increase was effective for unionized employees on September 1, 2005.
12 The remaining general wage increases over the covered period are 3%
13 effective September 1, 2006 and 2½% on May 15, 2007. The 2006-2007
14 Budget provides funding for a 3% increase for non-union employees.

15 **Q. Could you explain the difference in labor and fringe benefit expenses**
16 **between the 2005-2006 and 2006-2007 fiscal periods?**

17 A. The 2006-2007 Budget Year reflects payroll costs of \$105.9 million, an
18 increase from the 2005-2006 fiscal year level of \$101.3 million (Exhibit C-3,
19 Line 1). Operating labor costs (Exhibit C-3, Line 3) also rose by \$3.3 million
20 to \$83.1 million, while labor charged to capital projects and other
21 activities rose by \$1.3 million.

22 The 2006-2007 Budget Year projects pension beneficiary payments (Line 4)
23 to total \$32.5 million, with a \$14.9 million (Line 5) withdrawal from the
24 pension fund to meet the anticipated payments. This will result in an
25 actuarial pension expense of \$17.6 million. The 2005-2006 Estimate for
26 pension beneficiary payments is expected to be \$31.5 million, with a \$14.2
27 million withdrawal from the pension fund to meet the scheduled
28 payments. The actuarial pension expense for PGW in the 2005-2006 fiscal
29 year is forecasted to total \$17.3 million. The actuarially computed pension

1 expense for the 2005-2006 and 2006-2007 fiscal periods was based on
 2 updated information based on PGW's most recent pension study
 3 prepared by its actuarial consultant.

4 Health insurance costs (Exhibit C-3, Line 8) are anticipated to be \$34.8
 5 million in the 2005-2006 fiscal period, while the 2006-2007 Budget Year
 6 expects a \$3.1 million increase to \$37.9 million. PGW is continually
 7 exploring ways to reduce costs for all employees' health coverage with its
 8 primary health care providers.

9 Payroll taxes (Exhibit C-3, Line 16) are anticipated to be \$6.6 million in the
 10 2006-2007 Budget Year an increase of \$.9 million. The 2005-2006 fiscal year
 11 reflected a non recurring refund of \$.6 million associated with sales tax
 12 liability. The following schedule details the major components of the Labor
 13 and Fringe Benefits expense:

14 **Labor and Fringe Benefits**

15 **(Dollars in Thousands)**

	<u>Actual</u>	<u>Estimate</u>	<u>Budget</u>
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
16 Operating Labor	\$80,634	\$79,848	\$83,154
17 Pension Payments	31,204	31,478	32,454
18 Pension Fund Withdrawals	(16,502)	(14,181)	(14,861)
19 Group Life Insurance	1,594	2,100	2,100
20 Health Insurance	33,571	34,804	37,884
21 Payroll Taxes	<u>6,218</u>	<u>5,678</u>	<u>6,574</u>
22 TOTAL	<u>\$136.719</u>	<u>\$139.727</u>	<u>\$147.305</u>

23
 24
 25 **Q. Could you explain the personnel levels included on Exhibit C-3-1, Line 11
 26 and why PGW feels that the 2006-2007 Budget Year level is reasonable?**

27 **A.** PGW, in the 2006-2007 Budget Year, expects to attain an average level of
 28 1,740 employees, currently PGW has approximately 1,767 employees and
 29 although the company targeted an average of 1,740 employees as its

1 goal in 2005-2006 it most likely will not attain that level. The main reason
2 for this situation is that the expected outsourcing of certain functions did
3 not occur as planned with a resultant higher level of employees.
4 However, PGW did not spend the related purchased service expenditures.
5 PGW recognizes that certain areas of the company due to the on-going
6 field operations initiative and other critical functions need additional
7 staffing and continued training; the 2006-2007 Budget provides the
8 necessary funding. PGW is committed to adhering to the highest level
9 of safety in the work place, while at the same time reducing overall
10 workers' compensation claims through continued training.

11 **Q. Please detail the items included in Other Expenses and Depreciation on**
12 **Exhibit A-1, Line 17.**

13 A. The expenses shown on Exhibit A-1, Line 17, totaling \$73.1 million for the
14 2006-2007 Budget Year captioned "Other Expenses and Depreciation"
15 include an appropriation for reserves and other losses (excluding the
16 appropriation for uncollectible gas accounts), advertising, general
17 material, property and liability insurance, contracted maintenance,
18 utilities, rentals, purchased services, postage, promotion, depreciation and
19 miscellaneous expenses.

20 Also included in this category are credits to operating expenses for labor-
21 related fringe benefits such as insurance, taxes, pension expenses, and
22 administrative and general costs chargeable to capital projects. In
23 addition, non-utility revenues are also contained in this category (repair
24 and other service revenues are now included as part of other operating
25 revenues). The detail of these expenses can be found on Exhibit C-4.

26 **Exhibit C-4, Detail of Other Operating Expenses**

27 **Q. Have any adjustments been made to the expense categories detailed on**
28 **Exhibit C-4 to reflect past Regulatory Commission orders?**

29 A. Yes, PGW has complied with Regulatory Commissions' past orders which

1 amortized certain non-recurring costs and normalized other expense items
2 for ratemaking and budgeting purposes. The purchased services
3 category mainly reflects these adjustments. Schedule (SD-4) provides
4 documentation of the accounting for the remaining non-recurring
5 expenses, and has been included as part of PGW's Operating Budget
6 filing.

7 **Q. Please explain what is included in the Appropriation for Reserves and**
8 **Other Losses on Exhibit C-4, Line 1?**

9 A. This expense category includes appropriations to the Injuries and
10 Damages Reserve for PGW's estimate of outstanding suits and claims and
11 workers' compensation settlements, corporate loss settlements, and a
12 provision for employees' compensated absences. As stated previously,
13 this item excludes the appropriation for uncollectible accounts.

14 **Q. What factors contributed to the increase in settlements during the 2005-**
15 **2006 Estimate compared to the 2004-05 actual, and the slightly higher**
16 **projected level of settlements for the 2006-2007 Budget Year?**

17 A. PGW's settlements for suits and claims and costs for workers'
18 compensation were \$2.7 million during the 2004-2005 actual period and
19 combined with the appropriation of \$3.0 million resulted in a year-end
20 reserve balance of \$3.5 million at August 2005. PGW's current projection
21 of total reserves for outstanding suits and claims and workers'
22 compensation settlements is expected to total nearly \$5.1 million at
23 August 2006, a decrease compared to the \$8.5 million that was projected
24 at August 2005. The 2005-2006 fiscal year primarily reflects the settlement
25 of several workers' compensation claims. The appropriation to the Reserve
26 for Injuries and Damages is expected to total \$3.1 million during the 2005-
27 2006 fiscal period resulting in an ending reserve balance of \$3.2 million.
28 Settlements for the 2005-2006 fiscal period are anticipated to total \$3.4
29 million. The reserve balance at August 2006 is expected to provide

1 coverage for suits and claims and workers' compensation settlements
2 during the 2006-2007 Budget Year.

3 The 2006-2007 Budget Year projects settlements totaling \$3.6 million with a
4 major claim case anticipated to be settled during the upcoming period,
5 while the appropriation of \$2.3 million represents the required level
6 necessary to provide a year-end reserve balance of \$1.8 million. This
7 forecasted reserve balance at August 2007 is expected to provide
8 coverage for outstanding suits and claims and workers' compensation
9 settlements anticipated during the 2007-2008 fiscal year.

10 PGW continues, through the Human Resources, Risk Management and
11 Legal departments, and the use of a third party provider to handle its
12 workers' compensation program to identify all potential savings that can
13 be achieved through an effective coordination of these activities.

14 The following schedule details the Injuries and Damages Reserve:

15 **Injuries and Damages Reserve**

16 **(Dollars in Thousands)**

	<u>Actual</u>	<u>Estimate</u>	<u>Budget</u>
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
17 Beginning Balance	\$3,235	\$3,520	\$3,172
18 Settlements	(2,715)	(3,411)	(3,584)
19 Appropriation	<u>3,000</u>	<u>3,063</u>	<u>2,257</u>
20 Ending Balance	<u>\$3,520*</u>	<u>\$3,172*</u>	<u>\$1,845*</u>

21
22
23 *The required reserve balance represents the current portion of the total
24 outstanding liability at the end of the fiscal period.

25 **Q. Would you explain the items included in the Advertising expenses shown**
26 **on Exhibit C-4, Line 2, and the increase of 13% comparing the 2006-2007**
27 **Budget Year to the 2005-2006 Estimate?**

28 **A.** The major components of the advertising expenditures in the 2006-2007
29 Budget Year are related to corporate campaigns to inform eligible