The Commission should treat PGW's liquidity and debt burden, as well as the forecasted violation of the debt service covenant as known and measurable events and provide the rates now to solve the problem.

Q. WHAT POSITION HAVE THE PARTIES TAKEN IN RESPONSE TO PGW'S PROPOSAL TO PERMIT IT TO UTILIZE THE PROCEEDS FROM OFF-SYSTEM SALES AND CAPACITY RELEASE CREDITS TO FUND CAPITAL PROJECTS RATHER THAN AS A CREDIT TO PGW'S GCR?

A. OTS witness Yocca[2] and OCA witness Lelash[3] have both opposed PGW's proposal. Generally, both witnesses state that the proceeds from off-systems sales and capacity release credits are more properly utilized to reduce the cost of gas charged to ratepayers through PGW's PGC (GCR).

Mr. Yocca claims that using these proceeds to fund capital improvements violates the "least cost gas procurement" standard imposed by the Public Utility Code and PUC regulations and raises other issues which he claims militate against the proposal.

Mr. Lelash claims that PGW's natural gas costs are the highest in the State and that the proceeds from these two sources are more properly used as offsets to the Company's GCR. He also claims that my direct testimony was not accurate in stating that it would be less expensive to ratepayers to fund construction projects using off-system sales/capacity release credits than through the use of long term debt.

Q. PLEASE RESPOND TO MR. YOCCA'S CLAIM THAT THE OFF-SYSTEM SALES/CAPACITY RELEASE PROPOSAL VIOLATES THE

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[2] OTS St. No. 4.

[3] OCA St. No. 1 at 21-24.

CODE'S REQUIREMENT THAT A UTILITY PURSUE A "LEAST COST FUEL PROCUREMENT POLICY."

A. First, Mr. Yocca confuses PGW's gas supply policies with the way in which the results of such policies are returned to ratepayers. A utility's obligation to pursue a "least cost fuel procurement policy" is unrelated to the ratemaking treatment of any savings or reductions in gas costs that the Company is able to realize in pursuit of such a policy. This Commission has approved PGW's gas supply policies as being in compliance with the Commission's standard. There is no evidence that PGW is doing anything other than striving to maximize these off-system sales/capacity release credits, thereby reducing its overall costs.

Second, Mr. Yocca misstates the actual statutory standard, which is that utilities must pursue a "least cost fuel procurement policy <u>consistent with its obligation to provide safe, adequate and reliable service to its customers</u>."[4] As Mr. Yocca himself points out, many other major NGDCs are permitted by this Commission to retain a portion of off-system sales or capacity release credits in order to give them an incentive to maximize the level of such credits. Such Commission approval demonstrates that, at the very least, a sharing of credits or diverting some of the credits out of the GCR is consistent with the utility's provision of safe, adequate and reliable service and that devoting 100% of credits to the PGC is not required. PGW's proposal creates a similar incentive for it to maximize the proceeds from these credits and sales because PGW's ability to reach its financial goals will be, in an important respect, contingent on maximizing the proceeds from this source.

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[4] 66 Pa. C.S. § 1318.

Q. **CAN YOU RESPOND TO MR. YOCCA'S OTHER CONCERNS REGARDING PGW'S OFF-SYSTEM SALES/CAPACITY RELEASE PROPOSAL?**

A. Yes. Mr. Yocca also claims that utilizing off-system sales/capacity release credits to fund capital projects unreasonably prejudices[5] PGC customers because the proceeds will be used to benefit all customers, including customers who are not charged the GCR in their rates. I am informed that the assets utilized to provide commodity service, such as pipeline transportation and storage contracts and PGW's LNG facilities, are also used to provide backup and balancing services to interruptible sales and transportation customers. Thus, the assets that produce capacity release credits are used by all in one manner or another. Moreover, PGW's proposal is to retain these credits to fund capital projects, such as the second phase of the LNG Liquefaction Plant capacity expansion or the modernization of PGW's customer billing system. These and other capital projects will primarily benefit firm sales customers, even if transportation or interruptible customers stand to benefit as well. Moreover, since in our view, utilizing this source of funds is far cheaper to all ratepayers – in particular compared to funding the projects by issuing even more long-term debt – both sales and transportation customers alike will benefit.

Q. **WILL ACCEPTING PGW'S PROPOSAL CREATE A "PRECEDENT" THAT OTHER COMPANIES COULD USE TO ATTEMPT TO JUSTIFY RETAINING A GREATER PORTION OF OFF-SYSTEM SALES/CAPACITY RELEASE PROCEEDS FOR THEIR SHAREHOLDERS?**

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5 This applies to Mr. Yocca's argument that PGW's proposal violates the rebuttal presumption set forth in 52 Pa. Code § 60.4 as well.

A. No and this points out a key difference between PGW and the other NGDCs that Mr. Yocca does not sufficiently acknowledge. PGW does not have any shareholders. PGW is not proposing to take any of the proceeds from these activities and use them as additional "profits" to provide to its owner – the City of Philadelphia. Utilizing the proceeds to fund utility capital projects is far different than utilizing the proceeds to enhance a company's profits and return to its shareholders. The proposal here, if adopted, will not create a precedent allowing that to occur. PGW's proposal is to return all proceeds to customers.

Q. MR. YOCCA'S FINAL ARGUMENT AGAINST UTILIZING THE PROCEEDS OF OFF-SYSTEM SALES/CAPACITY RELEASE TO FUND CAPITAL PROJECTS IS THAT PGW DOES NOT NEED ANY RATE RELIEF. IS THAT CORRECT?

A. That is indeed what he claims. As Mr. Bogdonavage and other PGW witnesses demonstrate, he is wrong.

Q. PLEASE COMMENT ON THE ARGUMENTS RAISED BY OCA WITNESS LELASH IN OPPOSING PGW'S PROPOSAL.

Mr. Lelash raises three arguments. First, he states that, since PGW allegedly has the highest gas rates in the State, it would be unreasonable to remove these credits which have the potential to reduce the level of PGW's GCR. Mr. Lelash is actually incorrect in his characterization of PGW's GCR rates because he only picks three points in time in order to substantiate this claim. The appropriate analysis is to average the GCRs over longer periods of time in order to accommodate for the over and under collections of each individual company.

It is only over the longer periods of time that one can get a true picture of how the GCRs compare. PGW has prepared such an analysis (Exhibit SPH-2) which shows that PGW has the third lowest GCR and differs by 3 cents per Mcf from the average GCR using simple unweighted averages. Further, the analysis shows that PGW has the fourth lowest GCR and differs by 5 cents per Mcf from the average GCR using weighted averages. As a result of the foregoing, PGW has among the lowest gas cost rates and is mere cents from the average gas cost rate.

Mr. Lelash also argues that PGW should simply ask the City of Philadelphia for any funds needed. His proposal is, at best, cavalier. PGW Rebuttal witnesses Wilkerson and Dubow respond to Mr. LeLash on this point.

Finally, Mr. Lelash claims that PGW's analysis, which showed that it is cheaper to ratepayers to fund capital improvements in this manner as opposed to issuing additional debt and charging customers in rates for the carrying costs, is flawed.

Q. WHAT IS WRONG WITH HIS ANALYSIS?

A. Mr. Lelash asserts that PGW must use the "opportunity cost of capital … best reflected by credit card interest rates, and the rates of pay day lenders". Without accepting the validity of Mr. LeLash's position, PGW re-ran the analysis provided in response to OSBA 2-42 using an 18% cost of capital, which is "well above 15%" recommended by Mr. Lelash. I am informed that there were changes to the net present values reflected in the analysis, but that they were not sufficient to change the conclusion – implementation of PGW's proposed capital improvement fund is cheaper to rate payers than continuing to fund improvements with long term debt. (Exhibit SPH-3)

The long term impact on customer bills – what customers care about – is therefore better under PGW's proposal. To illustrate, assuming a fixed annual retention amount of $10 million versus borrowing a fixed $10 million annually coupled with the factors set forth in the 5% NPV scenario provided in response to OSBA 2-42 is cheaper for customers.

Q. PLEASE SUMMARIZE THE POSITION OF OSBA WITNESS ROBERT KNECHT ON THE ISSUE OF CRP COST RECOVERY.

A. Mr. Knecht asserts that the current PUC-approved recovery method of allocating the costs of PGW's CRP (and related programs) to all firm service sales customers on a volumetric basis is inappropriate. Mr. Knecht believes that *all* the benefits associated with the CRP programs accrue *solely* to the residential class. As such, he asserts that only the residential customers should pay for the programs, and proposes the shifting of all such costs from the non-residential classes contributing to CRP cost recovery to the residential class via a three year phase-in.

Q. DOES THE COMPANY AGREE WITH HIS POSITION?

A. No. PGW strongly disagrees with his recommendation, and believes that the Commission got this issue right when it decided, just a few years ago in PGW's restructuring proceeding, that PGW's traditional recovery of these costs from all firm customers through the GCR should be maintained.

Q. MR. KNECHT ENGAGES IN A LENGTHY DISCUSSION OF THE COMMISSION'S RECENT DECISIONS ON THIS ISSUE. DO YOU AGREE WITH HIS CONCLUSIONS REGARDING THOSE DECISIONS?

A. No. There is nothing at all about PGW's CRP cost-recovery method that is inconsistent with the PUC's recent decisions. Specifically, considering the excerpt from *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, quoted by Mr. Knecht at page 30 of his testimony, the Commission's discussion actually supports PGW's position and the rejection of Mr. Knecht's recommendation. In the text quoted by Mr. Knecht, the PUC states:

> After careful consideration of the comments and the arguments presented, the Commission will continue its current policy of allocating CAP costs to the only customer class whose members are eligible for the program – residential customers. The Commission believes that we should not initiate a policy change that could have a detrimental impact on economic development and the climate for business and jobs within the Commonwealth.
>
> Since the Commission first encouraged utilities to initiate CAP programs on a voluntary basis, it has allocated CAP costs to the residential class, with a few exceptions. . . .[6]

What Mr. Knecht fails to realize about the Commission's discussion is that PGW is one of those "few exceptions" referenced by the Commission. A residential-only CRP allocation is not the PUC's "current policy" as to PGW and, if the Commission were to "continue its current policy" as applied to the Company, it would continue to allocate the CRP costs to all firm customers in direct contradiction of Mr. Knecht's proposal.

Further, in the passage quoted by Mr. Knecht, the Commission rejects the idea of initiating "a policy change that could have a detrimental impact on economic development and the climate for business and jobs." Yet, that is exactly what Mr. Knecht's recommendation requires the Commission to do. Businesses in PGW's service territory are already paying a portion of the costs of the CRP program. By maintaining the status quo, the Commission would not be imposing some new or increased cost on them. To the contrary, by deciding to

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[6] *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Order entered December 18, 2006) at 31-32 (emphasis added).

change the CRP cost recovery allocation for PGW, the Commission would in fact be initiating a policy change and that change could very well have a detrimental impact on businesses and jobs in Philadelphia. As detailed below, contrary to Mr. Knecht's belief, the commercial or non-residential customers do in fact benefit from the existence of a successful CRP program and eliminating those benefits will not be good for business.

Q. SO YOU DO NOT AGREE WITH MR. KNECHT'S POSITION THAT ONLY THE RESIDENTIAL CLASS BENEFITS FROM THE CRP PROGRAMS? PLEASE EXPLAIN.

A. No, I do not. It is well recognized that programs for low-income customers provide benefits to the entire community because they improve standards of living, reduce homelessness, and increase the income available for consumer spending.[7] In regard to PGW, this effect is particularly obvious in light of the size of its program. It is hard to imagine Philadelphia, and the businesses located therein, continuing to function as they are if the cost of the CRP were borne only by residential customers. Limiting the burden of the program to that group would raise residential customer bills, making it more difficult for many customers who are poor or working poor to afford their bills, thus risking shut-off. The businesses represented by Mr. Knecht and OSBA would be severely impacted in

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[7] *See, e.g.*, Roger Colton, *A Road Oft Taken: Unaffordable Home Energy Bills, Forced Mobility and Childhood Education in Missouri*, 2 Journal on Children and Poverty, 23 (Summer 1996); Institute for Public Policy Studies, Temple University, *An examination of the Relationship Between Utility Terminations, Housing Abandonment and Homelessness* (June 1991). Additionally, a 2001 study by the National Fuel Funds Network reported that households that are placed in jeopardy of losing their home heating service, or who actually experience the termination of service, face the safety problems associated with unsafe alternative heating methods.

the face of such a situation, and they indisputably realize considerable indirect benefits from the CRP program. As such, they should participate in its funding.

Q. ARE THESE INDIRECT BENEFITS RECEIVED BY THE NON-RESIDENTIAL CLASS CUSTOMERS ANY DIFFERENT THAN THE BENEFIT THAT MR. KNECHT ASCRIBES TO THE RESIDENTIAL CUSTOMERS WHO ARE NOT CRP PARTICIPANTS?

A. No, they are not. Mr. Knecht's notion that residential customers who are ineligible for CRP and may well never receive one cent of a CRP discount still benefit because the program provides them with a type of "insurance" or safety net should they ever fall on hard times sufficient that they qualify constitutes an <u>indirect, and for many, remote</u> benefit of the program. There is only one group of direct beneficiaries of the CRP program, and that is the actual CRP participants. All other customers benefit only indirectly from the program. Indeed, the considerable numbers of residential customers who will never become eligible for CRP arguably receive less of a benefit from the program than the businesses who benefit from the fact that some 76,000 residents of Philadelphia will avoid the financial calamities discussed above and remain viable consumers.

Q. DOES THIS FACT FURTHER UNDERMINE MR. KNECHT'S PROPOSAL AND SUPPORT ITS REJECTION?

A. Yes, it does. Mr. Knecht's entire justification for his proposed cost shift of all CRP costs to the residential class is that the residential customers are the cost causers. Yet, as shown, that assumption is overbroad and imprecise. Ineligible residential customers and other non-participants in the program do not cause any CRP costs that require recovery unless and until they become participants. Their purported "insurance" policy has no current value and causes PGW to incur no costs. Only the CRP participants are direct beneficiaries and cost causers.

However, CRP participants do not contribute to the program's cost recovery. That means the only customers that will be paying for PGW's expansive CRP programs, under Mr. Knecht's proposal, are those residential customers who do not qualify for CRP, receive none of its direct benefits, and pay full retail rates. Accordingly, his proposal does not further cost causation principles, and instead devolves into choosing between indirect beneficiaries of the CRP program – apparently based on the perceived levels of indirect benefit. It would be inappropriate for the Commission to change current long-standing policy on the basis of the record in this proceeding.

Q. DO OTHER CUSTOMER CLASSES RECEIVE REDUCED RATES THAT ARE ANALAGOUS TO THE ISSUE WE HAVE JUST DISCUSSED?

A. Yes. PGW and other utilities have Commission-approved tariff provisions that allow a rate reduced from that which would normally be demanded in order to promote economic development or remain competitive with an alternative fuel. These rates exist because of the generally accepted principle that providing the reduced rate to an individual customer benefits all other customers, though frequently only indirectly. Surely Mr. Knecht would not object to residential customers picking up the burden when PGW provides a discounted rate to a small business.

Q. DO YOU SEE ANY OTHER REASONS THAT MR. KNECHT'S PROPOSAL SHOULD NOT BE ADOPTED?

A. Yes, I do. The Commission and the parties must recognize that PGW is unique when it comes to universal service and that force-feeding a one-size-fits-all approach to CAP programs and their cost-recovery mechanisms simply will not work for PGW. These differences were discussed at length in PGW's restructuring proceeding, just under five years ago, and they were a part of the record on which the Commission's decision to retain the Company's traditional cost allocation across all firm customers was based. The obvious differences are the size of PGW's programs (and thus their costs) and the ability of the residential customers to absorb the significant costs that would be shifted to their shoulders if the OSBA position were adopted.

Philadelphia is home to the greatest concentration of Pennsylvania's poor. As stated, PGW's CRP program (not including the Senior Citizen Discount or other programs) presently has approximately 76,200 participants. Notably, as of PGW's restructuring proceeding, 130,000 customers were at or below 150% of the federal poverty level and thus eligible for the CRP program. In terms of cost shifting, Mr. Knecht attempts to soft pedal the impact on PGW's residential customers who will be forced to pick up the tab, but his proposed phase-in of the increased cost cannot mask its cumulative effect.

Ultimately, the Commission policy applied to other NGDCs that Mr. Knecht trumpets simply cannot and does not account for these dramatic differences between the run-of-the-mill CAP program and PGW's CRP program. The Commission should not impose a set of standards designed for very different circumstances on PGW's customers.

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

A. Yes.

Exhibit SPH-2

Philadelphia Gas Works

Average Purchased Gas Cost Rate - 44 months - 9/1/03 to 4/1/07

Based on Data Published by the Office of the Trial Staff

Unweighted				Weighted	
1	COLUMBIA	$ 9.0854	1	PG Energy	$ 9.4471
2	PG Energy	$ 9.1195	2	COLUMBIA	$ 9.7744
3	PEOPLES	$ 9.7125	3	PGW	$ 10.4358
4	PGW	$ 9.8125	4	NFG	$ 10.4817
5	PECO	$ 9.8762	5	PECO	$ 10.4952
6	NFG	$ 10.0102	6	PEOPLES	$ 10.5211
7	UGI	$ 10.1185	7	UGI	$ 10.7169
8	EQUITABLE	$ 10.5173	8	EQUITABLE	$ 11.2067
	Average	$ 9.7815		Average	$ 10.3849
	PGW	$ 9.8125		PGW	$ 10.4358
	Difference	$ 0.0310		Difference	$ 0.0509

Unweighted = Simple average of monthly Gas Cost Rate (i.e. total of 44 months of gas cost rates divided by 44 months).

Weighted = Weighted average of monthly Gas Cost Rate (i.e. each monthly GCR weighted for monthly percentage of annual sales).

NPV 18.0% Scenerio

	Debt Service	Principal	Interest	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	11,989,000	1,900,000	10,089,000	0.836387	10,027,449	1,935,115	501,372	7,590,962
2	11,647,000	1,900,000	9,747,000	0.699544	8,147,588	985,108	419,342	6,743,138
3	11,305,000	1,900,000	9,405,000	0.585090	6,614,439	294,166	350,732	5,969,541
4	10,963,000	1,900,000	9,063,000	0.489362	5,364,872	0	293,348	5,071,524
5	10,621,000	1,900,000	8,721,000	0.409296	4,347,132	0	245,352	4,101,780
6	10,279,000	1,900,000	8,379,000	0.342330	3,518,810	0	205,210	3,313,600
7	9,937,000	1,900,000	8,037,000	0.286321	2,845,167	0	171,635	2,673,532
8	9,595,000	1,900,000	7,695,000	0.239475	2,297,761	0	143,553	2,154,208
9	9,253,000	1,900,000	7,353,000	0.200294	1,853,318	0	120,066	1,733,252
10	8,911,000	1,900,000	7,011,000	0.167523	1,492,799	0	100,422	1,392,377
11	8,569,000	1,900,000	6,669,000	0.140114	1,200,639	0	83,992	1,116,648
12	8,227,000	1,900,000	6,327,000	0.117190	964,121	0	70,249	893,871
13	7,885,000	1,900,000	5,985,000	0.098016	772,857	0	58,756	714,101
14	7,543,000	1,900,000	5,643,000	0.081979	618,371	0	49,143	569,228
15	7,201,000	1,900,000	5,301,000	0.068567	493,748	0	41,102	452,646
16	6,859,000	1,900,000	4,959,000	0.057348	393,351	0	34,377	358,974
17	6,517,000	1,900,000	4,617,000	0.047965	312,590	0	28,753	283,837
18	6,175,000	1,900,000	4,275,000	0.040118	247,726	0	24,048	223,678
19	5,833,000	1,900,000	3,933,000	0.033554	195,720	0	20,114	175,606
20	5,491,000	1,900,000	3,591,000	0.028064	154,100	0	16,823	137,277
21	5,149,000	1,900,000	3,249,000	0.023472	120,859	0	14,071	106,789
22	4,807,000	1,900,000	2,907,000	0.019632	94,371	0	11,768	82,603
23	4,465,000	1,900,000	2,565,000	0.016420	73,315	0	9,843	63,472
24	4,123,000	1,900,000	2,223,000	0.013733	56,623	0	8,233	48,391
25	3,781,000	1,900,000	1,881,000	0.011486	43,430	0	6,886	36,545
26	0	0	0	0.009607	0	0	4,107	(4,107)
27	0	0	0	0.008035	0	0	2,363	(2,363)
28	0	0	0	0.006721	0	0	1,149	(1,149)
29	0	0	0	0.005621	0	0	331	(331)
30	834,624	834,624	0	0.004701	3,924	0	291	3,633
Total	197,959,624	48,334,624	149,625,000		52,255,082	3,214,389	3,037,429	46,003,264

Assumptions:

1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M (debt service reserve fund=$11,989,000, premium of $6,270,000 and cost of issuance = $1,265,400)
3. NPV Rate - 18.0%
4. Investment Rate - 5.0%
5. Coverage 1.5x
6. Excess in debt service reserve fund in years 26,27,28,29 and 30 used to offset debt service

NPV 18.0% Scenerio

	Debt Service	Principal	Interest	Debt Service 1.5 Coverage	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	11,989,000	1,900,000	10,089,000	17,983,500	0.836387	15,041,173	1,935,115	501,372	12,604,686
2	11,647,000	1,900,000	9,747,000	17,470,500	0.699544	12,221,382	985,108	419,342	10,816,932
3	11,305,000	1,900,000	9,405,000	16,957,500	0.585090	9,921,659	294,166	350,732	9,276,761
4	10,963,000	1,900,000	9,063,000	16,444,500	0.489362	8,047,308	0	293,348	7,753,961
5	10,621,000	1,900,000	8,721,000	15,931,500	0.409296	6,520,699	0	245,352	6,275,346
6	10,279,000	1,900,000	8,379,000	15,418,500	0.342330	5,278,215	0	205,210	5,073,005
7	9,937,000	1,900,000	8,037,000	14,905,500	0.286321	4,267,750	0	171,635	4,096,115
8	9,595,000	1,900,000	7,695,000	14,392,500	0.239475	3,446,642	0	143,553	3,303,089
9	9,253,000	1,900,000	7,353,000	13,879,500	0.200294	2,779,977	0	120,066	2,659,911
10	8,911,000	1,900,000	7,011,000	13,366,500	0.167523	2,239,199	0	100,422	2,138,777
11	8,569,000	1,900,000	6,669,000	12,853,500	0.140114	1,800,959	0	83,992	1,716,967
12	8,227,000	1,900,000	6,327,000	12,340,500	0.117190	1,446,181	0	70,249	1,375,932
13	7,885,000	1,900,000	5,985,000	11,827,500	0.098016	1,159,285	0	58,756	1,100,530
14	7,543,000	1,900,000	5,643,000	11,314,500	0.081979	927,556	0	49,143	878,414
15	7,201,000	1,900,000	5,301,000	10,801,500	0.068567	740,622	0	41,102	699,520
16	6,859,000	1,900,000	4,959,000	10,288,500	0.057348	590,027	0	34,377	555,650
17	6,517,000	1,900,000	4,617,000	9,775,500	0.047965	468,885	0	28,753	440,132
18	6,175,000	1,900,000	4,275,000	9,262,500	0.040118	371,589	0	24,048	347,541
19	5,833,000	1,900,000	3,933,000	8,749,500	0.033554	293,579	0	20,114	273,466
20	5,491,000	1,900,000	3,591,000	8,236,500	0.028064	231,149	0	16,823	214,326
21	5,149,000	1,900,000	3,249,000	7,723,500	0.023472	181,289	0	14,071	167,218
22	4,807,000	1,900,000	2,907,000	7,210,500	0.019632	141,557	0	11,768	129,788
23	4,465,000	1,900,000	2,565,000	6,697,500	0.016420	109,973	0	9,843	100,130
24	4,123,000	1,900,000	2,223,000	6,184,500	0.013733	84,935	0	8,233	76,702
25	3,781,000	1,900,000	1,881,000	5,671,500	0.011486	65,146	0	6,886	58,260
26	3,439,000	1,900,000	1,539,000	5,158,500	0.009607	49,559	0	4,107	45,451
27	3,097,000	1,900,000	1,197,000	4,645,500	0.008035	37,328	0	2,363	34,965
28	0	0	0	0	0.006721	0	0	1,149	(1,149)
29	0	0	0	0	0.005621	0	0	331	(331)
30	834,624	834,624	0	1,251,936	0.004701	5,886	0	291	5,595
Total	204,495,624	52,134,624	152,361,000	306,743,436		78,469,509	3,214,389	3,037,429	72,217,691

Assumptions:

1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M (debt service reserve fund=$11,989,000 and cost of issuance and premium/discount = $7,535,400)
3. NPV Rate - 18.0%
4. Investment Rate - 5.0%
5. Coverage 1.5x
6. Excess in debt service reserve fund in years 26,27,28,29 and 30 used to offset debt service

PGW St. No. 2
5/22/07
Phila
WJH.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF

JOSEPH R. BOGDONAVAGE

ON BEHALF OF

PHILADELPHIA GAS WORKS

DOCKET No. R-00061931

December 2006

I. QUALIFICATIONS AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.

A. My name is Joseph R. Bogdonavage. My position is Senior Vice President, Finance.

Q. HOW LONG HAVE YOU HELD THIS POSITION?

A. I was promoted to this position in December 2000.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I have been employed with PGW since 1973, during which time I have held various positions in the Finance area. I most recently held the position of Director – Budget & Financial Forecasting.

Q. PLEASE SUMMARIZE 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 proposes 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 revenues 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 variances analysis reporting.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor's Degree in Accounting from Temple University in 1972.

Q. HAVE YOU EVER TESTIFIED BEFORE ANY REGULATORY AGENCIES?

A. Yes, I testified before the Pennsylvania Public Utility Commission ("PUC") in conjunction with PGW's 2001 base rate case (R-00006042), its 2002 base rate case (including its request for extraordinary rates) (R-00017034), its 2003 Restructuring Proceeding (M-00021612), and the 2004 Consolidated Proceeding (P-00042090). I have also testified before the Philadelphia Gas Commission ("PGC") on numerous occasions, most recently on matters associated with PGW's FY 2007 Operating Budget.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE PROCEEDINGS?

A. The purpose of my testimony is to: 1) provide the documentation and supporting methodology for the schedules and exhibits that are included in PGW's base rate filing; 2) describe PGW's financial results for the test year (the 12 months ending August 31, 2007); and 3) detail and provide supporting justification for PGW's requested increase in annual base rates of $100 million.

II. BACKGROUND FOR CONSIDERATION OF RATE REQUEST

Q. PLEASE PROVIDE THE BACKGROUND OF PGW'S CURRENT FINANCIAL CONDITION.

A. PGW last received an increase in base rates in April, 2002 when the Commission granted its request for extraordinary rate relief in the amount of $36 million. That same $36 million increase was made permanent when, in August, 2002, the Commission approved a settlement of PGW's $60 million base rate request. PGW as a result of the Settlement, was also permitted to implement a Weather Normalization Clause ("WNA"). The settlement was a "black box" settlement in which only the overall increase was agreed to.

The 2002 rate increase followed a $33.6 million base rate increase that had been authorized by the Commission in the Fall of 2001, after a fully litigated proceeding. After the 2002 case, PGW was hopeful that the two base rate increases and the implementation of the WNA would stabilize PGW's earnings and cash flow and permit it to reduce its outstanding short and long-term debt and begin to finance its capital construction program from internal sources.

Q. WAS PGW ABLE TO MEET THOSE GOALS?

A. Unfortunately not. Historically high natural gas prices and higher than anticipated costs in several areas, quickly reduced PGW's revenues and cash flow while increasing uncollectibles. For example, in FY 2003, when the effect of the increase in gas costs was first experienced, collections as a percent of the Company's billings dropped to a historically low 86.60% (compared to its longer-term historic rate of approximately 92%). This decline cost PGW over $40 million in revenues and put the Company in danger of losing its barely investment grade bond rating. The Company was in a position to respond immediately by stepping up an internal Collections Initiative that was already in progress. This initiative was designed to find additional ways to improve collections results and service. PGW also sought external regulatory and legal changes to give it additional tools to improve collections. These various efforts, which are explained in greater detail in Mr. Gyory's testimony, were successful and in FY 2004 PGW realized a 91.41% collections rate which improved to 96.01% in FY 2005 and 96.57% in FY 2006.

Q. WHAT OTHER FACTORS HAVE CONTRIBUTED TO PGW'S REDUCED FINANCIAL PERFORMANCE?

A. The over 200 million increase in natural gas expense since the FY 2001 period (the test year used in PGW's last, fully litigated base rate proceeding) has created a massive strain on PGW's cash working capital and liquidity balances, increased its bad debt expense and has contributed to a significant reduction in sales. Mr. White will explain the reductions in sales per customer that PGW has experienced in the last several years. These reductions in demand stem not only from much higher prices but also from reduced population and industrial growth in Philadelphia, improved energy efficiency of homes and improved efficiency of household appliances and commercial equipment installed by customers. As a result, PGW's sales margin in the test year is some $39 million less than the margin in its 2001 fully litigated rate case (including the allowed rate increase), adjusted upward to account for the 2002 permanent rate increase allowance. See, Exhibit JRB-3.

Additionally, PGW has suffered a continued material increase in debt service costs. In PGW's last fully litigated rate proceeding (2001), PGW was permitted to include in rates total interest expense of $57.8 million (Exhibit JRB-3). PGW has had no internally-generated funds for capital expenditures since 1992. Accordingly, PGW continues to rely completely on the long term capital markets to fund its capital program, and the use of its short term debt to cover day-to-day operations, and this has resulted in a FY 2007 total interest expense of $74 million, more than a $16 million increase. Finally, though PGW has managed most costs effectively, certain costs that affect many large companies and cannot be locally contained have increased dramatically. For example, health insurance costs have risen $11.5 million compared to the level allowed in PGW's last rate case, and pension costs have risen some $13.7 million. Overall, PGW's operating and maintenance expenses and depreciation have increased approximately $29 million since its last fully litigated case in 2001.

Q. HOW HAVE THESE FACTORS AFFECTED PGW'S ABILITY TO FINANCE CONSTRUCTION AND OPERATIONS?

A. It has had a very negative effect. PGW must expend $60-70 million annually simply to maintain the safety and reliability of its gas distribution and storage systems and meet customer load growth requests. Unfortunately, because of PGW's need to rely exclusively upon the issuance of long-term debt to fund this necessary construction PGW's debt-to –"equity"[1] ratio is extremely unbalanced – 83% in the test year, where it has been since FY 2005. Without rate relief, the percentage of PGW's plant-in-service funded by debt is projected to reach 89% by FY 2012. Of course, without appropriate rate relief, PGW will have long since violated its required debt service coverage requirements and defaulted on its bond covenants, causing a financial crisis that will threaten its ability to operate safely and reliably.

Q. HAS THE CITY OF PHILADELPHIA TAKEN ANY STEPS TO ADDRESS PGW'S DETERIORATING FINANCIAL CONDITION?

A. Yes, and without its contribution, PGW would have had to file for a base rate increase well before now. The City of Philadelphia, in conjunction with City Council, assisted PGW in improving its liquidity by foregoing the $18.0 million annual payment in fiscal years 2004, 2005 and 2006. The Mayor has announced his intention to forego this payment for an additional four years. The City also delayed the final repayment date of the $45.0 million City loan until August 2008. Partly as a result of these concessions as well as higher collections, and operations improvements, in January 2006 PGW was able

[1] The "equity" in this equation is the amounts that have been built up in past years in which PGW has produced a positive surplus after remitting to the City the legally mandated City Payment, or, in the last several years, when the City payment has been waived.

to increase the size of its Commercial Paper program to $150.0 million, an increase of $50.0 million, through negotiations with its lending banks to provide additional liquidity.

Q. HAS PGW HAD TO TAKE ANY OTHER STEPS TO IMPROVE LIQUIDITY?

A. Yes. As it has had to do in the past, PGW avoided liquidity crises by the use of a series of "one-time fixes" such as interest rate swaps, and natural gas forward purchases. Most of these opportunities are no longer available. Those that might be available in the future will be very expensive. In all instances such transactions merely were timing differences, moving obligations into a future period – for a cost – and provided no net incremental earnings or liquidity.

III. PRO FORMA FINANCIAL RESULTS

Q. HAVE YOU PREPARED A PRO FORMA TEST YEAR INCOME STATEMENT THAT PROJECTS THE COMPANY'S STATUS IN FY 2007?

A. Yes. Exhibit JRB-1 provides the base test year data at present rates. I will describe the development of these data below. Also, I am sponsoring Exhibit JRB-2, which is the detailed schedules and supporting material for PGW's original budget submitted to the Philadelphia Gas Commission ("PGC").

As can be seen, PGW's projected net income for the test year is just $8.9 million. This level will permit PGW to make its required 1.5x bond ordinance debt coverage (on its 1998 Ordinance bonds) and satisfies the total fixed coverage charge as calculated by S&P,[2] necessary to maintain an investment grade debt rating.

However, without rate relief, the Company will quickly fall below minimum requirements in FY 2008. PGW's projection for the next fiscal year shows that, without rate relief, earnings go to less than $1 million and PGW's debt service coverage will fall

[2] S&P's calculation looks at income verses all external funding.

below minimum levels for investment grade securities (1.11 times, where the minimum requirement is 1.2-1.3 times), and just at the legally mandated bond ordinance requirements of 1.5x. PGW's debt-to-equity ratio climbs to 84% in FY 2009, and moves up progressively until it reaches 89% in FY 2012. Failure to grant rate relief in this case would, thus, quickly set off a financial crisis that would threaten PGW's ability to function as a going concern.

Q. HOW DOES PGW'S PROJECTED TEST YEAR CASH BALANCE AND LIQUIDITY BALANCE AT YEAR END COMPARE TO NECESSARY LEVELS?

A. They are inadequate. By way of background, PGW utilizes its year end cash balance as a snapshot measure of the adequacy of its cash, needed to fund day-to-day operations in anticipation of the receipt of revenues. In the past, PGW witnesses testified that PGW needed $35-40 million of year end cash in order to have sufficient cash to fund the next several months' expense obligations – most particularly, the purchases of gas supply and the payment of debt service during the period prior to receipt of revenue from winter sales. This historical goal is no longer adequate, given the growth in PGW's expense responsibilities. For example, its natural gas costs have increased by 52% since 2001. Its total interest expense costs has increased 28%. In order to meet these enormously increased obligations when due, PGW's end of year cash target needs also to grow by a corresponding amount. The level of year end cash that PGW should have on hand, considering today's heightened obligations, is $55-60 million. Moreover, PGW's short-term letter of credit, which supports its commercial paper program should be fully available at fiscal year end. PGW currently has a $150 million letter of credit ("LOC") which, as I mentioned above, was recently increased from $100 million. For example, PGW's natural gas inventory has increased by approximately $63 million since its last fully litigated base rate case. The commercial paper program is PGW's only legitimate safety net if an unanticipated crisis were to create extraordinary cash needs.

Unfortunately, in contrast to those needs, year end cash exists entirely from utilization of the Company's commercial paper program in order to pay its obligations throughout the year. By FY 2008, the Company will experience a $1.2 million cash shortfall and will have its commercial paper program virtually completely utilized. Its available liquidity will be exhausted after FY 2009. PGW will end the test year with some $90 million in commercial paper outstanding and virtually all of the $45 million City loan utilized. While the projection shows $51 million in year end cash, that is very deceiving because no part of this amount was generated from PGW operations, i.e., 100% of the cash on hand is borrowed. Indeed, this has been the case for several years. That is both expensive and risky, leaving PGW with no legitimate safety net should gas prices spike or other unexpected events occur. The Company is utilizing its commercial paper not only to provide liquidity but to actually fund its operating budget. Using the Commercial Paper program in this way is not only enormously expensive but it also creates an unacceptable level of risk. If PGW were to lose its commercial paper program or be faced with some other emergency requiring its use, it would have no liquidity and would be thrust into a financial crisis.

Q. HOW LIKELY IS IT THAT PGW COULD FIND ITSELF WITHOUT ANY WORKING CAPITAL?

A. Unfortunately, the potential is very real. On January 25 of this year, the Company had approximately $4 million of cash on hand and its commercial paper program was fully utilized, after the payment of a natural gas supply bill that was due on that day. At that time there was no other prudent sources of funds available should the need have arisen.

Fortunately, PGW had no other obligations that required payment until its cash receipts were built back up. If PGW had had such obligations it would have had to default or resort to some other "one-time fix" to meet them, if any were available. Obviously, such a default would have had serious negative implications for PGW and its relationship with its suppliers and lenders.

Q. HAS PGW'S ABILITY TO PROVIDE SAFE AND RELIABLE SERVICE BEEN COMPROMISED BY ITS FINANCIAL CONDITION?

A. PGW has <u>not</u> compromised the safety or reliability of the system. However, over the last several years the financial condition of the Company has required it to exclude from its capital budget many projects that were not directly needed to meet this goal. Mr. White explains the effect that these cutbacks have had on the Company's ability to enhance its operations. This "only the absolute necessities" approach to capital improvements has forced the Company to extend the use of a variety of structures, equipment, vehicles and facilities well beyond their normal, useful life, increasing maintenance costs and making them more susceptible to costly failure. Should such equipment fail suddenly, PGW would have to spend unbudgeted funds for replacement and customer service could be affected.

Q. WHAT IS YOUR CONCLUSION BASED UPON A REVIEW OF THESE FINANCIAL DATA?

A. At the very least, PGW is in serious need of significant rate relief to avoid violating its bond ordinance requirements, to prevent a downgrade to "junk" status, to pay off its City Loan, to have sufficient cash to meet day-to-day obligations, to have an adequate amount of short term borrowing ability to meet its liquidity needs and to provide an adequate cushion for unforeseen events and emergencies. As I will explain below, PGW believes that the rate increase granted here should not only repair the present deficiencies but also recognize the level of revenues needed over the longer term (the next 5-6 years) to give the Company the opportunity to address its current liquidity shortfall and extricate itself from this recurring pattern of financial crisis. As explained by other witnesses, these problems could have a direct impact on customer service and system reliability unless they are addressed now.

IV. EXPLANATION OF RATE INCREASE REQUEST

Q. PLEASE EXPLAIN THE BASIS ON WHICH YOU HAVE CALCULATED THE $100 MILLION REVENUE REQUIREMENT.

A. As the Gas Choice Act and prior Commission orders established, PGW's revenue requirement is determined on the basis of the "Cash Flow Method." The Commission has characterized its obligations under the Cash Flow Method as to "determine the reasonable level of revenues and expenses, including a reasonable amount of cash requirement, and balance the interests of customers and PGW. . . ."[3] That standard in operational terms, requires that PGW be permitted to bill a level of revenues that: permits it to pay all reasonable expenses including debt service in a timely manner; permits it to finance or pay for necessary construction; provides sufficient income to produce necessary bond coverage requirements; and provides for sufficient cash and liquidity both during and at the end of the year so that it will be able to pay its expenses in the first several months of the next fiscal year.[4] Indeed, in a separate part of the statute, an affirmative duty is imposed on the Commission to assure that PGW has sufficient income to satisfy its bond ordinance requirements to satisfy debt service coverage minimums and to pay all of its

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[3] R-0006042 Opinion and Order at 26.

[4] PGW has explained in past cases that PGW needs a sufficient balance of cash at the end of its fiscal year (August) so that it can pay its various expenses in the first several months of the next fiscal year (prior to the winter) when PGW's revenues are low.

obligations when due. In the Company's extraordinary rate relief proceeding, the Commission also recognized the importance of permitting PGW to realize earnings that satisfy at least minimum standards for an investment rating for its long term debt. Obviously, PGW recognizes that these standards should be satisfied at the lowest reasonable cost to customers.

Q. WHAT STANDARD HAVE YOU UTILIZED TO DETERMINE THE LEVEL OF RATE INCREASE OVER PRO FORMA PRESENT RATES TO MEET THIS STANDARD?

A. The Company has analyzed its financial needs and is requesting the amount that will permit it to: (1) attain the minimum financial results required for PGW to continue to operate as going concern in the short-term; and (2) obtain sufficient internally generated funds for capital to reduce reliance on long term debt, improve its debt-to-equity ratio and reduce borrowing costs and riskiness, thereby putting the Company and its customers on firmer footing in the longer term.

PGW needs approximately $80 million in additional revenues just to replicate the levels of contribution margin and recovery of O&M, depreciation and interest expense that the Commission authorized as reasonable in the Company's last two rate proceedings. That comparison is set out in Exhibit JRB-3. Note that increasing revenues by this amount would only place the Company in the same position it was in 2002 in terms of coverages and internally generated cash. Given that its liquidity needs have grown with the increase in natural gas prices it is clear that this level would prove to be inadequate even to simply maintain the Company in a "just getting by" position.

Q. HOW WILL THE REQUESTED RATE INCREASE ADDRESS THE SECOND GOAL DISCUSSED ABOVE: TO IMPROVE THE COMPANY'S INTERNAL CAPITAL GENERATION AND IMPROVE ITS DEBT-TO-EQUITY RATIO?

A. As explained above, even an increase of $80 million, while crucially necessary, will do no more than permit PGW to return to the marginal status in which it has found itself since 2002.

As explained by Ms. Bisgaier and Mr. Krellenstein, it is crucially important that the Company break out of this cycle of financial vulnerability. To do this it must be able to create internally generated funds; that is, not rely exclusively on long term debt to fund the capital program, and achieve a more balanced capital structure. It must also start producing enough cash from operations that the commercial paper program is not utilized at the end of the year but is available to meet the Company's intra-year cash needs, and it has an adequate amount of internally generated cash on hand to supplement its short-term borrowing capability. To reach these goals, it is essential that the Commission authorize a revenue level that, on a projected basis, will permit PGW to realize approximately a 50/50 capital structure in the next five to six years. Such a capital structure will mean that PGW will have financed more and more of its capital program from internally generated funds rather than from expensive long-term borrowing and will give the Company enough cash to utilize its own funds to finance its intra-year cash working capital needs. The impact of that evolution will lower costs to the customer, improve customer service by permitting upgrades of plant and equipment and make PGW less vulnerable to risk.

Q. WHY IS IT IMPORTANT FOR THE COMPANY TO INCREASE THE PORTION OF ITS ASSETS THAT ARE PAID FOR BY INTERNAL CAPITAL RATHER THAN BY EXTERNAL FINANCING?

A. For at least two reasons. First, when all factors are considered, it is actually more expensive for PGW customers to fund construction projects via long term debt rather than through internal capital funds generated by additional revenues. Attached (Exhibit

JRB-4) is an analysis that compares the discounted present value cost to customers of funding two projects that the Company recently has determined will be required in the next few years: an upgrade to the Company's billing system, its BCCS system, and the construction of phase 2 of the expansion of PGW's Richmond gas liquefaction plant. PGW's preliminary estimate is that these two projects will require about $50 million in capital improvements. Exhibit JRB-4 compares the total present value cost of obtaining this $50 million through customer rates (internal generation) compared to borrowing the funds by issuing additional long term debt. This chart shows that increasing rates to finance these projects through internal capital is less expensive to customers than if the Company would fund the construction by the issuance of additional debt. This is because while the interest rate on the debt is relatively low, the transaction costs and the additional earnings needed to meet bond ordinance coverage requirements makes the borrowing option much more expensive.

Q. ARE THERE OTHER ALTERNATIVES TO PROVIDING ADDITIONAL INTERNALLY GENERATED FUNDS?

A. Aside from raising revenues, the answer is no because most of PGW's operating costs can not be reduced without affecting service or safety. For example, as shown on Exhibit JRB-5 only about 14-15% – are within its direct control. In other words, approximately $142 million of PGW's total annual expenses of almost $1 billion could be characterized as controllable in FY 2006. PGW, at least theoretically, has the ability to control the levels of its operating labor (and associated taxes), losses, utilities and purchased services (such as outside consultants). The bulk of its expenses, such as fuel costs, depreciation and interest can not be reduced through independent actions on PGW's part. However, even if one assumes that PGW could be able to fund any material portion of its necessary capital improvements through reductions in these expenses it would require PGW to reduce its controllable expenses by a huge amount to make any dent in its needed internal funds generation. There is no reputable analysis that suggests that a natural gas utility such as PGW could continue to operate safely and reliably if it drastically reduced its labor expenses, for example, by laying off workers. Moreover, PGW's collective bargaining agreement contains a "no layoff" clause that further limits any realistic opportunity that PGW might have to try to find the necessary internal capital by drastic force reductions.

Q. HOW DOES PGW PROPOSE TO IMPLEMENT ITS PLAN TO NORMALIZE ITS CAPITAL STRUCTURE?

A. PGW has utilized its five-year forecast to project its financial results under several rate relief award scenarios. PGW's five-year forecast is the product of a rigorous and intensive process and is prepared annually as a strategic planning tool for the Company. Its forecasts, including those that are reflected in my exhibits, are reviewed and approved by PGW's Board of Directors, the Philadelphia Facilities Management Corporation, as well as the Philadelphia Gas Commission. Hence PGW believes that they provide projections that can be utilized by the PUC to judge the effect of granting the requested rate increase on the Company's future financial results. Using this tool, PGW has analyzed its projected financial results to determine the level of revenues it needs now to: (a) fund its necessary operations; (b) reduce its existing level of debt; (c) fund necessary capital improvements, rather than incurring even more long term debt; and (d) reduce its annual level of outstanding commercial paper. PGW's goal, as indicated above, is to seek to obtain as close to a 50/50 capital structure as reasonable while maintaining or reducing its long and short term debt service costs in order to position itself over the long term as a financially viable going concern. The Company has characterized this as its "Financial Stability Plan." To implement this plan, PGW proposes that a portion of the revenues produced by this requested base rate increase be placed in a restricted fund, that would be used to retire existing long term debt, commercial paper and other outstanding loans. PGW has been advised that it should have a plan to accomplish these goals in no more than 5 years. In order to do this, PGW needs to be able to place into a restricted fund over $200 million over this period.

Q. WHAT LEVEL OF CONTRIBUTION TO THE DEBT REDUCTION FUND WILL PGW BE ABLE TO MAKE IF IT RECEIVES A $100 MILLION INCREASE?

A. I have calculated that implementing the full request will generate contributions of $145 million to the restricted fund. While this level of funding will permit the Company to almost attain its target debt-equity relationship, it is $60 million less than if PGW is granted the right to use off-system sales proceeds to reduce debt and PGW's debt level would still be almost $800 million, which, in our view, is too high.

Q. WHY ISN'T PGW REQUESTING A LEVEL OF RATE INCREASE THAT WILL ASSURE THAT IT WILL BE ABLE FULLY TO FUND ITS DEBT REDUCTION PLAN?

A. PGW management and its supervising board, the Philadelphia Facilities Management Corporation, have attempted to balance the immediate needs of vulnerable customers and PGW's dire financial requirements and determined that the maximum burden it believes appropriate to impose on its customers is a $100 million increase in base rates.

Q. HOW DOES PGW PROPOSE TO RAISE THE ADDITIONAL AMOUNTS TO ADEQUATELY FUND ITS CAPITAL BUDGET AND DEBT REDUCTION PLAN?

A. PGW projects that $10 million annually could be produced by permitting PGW to retain (i.e., not pass through in its Gas Cost Rate) the proceeds from off-system sales and capacity release transactions. These proceeds are about $8 million this year but are being used entirely to reduce the cost of natural gas in PGW's Gas Cost Rate. While this certainly has some value, PGW believes it would be far better for both the Company and its customers to employ this source to fund necessary capital improvements and reduce outstanding debt, which is imposing such enormous costs and risks on the Company. Every dollar used in this way reduces the Company's need to borrow through the issuance of long term debt which already has been shown to be a more cost-effective way to fund PGW's capital construction. I have provided the Company's best estimate of the amount of capacity release and off-system sales proceeds it projects it will realize over the next five years. Mr. Hershey provides additional testimony supporting this proposal. More importantly, PGW commits to depositing into the restricted fund 100% of any proceeds from these transactions not utilized to fund its approved capital budget, so that the Commission will have assurance that these funds will be used for their intended purposes.

Q. WHAT ARE THE CONSEQUENCES IF PGW RECEIVES A LOWER RATE INCREASE?

A. On Exhibit JRB-6, I have depicted the five-year forecast for PGW assuming that it receives an $80 million rate increase, effective FY 2007, and there is no change in the treatment of off-system sales proceeds. This level of rate increase will reduce PGW's ability to fund its Financial Stability Plan by $125 million. Ms. Bisgaier and Mr. Krellenstein explain why it is so crucial that PGW be given the opportunity to implement a plan that could achieve all the benefits of a 50/50 capital structure over the next five fiscal years, (recalling that the movement to achieving this goal cannot start in actuality until FY 2008 as any rate increase authorized by the Commission here authorized will likely not go into effect until approximately the end of calendar 2007). Of course, if

PGW were authorized an even smaller increase, its ability adequately to address this serious problem will be correspondingly lessened.

Q. HOW DO THOSE RESULTS COMPARE TO PGW'S PROJECTED PERFORMANCE IF IT RECEIVES ITS FULL REQUEST?

A. Exhibit JRB-1, Schedule 2 shows PGW's projection of its financial performance if it receives the full $100 million rate increase and is able to retain proceeds from off system sales. As can be seen, only when PGW has available the full rate increase request <u>and</u> the off-system sales/capacity release proceeds (projected at $10 million a year) does it have a good chance of achieving its goal of a 50/50 capital structure by FY 2012.

Q. MR. BOGDONAVAGE ISN'T IT POSSIBLE THAT AWARDING THE COMPANY THE ENTIRE RATE INCREASE IT IS REQUESTING COULD RESULT IN IT ACHIEVING A 50/50 CAPITAL STRUCTURE SOONER THAN FY 2012?

A. Unfortunately, it is more likely that it will not achieve this goal. The most obvious reasons are that the five year projection assumes that PGW will experience a 95% collections rate and that there will be a slight increase in firm gas sales over the forecast period. A 95% collections rate is not at all certain, given past experience, and all indications are that non-weather related sales will continue to decline, given the increased trends towards conservation and the population reductions in the Philadelphia area. Moreover, other assumed sources of revenue, such as LIHEAP and CRISIS, are uncertain due to annual changes in public policy at the state and federal level. These and other external factors could cause PGW's collections experience to be less than projected. In turn, PGW's projected income and internal financing capability would be negatively affected compared to this projection.

In addition, PGW's revised 5-year capital budget includes preliminary estimates of the cost of two major projects – an update of the Company's BCCS system and the construction of the second phase of its Richmond liquefaction plant expansion. If the final level of construction expenditures for these items turn out to be greater than projected, or if expenditures are required for other equipment failures, additional internally generated funds will have to be allocated to fund these construction items rather than paying down existing debt.

However, to eliminate any concern in this regard, if PGW is authorized to put into effect the full amount it has requested and to retain the proceeds from off-system sales and capacity release, <u>it would commit to affirmatively triggering a PUC rate modification as soon as its debt ratio reached 50% at the end of any fiscal year.</u>

IV. <u>CALCULATION OF PRO FORMA TEST YEAR</u>

Q. MR. BOGDONAVAGE, PLEASE EXPLAIN THE DERIVATION OF THE PRO FORMA TEST YEAR INFORMATION AT PRESENT RATES.

A. As indicated, those schedules are displayed in Exhibit JRB-1. In that Exhibit, I have provided schedules which show PGW's Income Statement, Cash Flow Statement, Debt Service Coverage Statement and Balance Sheet derived from the approved budget for the test year, the 12 months ending August 31, 2007. The development of the test year starts with the "fully forecasted" budget as approved by the PGC for that fiscal year as a starting point and then makes certain budget and pro forma adjustments. My supporting data also includes the detailed schedules and data that were presented to the PGC in support of PGW's FY 2007 operating budget (Exhibit JRB-2).

Q. PLEASE EXPLAIN THE REVISIONS TO PGW'S APPROVED BUDGET THAT WERE MADE AND THE REASON FOR MAKING THEM?

A. Three major revisions were made:

1. Revision to Revenues and Expenses to Reflect Modified "Soft Off" Accounting. PGW has recently modified its billing treatment for this program. PGW has

a policy of avoiding the substantial operating cost associated with discontinuing service at a premise by ending the customer's responsibility but without actually physically disconnecting natural gas service at the location. Earlier this year, PGW determined to change the way in which it accounted for this natural gas usage. Rather than treating the "soft off" used gas as a "sale," PGW is now accounting for the gas as "company used." To implement this change, PGW modified its revenues and expenses starting in FY 2004 through the FY 2007 budget. The direct revenue and expense adjustments needed to modify the FY 2007 budget to reflect the new "soft off" accounting is shown on Exhibit JRB-1, p. 11. The revision to revenues for "soft off" accounting also resulted in a revision to pro forma uncollectible expense, compared to the level approved in PGW's approved budget.

2. I have adjusted future test year data to reflect a 96% collections factor. PGW's approved budget utilized a 94% rate. Since PGW submitted its budget to the PGC, PGW's collections factor has increased both due to increased collections and the affect of the new "soft off" methodology. As a result, PGW believes that it is now reasonable to project that PGW will experience a 96% rate in FY 2007, prior to any rate increase.

3. Pension expense has been adjusted downward by approximately $2.5 million (compared to the amount originally presented in the budget) to reflect a revised actuarial expense provided by PGW's pension consultant.

Q. MR. BOGDONAVAGE, WHAT ASSUMPTIONS AND EXPENSE ADJUSTMENTS DID YOU MAKE TO PGW'S APPROVED BUDGET TO MAKE THE TEST YEAR REPRESENTATIVE OF FUTURE PERIODS?

A. Several "pro forma" adjustments have been made to the revised, FY 2007 test year to account for ratemaking conventions. The are as follows:

1. Rate Case Expense. PGW's present estimate of rate case expense has been included on a three year amortized basis. The detail of these adjustments are shown on Exhibit JRB-1,, p. 11.

2. Normalization of Expenses. The test year has been adjusted by removing certain expenses, totaling $353,000, associated with prior period, one-time, non-recurring activities.

3. Annualized Union Wage Increase. Two union wage increases that will take effect during the test year were annualized to reflect their full, 12 month impact. The net effect of all of these adjustments is $217,000.

Q. CAN YOU PROVIDE AN EXPLANATION OF THE DERIVATION OF THE 5-YEAR BUDGET PROJECTIONS THAT APPEAR IN YOUR EXHIBIT?

A. Yes. The five year budget projections are consistent with similar projections that PGW prepared and submitted with its budget review process to the PGC, although the budgets have been adjusted to: (1) reflect the above adjustments and revisions; and (2) to revise future capital budget projections to include two new projects discussed above – phase 2 of the LNG liquefaction plant expansion and upgrade of its BCCS system. One significant difference in the forecast data is that I have shown the financial results assuming a 95% collections rate, to reflect the effect of the requested $100 million rate increase.

V. <u>RESTRUCTURING SURCHARGE</u>

Q. CAN YOU EXPLAIN HOW THE COMPANY HAS TREATED THE RESTRUCTURING SURCHARGE?

A. Yes. In PGW's Restructuring Proceeding it was permitted to establish a Restructuring Surcharge to recover in an automatic adjustment clause the costs associated with unbundling its rates and allowing Choice as well as costs associated with complying with certain PUC regulations. In a Stipulation entered into by the parties and approved by the PUC in that proceeding, it was agreed that PGW would roll into base rates any such costs when it filed its next base rate case. PGW has done this. Any such ongoing costs of regulatory compliance or restructuring are reflected, as appropriate, in PGW's FY 2007 test year. Accordingly, PGW's proposed tariff revisions eliminate the Restructuring Surcharge for any new costs, effective upon the implementation of the proposed tariff in this proceeding. If there is any over or under collection from this year's Restructuring Surcharge, PGW proposes that this amount be recovered by revising the Surcharge to recover or credit back to customers any such amount over the next 12 months and then eliminate the Surcharge once the total amount of the over/under recovery is fully paid back or collected.

Q. **DOES THIS COMPLETE YOUR TESTIMONY?**

A. Yes.

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	$ 114,834	$ 116,734	$ 112,487	$ 106,113	$ 105,845	$ 105,471
Gas Transport Service	4,679	6,147	7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	820,732	845,817	816,568	762,697	757,378	749,166
Proposed Base Rate	-	-	-	-	-	-	-	-
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-
Unbilled Adjustment	(803)	2,513	(732)	521	(377)	(714)	(59)	(91)
Total Gas Revenues	830,550	956,562	942,090	970,961	937,139	877,079	872,629	864,454
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	18,032	18,438	17,813	16,678	16,581	16,426
Total Other Operating Revenues	32,807	28,534	28,564	29,181	28,770	27,855	27,981	28,054
Total Operating Revenues	863,357	985,096	970,654	1,000,142	965,909	904,934	900,610	892,508
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	339,813	341,650	342,541	342,533	342,362	341,614
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	34,698	35,786	35,925	35,847	36,348	36,846
Distribution	15,115	15,382	16,536	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	52,258	47,729	43,864	40,087	36,854	34,124
Marketing	2,592	2,470	2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	43,963	43,394	44,257	45,591	46,415	47,379
Health Insurance	33,571	34,804	37,784	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	15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments			217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	229,932	238,697	239,559	241,072	243,473	247,170
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	268,128	278,151	280,407	283,136	286,993	290,653
TOTAL OPERATING EXPENSES	793,012	917,374	898,969	936,643	903,775	845,537	845,241	841,547
OPERATING INCOME	70,345	67,722	71,685	63,499	62,134	59,397	55,369	50,961
Other Income	4,778	8,198	11,212	11,343	9,620	7,723	7,820	7,160
INCOME BEFORE INTEREST	75,123	75,920	82,897	74,842	71,754	67,120	63,189	58,121
INTEREST								
Long-Term Debt	53,856	51,778	56,437	56,698	61,578	61,236	65,202	64,046
Other	6,123	9,561	13,186	13,229	13,643	13,684	14,078	14,059
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	79,036	78,430	82,466	81,074
NET INCOME	11,272	10,417	8,919	711	(7,282)	(11,310)	(19,277)	(22,953)
City Payment	-							
Net Earnings	$11,272	$10,417	$8,919	$711	($7,282)	($11,310)	($19,277)	($22,953)

No Rate Increase

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	$8,919	$711	($7,282)	($11,310)	($19,277)	($22,953)
Depreciation & Amortization	42,281	43,928	46,007	47,128	48,468	49,476	50,999	50,755
Earnings on Restricted Funds	(3,265)	3,899	38	-	-	-	-	-
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	43,371	60,406	55,875	48,555	41,994	39,081	23,519	16,163
Funds Required for Capital	68,000	60,195	72,000	60,000	63,000	81,000	60,000	58,000
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	55,000	5,000	-	-	-
TOTAL SOURCES	139,697	168,305	165,875	181,555	127,994	118,081	83,519	74,163
USES								
Net Construction Expenditures	66,910	68,057	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS				16,000	23,000	7,800		
Funded Debt Reduction:								
Revenue Bonds	35,387	29,906	36,675	47,010	46,530	54,530	45,929	48,920
PMA Lease/Subordinate Debt	1,255	1,310	1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	-	-	-	-	-	-	-
Debt Reduction Funding			-	-	-	-	-	-
Temporary Financing Repayment	850	-		-	-	-	-	-
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	(8,118)	(5,193)	(16,830)	(7,090)	(4,960)	1,431
Cash Needs	128,142	172,706	125,079	182,844	136,955	137,823	122,196	129,988
Cash Surplus (Shortfall)	11,555	(4,401)	40,796	(1,289)	(8,961)	(19,742)	(38,677)	(55,823)
TOTAL USES	139,697	168,305	165,875	181,555	127,994	118,081	83,519	74,163
Cash - Beginning of Period	3,666	15,221	10,820	51,616	50,327	41,366	21,624	(17,053)
Cash - Surplus (Shortfall)	11,555	(4,401)	40,796	(1,289)	(8,961)	(19,742)	(38,677)	(55,823)
ENDING CASH	15,221	10,820	51,616	50,327	41,366	21,624	(17,053)	(72,876)
Outstanding Commercial Paper	49,900	70,000	90,000	145,000	150,000	150,000	150,000	150,000
City Loan Outstanding	45,000	45,000	43,000	-	-	-	-	-
Internally Generated Funds	-	-	-	-	-	-	-	-

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	$942,090	$970,961	$937,139	$877,079	$872,629	$864,454
Other Operating Revenues	32,807	28,534	28,564	29,181	28,770	27,855	27,981	28,054
Total Operating Revenues	863,357	985,096	970,654	1,000,142	965,909	904,934	900,610	892,508
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	11,250	11,343	9,620	7,723	7,820	7,160
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	1,001,106	1,030,487	994,565	931,665	909,415	900,627
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	268,128	278,151	280,407	283,136	286,993	290,653
Total Operating Expenses	793,012	917,374	898,969	936,643	903,775	845,537	845,241	841,547
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	857,082	893,343	859,163	799,630	797,856	794,143
Funds Available to Cover Debt Service	130,103	139,541	144,024	137,144	135,402	132,035	111,559	106,484
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**	**4.03**	**3.99**	**4.18**	**4.38**	**3.63**	**3.31**
Net Available after Prior Debt Service	91,297	97,592	108,276	102,776	103,034	101,880	80,814	74,320
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	108,276	102,776	103,034	101,880	80,814	74,320
1998 Ordinance Bonds Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
New Proposed Bond Debt Service	-	-	-	-	-	-	-	-
Total New Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
Debt Service Coverage 1998 Bonds	**1.94**	**3.01**	**2.03**	**1.52**	**1.44**	**1.21**	**0.94**	**0.81**
Net Available after 1998 Debt Service	43,300	65,125	54,963	34,963	31,307	17,769	(4,765)	(17,696)
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**	**27.66**	**17.60**	**15.73**	**8.95**	**(2.40)**	**(8.92)**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**122,295**	**115,298**	**113,638**	**110,192**	**107,694**	**102,563**
Aggregrate Debt Service	**88,790**	**76,402**	**91,048**	**104,167**	**106,085**	**116,252**	**118,312**	**126,164**
Fixed Coverage Charge	**1.25**	**1.49**	**1.34**	**1.11**	**1.07**	**0.95**	**0.91**	**0.81**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**1.12**	**0.94**	**0.92**	**0.82**	**0.79**	**0.71**

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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940
Sinking Fund Reserve	104,530	93,800	102,050	102,050	110,300	110,300	118,550	118,550
Capital Improvement Fund	102,701	39,732	99,843	39,843	108,993	47,993	120,143	62,143
Cash	15,221	10,820	51,616	50,327	41,366	21,624	(17,053)	(72,876)
Gas	273,805	264,254	243,806	226,927	211,043	195,196	181,647	170,269
Other	12,522	785	506	352	350	350	350	350
Accrued Gas Revenues	8,787	11,300	10,568	11,089	10,712	9,998	9,939	9,848
Reserve for Uncollectible	(207,480)	(191,631)	(183,489)	(173,618)	(162,382)	(149,869)	(136,623)	(123,247)
Accounts Receivable:	87,634	84,708	71,391	64,750	59,723	55,675	55,313	57,220
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	47,671	43,651	47,920	43,676
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	1,670,970	1,627,510	1,721,465	1,652,680	1,707,797	1,599,629
EQUITY & LIABILITIES								
City Equity	222,646	233,063	241,982	242,693	235,411	224,101	186,824	145,871
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,207,915	1,151,820	1,254,251	1,203,616
TECA Accretions	14,313	12,608	13,913	15,314	16,818	18,434	10,933	
Unamortized Discount	(9,484)	(5,113)	(5,683)	(5,201)	(5,732)	(5,217)	(5,733)	(5,220)
Unamortized Premium	22,901	20,797	18,826	16,956	15,183	13,516	11,996	10,550
Capital Equipment Leasing	-	-	-	-	-			
Long Term Debt:	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Notes Payable	49,900	70,000	90,000	145,000	150,000	150,000	150,000	150,000
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	15,963	15,427	17,387	16,837
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	12,717	10,626	8,536
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,670,970	1,627,510	1,721,465	1,652,680	1,707,797	1,599,629

Capitalization

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total Capitalization	1,295,747	1,303,785	1,423,423	1,375,707	1,469,595	1,402,654	1,458,271	1,354,817
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.83	0.82	0.84	0.84	0.87	0.89
Capitalization Ratio	4.82	4.59	4.88	4.67	5.24	5.26	6.81	8.29
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312
Regulatory Asset Securitization								
Capital - 106&107	56,300	68,057	75,152	78,597	87,755	70,818	61,587	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232
Accumulated Depreciation	(591,624)	(628,552)	(666,765)	(706,330)	(747,155)	(789,246)	(832,777)	(876,292)
Net Utility Plant	981,722	1,012,851	1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940

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	$ 115,126	$ 117,022	$ 112,771	$ 106,389	$ 106,117	$ 105,739
Gas Transport Service	4,879	6,147	7,256	7,889	8,481	8,983	9,465	9,908
Heating	713,159	821,190	824,440	849,529	820,284	766,421	761,106	752,898
Proposed Base Rate	-	-	100,000	100,000	100,000	100,000	100,000	100,000
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-
Unbilled Adjustment	(803)	2,513	505	522	(376)	(713)	(58)	(89)
Total Gas Revenues	830,550	956,562	1,047,327	1,074,962	1,041,140	981,080	976,630	968,456
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	20,008	20,414	19,789	18,654	18,557	18,402
Total Other Operating Revenues	32,807	28,534	30,540	31,157	30,746	29,831	29,957	30,030
Total Operating Revenues	863,357	985,096	1,077,867	1,106,119	1,071,886	1,010,911	1,006,587	998,486
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**	**447,026**	**447,627**	**448,518**	**448,510**	**448,339**	**447,592**
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	34,698	35,786	35,925	35,847	36,348	36,846
Distribution	15,115	15,382	16,536	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	59,546	58,962	56,235	52,563	48,645	46,943
Marketing	2,592	2,470	2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	43,963	43,394	44,257	45,591	46,415	47,379
Health Insurance	33,571	34,804	37,784	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	15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments			217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	237,220	249,930	251,930	253,548	255,264	259,989
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	275,416	289,384	292,778	295,612	298,784	303,472
TOTAL OPERATING EXPENSES	793,012	917,374	906,257	947,876	916,146	858,013	857,032	854,368
OPERATING INCOME	70,345	67,722	171,610	158,243	155,740	152,898	149,555	144,120
Other Income	4,778	8,198	17,131	19,082	18,437	20,343	21,881	22,907
INCOME BEFORE INTEREST	75,123	75,920	188,741	177,325	174,177	173,241	171,436	167,027
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	114,763	103,194	102,963	104,894	106,423	105,229
City Payment	-							
Net Earnings	**$11,272**	**$10,417**	**$114,763**	**$103,194**	**$102,963**	**$104,894**	**$106,423**	**$105,229**

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	$114,763	$103,194	$102,963	$104,894	$106,423	$105,229
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	(381)	(2,239)	(3,970)	(6,225)	(7,763)	20,616
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	43,371	60,406	161,300	148,799	147,760	148,405	140,321	163,707
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		-	-	-	-	-
TOTAL SOURCES	139,697	168,305	251,300	226,799	205,603	166,405	140,321	163,707
USES								
Net Construction Expenditures	66,910	68,057	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS				16,000	23,000	7,800		
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	-	-	- -	-	-	-	-
Debt Reduction Funding			40,000	15,000	55,000	35,000	20,000	40,000
Post Retirement Benefit Funding			-	-	-	-	-	-
Temporary Financing Repayment	850	-	40,000	20,000	10,000	-	-	-
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	1,159	(873)	(11,595)	(5,138)	99	2,840
Cash Needs	128,142	172,706	214,356	222,164	207,190	168,165	140,805	158,495
Cash Surplus (Shortfall)	11,555	(4,401)	36,944	4,635	(1,587)	(1,760)	(484)	5,212
TOTAL USES	139,697	168,305	251,300	226,799	205,603	166,405	140,321	163,707
Cash - Beginning of Period	3,666	15,221	10,820	47,764	52,399	50,812	49,052	48,568
Cash - Surplus (Shortfall)	11,555	(4,401)	36,944	4,635	(1,587)	(1,760)	(484)	5,212
ENDING CASH	15,221	10,820	47,764	52,399	50,812	49,052	48,568	53,780
Outstanding Commercial Paper	49,900	70,000	30,000	10,000	-	-	-	-
City Loan Outstanding	45,000	45,000	43,000	-	-	-	-	-
Internally Generated Funds	-	-	-	-	47,912	70,818	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	$1,047,327	$1,074,962	$1,041,140	$981,080	$976,630	$968,456
Other Operating Revenues	32,807	28,534	30,540	31,157	30,746	29,831	29,957	30,030
Total Operating Revenues	863,357	985,096	1,077,867	1,106,119	1,071,886	1,010,911	1,006,587	998,486
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	16,750	16,843	14,467	14,118	14,118	43,523
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	1,113,819	1,141,964	1,105,389	1,044,037	1,021,690	1,042,968
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	275,416	289,384	292,778	295,612	298,784	303,472
Total Operating Expenses	793,012	917,374	906,257	947,876	916,146	858,013	857,032	854,366
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	864,370	904,576	871,534	812,106	809,647	806,962
Funds Available to Cover Debt Service	130,103	139,541	249,449	237,388	233,855	231,931	212,043	236,006
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**	**6.98**	**6.91**	**7.22**	**7.69**	**6.90**	**7.34**
Net Available after Prior Debt Service	91,297	97,592	213,701	203,020	201,487	201,776	181,298	203,842
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	213,701	203,020	201,487	201,776	181,298	203,842
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**	**4.01**	**2.99**	**3.01**	**2.97**	**2.78**	**3.35**
Net Available after 1998 Debt Service	43,300	65,125	160,388	135,207	134,635	133,810	116,155	142,957
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**	**80.72**	**68.08**	**67.66**	**67.38**	**58.43**	**72.05**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**228,139**	**217,781**	**216,061**	**216,313**	**215,941**	**211,469**
Aggregrate 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**	**2.51**	**2.09**	**2.13**	**2.16**	**2.21**	**2.23**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**2.09**	**1.78**	**1.81**	**1.83**	**1.86**	**1.87**

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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940	
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	-	-	40,419	57,658	116,628	157,853	185,616	-	
Cash	15,221	10,820	47,764	52,399	50,812	49,052	48,568	53,780	
Gas	273,805	264,254	254,134	240,307	224,591	205,778	186,746	167,304	
Other	12,522	785	506	352	350	350	350	350	
Accrued Gas Revenues	8,787	11,300	11,805	12,327	11,951	11,238	11,180	11,091	
Reserve for Uncollectible	(207,480)	(191,631)	(185,777)	(174,639)	(160,774)	(143,237)	(121,782)	(98,725)	
Accounts Receivable:	87,634	84,708	80,668	78,347	76,118	74,129	76,494	80,020	
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	1,716,814	1,700,837	1,738,594	1,792,659	1,828,520	1,656,506	
EQUITY & LIABILITIES									**Normal**
City Equity	222,646	233,063	347,826	451,020	553,983	658,877	747,300	834,529	834,529
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,057,915	1,008,430	967,311	724,576	929,576
TECA Accretions	14,313	12,608	13,913	15,314	16,818	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	16,956	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	986,355	731,617	936,617
Notes Payable	49,900	70,000	30,000	10,000	-	-	-	-	
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	10,627	8,536	
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,716,814	1,700,837	1,738,594	1,792,659	1,828,520	1,656,506	

Capitalization

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	Normal Amortiz. FY2012
Total Capitalization	1,295,747	1,303,785	1,529,267	1,584,034	1,639,161	1,694,962	1,733,655	1,566,146	1,771,146
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,085,178	1,036,085	986,355	731,617	936,617
Debt to Equity Ratio	0.83	0.82	0.77	0.72	0.66	0.61	0.57	0.47	0.53
Capitalization Ratio	4.82	4.59	3.40	2.51	1.96	1.57	1.32	0.88	1.12
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,015,312
Capital - 106&107	56,300	68,057	75,152	78,597	87,755	70,818	61,587	59,920	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232	2,075,232
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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940	1,198,940

PHILADELPHIA GAS WORKS
BASE RATE PRO FORMA ADJUSTMENTS

Base Rate Case Expenses

Cost of Service Study	$100,000	
Legal Counsel Costs	500,000	
Expert Witness Costs	100,000	
Miscellaneous	50,000	
Total	($750,000)	

Normalized Expenses

ADP Payroll Costs	$ 126,818	
Oracle Upgrade Expenses	191,035	
Noetix Report Writing Costs	4,214	
Business Continuity Costs	30,933	
Total	$ (353,000)	$ (1,103,000)

Annualization of Union Wage Increase

3% Effective 9/1/06		
2.5% Effective 5/15/07		
Impact in FY 2007 1.037511%		
Annualized Impact 1.05575%		
Differential 1.018239%		
Union Payroll $72,400,000	$ 1,320,504	$ 1,320,504
Total		$ 217,504

Revenue & Expense Adjustments Soft-Off Program	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Non-Heating Revenues	$ (722,000)	$ (727,000)	$ (690,000)	$ (625,000)	$ (610,000)	$ (594,000)
Heating Revenues	(9,168,000)	(9,371,000)	(9,024,000)	(8,427,000)	(8,366,000)	(8,267,000)
Total	(9,890,000)	(10,098,000)	(9,714,000)	(9,052,000)	(8,976,000)	(8,861,000)
Field Services Gas Used by Utility 600,000 Mcf	5,778,000	6,018,000	5,646,000	4,998,000	4,932,000	4,830,000
Administrative & General	(5,778,000)	(6,018,000)	(5,646,000)	(4,998,000)	(4,932,000)	(4,830,000)
Natural Gas Commodity Rate	9.63	10.03	9.41	8.33	8.22	8.05
Non-Heating Sales Mcf	(44,000)	(43,000)	(42,000)	(41,000)	(40,000)	(39,000)
Heating Sales Mcf	(556,000)	(557,000)	(558,000)	(559,000)	(560,000)	(561,000)
Total Mcf	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)

Off System Sales & Capacity Release Revenues	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Non-Heating Revenues	$ 292,000	$ 288,000	$ 284,000	$ 276,000	$ 272,000	$ 268,000
Heating Revenues	3,708,000	3,712,000	3,716,000	3,724,000	3,728,000	3,732,000
Other Income	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000

Pension Expense Reduction	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Approved Budget & 5 Year Forecast	$ 17,400,000	$ 17,257,000	$ 16,933,000	$ 16,600,000	$ 16,281,000	$ 15,964,000
Revised Budget & 5 Year Forecast	15,075,000	14,611,000	14,265,000	13,911,000	13,571,000	13,233,000
Difference	$ (2,325,000)	(2,646,000)	(2,668,000)	(2,689,000)	(2,710,000)	(2,731,000)

In The Matter Of:

PHILADELPHIA GAS WORKS' FISCAL YEAR 2006-2007 OPERATING BUDGET FILING

Filed: May 26, 2006

TABLE OF CONTENTS

SUPPORTING DOCUMENTATION

Exhibits

Schedules

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2004-05	Budget 2005-06	Estimate 2005-06	Budget 2006-07
	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	830,550	916,164	956,562	951,980
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	32,807	32,768	28,534	28,751
10.	Total Operating Revenues	$863,357	$948,932	$985,096	$980,731
	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	509,704	578,367	639,185	630,841
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	283,308	265,690	278,189	281,181
19.	Total Operating Expenses	$793,012	$844,057	$917,374	$912,022
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	$75,123	$129,510	$75,920	$78,336
	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	$63,851	$64,634	$65,503	$73,978
28.	Net Earnings	$11,272	$64,876	$10,417	$4,358

Exhibit A-1-1

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Line No.		Actual 2004-05	Budget 2005-06	Estimate 2005-06	Budget 2006-07
	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	(1,363)	-	12,500	-
5.	Unbilled Gas Adjustment	(803)	319	2,513	(732)
6.	Total Gas Revenues	830,552	916,164	956,562	951,980
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	32,807	32,768	28,534	28,751
10.	**Total Operating Revenues**	$863,359	$948,932	$985,096	$980,731
	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	509,704	578,367	639,185	630,841
14.	**CONTRIBUTION MARGINS**	$353,655	$370,565	$345,911	$349,890
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	248,263	229,548	241,123	242,985
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	(4,502)	(4,647)	(3,062)	(3,217)
35.		35,045	36,142	37,066	38,196
36.	Sub-Total Other Oper.& Maint. & Depreciation	283,308	265,690	278,189	281,181
37.	**TOTAL OPERATING EXPENSES**	$793,012	$844,057	$917,374	$912,022
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	$75,125	$129,510	$75,920	$78,336
	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	63,851	64,634	65,503	73,978
46.	**NET EARNINGS**	$11,274	$64,876	$10,417	$4,358

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

Line No.	SOURCES	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	43,371	107,585	60,406	51,314
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	$139,697	$199,160	$168,305	$141,314
	USES				
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 LoanRepayment/Status	-	-	-	2,000
20.	Distribution of Earnings	18,000	18,000	18,000	18,000
	Additions to (Reductions of)				
21.	Non-Cash Working Capital	3,793	31,293	55,433	2,900
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	$139,697	$199,160	$168,305	$141,314
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	$15,221	$52,370	$10,820	$16,037
29.	Outstanding Commercial Paper	$49,900	$59,700	$70,000	$70,000
30.	City Loan Outstanding	$45,000	$45,000	$45,000	$43,000

Exhibit JRB-2

Exhibit A-3

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

Line No.		Actual 2004-05	Budget 2005-06	Estimate 2005-06	Budget 2006-07
	FUNDS PROVIDED				
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
	FUNDS APPLIED				
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 8/31/2005	Budget 8/31/2006	Estimate 8/31/2006	Budget 8/31/2007
	ASSETS				
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**	**87,634**	**82,758**	**84,708**	**83,362**
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	**$1,519,822**	**$1,508,534**	**$1,548,001**	**$1,646,409**
	EQUITY & LIABILITIES				
18.	City Equity	$222,646	$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)	(5,683)
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	**$1,519,822**	**$1,508,534**	**$1,548,001**	**$1,646,409**

Exhibit B

PHILADELPHIA GAS WORKS
OPERATING REVENUES
(Dollars in Thousands)

Line No.		Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	(803)	2,513	(732)
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	21,912	17,865	18,219
9.	Sub-Total Other Revenues	32,807	28,534	28,751
10.	Total Operating Revenues	$863,357	$985,096	$980,731

Exhibit B-1

PGW
RECONCILIATION OF BILLED REVENUES
(Dollars in Thousands)

Line No.	2004-05 ACTUAL	Billed Revenues	2003-04 GCR Under Recovery	2004-05 GCR Over Recovery	Total Revenues
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	$846,729	($7,792)	($7,584)	$831,353

Line No.	2005-06 ESTIMATE	Billed Revenues	2004-05 GCR Over Recovery	2005-06 GCR Under Recovery	Total Revenues
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	$940,256	$7,584	$6,209	$954,049

Line No.	2006-07 BUDGET	Billed Revenues	2005-06 GCR Under Recovery	Total Revenues
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	$958,921	($6,209)	$952,712

* 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.

Exhibit B-1-1

PHILADELPHIA GAS WORKS
GAS REVENUES
(Dollars in Thousands)

Line No.	NON HEATING	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$71,415	$79,640	$74,863
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	1,285	98	6
20.	Total Interruptibles	44,677	33,456	41,192
21.	Total Non Heating	$116,092	$113,096	$116,055
	HEATING			
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	(1,365)	12,500	-
30.	Total Heating	725,958	821,013	835,610
31.	Net Billed Revenues	842,050	934,109	951,665
32.	GTS Revenues	4,679	6,147	7,256
33.	Total Billed Revenues	$846,729	$940,256	$958,921
34.	Degree Days	4,327	3,825	4,525

Exhibit B-2

PHILADELPHIA GAS WORKS
GAS SALES
(MCF's)

Line No.	NON HEATING	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	4,315	3,828	3,819
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	4,510	2,404	3,199
19.	Total Non Heating	8,825	6,232	7,018
	HEATING			
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	49,493	44,444	48,632
27.	Net Billed Sales	58,318	50,676	55,650
28.	GTS Volumes	11,624	11,140	13,323
29.	Total Billed Sales	69,942	61,816	68,973
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.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
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	29,231	(13,023)	1,866	(63)	(4,406)	13,605
13.	Total	$542,446	$ (120,163)	$ 88,007	$ (589)	$ -	$ 509,701

Exhibit C-1-2

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2005-06 ESTIMATE
(Dollars in Thousands)

Line No.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
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	$691,960	$ (176,572)	$ 124,029	$ (237)	$ -	$ 639,180

Exhibit C-1-3

PHILADELPHIA GAS WORKS
NATURAL GAS EXPENSE
2006-07 BUDGET
(Dollars in Thousands)

Line No.		Billed	(To) Inventory	From Inventory	Refunds	Seasonal Adjustment	Total
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	$625,696	$ (151,001)	$ 156,141	$ -	$ -	$ 630,836

Exhibit C-3

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	(22,187)	(21,429)	(22,733)
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	(16,502)	(14,181)	(14,861)
6.	Total Pensions	14,702	17,297	17,593
	INSURANCE			
7.	Group Life	1,594	2,100	2,100
8.	Health	33,571	34,804	37,884
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	(1,673)	(1,500)	(1,542)
16.	Total Taxes	6,218	5,678	6,574
17.	**Total Labor & Fringe Benefits**	$136,719	$139,727	$147,305

PHILADELPHIA GAS WORKS
DETAIL OF DIRECT LABOR EXPENSES
(Dollars in Thousands)

Line No.		Actual 2004-05 Average Personnel	Actual 2004-05 Payroll	Estimate 2005-06 Average Personnel	Estimate 2005-06 Payroll	Budget 2006-07 Average Personnel	Budget 2006-07 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

Exhibit C-4

PHILADELPHIA GAS WORKS
DETAIL OF OTHER EXPENSES
(Dollars in Thousands)

LINE NO.	OTHER EXPENSES	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	5,246	5,315	(856)
16.	Total Other Expenses	$76,165	$76,943	$73,139

DETAIL OF OTHER OPERATING EXPENSES C-4

APPROPRIATION FOR RESERVE AND OTHER LOSSES	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Risk Management	$3,000	$3,062	$2,257
Compensated Absences	60	218	115
Corporate Settlements	23	60	475
Grand Total	$3,083	$3,340	$2,847

ADVERTISING	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$1,400	$1,745	$1,977

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

INSURANCE	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	43	43	50
Sub-Total	38,650	40,382	43,811
Less Group Life & Health	35,165	36,904	39,984
Grand Total	$3,485	$3,478	$3,827

CONTRACTED MAINTENANCE	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Maintenance Contractors	$4,424	$3,272	$3,588
Maintenance Software	1,460	1,604	1,706
Maintenance - Capital	876	20	26
Maintenance Office Equipment	850	748	688
Grand Total	$7,610	$5,644	$6,008

UTILITIES	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Electric	$2,052	$2,108	$2,093
Purchased Telephone	1,306	1,177	1,127
Water	443	384	396
Grand Total	$3,801	$3,669	$3,616

RENTALS	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Other Rents	$293	$298	$302
Equipment Rentals & Leasing	511	486	488
Grand Total	$804	$784	$790

DETAIL OF OTHER OPERATING EXPENSES C-4

Maintenance Contractors	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$4,424	$3,272	$3,588

Maintenance Software	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	1,460	$1,604	$1,706

DETAIL OF OTHER OPERATING EXPENSES C-4

Maintenance Office Equip	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$850	$748	$688

Electric	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$2,052	$2,108	$2,093

Purchased Telephone	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$1,306	$1,177	$1,127

DETAIL OF OTHER OPERATING EXPENSES C-4

Water	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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

Other Rents	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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

Equipment Rentals & Leasing	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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
Poliecies 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	$511	$486	$488

DETAIL OF OTHER OPERATING EXPENSES C-4

Purchased Services

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$21,154	$20,885	$23,740

DETAIL OF OTHER OPERATING EXPENSES C-4

POSTAGE

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$2,163	$2,433	$2,601

PROMOTION

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Marketing	$25	-	$532
Grand Total	$25		$532

NON-UTILITY REVENUE

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	($128)	($147)	($141)

DETAIL OF OTHER OPERATING EXPENSES C-4

LABOR RELATED FRINGE BENEFITS & A&G CHARGED to CAPITAL	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Construction Overheads	($10,348)	($10,099)	($11,261)
A & G Additive	(6,706)	(6,603)	(7,950)
Grand Total	($17,054)	($16,702)	($19,211)

MISCELLANEOUS	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$5,246	$5,315	($856)

DETAIL OF OTHER OPERATING EXPENSES C-4

Expense of Employees	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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

Dues & Subscriptions	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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

Taxes	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Gas Commission	$24	$24	$28
Grand Total	$24	$24	$28

Amortization	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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

Exhibit D

PHILADELPHIA GAS WORKS
OTHER INCOME
(Dollars in Thousands)

Line No.		Actual 2004-05	Estimate 2005-06	Budget 2006-07
	Interest Earnings On:			
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
	Interest Payments				
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		$51,701	$50,510	$52,386
	Interest Accruals				
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		$53,125	$51,112	$55,830

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Interest Payments					
1.	1997	Capital Lease	$ 51	$ -	$ -
2.	1998	1st C Subordinate	732	676	617
3.		Total Interest Payments	$ 783	$ 676	$ 617
Interest Accruals					
4.	1997	Capital Lease	$ 9	$ -	$ -
5.	1998	1st C Subordinate	722	666	607
6.		Total Interest Accruals	$ 731	$ 666	$ 607

Exhibit JRB-2

Exhibit E-3

PHILADELPHIA GAS WORKS
OTHER INTEREST
(Dollars in Thousands)

Line No.	Other Interest	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$ 6,123	$ 9,561	$ 13,186
7.	Extraordinary Loss	$ 4,779	$ 5,332	$ 5,557
8.	AFUDC *	$ (907)	$ (1,168)	$ (1,202)
9.	* Total AFUDC	($907)	($1,168)	($1,202)

PHILADELPHIA GAS WORKS
CAPITAL FUNDING & EXPENDITURES
(Dollars In Thousands)

Line No.		Actual 2004-05	Estimate 2005-06	Budget 2006-07
	SOURCES:			
1.	Capital Improvement Fund	$68,000	$60,195	$72,000
2.	Other Funding Sources	(1,090)	7,862	3,152
3.	**Total Sources**	$66,910	$68,057	$75,152
	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**	$66,910	$68,057	$75,152

PHILADELPHIA GAS WORKS
REVENUE BOND DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2004-05	Estimate 2005-06	Budget 2006-07
	Principal Payments				
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		$ 35,387	$ 29,906	$ 36,675

PHILADELPHIA GAS WORKS
OTHER LONG TERM DEBT SERVICE
(Dollars in Thousands)

Line No.	Year Issued	Series	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Principal Payments					
1.	1997	Capital Lease	$ 1,947	$ -	$ -
2.	1998	1st C Subordinate	1,255	1,310	1,370
3.		Total Principal Payments	$ 3,202	$ 1,310	$ 1,370

Exhibit H-1

PHILADELPHIA GAS WORKS
WORKING CAPITAL DETAIL
(Dollars in Thousands)

Line No.		Actual Balance 8/31/05	Estimate Balance 8/31/06	Budget Balance 8/31/07
	ASSETS			
1.	Accounts Receivable	$286,327	$265,039	$259,762
2.	Accrued Gas Revenues	8,787	11,300	10,568
3.	Uncollectible Reserve	(207,480)	(191,631)	(186,968)
4.	Net Accounts Receivable	87,634	84,708	83,362
5.	Materials & Supplies	129,984	183,784	180,389
6.	Other Current Assets	2,632	11,434	5,331
7.	Total Assets	$220,250	$279,926	$269,082
	LIABILITIES			
	Accounts Payable:			
8.	Natural Gas	$49,185	$56,465	$43,033
9.	General	14,733	15,820	16,435
10.	Total Accounts Payable	63,918	72,285	59,468
11.	Other Current Liabilities	38,074	33,950	33,023
12.	Total Liabilities	$101,992	$106,235	$92,491
13.	Total Working Capital	$118,258	$173,691	$176,591
14.	Net Increase/(Decrease)	$3,793	$55,433	$2,900

PHILADELPHIA GAS WORKS
WORKING CAPITAL CHANGES
(Dollars in Thousands)

Line No.		Actual Change 8/31/05	Estimate Change 8/31/06	Budget Change 8/31/07
	ASSETS			
1.	Accounts Receivable	($27,423)	($21,288)	($5,277)
2.	Accrued Gas Revenues	(803)	2,513	(732)
3.	Uncollectible Reserve	22,736	15,849	4,663
4.	Net Accounts Receivable	($5,490)	($2,926)	($1,346)
5.	Materials & Supplies	$31,517	$53,800	($3,395)
6.	Other Current Assets	($11,385)	$8,802	($6,103)
7.	Total Assets	$14,642	$59,676	($10,844)
	LIABILITIES			
	Accounts Payable:			
8.	Natural Gas	($3,682)	$7,280	($13,432)
9.	General	(5,427)	1,087	615
10.	Total Accounts Payable	($9,109)	$8,367	($12,817)
11.	Other Current Liabilities	$19,958	($4,124)	($927)
12.	Total Liabilities	$10,849	$4,243	($13,744)
13.	Total Working Capital	$3,793	$55,433	$2,900

PHILADELPHIA GAS WORKS
MATERIALS & SUPPLIES BALANCE @ 8/31

Non-Gas Inventory	Estimate 2005-06 Dollars	Budget 2006-07 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

Natural Gas Storages	Estimate 2005-06 Volume (Mcf)	Dollars	Avg. Price	Budget 2006-07 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	27,924,962	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 2004-05	Estimate 2005-06	Budget 2006-07
	DEPRECIATION			
1.	Depreciation on Historical	$39,547	$40,128	$41,413
2.	Less to Capital	(1,022)	(349)	(458)
		38,525	39,779	40,955
	SUBORDINATE PAYMENTS			
3.	Gas Commission	909	830	973
4.	City Payments	556	570	584
5.	Swap Option Proceeds	(652)	(625)	(625)
		813	775	932
6.	Total Non-Cash Expenses	$39,338	$40,554	$41,887

	DETAIL OF DEPRECIATION & AMORTIZATION	Actual 2004-05	Estimate 2005-06	Budget 2006-07
7.	Depreciation Excluding Cost of Removal	$35,904	$36,928	$38,213
8.	Discount, Premium & Issuance Expense	1,598	1,668	2,237
9.	Extraordinary Loss	4,779	5,332	5,557
10.	Total	$42,281	$43,928	$46,007

	NET CHANGE OTHER LONG TERM	Actual 2004-05	Estimate 2005-06	Budget 2006-07
11.	(Increase)/Decrease Other Assets	($8,142)	$4,809	$530
12.	Increase/(Decrease) Other Liabilities	2,596	(4,128)	(924)
13.	TECA Accretions	(1,371)	(1,705)	1,305
14.	Total	($6,917)	($1,024)	$911

PHILADELPHIA GAS WORKS
INSURANCE EXPENSE
(Dollars in Thousands)

Line No.	Insurance Type	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	$3,485	$3,478	$3,827
6	Employees' Health	33,571	34,804	37,884
7	Employees' Group Life	1,594	2,100	2,100
8	Sub-Total	$35,165	$36,904	$39,984
9.	Total Insurance	$38,650	$40,382	$43,811

PHILADELPHIA GAS WORKS
PERSONNEL & PAYROLL DETAIL
(Dollars In Thousands)

DEPARTMENTS	Actual 2004-05 Average Personnel	Actual 2004-05 Payroll	Estimate 2005-06 Average Personnel	Estimate 2005-06 Payroll	Budget 2006-07 Average Personnel	Budget 2006-07 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	766
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	46	$2,340	46	$2,451
CUSTOMER ACTIVITIES						
VP Customer Affairs	15	$723	37	$2,014	39	$2,536
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	1,664
Strategic Planning	4	187	5	281	5	291
VP Regualtory & 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	387	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	9	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	$57,366	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	1,759	$102,067	1,753	$106,320
Labor Savings			(19)	($1,105)	(13)	($798)
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

Line No.	Description	Department	Estimate 2005-06	Budget 2006-07	Forecast 2007-08
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	30,104	30,933	30,342
13.	Total		$ 1,550,000	$ 353,000	$ 289,000

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		
	-	-	-	-	-	-	-	-		
Total	$ -	$ 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	$ 364,000	$ 180,000	$ 218,000	$ 127,000		
Assessment Study	-	430,000	75,000	-						
Total	$ -	$ 522,588	$ 741,000	$ 435,000	$ 364,000	$ 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

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	
5 Year Amortization													
Cash	$ -	$ -	$ -	$ -	$ 1,915,067	$ 621,067	$ 659,067	$ 568,067					
Expense	-	-	-	-	383,013	124,213	131,813	113,613					
Deferred	-	-	-	-	1,532,054	496,854	527,254	454,454					
Cumulative L-T Deferred	-	-	-	-	1,532,054	2,028,907	2,173,147	2,120,374	1,481,334	728,680	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	$ -	
DeferredCosts	-				$ 1,532,054	$ 496,854	$ 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	$ 3,763,268
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					

	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				

SD-4-A

Exhibit JRB-2

PHILADELPHIA GAS WORKS
DEFERRED RESTRUCTURING EXPENSES

	Actual FY 2002	Actual FY 2003	Estimate FY 2004	Budget FY 2005	Forecast FY 2006	Original Total
Legal Fees	$ 131,543	$ 250,627	$ -	$ -	$ -	$ 382,170
Consultants/Information Services	890,480	1,624,270	-	-	-	2,514,750
PGW Training Labor	126,654	44,464				171,118
Customer Education/ Duplicating Postage/Advertising	8,193	187,723	-	-	-	195,916
Other Expenses	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

	Original
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

Accounts Receivable	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Beginning Receivable Balance	**$ 313,750**	**$ 286,327**	**$ 265,039**
Billed Gas Revenues	846,729	940,256	958,921
Other Operating Revenues/Adjustments	45,710	42,638	43,135
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	(93,160)	(77,612)	(65,400)
Total Credit / Reductions	(919,862)	(1,004,182)	(1,007,333)
Ending Receivable Balance	286,327	265,039	259,762
Bad Debt Expense			
Current Year Net Receivable	286,327	265,039	259,762
Adjusted Net Receivable	286,327	265,039	259,762
Reserve Factor	24.60%	23.25%	23.25%
Total Bad Debt Expense	70,424	61,519	60,737
Write Off Gas Accounts	92,979	77,500	65,000
Write Off Other	181	112	400
Reserve Balance			
Beginning Reserve Balance - Gas	228,842	206,287	190,306
Net Write-Off - Gas	(92,979)	(77,500)	(65,000)
Appropriation to Reserve - Gas	70,424	61,519	60,737
Ending Reserve Balance Gas	206,287	190,306	186,043
OAR Reserve	1,412	1,300	900
M & J Reserve	(219)	25	25
Total Reserve Balance	207,480	191,631	186,968
	0.7246	0.7230	0.7198
Net Accounts Receivable	78,847	73,408	72,794

OTHER OPERATING REVENUES	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	10,896	10,669	10,532
	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

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PHILADELPHIA GAS WORKS
COLLECTIBILITY STUDY - APRIL 2006

	Balance Per Study		Reserve	
Classification	Receivable	Collectible	% Uncollectible	$ Uncollectible
Active Non-budget Agreement				
Commercial	845,166.79	598,320.34	29.21%	246,846.45
Residential	19,049,674.86	14,467,847.23	24.05%	4,581,827.63
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	3,697,145.08	718,566.23	80.56%	2,978,578.85
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	73,439,249.24	6,672,950.23	90.91%	66,766,299.01
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	142,076,254.20	86,196,320.46	39.33%	55,879,933.74
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

	Budget 2006-07	Estimate 2005-06	Budget Over(Under) Estimate
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	$67,381,823	$63,298,737	$4,083,086
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	**$630,836,238**	**$639,179,677**	**($8,343,439)**

CHANGE DUE TO:			
Commodity Price	($45,368,640)	(0.7753)	(7.45%)
Volume	32,705,239	3,143,566	5.68%
Demand	4,083,086		
Total Demand & Commodity	(8,580,315)	(0.7669)	(6.64%)
Refunds	236,876		
TOTAL CHANGE	**$ (8,343,439)**		

PHILADELPHIA GAS WORKS
DETAIL OF OTHER OPERATING REVENUES
(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
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	6	6	6
Total	$ 21,912	$ 17,865	$ 18,219

Estimated Weather 3,825 degree days
City Loan $45.0 M Fully Outstanding @ 8/31/06
TXCP $150.0 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 @1/26/06 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	
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $49.9 TXCP		15.2	12.8	59.0	31.7	26.3	36.9	49.3	88.3	98.0	134.6	143.9	101.7	15.2
RECEIPTS														
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	0.6	0.7	1.2	0.3	4.2	1.3	6.2	3.5	0.5	1.9	38.0
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	1.6	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	96.6	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		12.6	10.7	11.3	12.3	11.0	10.6	12.8	11.0	12.0	11.5	11.4	12.0	139.4
Natural Gas		26.5	30.5	58.6	94.0	108.9	84.4	69.2	69.6	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	16.1	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	98.9	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	49.9
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	36.9	49.3	88.3	98.0	134.6	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	59.0	31.7	26.3	36.9	49.3	88.3	98.0	134.6	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	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	45.0
CASH POSITION NET OF TXCP AND CITY LOAN		(82.1)	(85.2)	(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%
$18.0 MM City Payment Made and Granted Back to PGW

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2007
(Millions of Dollars)

05/23/06		BUDGET Sep	BUDGET Oct	BUDGET Nov	BUDGET Dec	BUDGET Jan	BUDGET Feb	BUDGET Mar	BUDGET Apr	BUDGET May	BUDGET June	BUDGET July	BUDGET Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $70.0 TXCP		10.8	70.7	71.4	64.7	73.1	67.3	65.1	95.2	119.8	126.3	115.5	56.8	10.8
RECEIPTS														
Gas		46.7	52.2	53.8	72.5	96.6	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	0.6	0.8	0.8	0.9	0.9	0.8	0.8	2.6	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	67.9	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	3.1	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	214.6	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	68.2	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	10.6	6.3	4.0	1.0	1.0	1.0	44.6	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
		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		20.4	12.8	14.3	10.2	15.6	18.5	16.2	13.5	14.2	14.3	13.8	13.2	176.9
TOTAL DISBURSEMENTS		68.9	53.7	64.3	66.3	108.7	118.7	98.1	89.6	88.3	99.4	116.1	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	(10.8)	(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	56.8	10.8
MONTHLY CASH FLOW		(20.0)	0.7	(6.7)	8.4	(5.8)	(2.2)	30.1	24.6	6.4	(10.8)	(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	56.8	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	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	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)	

SD-10

Exhibit JRB-2

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.

Q. Have you previously presented testimony before the Philadelphia Gas Commission?

A. Yes, on numerous occasions. I have most recently presented testimony before this Commission on matters associated with PGW's 2005-2006 Operating Budget proceedings and Five Year Forecast. Prior to the above occasion, I presented testimony on PGW's proposed annual Operating & Capital Budgets and multiple base rate increase requests.

Q. What are your responsibilities in connection with PGW's filing that is the subject of these hearings?

A. I am responsible for the overall development and preparation of the financial documentation, exhibits and part of the supporting documentation included in PGW's proposed 2006-2007 Operating Budget filing.

Q. Please describe the factors that impacted the current 2005-2006 Estimate and also went into the development of the 2006-2007 Operating Budget and your involvement.

A. My direct involvement has been to facilitate the departmental interaction associated with PGW's Operating Budget process. This includes the review of all Operating Budgets prepared by the individual departments, updates to that information and the coordination, analysis, control and issuance of the complete 2006-2007 Operating Budget document. I have interacted with the City Finance Director, PGW's Senior Team, and, in particular, Mr. Joseph F. Golden, Jr., PGW's Controller, in developing PGW's financial plan. PGW developed a financial plan for the 2006-2007 Operating Budget which takes into account the corporate goal of reducing operating and maintenance expenses and certain corporate initiatives, including the continuing Collection effort and to maintain a safe and reliable distribution system, while keeping PGW in a position of financial stability and competitiveness. During the 2005-2006 fiscal period, PGW's bond rating remained above investment grade with a negative outlook by Standard & Poor's and Fitch Ratings', Moody's Investor's Services assigned a stable outlook. Fitch Ratings' assigned a negative watch to the rating, which usually entails a six month period to ascertain whether the factors that resulted in the change have been addressed in a positive manner. The negative outlook and watch result from on-going liquidity issues and the collection risks presented by the significantly higher natural gas prices. The City of Philadelphia, in conjunction with City Council, assisted PGW in improving its liquidity by foregoing the $18.0 million annual payment for five years starting in fiscal year 2004 and delaying the final repayment date of the $45.0 million City loan until August 2008. Also, in January 2006 PGW increased the size of its Commercial Paper program to $150.0 million, an increase of $50.0 million, through negotiations with its lending banks to provide additional borrowing capacity for working capital requirements, mainly higher natural gas costs. These actions were some of the necessary steps taken to bolster PGW's overall cash flow, and combined with stable collection rates, PGW anticipates that it will be able to demonstrate improved sustainable financial performance to the financial community. The company realized a substantial rise in its overall collection rate from 91.4% for fiscal year 2004 to 94.9% during the fiscal period ended August 2005. Currently, the collection rate stands at 92.0% through April 2006, with an expected August 2006 year end level of 93.0%. This level is expected to be achieved in spite of the substantially higher customer billings during the most recent winter period. PGW completed the $313.4 million 6th Series (1998 Ordinance) refunding bond issue in January 2006, which was comprised of all variable rate bonds. This transaction resulted in over $14.6 million in overall debt service savings (5.14% present value savings) with nearly $10.5 million applicable to the 2006 fiscal period.

The 2005-2006 heating season reflects an approximately 16.0% warmer than normal winter and heating customers are expected to be charged $12.5 million through the Weather Normalization adjustment (WNA). The 2005-2006 fiscal period reflected significantly higher natural gas prices and higher customer accounts receivable balances. The impact of higher customer accounts receivable balances on bad debt expense, additional maintenance costs for the LNG cascade plant; additional actuarial funding costs for PGW's employee pension plan and higher depreciable utility plant expense were some of the main reasons for the $12.5 million or 4.7% increase in overall operating and maintenance costs in the 2005-2006 Estimate compared to the 2005-2006 Budget Year as detailed on Exhibit A-1, Line 18. The higher natural gas prices for storage injections continue to put a strain on PGW's already thin cash liquidity position as the Company heads into next year's winter operating season, a period of PGW's largest working capital requirements. One of the underlying assumptions that present a risk in the 2006-2007 Operating Budget is PGW's ability to sustain or improve upon its historic collection factor of 92.0%. In the 2006-2007 fiscal period PGW expects to bill nearly $1.0 billion to customers while collecting over $940.0 million, which would be the highest levels in PGW's history. PGW will continue to utilize the $45.0 million City Loan for working capital purposes and is committed to reducing expenses and increasing collections in an effort to minimize the level of required short term borrowing needs. PGW anticipates that a $150.0 million new money bond issue will be required in December 2006 to provide funds for its capital expenditures during the 2006-2007 and 2007-2008 fiscal periods.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide the documentation and supporting methodology for the schedules and exhibits, provide detailed information regarding certain income and expense items and, where necessary, explain the reasons for variations between the fiscal periods.

Q. Please describe the financial statements which support the 2006-2007 Operating Budget submission.

A. The Operating Budget for the 2006-2007 fiscal year has been summarized to indicate the functional expenses similar to previous Gas Commission presentations for comparative purposes. To facilitate an understanding and to illustrate the trend and level of operating expenditures by key functionality, data is provided on the Statement of Income, Exhibit A-1, of the Operating Budget presentation for the 2004-2005 Actual, the 2005-2006 Budget and Estimate and the proposed 2006-2007 Budget periods. The Cash Flow Statement, Exhibit A-2, reflects the sources and uses of cash and is one of the basic documents for financial planning at PGW. The Revenue Bond Debt Service Coverage Statement is prepared in accordance with the Rate Covenant of the 1975 General Ordinance, as amended, and the 1998 General Ordinance, authorizing the issuance of revenue bonds. In compliance with the provisions of the Ordinances, PGW prepares and forwards a report to the Director of Finance of the City of Philadelphia within 120 days of the conclusion of each fiscal year detailing compliance with the revenue bond debt service requirements for such fiscal year. A calculation for the 2005-2006 and 2006-2007 fiscal periods is included with the Company's filing on Exhibit A-3.

Q. Who will explain the details of these documents?

A. I will present a financial summary of the impacts of the revenue and fuel cost data, which were filed and subsequently revised as part of the on-going Gas Cost Rate ("GCR") filings with the PaPUC, and will continue through the Statement of Income to explain the impacts of financing and other financial considerations on the Cash Flow Statement and Revenue Bond Debt Service Coverage schedule.

Q. Would you proceed with your explanation of the Statement of Income.

A. The Statement of Income, presented as Exhibit A-1, includes projected operating revenues for fiscal year 2006-2007 of $980.7 million.

Total Operating Revenues (Line 10) are forecasted to decrease by $4.4 million to $980.7 million less than 1.0% when compared to the 2005-2006 Estimate of $985.1 million. The major portion of the change in revenues reflects the return to a normal heating season with the commensurate increase in sales to firm heating customers. The 2006-2007 Budget Year represents 4,525 degree days which is PGW's new 30 year average level, while the 2005-2006 fiscal period reflects 3,825 degree days, 700 degree days or approximately 15.5% less than the normal level. However, based on recent customer utilization data the 2006-2007 Budget Year assumes that firm heating sales are expected to be approximately 5.0 Bcf less than the 2005-2006 forecasted Budget Year reflecting added conservation. This will result in a substantial decline in the projected margin to cover fixed costs. A reduction in the 2006-2007 Gas Cost Rate of $1.62 per Mcf from the current level of $12.56 per Mcf to $10.94 per Mcf further contributed to the lower revenue projections, while added revenues from gas transportation customers are anticipated reflecting increased sales volumes.

Non-Heating Revenues (Line 1) for the 2006-2007 Budget Year are projected at $115.6 million, an increase of $1.4 million or 1.0% over the $114.2 million expected during the 2005-2006 period. Additional sales to interruptible customers totaling .8 Bcf more than offset the 7.5% decline in the average price per Mcf resulting in a $7.7 million rise in revenues. A decrease in firm non-heating billed revenues of $4.8 million is mainly due to a lower GCR in effect. The GCR, the Universal Service Charge ("USC") and the Restructuring Charges for fiscal year 2005-2006 are anticipated to be under recovered by $6.2 million with $.5 million applicable to non-heating revenues. The impact on firm non-heating revenues of the applicable charges for the fiscal periods 2004-2005 and 2005-2006 is anticipated to lower reported revenues by $1.6 million.

Gas Transportation Service Revenues (Line 2) are anticipated to rise by $1.1 million or 18.0% to $7.3 million from the prior year's level of $6.2 million due primarily to additional volumes of gas being transported for customers of 2.2 Bcf.

Heating Revenues (Line 3) during the 2006-2007 fiscal year are projected to total $829.9 million, $3.8 million, or less than a 1% decrease from the $833.7 million expected in the 2005-2006 period. The major factors for the $14.6 million increase in billed revenues in the 2006-2007 Budget Year reflect a 4.2 Bcf increase in usage due to the return to a normal 4,525 degree day heating season. A lower GCR in effect during the 2006-2007 Budget Year is expected to partially offset the above increase. The GCR, USC and the Restructuring charges are expected be under recovered by $6.2 million with $5.7 million applicable to heating revenues. The impact on firm heating revenues of the applicable charges for the fiscal periods 2004-2005 and 2005-2006 is anticipated to lower reported revenues by $18.4 million.

The **Weather Normalization Adjustment** (Line 4) is expected to result in a $12.5 million charge to heating customers during the 2005-2006 fiscal period as a result of the warm winter heating season. The 2006-2007 Budget Year anticipates a normal winter heating season which would not result in a WNA adjustment.

The **Unbilled Gas Adjustment** (Line 5) is anticipated to decline by $.7 million to a total of $10.6 million due mainly to a lower average price per Mcf of gas used but not yet billed at August 2007. At August 2006, unbilled gas revenues of $11.3 million are expected to be $2.5 million above the level of the prior period reflecting a higher average price per

Mcf.

Q. What are the major components of Appliance Repair & Other Service Revenues?

A. The major components of Appliance Repair & Other Service Revenues are as follows:

Appliance Repair and Other Service Revenues (Line 7) totaling $10.5 million in the 2006-2007 Budget Year are associated with the parts and labor plan contracts for house heaters, automatic water heaters and other appliances, and for appliance repairs and service calls. Also included in this category are reconnection charges generated by customer bill paid turn-ons. The reduced revenues forecasted in the 2006-2007 Budget Year totaling $.1 million mainly result from slightly lower collection related activities associated with customer service restorations. The 2006-2007 Budget Year projects 72,100 Parts & Labor Plans to be in force the same level as the previous year, with no planned change in price.

The following schedule details appliance repair and other service revenues for the three fiscal years:

Appliance Repair and Other Service Revenues

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Parts & Labor Plans	$7,793	$7,538	$7,538
Paid & Charge-for-Service	561	237	237
Reconnection, Turn on Charges	2,541	2,894	2,757
TOTAL	**$10,895**	**$10,669**	**$10,532**

Other Operating Revenues (Line 8) principally reflect finance charges on delinquent customer account balances. The 2006-2007 Budget projects an increase of $.3 million to $18.2 million due to higher customer gas billings and commensurate delinquent balances.

Q. Would you proceed with your explanation of the Statement of Income?

A. The Statement of Income includes projected **Total Operating Expenses** (Line 19) for the 2006-2007 Budget Year of $912.0 million, a $5.4 million or less than a 1.0% decrease from the prior year. The major reasons for the variation in costs are explained below.

Natural Gas (Line 11) - Natural gas costs are forecasted to total $630.8 million in the 2006-2007 Budget Year, $8.4 million or 1.3% below the $639.2 million level projected for the 2005-2006 fiscal period. The decline from the 2005-2006 Estimate of natural gas costs primarily reflects reduced commodity pipeline prices of 77.5 cents per Mcf totaling $45.4 million, while additional supply requirements of 3.1 Bcf are expected to result in a $32.7 million increase. Demand charges are forecasted to rise by $4.1 million. The 2005-2006 fiscal period reflected the receipt of natural gas refunds totaling $.2 million. No natural gas refunds are projected to be received in the 2006-2007 Budget Year.

Contribution Margins (Line 14) - PGW forecasts that the margins to cover fixed overhead and other costs and interest expense are expected to total $349.9 million in the 2006-2007 Budget Year, a rise of $4.0 million from the $345.9 million level projected in the 2005-2006 Estimate. This margin represents the funds (total operating revenues less the cost of fuel) available to meet PGW's operational and financial requirements

Labor and Fringe Benefits (Line 15) - This expense item, the second largest expense that PGW incurs, is budgeted to increase by $7.6 million or 5.4% to $147.3 million. The main factors that contribute to the added labor and benefits costs of $7.6 million are as follows: (1) Operating labor costs in the 2006-2007 Budget Year are anticipated to increase by $3.3 million to $83.1 million from the current year level of $79.8 million. The 2006-2007 Budget Year reflects an average PGW personnel level of 1,740 employees approximating the level anticipated in the 2005-2006 period as detailed on Exhibit C-3-1, Line 11. Currently, PGW has approximately 1,767 employees as of April 2006. As shown on Exhibit A-1-1 (Line 30), PGW has projected cost reductions totaling $5.8 million of which the labor cost component in the 2006-2007 fiscal period is $.8 million, the remaining $5.0 million will be detailed in the discussion of other expenses. This decrease can be attributed, in part, to the consolidation of overall workforce resources that can then be utilized in the most cost effective and productive way. During the 2005-2006 fiscal period the unionized workforce received a 1% general wage increase. The 2006-2007 Budget provides funding for a 3% general wage increase effective September 1, 2006 and 2½ % effective May 15, 2007 for all unionized employees and when combined with normal merit and progression increases adds nearly $3.3 million to costs when comparing the 2005-2006 and 2006-2007 fiscal periods. The 2006-2007 Budget provides funding for a 3% wage increase for union exempt employees in September 2006. A rise in capitalized labor charges is anticipated for the 2006-2007 Budget Year lowering operating labor by $1.3 million, while overtime costs are projected to rise by $.4 million. (2) Pension expenses are anticipated to rise by $.3 million to $17.6 million in the 2006-2007 Budget Year reflecting the most recent information from its actuarial consultant to update the current pension funding requirements. (3) The $3.1 million rise in health insurance reflects premium increases for prescription drug and medical coverage for both active and retired employees. (4) Payroll taxes are expected to total $6.6 million in the 2006-2007 Budget Year, an increase of $.9 million from the prior year. The 2005-2006 fiscal period included a non-recurring refund settlement associated with Pennsylvania sales tax liability. A more detailed explanation of labor and fringe benefits (Exhibit C-3) will be provided later in my testimony.

<u>Bad Debt Expense</u> (Line 16) - PGW has provided separate supporting documentation for the Accounts Receivable and Bad Debt expense calculations (SD-5) and the most recent collectibility study as of April 2006 identifying the bad debt reserve requirement (SD-6). PGW anticipates a \$60.7 million expense related to bad debt for the 2006-2007 Budget Year and \$61.5 million for the current 2005-2006 fiscal period. The forecasted decrease in this expense reflects an improvement in PGW's overall collection rate currently 92.0% as of April 2006. PGW expects to attain a 93.0% collection rate for the 2005-2006 fiscal period, while a 94.0% collection rate target is reflected in the 2006-2007 Budget Year. PGW's collection initiative remains at the forefront of all company activities as improvement in overall customer collections is paramount to improving cash flow and liquidity.

Other Expenses and Depreciation (Line 17) - The principal reasons for the \$3.8 million decline in these expense categories for the 2006-2007 Budget Year of \$73.1 million resulted from reductions in the appropriation for reserves and losses, lower material and \$5.0 million in projected overall cost savings throughout PGW's operations. Also, an increase in the allocation of fringe benefits and administrative and general charges to capital projects reflecting higher capital spending further contributed to the reduced costs. These decreases were partially offset by higher renewal premiums for public liability insurance, additional costs for contracted maintenance, outside purchased services, advertising, promotion and depreciation costs. A more detailed explanation of other expenses and depreciation (Exhibit C-4) will be presented later in my testimony.

Other Income (Line 21) - PGW expects a \$1.4 million rise in other income during the 2006-2007 Budget Year primarily as a result of earnings on restricted funds and short term investments reflecting higher projected investable balances and rising interest rates.

<u>Interest Expense</u> (Line 27) - Total interest expense of $74.0 million in the 2006-2007 Budget Year represents an increase of $8.5 million from the 2005-2006 fiscal period. <u>Long-term debt</u> (Line 23) interest costs are budgeted to increase by $4.7 million due mainly to the effect of the proposed 7th Series 1998 Ordinance $150.0 million new money bond issue offset by scheduled long-term debt maturities. <u>Other interest</u> (Line 24) expense is anticipated to rise by $3.6 million in the 2006-2007 Budget Year primarily as a result of interest costs associated with PGW's Tax-Exempt Commercial Paper Program which is anticipated to be maintained at the $150.0 million level in the 2006-2007 fiscal period. Also, fees associated with PGW's variable rate debt and higher bond discount and issuance expenses are anticipated to further increase interest expense. The <u>Loss from the Extinguishment of Debt</u> (Line 26) of $5.5 million in the 2006-2007 Budget Year is expected to be $.2 million greater than the prior period reflecting the continued expense amortization of prior bond refundings.

<u>Net Earnings</u> (Line 28) - The net earnings from Operations are forecasted at $4.4 million for the 2006-2007 Budget Year. This reflects a $6.0 million decrease from the 2005-2006 fiscal period projected earnings of $10.4 million.

Q. Proceeding to Exhibit A-2, the Cash Flow Statement, would you please identify the individual items which account for the total sources of $141.3 million for the 2006-2007 Budget Year shown on Line 13?

A. The Cash Flow Statement is one of PGW's primary financial planning and control documents. Through this format, the transition from an accrual accounting methodology applied in the Statement of Income is now presented on a cash basis. The principal sources of funds to PGW are net income, borrowings to support capital expenditures, and the tax-exempt commercial paper program.

<u>Net Income</u> (Line 1) totaling $4.4 million is a transfer from Line 28, Exhibit A-

1, Statement of Income. It is the net result of PGW's operations after combining revenues and other income, less operating and interest expenses.

Depreciation and Amortization (Line 2) are sources of funds, as these items represent those (non-cash) costs chargeable to expense in the current period, although the actual cash payments were made primarily in prior periods. In the 2006-2007 Budget Year, this category is projected to increase by $2.1 million to $46.0 million as a result of higher depreciation expense on depreciable utility plant, bond discount, issuance and premium charges and higher extinguishment of debt costs.

Earnings on Restricted Funds (Line 3) represent cash withdrawals from restricted funds, principally the revenue bond sinking and capital improvement funds. In the 2005-2006 and 2006-2007 fiscal periods, interest withdrawn from these funds is expected to be $3.9 million and $.1 million greater than the interest earned, respectively. This resulted from earnings in prior periods not being withdrawn or restricted in use during the fiscal period in which the earnings occurred.

Elimination of Accrued Interest on Refunded Debt (Line 4) the $3.2 million represents accrued interest payable eliminated by the 6TH Series refunding bond issue.

Increased/(Decreased) Other Assets/Liabilities (Line 5) reflects a change between the 2005-2006 and 2006-2007 fiscal years of $2.0 million. The main components that are reflected in this source of cash are deferred operating expenses and payments and interest accruals that continue to be made on the long term debt portion of tax-exempt capital appreciation ("TECA") bonds. These payments account for a portion of the change between the fiscal years.

The sum of net income and the previously mentioned adjustments is reported on (Exhibit A-2, Line 6) as available from Operations and totals

$51.3 million in the 2006-2007 Budget Year, $9.1 million lower than forecasted in the 2005-2006 fiscal year.

Funds Required for Capital (Line 7) represents one of the components of PGW's cash management process. The funds withdrawn from the Capital Improvement Fund are utilized to fund PGW's capital expenditures. The 2005-2006 fiscal period anticipates $60.2 million being withdrawn from the Capital Improvement Fund to support capital spending for the period. The 2006-2007 Budget Year projects that $72.0 million will be withdrawn from the capital fund to provide the necessary funding for capital spending. No internally generated funds will be generated during the 2005-2006 and 2006-2007 fiscal periods. PGW's $75.2 million capital expenditure program in the 2006-2007 Budget Year is expected to be financed entirely by debt financing.

Grant Income (Line 8) – The $18.0 million represents the grant back of the City Payment to PGW to be used as project revenues available to cover debt service in the coverage calculation.

Capitalized Interest (Line 10) - PGW will utilize capitalized interest fund proceeds to make the debt service payments on the 5th Series A-1 bonds totaling $5.9 million in the 2005-2006 fiscal year. This restricted fund was set up at the time of the October 2004 bond sale.

Release of Sinking Fund Proceeds (Line 11) – Since the highest principal and interest payments associated with 1975 Ordinance Bonds has been made, PGW expects that $3.7 million will be released from this restricted account during the 2005-2006 year.

Temporary Financing (Line 12) - In the current 2005-2006 fiscal period, PGW's outstanding level of tax-exempt commercial paper notes is anticipated to be $70.0 million at August 31, 2006. The full amount of commercial paper notes was first repaid on May 17, 2006. PGW, for the remaining portion of the fiscal year, anticipates reissuing notes, as needed, to assist in meeting projected working capital requirements and available arbitrage opportunities. The level of outstanding notes between August 2005 ($49.9 million) and August 2006 ($70.0 million) (Line 29) increased by $20.1 million. The 2006-2007 Budget Year anticipates that during the major part of the fiscal year, the maximum level of notes $149.8 million will be outstanding and required to assist in meeting working capital requirements and arbitrage opportunities. The outstanding level of notes at August 2007 is forecasted at $70.0 million. PGW, during the 2000-2001 fiscal period, received a $45.0 million interest free loan from the City of Philadelphia to assist in meeting working capital requirements. It is anticipated that this loan will be fully utilized at August 2006 and $43.0 million is expected to be outstanding at August 2007. The loan was restructured and full repayment is now anticipated in August 2008. The overall impact of PGW's operations including collection improvements, the forgiveness of the $18.0 million City payment and the continued utilization of the $45.0 million City loan during the 2006-2007 Budget Year is projected to leave PGW with a cash balance of $16.0 million, compared to the $10.8 million anticipated at the close of the 2005-2006 fiscal period.

The **Total Sources** (Line 13) of $141.3 million in the 2006-2007 fiscal year are expected to be $27.0 million less than the level projected in fiscal year 2005-2006 mainly reflecting reduced earnings from Operations and restricted accounts.

Q. How are these Total Sources applied within PGW?

A. The Total Sources are utilized as detailed on the lower part of Exhibit A-2 under the category **Total Uses** (Line 24) of $141.3 million. The primary areas of expenditures are as follows:

Net Capital Expenditures (Line 14) represent expenses for approved capital budget projects. These costs totaling $75.2 million in the 2006-2007 Budget Year are projected to increase by $7.1 million from the 2005-2006 fiscal period level of $68.1 million. These expenditures include: (1) direct charges for labor, material, equipment, contractors and transportation services; (2) allocated expenses for fringe benefits, and administrative and general expenses; and (3) an Allowance for Funds Used During Construction ("AFUDC"). The total costs are reported net of contributions, reimbursements and salvage.

Funded Debt Reduction (Lines 15 & 16) - This expense represents the payment of the principal portion of PGW's long-term debt under pre-determined debt amortization schedules. These payments include revenue bond debt service principal repayments. In the 2006-2007 Budget Year, these payments are expected to total $38.0 million, a rise of $6.8 million from the $31.2 million paid in the 2005-2006 fiscal period.

Temporary Financing/City Loan Repayments (Lines 18 & 19) – The 2006-2007 Budget Period anticipates a $2.0 million repayment of the $45.0 million City loan resulting in an outstanding balance at August 31, 2007 of $43.0 million.

Distribution of Earnings (Line 20) - This represents the annual $18.0 million payment made to the City of Philadelphia under the Philadelphia Facilities Management Corporation Agreement/Ordinance. This payment will be made to the City of Philadelphia and it will then be granted back to PGW to be utilized as project revenues.

Additions to (Reductions of) Non-Cash Working Capital (Line 21) - This category represents PGW's continuing effort to shift from the accrual method of accounting to a cash basis. The detail of Working Capital is presented on Exhibit H-1, and the annual changes in working capital, which specifically support Line 21 of Exhibit A-2 are detailed on Exhibit H-2.

Q. Would you please explain the major factors that resulted in the working capital requirements for the 2005-2006 fiscal year and the continuing impact on the proposed 2006-2007 Budget Year.

A. The $55.4 million net increase in working capital requirements during the 2005-2006 Period (Exhibit H-2, Line 13) reflects changes in both assets and liabilities. The 2005-2006 fiscal period anticipates a decrease in accounts receivable (Exhibit H-2, Line 1) of $21.3 million and a commensurate reduction in the reserve for bad debts (Exhibit H-2, Line 3) of $15.8 million resulting in a net gas accounts receivable decline (Line 4) of $10.1 million. Unbilled gas revenues (Line 2) of $11.3 million at August 2006 are projected to rise by $2.5 million reflecting a higher average price per Mcf for gas used but not yet billed. The reduction in accounts receivable was mainly the result of the receipt of $11.5 million in environmental related insurance proceeds during the 2005-2006 fiscal period. PGW will be consulting with its outside auditors to ascertain the required reserve for uncollectible accounts and has presented separate supporting documentation, which details the accounts receivable balance, reserve for uncollectible accounts and bad debt expense. Materials and Supplies (Exhibit H-2, Line 5) increased by $53.8 million principally due to a substantially higher price for natural gas and the volume in storage inventories, while Other Current Assets (Exhibit H-2, Line 6) rose by $8.8 million due mainly to a projected under recovery for the 2005-2006 GCR, USC and restructuring charges of $6.2 million. Liabilities, namely accounts payables (Exhibit H-2, Line 10), are expected to rise by $8.4 million principally due to higher prices for natural gas purchases totaling $7.3 million, while general trade payables are projected to rise by $1.1 million. In addition, Other Current Liabilities (Exhibit H-2, Line 11) are expected to decline by $4.1 million mainly as a result of the of the return to customers of the $7.6 million over recovery of the 2004-2005 GCR, USC and restructuring charges, while higher accrued interest of $2.6 million on long term debt reflects the January 2006 6th Series bond refunding issue. The net impact of these working capital changes resulted in an increased requirement in the 2005-2006 fiscal year.

The 2006-2007 Budget Year projects overall working capital requirements of $2.9 million (Exhibit H-2, Line 13). The $1.3 million net decrease in Accounts Receivable (Exhibit H-2, Line 4) reflects the targeted goal of a 94.0% collection rate which is expected to lower outstanding customer receivables, while providing the necessary requirement in the reserve for bad debt. Materials and Supplies (Exhibit H-2, Line 5) are forecasted to decline by $3.4 million mainly reflecting a 2.3 Bcf decline in the volume of natural gas in storage offset by higher average prices of nearly 91.0 cents per Mcf or 10.6%. Other Current Assets (Exhibit H-2, Line 6) are expected to decline by $6.1 million reflecting the charge to customers of the $6.2 million 2005-2006 under recovery associated with GCR, USC and restructuring costs. Accounts Payable (Exhibit H-2, line 10) are expected to decrease by $12.8 million reflecting lower year end natural gas costs. Other Current Liabilities (Exhibit H-2, Line 11) are anticipated to decrease by $.9 million reflecting lower accrued wages and the reserve for Injuries and Damages, offset by higher accrued interest associated with the proposed 7th Series $150.0 million bond issue. These asset and liability changes result in the additional net working capital requirement of $2.9 million for the 2006-2007 Budget Year (Exhibit H-2, Line 13).

PGW's ending **Cash Balance** (Exhibit A-2, Line 28) at August 2006 is expected to total $10.8 million, $104.2 million less than the combined outstanding level of $70.0 million of commercial paper notes and the $45.0 million City Loan. This year end cash balance is lower than the $15.2 million actual cash balance in 2004-2005 which was $79.7 million below the combined outstanding level of $49.9 million in commercial paper notes and the $45.0 million City Loan. The 2006-2007 Budget Year projects a cash balance at year end of $16.0 million, $97.0 million less than the combined outstanding commercial paper level of $70.0 million and the

$43.0 million City Loan. The ultimate goal for PGW in the future is to continue to improve upon its historic collection rate so that much needed liquidity can be generated to reduce short term borrowings and partially support the financing of its capital programs with internally generated funds.

Q. Could you explain the income and expense components that are utilized when computing the Revenue Bond Debt Service Coverage Ratio for the 2006-2007 Budget Year on Exhibit A-3?

A. The coverage ratio is calculated based on the 1975 Ordinance and the 1998 Ordinance which sets the priority of payments of outstanding long-term debt. In deriving data for the coverage calculation, several non-cash adjustments are made to both revenue and expense items:

Total Funds Provided (Exhibit A-3, Line 7) - The funds provided in the proposed 2006-2007 Operating Budget total $1,009.6 billion and are comprised of: (1) total gas and other operating revenues, (2) other income adjusted to include actual cash withdrawals from both the Capital Improvement and Revenue Bond Sinking funds (rather than only the interest earned in the fiscal period), the $18.0 million in Grant Income, and (3) AFUDC on borrowed funds for capital expenditures.

Total Funds Applied (Line 12) - The funds applied reflect operating expenses from Exhibit A-1, Line 19, totaling $912.0 million, less certain non-cash and subordinate expenses (Exhibit A-3, Line 11) totaling $41.9 million. The components of the non-cash expenses include: (1) depreciation expense included in operating expenses, (2) payments to the City of Philadelphia for miscellaneous services rendered, including Philadelphia Gas Commission expenses.

Funds Available to Cover Revenue Bond Debt (Line 13) are projected to be $139.5 million in the 2006-2007 Budget Year.

Revenue Bond Debt Service (Line 14) - The total funds applied to 1975

Revenue Bond Debt Service are $35.7 million, representing the scheduled cash payments of principal which are due annually with interest paid semi-annually.

<u>Debt Service Coverage Ratio 1975 Revenue Bonds</u> (Line 15) - The debt service coverage ratio for 1975 Ordinance Revenue Bonds is obtained by dividing Funds Available to cover 1975 Debt Service ($139.5 million) by Funds Applied to 1975 Debt Service Revenue Bonds ($35.7 million). The result produces a coverage ratio of 3.90 times. The mandatory coverage ratio for 1975 Senior Debt Service is 1.5 times. The remaining coverage ratios, as set forth in the 1998 Ordinance, are now calculated. Net available after 1975 Debt Service (Line 16) totaling $103.7 million is utilized to calculate the coverage ratio on 1998 Ordinance Senior Debt Service (Line 19) of $53.3 million at a mandatory 1.5 times. The projected calculation for this ratio is shown at 1.95 times (Line 20). The final component of the coverage calculation under the 1998 Ordinance is shown on (Lines 21 through 23). Net available after the 1998 Debt Service (Line 21) of $50.4 million is used to calculate coverage on 1998 Subordinate Debt Service (Line 22) of $2.0 million. The result is shown on (Line 23) as Debt Service Coverage Subordinate Bonds of 25.37 times. The mandatory requirement is 1.0 times on subordinate debt service. The projected coverage ratios for the current 2005-2006 fiscal period are expected to be 3.33 times on 1975 Ordinance debt service and 3.01 times on 1998 Ordinance debt service, while the coverage ratio on 1998 Subordinate debt service is expected to be 32.79 times.

Q. Returning to the Statement of Income (Exhibit A-1), could you explain in detail the items that are included under the category Labor and Fringe Benefits on Exhibit A-1, Line 15.

A. This category includes payroll costs (excluding that portion chargeable to capital activities), payments made to beneficiaries of PGW's employee pension plan and corresponding withdrawals from the pension fund. This category also includes the cost of premiums paid for employees' (both active and retired) health and group life insurance coverage, payroll taxes associated with FICA and Medicare and state unemployment taxes (exclusive of those taxes chargeable to capital activities) as detailed on Exhibit C-3.

Q. Are contractual labor escalations included in the periods covered on Exhibit A-1?

A. Yes, a three year contract is in effect with the Gas Works Employees' Union for the period from May 16, 2005 to May 15, 2008. A 1% general wage increase was effective for unionized employees on September 1, 2005. The remaining general wage increases over the covered period are 3% effective September 1, 2006 and 2½% on May 15, 2007. The 2006-2007 Budget provides funding for a 3% increase for non-union employees.

Q. Could you explain the difference in labor and fringe benefit expenses between the 2005-2006 and 2006-2007 fiscal periods?

A. The 2006-2007 Budget Year reflects payroll costs of $105.9 million, an increase from the 2005-2006 fiscal year level of $101.3 million (Exhibit C-3, Line 1). Operating labor costs (Exhibit C-3, Line 3) also rose by $3.3 million to $83.1 million, while labor charged to capital projects and other activities rose by $1.3 million.

The 2006-2007 Budget Year projects pension beneficiary payments (Line 4) to total $32.5 million, with a $14.9 million (Line 5) withdrawal from the pension fund to meet the anticipated payments. This will result in an actuarial pension expense of $17.6 million. The 2005-2006 Estimate for pension beneficiary payments is expected to be $31.5 million, with a $14.2 million withdrawal from the pension fund to meet the scheduled payments. The actuarial pension expense for PGW in the 2005-2006 fiscal year is forecasted to total $17.3 million. The actuarially computed pension expense for the 2005-2006 and 2006-2007 fiscal periods was based on updated information based on PGW's most recent pension study prepared by its actuarial consultant.

Health insurance costs (Exhibit C-3, Line 8) are anticipated to be $34.8 million in the 2005-2006 fiscal period, while the 2006-2007 Budget Year expects a $3.1 million increase to $37.9 million. PGW is continually exploring ways to reduce costs for all employees' health coverage with its primary health care providers.

Payroll taxes (Exhibit C-3, Line 16) are anticipated to be $6.6 million in the 2006-2007 Budget Year an increase of $.9 million. The 2005-2006 fiscal year reflected a non recurring refund of $.6 million associated with sales tax liability. The following schedule details the major components of the Labor and Fringe Benefits expense:

Labor and Fringe Benefits

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Operating Labor	$80,634	$79,848	$83,154
Pension Payments	31,204	31,478	32,454
Pension Fund Withdrawals	(16,502)	(14,181)	(14,861)
Group Life Insurance	1,594	2,100	2,100
Health Insurance	33,571	34,804	37,884
Payroll Taxes	6,218	5,678	6,574
TOTAL	**$136,719**	**$139,727**	**$147,305**

Q. Could you explain the personnel levels included on Exhibit C-3-1, Line 11 and why PGW feels that the 2006-2007 Budget Year level is reasonable?

A. PGW, in the 2006-2007 Budget Year, expects to attain an average level of 1,740 employees, currently PGW has approximately 1,767 employees and although the company targeted an average of 1,740 employees as its goal in 2005-2006 it most likely will not attain that level. The main reason for this situation is that the expected outsourcing of certain functions did not occur as planned with a resultant higher level of employees. However, PGW did not spend the related purchased service expenditures. PGW recognizes that certain areas of the company due to the on-going field operations initiative and other critical functions need additional staffing and continued training; the 2006-2007 Budget provides the necessary funding. PGW is committed to adhering to the highest level of safety in the work place, while at the same time reducing overall workers' compensation claims through continued training.

Q. Please detail the items included in Other Expenses and Depreciation on Exhibit A-1, Line 17.

A. The expenses shown on Exhibit A-1, Line 17, totaling $73.1 million for the 2006-2007 Budget Year captioned "Other Expenses and Depreciation" include an appropriation for reserves and other losses (excluding the appropriation for uncollectible gas accounts), advertising, general material, property and liability insurance, contracted maintenance, utilities, rentals, purchased services, postage, promotion, depreciation and miscellaneous expenses.

Also included in this category are credits to operating expenses for labor-related fringe benefits such as insurance, taxes, pension expenses, and administrative and general costs chargeable to capital projects. In addition, non-utility revenues are also contained in this category (repair and other service revenues are now included as part of other operating revenues). The detail of these expenses can be found on Exhibit C-4.

Exhibit C-4, Detail of Other Operating Expenses

Q. Have any adjustments been made to the expense categories detailed on Exhibit C-4 to reflect past Regulatory Commission orders?

A. Yes, PGW has complied with Regulatory Commissions' past orders which amortized certain non-recurring costs and normalized other expense items for ratemaking and budgeting purposes. The purchased services category mainly reflects these adjustments. Schedule (SD-4) provides documentation of the accounting for the remaining non-recurring expenses, and has been included as part of PGW's Operating Budget filing.

Q. Please explain what is included in the Appropriation for Reserves and Other Losses on Exhibit C-4, Line 1?

A. This expense category includes appropriations to the Injuries and Damages Reserve for PGW's estimate of outstanding suits and claims and workers' compensation settlements, corporate loss settlements, and a provision for employees' compensated absences. As stated previously, this item excludes the appropriation for uncollectible accounts.

Q. What factors contributed to the increase in settlements during the 2005-2006 Estimate compared to the 2004-05 actual, and the slightly higher projected level of settlements for the 2006-2007 Budget Year?

A. PGW's settlements for suits and claims and costs for workers' compensation were $2.7 million during the 2004-2005 actual period and combined with the appropriation of $3.0 million resulted in a year-end reserve balance of $3.5 million at August 2005. PGW's current projection of total reserves for outstanding suits and claims and workers' compensation settlements is expected to total nearly $5.1 million at August 2006, a decrease compared to the $8.5 million that was projected at August 2005. The 2005-2006 fiscal year primarily reflects the settlement of several workers' compensation claims. The appropriation to the Reserve for Injuries and Damages is expected to total $3.1 million during the 2005-2006 fiscal period resulting in an ending reserve balance of $3.2 million. Settlements for the 2005-2006 fiscal period are anticipated to total $3.4 million. The reserve balance at August 2006 is expected to provide coverage for suits and claims and workers' compensation settlements during the 2006-2007 Budget Year.

The 2006-2007 Budget Year projects settlements totaling $3.6 million with a major claim case anticipated to be settled during the upcoming period, while the appropriation of $2.3 million represents the required level necessary to provide a year-end reserve balance of $1.8 million. This forecasted reserve balance at August 2007 is expected to provide coverage for outstanding suits and claims and workers' compensation settlements anticipated during the 2007-2008 fiscal year.

PGW continues, through the Human Resources, Risk Management and Legal departments, and the use of a third party provider to handle its workers' compensation program to identify all potential savings that can be achieved through an effective coordination of these activities.

The following schedule details the Injuries and Damages Reserve:

Injuries and Damages Reserve

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Beginning Balance	$3,235	$3,520	$3,172
Settlements	(2,715)	(3,411)	(3,584)
Appropriation	3,000	3,063	2,257
Ending Balance	**$3,520***	**$3,172***	**$1,845***

*The required reserve balance represents the current portion of the total outstanding liability at the end of the fiscal period.

Q. **Would you explain the items included in the Advertising expenses shown on Exhibit C-4, Line 2, and the increase of 13% comparing the 2006-2007 Budget Year to the 2005-2006 Estimate?**

A. The major components of the advertising expenditures in the 2006-2007 Budget Year are related to corporate campaigns to inform eligible customers of the availability of Low Income Heating Assistance Programs, collection activities related to customer bill payment, PGW's Parts and Labor Repair Plans and customer appliance safety and corporate customer informational and educational advertising. The major portion of the added spending reflects advertising costs in the 2006-2007 Period related to customer conservation activities. In addition, advertising is associated with Regulatory activities related to rate and tariff changes, meeting notices and hearings.

Q. What are the main components of the General Material costs included on Exhibit C-4, Line 3 for the 2006-2007 Budget Year and the 2005-2006 fiscal period?

A. In the 2006-2007 Budget Year, the three major operating departments are anticipated to utilize $7.0 million in material in their operations (pipe, valves, appliance and replacement parts, etc.) approximately $.2 million or 2.3% more than in the current period. PGW remains committed to an overall cost containment initiative to lower the overall departmental material utilization.

Q. What type of Insurance Premiums are included in the Insurance costs reported on Exhibit C-4, Line 4, and what is the reason for the $.3 million or nearly 10% increase projected in the 2006-2007 Budget Year?

A. Insurance expense includes premiums for property, public liability, and workers' compensation coverage. Public liability coverage for the 2005-2006 and 2006-2007 fiscal years is expected to be maintained at the current $200.0 million level with a self-retention level of $500,000 per occurrence. The renewal premiums for public liability insurance are anticipated to rise by nearly $.3 million or 14% to $2.7 million in the 2006-2007 Budget Year up from the $2.4 million level experienced in the 2005-2006 fiscal period. In the 2004-2005 through 2006-2007 fiscal years, the cost of providing insurance coverage is reflected as follows:

Insurance Expense

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Property Insurance	$827	$1,067	$1,067
Public Liability & Workers' Comp.	2,608	2,351	2,690
Miscellaneous	50	60	70
TOTAL	$3,485	$3,478	$3,827

Other labor related insurance expenditures for employee health and group life insurance were previously referenced as a component of the labor and fringe benefit expenses.

Q. **What expenses are included in Contracted Maintenance on Exhibit C-4, Line 5?**

A. Contracted maintenance represents the cost of work performed by outside personnel, who are retained for their specialized experience in particular tasks. Software maintenance and/or licensing fees are also included in this category. This contracted work includes paving, painting, inspections and charges for maintenance of such items as gas engines, piping insulation, instrument repairs, tools, automobiles, elevators, air conditioning equipment, alarms, fire protection equipment, office and computer equipment and computer software maintenance, etc.

Q. **Costs associated with Contracted Maintenance on Exhibit C-4, Line 5, are projected to rise by nearly $.4 million or 6% in the 2006-2007 Budget Year. Please explain the reason for the increased expense.**

A. The primary reason for the additional contracted maintenance costs reflects added regulatory requirements for transmission line inspections and higher costs for adjusting existing PGW infrastructure facilities associated street repaving activities. Also, maintenance of PGW software applications is anticipated to increase by $.1 million. PGW expects contracted maintenance expenses overall to total $5.6 and $6.0 million in the 2005-2006 and 2006-2007 fiscal periods, respectively.

Q. What services are included within the category of Utilities on Exhibit C-4, Line 6?

A. Utilities include the cost of electric, telephone and water service. In the 2004-2005 through 2006-2007 fiscal years, the actual or projected costs for these services are:

Utility Expense

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Electric	$2,052	$2,108	$2,093
Telephone	1,306	1,177	1,127
Water	443	384	396
TOTAL	**$3,801**	**$3,669**	**$3,616**

The 1% decline in utility expenditures projected for the 2006-2007 Budget Year mainly reflects lower costs for purchased telephone services reflecting a scaling back of overall Company usage. Electric costs were relatively unchanged in a year to year comparison. The utility expenses included above exclude the cost of gas used by the company. This gas expense, in accordance with the prescribed FERC accounting methodology, is included in Natural Gas expense on Exhibit A-1, Line 11.

Q. What costs are included in Rental expenses, as presented on Exhibit C-4, line 7?

A. Rental expenses include the rental and leasing of such items as computer related and telephone equipment, hand held microprocessors, transportation and construction equipment and PGW's customer service centers. This expense category in the 2006-2007 Budget Year is expected to remain relatively constant at $.8 million.

Q. Please detail the type of expenses included within the category Purchased Services on Exhibit C-4, Line 8.

A. This expense category primarily includes professional and technical services such as: legal, engineering, auditing, consulting and computer related services, as well as, certain specialized services, e.g., advertising, production, collection agencies, armored car services, weather forecasting, banking and financial services and home weatherization services, etc., which are not normally available within the company's internal organization. The 2006-2007 Budget Year anticipates that purchased service costs will total \$23.7 million, an increase of \$2.8 million or 13.7% above the 2005-2006 Estimate of \$20.9 million. The major increases in the 2006-2007 Budget Year result from \$1.0 million to provide funding for possible outsourced company operations. In addition, higher costs for security services, internal audit services and costs for a possible base rate filing further contributed to the added expenses. These increases were offset by decreased expenditures related to customer bill payment credit card fees and non recurring costs attributable to the LNG project and the proposed Exelon utility merger. The 2006-2007 Budget anticipates that weatherization and conservation expenditures will total \$2.2 million, approximating the 2005-2006 Estimate. These costs are part of the non-fuel charges that are currently recoverable through the Universal Service Charge.

Q. Does the Postage Expense on Exhibit C-4, Line 9, include the cost of mailing all of the gas bills and notices being sent to customers?

A. Yes. PGW mails all of its monthly customer gas bills. In addition, this expense includes the cost for the mailing of collection notices, parts and labor plan contracts and general business correspondence. The 2006-2007 Budget Year total of \$2.6 million is \$.2 million greater than the \$2.4 million expected to be incurred in the current fiscal period.

Q. Please describe the items included in the category Promotion on Exhibit C-4, Line 10.

A. The promotional expenses are associated with the Marketing department's initiatives to expand the use of natural gas in all market segments. The Marketing department included $.5 million for customer incentives in the 2006-2007 Budget Year, no promotional expenditures are anticipated in the 2005-2006 fiscal period.

Q. What are the components of Non-Utility Revenues presented on Exhibit C-4, Line 11?

A. This category formerly included repair and other service revenues, which are now reported as part of other operating revenues. The components of these revenues are associated with the 1% commission paid by the Commonwealth of Pennsylvania for sales tax collection and reimbursement for non-business related phone calls.

On Exhibit C-4, Line 12, what expenses are charged to capital and what is the basis for the allocated charges to capital and corresponding credits to Operations?

A. Certain labor-related fringe benefit expenses, such as employee group life and health insurance, pensions and payroll taxes are charged initially to PGW's operating accounts on the Statement of Income, Exhibit A-1. In order to assign a proportional share of these costs to capital projects that utilize PGW personnel, a percentage of the total cost of the labor and fringe benefit expenses to the total direct payroll is calculated. On the basis of this calculation, these expenses are allocated to capital projects and operating expenses are reduced on the basis of the direct labor charges to capital. Also, administrative costs are allocated to capital based on the percentage of administrative and general expenses to total expenditures, excluding fuel costs. Capital projects are charged and operating expenses lowered on the basis of the total charges on a monthly basis to capital projects. The 2006-2007 Budget Year anticipates an allocation of $19.2 million in labor related fringe benefits and administrative and general costs to capital projects, an increase of $2.5 million from the 2005-2006 fiscal period level of $16.7 million reflecting a higher capitalization factor for labor related costs and the additional capital spending in the upcoming 2006-2007 Budget Year.

Q. How are Depreciation rates determined and how do they relate to the expense listed in Exhibit C-4, Line 13?

A. PGW currently depreciates plant-in-service based on a 2004 depreciation study performed by the firm of Black & Veatch. The 2006-2007 Budget Year projects the utilization of a 2.4% composite depreciation rate and when applied to the projected plant-in-service balances, mainly accounts for the $1.3 million rise in depreciation expense.

Q. Miscellaneous expenses included on Exhibit C-4, Line 15, are forecasted to decrease by $6.2 million in the 2006-2007 Budget Year. Please explain the reasons for the lower costs and the main components of this category?

A. Miscellaneous expenses are forecasted to decline in the 2006-2007 Budget Year primarily due to the previously mentioned corporate goal of $5.0 million or 2% in across the board cost reductions and the final year of the amortization of restructuring costs during the 2005-2006 period. These decreases were offset somewhat by additional costs reflecting employee training programs and an expansion of PGW's employee tuition refund program during the 2006-2007 Budget Year. A detail of the components of the miscellaneous expense category is listed below:

Miscellaneous Expenses

(Dollars in Thousands)

	Actual 2004-05	Estimate 2005-06	Budget 2006-07
Expense of Employees	$453	$840	$954
Dues & Subscriptions	2,881	3,294	3,676
Taxes	24	24	28
PFMC Management Fee	325	371	372
Amortization Restructuring Costs	1,087	1,087	-
Cost Savings	-	-	(5,000)
Amortization Non-Recurring Expense	432	439	327
Deferred Compensation	334	343	355
(Additions)/Reductions LNG Inventory	(290)	(1,083)	(1,568)
TOTAL	**$5,246**	**$5,315**	**$(856)**

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does. Thank you.

CITY OF PHILADELPHIA

OFFICE OF THE DIRECTOR OF FINANCE
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(215) 686-6140
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VINCENT J. JANNETTI
Acting Secretary of Financial
Oversight and
Director of Finance

May 17, 2006

The Honorable Marian B. Tasco
Chairwoman
PHILADELPHIA GAS COMMISSION
One Parkway Building
1515 Arch Street
Philadelphia, PA 19102

Dear Chairwoman Tasco:

Please be informed that pursuant to Section IV - 2 (a) of the Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation ("Management Agreement"), I have reviewed the Fiscal Year 2007 Philadelphia Gas Works Operating Budget, and have determined that same is consistent with the accounting methods prescribed in Section IV - 1 of the Management Agreement and is otherwise in form and extent satisfactory to me.

Please feel free to contact this office should you require any assistance.

Sincerely,

Vincent J. Jannetti
Acting Secretary of Financial Oversight &
Director of Finance

RESOLUTION

FOR AUTHORIZATION TO SUBMIT THE PGW FISCAL YEAR 2007 OPERATING BUDGET TO THE PHILADELPHIA GAS COMMISSION FOR REVIEW AND APPROVAL

I, ABBY L. POZEFSKY, Assistant Secretary of **PHILADELPHIA FACILITIES MANAGEMENT CORPORATION**, do hereby certify that the following is a true and correct copy of action taken by the Board of Directors of said corporation by unanimous consent to the adoption of this resolution dated May 22, 2006, pursuant to provisions of Section 5727(b) of the Non-Profit Corporation Law of the Commonwealth of Pennsylvania.

RESOLUTION FOR AUTHORIZATION TO SUBMIT THE PGW FISCAL YEAR 2007 OPERATING BUDGET TO THE PHILADELPHIA GAS COMMISSION FOR REVIEW AND APPROVAL

WHEREAS, according to the Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation ("PFMC") for the management and operation of the Philadelphia Gas Works ("PGW") dated December 29, 1972, as amended (the "Management Agreement"), §IV.2(a), PGW's operating budget is subject to the approval of the Philadelphia Gas Commission;

WHEREAS, according to the Management Agreement §IV.2(a), PGW's operating budget must be prepared with the aid of the Director of Finance and be consistent with the accounting methods described in the Management Agreement §IV.1, in a form and extent that is satisfactory to the Director of Finance and the Philadelphia Gas Commission;

WHEREAS, pursuant to that certain resolution passed October 29, 2002, the Board may approve and authorize certain expenditures set forth in the operating budget in excess of Five Hundred Thousand Dollars ($500,000) annually without the necessity for further resolution, including: (1) certain fixed non-discretionary expenditures; (2) certain payroll and benefits expenditures; and (3) gas supply purchases with contracts of varying terms which are not subject to Gas Commission review and City Council approval but reviewed for prudency as a part of PGW's Gas Cost Rate proceedings before the Public Utilities Commission, subject to the authority to the Chief Executive Officer to make intra-year modification of up to ten percent in each of the preceding three categories;

WHEREAS, PGW has prepared its Fiscal Year 2007 Operating Budget and is currently developing the Forecast Fiscal Years 2008 through 2012 through the evaluation of the current needs and outlook of the municipally owned utility;

WHEREAS, PFMC has conducted a review of PGW's Fiscal Year 2007 Operating Budget and finds it in satisfactory form and content, and will review the Forecast Fiscal Years 2008 through 2012 when they are fully developed;

NOW THEREFORE, BE IT RESOLVED, that PFMC approves PGW's Fiscal Year 2007 Operating Budget, subject to further refinement by PGW management, should that become necessary or desirable; and that PGW is authorized to file with the Philadelphia Gas Commission for its approval and with the Director of Finance for his approval, as to form and content, the PGW Fiscal Year 2007 Operating Budget, in accordance with the Management Agreement §IV.2(a).

AND FURTHER RESOLVED that pursuant to that certain resolution passed October 19, 2002 the Board hereby approves and authorizes certain expenditures as set forth in the operating budget in excess of Five Hundred Thousand Dollars ($500,000) annually without the necessity for further resolution, including: (1) certain fixed non-discretionary expenditures, including but not limited to: state and local taxes; interest and principal payments to bondholders; commercial paper payments; postage; electric; and the annual fixed fee payment to the PUC; (2) certain payroll and benefits expenditures including but not limited to: payments to fund payroll obligations; payroll taxes; payments to the pension sinking fund; retirement benefit payments; health care payments; and life insurance payments; and (3) gas supply purchases with contracts of varying terms which are not subject to Gas Commission review and City Council approval but reviewed for prudency as a part of PGW's Gas Cost Rate proceedings before the Public Utilities Commission; subject to the authority to the Chief Executive Officer to make intra-year modification of up to ten percent in each of the preceding three categories.

IN WITNESS WHEREOF, I have hereunto set my hand and have caused the corporate seal of said Corporation to be hereunto affixed this 23rd day of May, 2006.

PHILADELPHIA FACILITIES
MANAGEMENT CORPORATION

By:__________________________
Abby L. Pozefsky

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME - BRINGDOWN
(Dollars in Thousands)

		2001 + $36M	2007	Diff
	Operating Revenues			
1	Total Gas Revenues	766,280	942,090	
2	Total Other Operating Revenues	28,026	28,564	
3	**Total Operating Revenues**	794,306	970,654	
4				
5	**Operating Expenses**			
6	Fuel	415,065	630,841	
7				
8	**Contribution Margin (lines 3 minus 6)**	379,241	339,813	(39,428)
9				
10	Other Oper.& Maintenance	206,766	229,932	
11	Depreciation/Cost of Removal	32,537	38,196	
12	Sub Total Other Oper. & Maint. & Depreciation	239,303	268,128	28,825
13				
14	**Total Operating Expenses (lines 6 + 12)**	654,368	898,969	
15				
16	**Operating Income (lines 3 minus 14)**	139,938	71,685	
17				
18	Other Income	6,106	11,212	5,106
19				
20	**Income Before Interest**	146,044	82,897	
21				
22	Total Interest	57,789	73,978	16,189
23				
24	**Net Income**	88,255	8,919	(79,336)
25				

$50M Rate Case Scenario @ 5.0% NPV

$50.0M from rates at NPV of 5.0%

	Year 1 FY2007-08	Year 2 FY2008-09	Year 3 FY2009-10
September	1,388,889	1,388,889	1,388,889
October	1,388,889	1,388,889	1,388,889
November	1,388,889	1,388,889	1,388,889
December	1,388,889	1,388,889	1,388,889
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April	1,388,889	1,388,889	1,388,889
May	1,388,889	1,388,889	1,388,889
June	1,388,889	1,388,889	1,388,889
July	1,388,889	1,388,889	1,388,889
August	1,388,889	1,388,889	1,388,889
	$16,666,667	**$16,666,667**	**$16,666,667**
Net Discounted Cash Flow - Annual	**$16,223,919**	**$15,434,273**	**$14,683,060**
Net Discounted Cash Flow - Cumulative	**$16,223,919**	**$31,658,192**	**$46,341,252**

	Debt Service	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	5,263,000	0.941905	4,957,248	2,064,012	297,650	2,595,586
2	5,149,000	0.887186	4,568,119	1,191,887	280,358	3,095,874
3	5,035,000	0.835645	4,207,472	399,769	264,070	3,543,633
4	4,921,000	0.787098	3,873,311	0	248,729	3,624,582
5	4,807,000	0.741372	3,563,776	0	234,280	3,329,497
6	4,693,000	0.698302	3,277,133	0	220,669	3,056,464
7	4,579,000	0.657735	3,011,768	0	207,849	2,803,918
8	4,465,000	0.619524	2,766,174	0	195,775	2,570,400
9	4,351,000	0.583533	2,538,952	0	184,401	2,354,550
10	4,237,000	0.549633	2,328,794	0	173,688	2,155,106
11	4,123,000	0.517702	2,134,485	0	163,598	1,970,887
12	4,009,000	0.487626	1,954,894	0	154,094	1,800,800
13	3,895,000	0.459298	1,788,965	0	145,142	1,643,823
14	3,781,000	0.432615	1,635,718	0	136,710	1,499,008
15	3,667,000	0.407482	1,494,238	0	128,768	1,365,470
16	3,553,000	0.383810	1,363,676	0	121,287	1,242,389
17	3,439,000	0.361513	1,243,242	0	114,241	1,129,001
18	3,325,000	0.340511	1,132,198	0	107,604	1,024,594
19	3,211,000	0.320729	1,029,860	0	101,353	928,507
20	3,097,000	0.302096	935,592	0	95,465	840,127
21	2,983,000	0.284546	848,801	0	89,919	758,882
22	2,869,000	0.268015	768,936	0	84,695	684,241
23	2,755,000	0.252445	695,486	0	79,775	615,712
24	2,641,000	0.237779	627,975	0	75,140	552,835
25	2,527,000	0.223966	565,961	0	70,775	495,186
26	2,413,000	0.210954	509,033	0	66,663	442,370
27	2,299,000	0.198699	456,809	0	62,791	394,019
28	0	0.187156	0	0	34,607	(34,607)
29	0	0.176283	0	0	33,802	(33,802)
30	0	0.166042	0	0	32,974	(32,974)
Total	**102,087,000**		**54,278,617**	**3,655,668**	**4,206,870**	**46,416,078**

Assumptions:

1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M
3. NPV Rate - 5.0%
4. Investment Rate - 5.0%
5. Coverage 1.0x

	Debt Service	Debt Service 1.5 Coverage	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	5,263,000	7,894,500	0.941905	7,435,872	2,064,012	297,650	5,074,210
2	5,149,000	7,723,500	0.887186	6,852,179	1,191,887	280,358	5,379,933
3	5,035,000	7,552,500	0.835645	6,311,208	399,769	264,070	5,647,369
4	4,921,000	7,381,500	0.787098	5,809,967	0	248,729	5,561,238
5	4,807,000	7,210,500	0.741372	5,345,664	0	234,280	5,111,385
6	4,693,000	7,039,500	0.698302	4,915,700	0	220,669	4,695,031
7	4,579,000	6,868,500	0.657735	4,517,651	0	207,849	4,309,802
8	4,465,000	6,697,500	0.619524	4,149,261	0	195,775	3,953,487
9	4,351,000	6,526,500	0.583533	3,808,427	0	184,401	3,624,026
10	4,237,000	6,355,500	0.549633	3,493,191	0	173,688	3,319,502
11	4,123,000	6,184,500	0.517702	3,201,728	0	163,598	3,038,130
12	4,009,000	6,013,500	0.487626	2,932,341	0	154,094	2,778,247
13	3,895,000	5,842,500	0.459298	2,683,447	0	145,142	2,538,306
14	3,781,000	5,671,500	0.432615	2,453,576	0	136,710	2,316,866
15	3,667,000	5,500,500	0.407482	2,241,357	0	128,768	2,112,589
16	3,553,000	5,329,500	0.383810	2,045,515	0	121,287	1,924,228
17	3,439,000	5,158,500	0.361513	1,864,863	0	114,241	1,750,622
18	3,325,000	4,987,500	0.340511	1,698,297	0	107,604	1,590,693
19	3,211,000	4,816,500	0.320729	1,544,790	0	101,353	1,443,437
20	3,097,000	4,645,500	0.302096	1,403,388	0	95,465	1,307,923
21	2,983,000	4,474,500	0.284546	1,273,201	0	89,919	1,183,282
22	2,869,000	4,303,500	0.268015	1,153,404	0	84,695	1,068,709
23	2,755,000	4,132,500	0.252445	1,043,229	0	79,775	963,455
24	2,641,000	3,961,500	0.237779	941,963	0	75,140	866,823
25	2,527,000	3,790,500	0.223966	848,942	0	70,775	778,167
26	2,413,000	3,619,500	0.210954	763,550	0	66,663	696,886
27	2,299,000	3,448,500	0.198699	685,214	0	62,791	622,423
28	0	0	0.187156	0	0	34,607	(34,607)
29	0	0	0.176283	0	0	33,802	(33,802)
30	0	0	0.166042	0	0	32,974	(32,974)
Total	**102,087,000**	**153,130,500**		**81,417,925**	**3,655,668**	**4,206,870**	**73,555,387**

Assumptions:

1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M
3. NPV Rate - 5.0%
4. Investment Rate - 5.0%
5. Coverage 1.5x

$50M Rate Case Scenario @ 6.0% NPV

$50.0M from rates at NPV of 6.0%

	Year 1 FY2007-08	Year 2 FY2008-09	Year 3 FY2009-10
September	1,388,889	1,388,889	1,388,889
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April	1,388,889	1,388,889	1,388,889
May	1,388,889	1,388,889	1,388,889
June	1,388,889	1,388,889	1,388,889
July	1,388,889	1,388,889	1,388,889
August	1,388,889	1,388,889	1,388,889
	$16,666,667	**$16,666,667**	**$16,666,667**
Net Discounted Cash Flow - Annual	**$16,137,406**	**$15,199,909**	**$14,316,875**
Net Discounted Cash Flow - Cumulative	**$16,137,406**	**$31,337,314**	**$45,654,189**

	Debt Service	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	5,263,000	0.941905	4,957,248	2,464,379	297,650	2,195,219
2	5,149,000	0.887186	4,568,119	1,409,285	280,358	2,878,476
3	5,035,000	0.835645	4,207,472	468,464	264,070	3,474,937
4	4,921,000	0.787098	3,873,311	0	248,729	3,624,582
5	4,807,000	0.741372	3,563,776	0	234,280	3,329,497
6	4,693,000	0.698302	3,277,133	0	220,669	3,056,464
7	4,579,000	0.657735	3,011,768	0	207,849	2,803,918
8	4,465,000	0.619524	2,766,174	0	195,775	2,570,400
9	4,351,000	0.583533	2,538,952	0	184,401	2,354,550
10	4,237,000	0.549633	2,328,794	0	173,688	2,155,106
11	4,123,000	0.517702	2,134,485	0	163,598	1,970,887
12	4,009,000	0.487626	1,954,894	0	154,094	1,800,800
13	3,895,000	0.459298	1,788,965	0	145,142	1,643,823
14	3,781,000	0.432615	1,635,718	0	136,710	1,499,008
15	3,667,000	0.407482	1,494,238	0	128,768	1,365,470
16	3,553,000	0.383810	1,363,676	0	121,287	1,242,389
17	3,439,000	0.361513	1,243,242	0	114,241	1,129,001
18	3,325,000	0.340511	1,132,198	0	107,604	1,024,594
19	3,211,000	0.320729	1,029,860	0	101,353	928,507
20	3,097,000	0.302096	935,592	0	95,465	840,127
21	2,983,000	0.284546	848,801	0	89,919	758,882
22	2,869,000	0.268015	768,936	0	84,695	684,241
23	2,755,000	0.252445	695,486	0	79,775	615,712
24	2,641,000	0.237779	627,975	0	75,140	552,835
25	2,527,000	0.223966	565,961	0	70,775	495,186
26	2,413,000	0.210954	509,033	0	66,663	442,370
27	2,299,000	0.198699	456,809	0	62,791	394,019
28	0	0.187156	0	0	34,607	(34,607)
29	0	0.176283	0	0	33,802	(33,802)
30	0	0.166042	0	0	32,974	(32,974)
Total	**102,087,000**		**54,278,617**	**4,342,129**	**4,206,870**	**45,729,618**

Assumptions:

1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M
3. NPV Rate - 6.0%
4. Investment Rate - 6.0%
5. Coverage 1.0x

	Debt Service	Debt Service 1.5 Coverage	NPV Factor	NPV of Debt Service	NPV of Interest Income Capital Balance	NPV of Interest Income Sinking Fund	Total
1	5,263,000	7,894,500	0.941905	7,435,872	2,464,379	297,650	4,673,843
2	5,149,000	7,723,500	0.887186	6,852,179	1,409,285	280,358	5,162,536
3	5,035,000	7,552,500	0.835645	6,311,208	468,464	264,070	5,578,673
4	4,921,000	7,381,500	0.787098	5,809,967	0	248,729	5,561,238
5	4,807,000	7,210,500	0.741372	5,345,664	0	234,280	5,111,385
6	4,693,000	7,039,500	0.698302	4,915,700	0	220,669	4,695,031
7	4,579,000	6,868,500	0.657735	4,517,651	0	207,849	4,309,802
8	4,465,000	6,697,500	0.619524	4,149,261	0	195,775	3,953,487
9	4,351,000	6,526,500	0.583533	3,808,427	0	184,401	3,624,026
10	4,237,000	6,355,500	0.549633	3,493,191	0	173,688	3,319,502
11	4,123,000	6,184,500	0.517702	3,201,728	0	163,598	3,038,130
12	4,009,000	6,013,500	0.487626	2,932,341	0	154,094	2,778,247
13	3,895,000	5,842,500	0.459298	2,683,447	0	145,142	2,538,306
14	3,781,000	5,671,500	0.432615	2,453,576	0	136,710	2,316,866
15	3,667,000	5,500,500	0.407482	2,241,357	0	128,768	2,112,589
16	3,553,000	5,329,500	0.383810	2,045,515	0	121,287	1,924,228
17	3,439,000	5,158,500	0.361513	1,864,863	0	114,241	1,750,622
18	3,325,000	4,987,500	0.340511	1,698,297	0	107,604	1,590,693
19	3,211,000	4,816,500	0.320729	1,544,790	0	101,353	1,443,437
20	3,097,000	4,645,500	0.302096	1,403,388	0	95,465	1,307,923
21	2,983,000	4,474,500	0.284546	1,273,201	0	89,919	1,183,282
22	2,869,000	4,303,500	0.268015	1,153,404	0	84,695	1,068,709
23	2,755,000	4,132,500	0.252445	1,043,229	0	79,775	963,455
24	2,641,000	3,961,500	0.237779	941,963	0	75,140	866,823
25	2,527,000	3,790,500	0.223966	848,942	0	70,775	778,167
26	2,413,000	3,619,500	0.210954	763,550	0	66,663	696,886
27	2,299,000	3,448,500	0.198699	685,214	0	62,791	622,423
28	0	0	0.187156	0	0	34,607	(34,607)
29	0	0	0.176283	0	0	33,802	(33,802)
30	0	0	0.166042	0	0	32,974	(32,974)
Total	**102,087,000**	**153,130,500**		**81,417,925**	**4,342,129**	**4,206,870**	**72,868,926**

Assumptions:
1. Gross Bond Proceeds - $57.0M
2. Net Bond Proceeds - $50.0M
3. NPV Rate - 6.0%
4. Investment Rate - 6.0%
5. Coverage 1.5x

PHILADELPHIA GAS WORKS
OPERATING & MAINTENANCE COSTS
(Millions of Dollars)

	ACTUAL FY2000		ACTUAL FY2001		ACTUAL FY2002*		ACTUAL FY2003		ACTUAL FY2004		ACTUAL FY2005		ESTIMATE FY2006		BUDGET FY2007	
CATEGORY	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Fuel Costs	$ 266	45%	$ 431	57%	$ 304	49%	$ 427	54%	$ 451	57%	$ 510	60%	$ 639	65%	$ 631	64%
Depreciation	31	51%	32	61%	31	54%	31	58%	34	61%	35	64%	37	69%	38	68%
Interest	59	61%	58	68%	59	63%	57	65%	59	68%	64	71%	65	75%	74	75%
City Payment	18	64%	18	71%	18	66%	18	67%	-	68%	-	72%	-	75%	-	75%
Sub-Total	374		539		412		533		544		609		741		743	
Bad Debt	55	73%	68	80%	52	74%	85	78%	71	77%	70	79%	61	82%	61	82%
Operating Labor	79	87%	81	90%	73	86%	79	88%	81	87%	81	89%	81	90%	84	90%
Pensions	1	87%	2	91%	8	87%	13	89%	15	89%	15	90%	17	91%	17	92%
Health & Life Insurance	26	91%	29	94%	31	92%	32	93%	36	94%	35	95%	37	95%	40	96%
Taxes	7	92%	6	95%	6	93%	6	94%	6	94%	6	95%	6	96%	6	96%
Labor & Benefits	113		118		118		130		138		137		141		147	
Other:																
Losses/ Insurance/ Utilities/Postage	11	94%	10	97%	13	95%	11	95%	11	96%	12	97%	13	97%	12	98%
General Material/ Purchased Services	23	98%	22	99%	22	99%	27	99%	26	99%	26	99%	27	100%	29	101%
Miscellaneous	10	100%	4	100%	7	100%	10	100%	8	100%	3	100%	-	100%	(6)	100%
Sub-Total	44		36		42		48		45		41		40		35	
Total	586		761		624		796		798		857		983		986	

* (Overtime reduced reflecting weather)

Controllable Costs	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Operating Labor & Taxes	86	87	79	85	87	87	87	90
Losses/ Insurance/ Utilities/Postage	11	10	13	11	11	12	13	12
General Material/ Purchased Services	23	22	22	27	26	26	27	29
Miscellaneous	10	4	7	10	8	3	-	(6)
Total	130	123	121	133	132	128	127	125
Percentage of 2000 Costs		95%	93%	102%	102%	98%	98%	96%

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	$ 114,834	$ 116,734	$ 112,487	$ 106,113	$ 105,845	$ 105,471
Gas Transport Service	4,679	6,147	7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	820,732	845,817	816,568	762,697	757,378	749,166
Proposed Base Rate	-	-	80,000	80,000	80,000	80,000	80,000	80,000
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-
Unbilled Adjustment	(803)	2,513	219	522	(376)	(714)	(57)	(90)
Total Gas Revenues	830,550	956,562	1,023,041	1,050,962	1,017,140	957,079	952,631	944,455
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	19,552	19,958	19,333	18,198	18,101	17,946
Total Other Operating Revenues	32,807	28,534	30,084	30,701	30,290	29,375	29,501	29,574
Total Operating Revenues	863,357	985,096	1,053,125	1,081,663	1,047,430	986,454	982,132	974,029
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**	**422,284**	**423,171**	**424,062**	**424,053**	**423,884**	**423,135**
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	34,698	35,786	35,925	35,847	36,348	36,846
Distribution	15,115	15,382	16,536	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	59,250	58,337	55,291	51,291	47,025	44,850
Marketing	2,592	2,470	2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	43,963	43,394	44,257	45,591	46,415	47,379
Health Insurance	33,571	34,804	37,784	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	15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments			217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	236,924	249,305	250,986	252,276	253,644	257,896
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	275,120	288,759	291,834	294,340	297,164	301,379
TOTAL OPERATING EXPENSES	793,012	917,374	905,961	947,251	915,202	856,741	855,412	852,273
OPERATING INCOME	70,345	67,722	147,164	134,412	132,228	129,713	126,720	121,756
Other Income	4,778	8,198	11,428	12,272	9,938	9,634	9,681	9,655
INCOME BEFORE INTEREST	75,123	75,920	158,592	146,684	142,166	139,347	136,401	131,411
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	84,614	72,553	70,952	71,000	71,388	69,613
City Payment	-							
Net Earnings	**$11,272**	**$10,417**	**$84,614**	**$72,553**	**$70,952**	**$71,000**	**$71,388**	**$69,613**

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	$84,614	$72,553	$70,952	$71,000	$71,388	$69,613
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	(178)	(929)	(971)	(1,016)	(1,063)	4,195
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	43,371	60,406	131,354	119,468	118,748	119,720	111,986	111,670
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		-		-	-	-
TOTAL SOURCES	139,697	168,305	221,354	197,468	176,591	137,720	111,986	111,670
USES								
Net Construction Expenditures	66,910	68,057	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS				16,000	23,000	7,800		
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	-	-	-	-	-	-	-
Debt Reduction Funding			20,000	-	-	-	-	-
Post Retirement Benefit Funding			-	-	-	-	-	-
Temporary Financing Repayment	850	-	25,000	10,000	35,000	-	-	-
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	(73)	(1,502)	(11,870)	(5,078)	464	3,659
Cash Needs	128,142	172,706	178,124	196,535	176,915	133,225	121,170	119,314
Cash Surplus (Shortfall)	11,555	(4,401)	43,230	933	(324)	4,495	(9,184)	(7,644)
TOTAL USES	139,697	168,305	221,354	197,468	176,591	137,720	111,986	111,670
Cash - Beginning of Period	3,666	15,221	10,820	54,050	54,983	54,659	59,154	49,970
Cash - Surplus (Shortfall)	11,555	(4,401)	43,230	933	(324)	4,495	(9,184)	(7,644)
ENDING CASH	15,221	10,820	54,050	54,983	54,659	59,154	49,970	42,326
Outstanding Commercial Paper	49,900	70,000	45,000	35,000	-	-	-	-
City Loan Outstanding	45,000	45,000	43,000	-	-	-	-	-
Internally Generated Funds	-	-	-	-	-	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	$1,023,041	$1,050,962	$1,017,140	$957,079	$952,631	$944,455
Other Operating Revenues	32,807	28,534	30,084	30,701	30,290	29,375	29,501	29,574
Total Operating Revenues	863,357	985,096	1,053,125	1,081,663	1,047,430	986,454	982,132	974,029
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	11,250	11,343	8,967	8,618	8,618	13,850
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	1,083,577	1,112,008	1,075,433	1,014,080	991,735	988,838
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	275,120	288,759	291,834	294,340	297,164	301,379
Total Operating Expenses	793,012	917,374	905,961	947,251	915,202	856,741	855,412	852,273
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	864,074	903,951	870,590	810,834	808,027	804,869
Funds Available to Cover Debt Service	130,103	139,541	219,503	208,057	204,843	203,246	183,708	183,969
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**	**6.14**	**6.05**	**6.33**	**6.74**	**5.98**	**5.72**
Net Available after Prior Debt Service	91,297	97,592	183,755	173,689	172,475	173,091	152,963	151,805
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	183,755	173,689	172,475	173,091	152,963	151,805
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**	**3.45**	**2.56**	**2.58**	**2.55**	**2.35**	**2.49**
Net Available after 1998 Debt Service	43,300	65,125	130,442	105,876	105,623	105,125	87,820	90,920
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**	**65.65**	**53.31**	**53.08**	**52.93**	**44.18**	**45.83**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**197,990**	**187,140**	**184,050**	**182,419**	**180,906**	**175,853**
Aggregrate Debt Service	**88,790**	**76,402**	**91,048**	**104,167**	**101,210**	**100,107**	**97,878**	**95,033**
Fixed Coverage Charge	**1.25**	**1.49**	**2.17**	**1.80**	**1.82**	**1.82**	**1.85**	**1.85**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**1.82**	**1.53**	**1.54**	**1.54**	**1.56**	**1.56**

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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940
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	-	-	20,216	21,145	22,116	23,133	24,195	-
Cash	15,221	10,820	54,050	54,983	54,659	59,154	49,970	42,326
Gas	273,805	264,254	252,901	237,840	220,936	200,954	180,719	160,073
Other	12,522	785	506	352	350	350	350	350
Accrued Gas Revenues	8,787	11,300	11,519	12,041	11,665	10,951	10,894	10,804
Reserve for Uncollectible	(207,480)	(191,631)	(185,490)	(173,747)	(158,969)	(140,202)	(117,180)	(92,099)
Accounts Receivable:	87,634	84,708	79,436	76,486	73,982	72,053	74,783	79,128
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	1,701,665	1,665,047	1,645,793	1,665,965	1,666,790	1,644,160

	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	Normal
EQUITY & LIABILITIES									
City Equity	222,646	233,063	317,677	390,230	461,182	532,182	585,570	637,183	637,183
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,057,915	1,008,430	967,311	909,576	929,576
TECA Accretions	14,313	12,608	13,913	15,314	16,818	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	16,956	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	986,355	916,617	936,617
Notes Payable	49,900	70,000	45,000	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	12,719	10,627	8,536	
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,701,665	1,665,047	1,645,793	1,665,965	1,666,790	1,644,160	

Capitalization

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	Normal Amortiz. FY2012
Total Capitalization	1,295,747	1,303,785	1,499,118	1,523,244	1,546,360	1,568,267	1,571,925	1,553,800	1,573,800
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,085,178	1,036,085	986,355	916,617	936,617
Debt to Equity Ratio	0.83	0.82	0.79	0.74	0.70	0.66	0.63	0.59	0.60
Capitalization Ratio	4.82	4.59	3.72	2.90	2.35	1.95	1.68	1.44	1.47
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,015,312
Regulatory Asset Securitization									
Capital - 106&107	56,300	68,057	75,152	78,597	87,755	70,818	61,587	59,920	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232	2,075,232
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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940	1,198,940

PGW St. 2R
5/22/07
Phila
wfH

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

JOSEPH R. BOGDONAVAGE

ON BEHALF OF

PHILADELPHIA GAS WORKS

DOCKET No. R-00061931

MAY 4, 2007

I. INTRODUCTION

Q. STATE YOUR FULL NAME, EMPLOYER AND BUSINESS ADDRESS.

A. My name is Joseph R. Bogdonavage. I am Senior Vice President, Finance, at the Philadelphia Gas Works ("PGW"), 800 West Montgomery Ave., Philadelphia, PA. I have previously filed testimony in this case (PGW Statement No. 2).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. First, I will respond to the testimony of the Office of Trial Staff witness Plonski and the Office of Consumer Advocate witnesses Lelash and Bleiweis. They testified that PGW is entitled to no more than 25% of its requested $100 million rate increase request based upon their view that on a *pro forma* test basis, PGW has adequate bond service coverage levels and sufficient cash at year end to satisfy the "Cash Flow" method of ratemaking. I will then respond to most of the individual *pro forma* expense adjustments recommended by OTS witness Markovich and OCA witness Bleiweis. Two adjustments the OCA and OTS recommends are that the cost of PGW's Management Incentive Program be denied and the OTS's adjustment to PGW's *pro forma* expense claim for prescription benefit costs, are addressed by PGW witness D'Attilio. I will also set forth updated FY 2007 *pro forma* test year financial schedules that reflect the incorporation of several adjustments to the test year: acceptance of certain adjustments that the parties have proposed in their direct testimonies and which PGW has accepted; the correction of a few errors; and a reflection of the annualized effect on the test year of PGW's recent, $200 million bond issuance. The updated test year data (JRB-13) makes only relatively modest changes in PGW's *pro forma* income and other financial results.

Lastly, I have included an exhibit which shows actual results for FY 2007 to the extent they have become available (JRB-14).

II. OVERALL LEVEL OF RATE INCREASE

A. Introduction

Q. BOTH OCA WITNESSES LELASH[1] AND BLEIWEIS[2] AND OTS WITNESS PLONSKI[3] HAVE RECOMMENDED THAT MOST OF PGW'S RATE INCREASE BE DENIED ON THE GROUNDS THAT THE COMPANY HAS SUFFICIENT BOND INTEREST COVERAGES AND YEAR END CASH. THEY ALL FURTHER TESTIFIED THAT TO THE EXTENT THAT PGW HAS EXCESSIVE DEBT IN ITS CAPITAL STRUCTURE, THIS "PROBLEM" CANNOT BE ADDRESSED HERE BECAUSE IT IS "OUTSIDE" THE TEST YEAR. CAN YOU RESPOND?

A. Yes. These three witnesses have made this recommendation despite the fact that even if each and every adjustment these parties recommended to PGW's proposed income statement were made, PGW would still be entitled to 75% of its request. These witnesses have ignored the results of this individual adjustment analysis and instead have simply declared that, in their view, PGW's *pro forma* financial results are sufficient without any increase in rates. They have come to this conclusion by making at least four critical errors.

First, each witness has incorrectly concluded that PGW's revenue requirement is entirely the product of a five year forecast analysis. In fact, an analysis of PGW's test year and FY 2008 financial projections show that PGW has a <u>substantial</u> need for an immediate rate increase in order to provide it with needed, internally generated cash and liquidity and to deal with the excessive debt in its capital structure. In concluding that PGW has no immediate revenue requirement need, each party has focused on PGW's projected debt service coverage requirements and its <u>gross</u> year end cash balance, but

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1 OCA St. 1 at 17.

2 OCA St. 2 at 13-14.

3 OTS St. 1 at 15.

they failed to realize that under PGW's Cash Flow ratemaking method, rates must be set not only to meet all debt service coverage requirements but also to generate a reasonable amount of cash as working capital. At PGW's current rates, or even at the minimal $25 million increase these parties recommend, all of PGW's "cash on hand" is borrowed and none is earned. That minimal level of rate increase, therefore, will not provide the Company with any cash working capital in rates. Highlighting the importance of this fact, PGW is projecting that if its gas prices rise to levels experienced in 2005-06, it would be unable to meet its daily cash obligations in FY 2007 (on a *pro forma* basis) or in FY 2008, (JRB-9).

Second, the parties' recommendations fall far short of even recognizing the increases in expenses and debt service and the loss of contribution margin that PGW has experienced since its last base rate increase. Even if all of the *pro forma* adjustments proposed by the Company are included, PGW still needs approximately $65.8 million in rate increase merely to put PGW in the position it was in after the PUC made its 2002 rate determinations, some five years ago. This should be viewed as the floor for any rate increase. If all the proposed adjustments were made to PGW's $100 million claim, the Company would still be entitled to over $75 million in rate increases.

Third, while acknowledging the problem to some extent, the parties fail to recognize that PGW's debt crisis is a test year problem that must be addressed now, not deferred to the future, and that it can only be ameliorated if PGW is permitted to generate internally generated capital starting now and extending into the next several years. As articulated by Mr. Hershey, the problem evades resolution if the Commission fails to provide immediate relief.

Finally, these witnesses' suggestion that PGW's current debt and liquidity crisis can be addressed by contributions from the City of Philadelphia rather than through rate increases is neither practical nor, I am informed, legal, nor, as Ms. Bisgaier states, an actual solution. Those suggestions would require the City to find some $325 million just to reduce PGW debt ratio to 57% by FY 2012 (assuming a $25 million rate increase and the rest coming from City contributions). Ms. Wilkerson and Mr. Dubow explain why contributions of even a fraction of such an amount are simply not fiscally feasible.

B. Adequacy of Cash and Liquidity

Q. HAVE YOU PREPARED AN EXHIBIT WHICH SHOWS THE FINANCIAL CONSEQUENCES TO PGW IF IT REALIZES ONLY A $25 MILLION ANNUAL RATE INCREASE.

A. The financial results are shown on JRB-7, which shows the results of such an increase on a "realistic" basis – that is, under the realistic assumption that any rate increase would only begin to be collected in FY 2008 (i.e., the 12 months beginning September 1, 2007).

Q. WHY DOES YOUR ANALYSIS FOCUS ON THE YEARS AFTER THE FY 2007 TEST YEAR?

A. For a Cash Flow regulated company, it is crucially important that the rate making process examine the utility's financial results on an "actual projected" basis. This is because a key standard of adequacy under this method is whether the award will actually permit the regulated entity to pay its bills when due and meet its required coverage levels. Since meeting these standards is so crucial to the financial viability of the Company, all recommendations must be judged on whether they are projected to meet reasonable requirements on a "real world basis." As I have testified previously, PGW regularly employs a five-year planning horizon for operating and capital budget purposes.

In addition, setting PGW's rates so that they will produce reasonable cash and liquidity at the end of FY 2008 can be considered the same as accounting for a "known and definite" change, a methodology that is traditionally employed by rate of return/rate base regulated companies to capture the effects of changes in the levels of revenues or expenses that are projected to occur outside the test year.

Q. CAN YOU POINT TO AN EXAMPLE OF SUCH A "KNOWN AND DEFINITE" CHANGE THAT HAS BEEN RECOGNIZED OUTSIDE THE TEST YEAR FOR A CASH FLOW REGULATED COMPANY SUCH AS PGW?

A. Yes. Both the OTS and the OCA recommend that PGW's scheduled payback of the $45 million City Loan, which PGW is currently obligated to pay back in FY 2008, should be recognized in rates despite the fact that it is not scheduled to occur until a full year after the end of the test year. The payback is "known and definite" and PGW agrees that it should be recognized when setting rates in this proceeding. PGW's position is that the most accurate and fair approach is to also consider the Company's cash and liquidity results for FY 2008 and set rates to permit a reasonable level of working capital in light of that analysis.

Q. IS YOUR ANALYSIS OF THE CASH AND LIQUIDITY RESULTS OF THE OPPOSING PARTIES' RECOMMENDATIONS BASED ENTIRELY ON AN ANALYSIS OF FY 2008 AND FUTURE YEARS?

A. No. I am also submitting an analysis of the effects of a $25 million rate increase on a FY 2007 "pro forma" basis as well. That analysis basically comes to the same conclusions as the analysis of FY 2008-2012. It is set out in JRB-8.

Q. BASED UPON YOUR ANALYSIS, WILL A $25 MILLION RATE INCREASE PERMIT PGW TO MEET MINIMUM STANDARDS OF FINANCIAL ADEQUACY?

A. No. My analysis shows that a $25 million rate increase would leave PGW with no internally generated funds, leaving the company totally dependent on its Letter of Credit for operating. Also, as shown in JRB-7, page 2, the Company would have just $86.6

million ($36 million in available commercial paper and $50.6 million "cash") of year end available liquidity. This projected level equates to just 35 days of expenses[4] or less than 20% of the level of 200+ days of liquidity that Ms. Bisgaier has testified is typically a minimum requirement for a municipal utility.

It cannot be reiterated often enough that PGW's "cash" balance, being 100% borrowed, reduces the Company's ability to have available that amount of critically needed cash working capital during FY 2008, as discussed below.

Because of the cost associated with retiring the paper with available cash and then reissuing it, it is more prudent, operationally, to leave the cash balance outstanding. But, borrowed cash is not the same as "free" cash.[5] Thus, the cash balances displayed on JRB-7 come at the cost of available short-term commercial paper and do not provide real working capital, as required by law. As can be seen on page 2 of JRB-7, PGW's actual cash surplus will actually decrease by $ .1 million in FY 2008. Moreover, if PGW paid off the entire amount of commercial paper outstanding at year end, it would have negative $63 million in year end cash!

PGW would end FY 2008 with about $18 million in income (p. 1) but with coverages of 1.77 times on PGW's 1998 Bond Ordinance and an aggregate debt service coverage of 1.27 x (the minimum for an investment grade company being 1.2x). In FY 2009, 1998 Bond Ordinance coverage would fall to just 1.71x, and would fall below the

[4] FY 2008 Total Operating Expenses: $944,336 less depreciation/cost of removal $39.5 million = $904,882, divided by 365 = 2479 days. $86.6 million in liquidity divided by 2479 = 34.9 days.

[5] OCA witness Bleiweis agrees that the year end cash balance in excess of $50 million he shows on his Schedule MAB-10 is borrowed cash and not "free" cash generated from internal sources. OCA response to PGW II-1.

absolute minimum level to avoid a default (1.46x) in FY 2010. Minimum investment grade coverages would also fall to almost unacceptable levels in FY 2009 and below acceptable levels in FY 2010. (1.13x) This combination of marginal coverages going forward and a disastrous working capital outlook puts PGW in a potential position for downgrading as noted by Ms. Bisgaier.

Q. YOU HAVE PRESENTED THIS ANALYSIS USING THE FY 2008 YEAR. WOULD THE RESULTS BE THE SAME IF YOU APPLIED THE $25 MILLION RATE INCREASE TO FY 2007, ASSUMING THAT CAN BE DONE?

A. Yes. I show that result on JRB-8. The cash and liquidity results are essentially the same. This case assumes a $25 million increase for 12 months and the payback of one half of the City loan. At year end PGW's "cash" is entirely borrowed, a substantial portion of commercial paper is utilized. Again, PGW's rates are producing no cash and if it used its "borrowed cash" to pay off its commercial paper it would have negative $44.6 at year end.

Q. WHY ARE YOU JUDGING YOUR CASH AND LIQUIDITY AT YEAR END?

A. Contrary to Mr. Plonski's assumption,[6] PGW's greatest cash and liquidity need occurs in the period September through January of each year when it must both purchase the natural gas its customers are projected to need during the winter and make several debt service payments, including a very large payment in early January. Measuring fiscal year end cash and liquidity (cash plus available short term borrowing) is a key indicator of whether PGW has adequate resources available to meet these service obligations. Of course it is imperative that PGW also have adequate reserves over and above the minimum amount it needs so as to be able to deal with contingencies. Finally there are

[6] OTS response to PGW II-5.

only a handful of days each year when PGW's actual cash exceeds the amount of commercial paper it has outstanding (including one day when PGW must pay off the entire amount pursuant to IRS regulations).

Q. WITH A $25 MILLION RATE INCREASE, YOU HAVE TESTIFIED THAT PGW WILL HAVE NEGATIVE REAL CASH AND PRODUCE NO CASH FROM OPERATIONS. WILL THAT INCREASE PERMIT PGW TO SATISFY ITS DAY-TO-DAY OBLIGATIONS DURING FY 2007 AND FY 2008?

A. No, not if it experiences <u>any</u> negative contingencies. I show this on JRB-9. The schedules show monthly cash flow analysis, assuming that PGW is awarded a $25 million rate increase. The exhibit details the month-by-month results for both FY 2007 and FY 2008, both assuming test year budgeted naturall gas costs and natural gas costs experienced in 2005-2006 in the wake of the two hurricanes in the Gulf of Mexico and subsequent reductions in supply and transport capability. At budgeted natural gas costs PGW is able to make it through the winter but ends up (as noted above) with no non-borrowed cash and extremely limited short-term borrowing capability. However, assuming that natural gas costs were to return to those post-Katrina/Rita levels (certainly a contingency that is well within the realm of possibility) PGW would not be able to pay all of its obligations and, in January of 2007 (the middle of FY 2007), PGW would have been $1.8 million short of cash. Carrying this deficiency into 2008, and assuming again that natural gas prices maintain at the levels assumed in the prior year, PGW would find itself short of cash by almost <u>$13.1 million</u>.[7] The only way in which PGW would be able to survive would be to utilize funds in its capital fund, which will be supplied by the new

7 In contrast, neither OCA witness performed any cash flow analysis to show that the rate increase the OCA is recommending will provide the Compny with its needed internly generated cash working capital. OCA responses to PGW II-3 (Bleiweis) and PGW II-28 (Lelash).

bond PGW is about to issue. But as I have testified in the past, the capital bond fund is an extremely risky means of meeting the day-to-day cash needs of the Company and is akin to requiring an investor-owned utility to cancel a dividend payment rather than give it the revenues it has proven it needs to operate. For a cash flow company, it is also akin to a homeowner having to use insurance proceeds provided to rebuild his home to buy groceries. Moreover, replacing such enormous amounts would put the Company at risk of not being able to return the dollars to the capital fund, thereby creating a default in PGW's Bond Ordinance. Putting the Company and its customers in this type of precarious position is far from prudent, to say the least.

Q. DID ANY OF THE PARTIES INDICATE THAT PERMITTING PGW TO EXPERIENCE A NET NEGATIVE CASH BALANCE WAS ADEQUATE?

A. No. It does not appear that they recognized, or chose not to recognize, that the cash shown in the various *pro forma* financial schedules was all borrowed and that PGW's present rates, or its rates with a $25 million rate increase, did not contain an allowance for cash working capital and its actual year end cash balance is <u>negative</u>.

Q. DID THE PARTIES INDICATE WHAT LEVEL OF CASH OR LIQUIDITY THEY BELIEVED WAS REASONABLE FOR PGW TO HAVE AVAILABLE AT YEAR END?

A. No. They simply rejected Ms. Bisgaier's testimony that public sector utilities frequently have <u>at least</u> 200 "days" of cash (i.e., the number of days of total liquidity calculated on the basis of total operating expenses divided by 365). Mr. Bleiweis points to the $53 million of "cash" at year end as evidence that a $25 million rate increase is reasonable but does not state any standard or basis for the claim. All three witnesses fail to recognize that even with a $25 million increase PGW has no non-borrowed cash. Even including PGW's short-term lending ability, PGW's total liquidity (cash and short term borrowing) at FY 2008 year end represents just 35 days of liquidity to cover operating expenses (and 45 days of cash on a FY 2007 *pro forma* basis). Exhibit JRB-10 provides an array of key indicators at various levels of rate increase. The only scenario in which PGW will produce any non-borrowed days of cash on hand in 2008 is the $100 million rate increase case. The lowest level of increase that produces any internally generated capital over the five year planning horizon is an increase of $70 million.

Q. DID ANY PARTY SUGGEST WHY THEY DID NOT ADDRESS THIS LIQUIDITY DEFICIENCY?

A. Mr. Plonski indicated several reasons for failing to recognize PGW's claimed cash and liquidity needs, all of which are demonstrably incorrect. First, he indicated that "PGW has not missed its required debt service coverage . . . ." But, as I have noted, PGW's Cash Flow method is not satisfied merely by achieving minimally adequate debt service coverage levels. The Company's mandated Cash Flow ratemaking method requires that revenues be adequate to meet minimum coverage levels and all reasonable expenses (including debt service) plus a reasonable level of cash working capital. Mr. Plonski's recommendation does not allow for any cash working capital or internally generated funds over and above what is produced by the minimum 1.5x coverage levels.

Q. WHY DO YOU THINK MR. PLONSKI FAILED TO PROVIDE FOR A SEPARATE REASONABLE ALLOWANCE FOR CASH WORKING CAPITAL AS PART OF HIS EVALUATION?

A. While Mr. Plonski accurately stated that PGW's revenue requirement is required to be calculated using the Cash Flow method, he actually misstates the elements of the calculation that are required to be used for PGW. In his testimony (pages 5-6), he indicates that the Cash Flow method sets a revenue requirement by adding expenses, debt service and margin, and appears to characterize margin as the amount over the debt service that is required to produce the debt service coverages that are mandated by the municipality's bond ordinances. For PGW, the debt service coverage for its 1998 Bond Ordinance sets the "floor" that PGW must meet. But PGW's Cash Flow method, as mandated by the Management Agreement Ordinance, has a specific requirement that PGW's rates contain not only the amount necessary to meet any debt service coverage requirements (Mr. Plonski's "margin" in his formula) but also a reasonable allowance for cash working capital. The PUC's 2001 ratemaking order specifically set forth the formula that is to be used to establish PGW's rates. It stated:

> 1. [Rates shall be set] so that they will produce revenues sufficient for the following purposes:
>
>   (a) To pay all of the costs and expenses of conducting Gas Works enterprise, including, but not limited to:
>
>   (i) All expenses of operation and maintenance of the Gas Works.
>   (ii) Charges for depreciation as prescribed in Section IV 1.(b).
>   (iii) Charges for employees' retirement costs as prescribed in Section IV 1.(c).
>   (iv) A management fee to Company . . . .
>   (v) Expenses of the Gas Commission.
>
>   (b) To make base payments to the City including additional payments at such times as conditions may warrant and as may be determined and agreed upon by the Gas Commission and City Council.
>
>   (c) To provide appropriations for debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council.
>
>   (d) To provide reasonable additions to the working capital as may be determined by Company and

<u>approved by the Gas Commission.</u>[8]

Q. WHAT OTHER REASONS DID MR. PLONSKI OFFER FOR REJECTING PGW'S RATE INCREASE REQUEST?

A. Mr. Plonski also pointed to the fact that the consortium of banks that supports PGW's line of credit, which backs its commercial paper program, did agree to increase its line of credit by $50 million, to $150 million. But the banks' willingness to back PGW's commercial paper at $150 million does not mean that they do not have concerns about PGW's overall liquidity. Moreover, having the line of credit available comes at a high cost –approximately $6-7 million a year) – and increases the Company's risk as it has become a permanent part of the capital structure.

Q. WHAT OTHER REASONS DID MR. PLONSKI RAISE AS REASONS FOR NOT RECOGNIZING A FINANCIAL CRISIS AND A NEED FOR A GREATER RATE INCREASE FOR PGW?

A. He mistakenly concluded that PGW was going to be able to payoff the entire amount of outstanding commercial paper in April or May of FY 2007 and that this was a sign of being on sound financial footing. In fact, PGW retires the entire amount of commercial paper outstanding <u>each year</u> at that time for a matter of days, because this process is required by IRS regulations. However, without a rate increase, and as is clearly shown on JRB-1, PGW will have utilized <u>$90 million</u> of its $150 million available line by year end FY 2007 (borrowed it back) and utilized all but <u>$5 million</u> by the end of FY 2008. In fact, without rate relief the ability of the Company to pay down the line to meet IRS rules in FY 2008 and FY 2009 is questionable.

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[8] R-00006042, Opinion and Order at 12-13 (Oct. 4, 2001).

Q. MR. PLONSKI ALSO NOTED THAT FITCH RATINGS HAS TAKEN PGW OFF NEGATIVE WATCH DUE TO THE IMPROVEMENT IN PGW'S COLLECTIONS RATE. HOW SHOULD THE FITCH ACTION BE VIEWED?

A. Fitch Ratings action is related to PGW's positive improvement in several areas, principally cash collections. Fitch Ratings review also raised continued concerns. What is important to note is that while the agencies have acknowledged progress made at PGW, there has been no significant increase in the Company's rating. There should be no mystery about why in every instance the adjustment is all at the margins. They are waiting for a material change in the outlook of the Company; a change that will not come with a $25 million increase in base rate.

Q. MR. PLONSKI ALSO APPEARS TO BELIEVE THAT WHETHER PGW HAS ANY ACTUAL CASH ON HAND AT YEAR END IS IRRELEVANT BECAUSE PGW CAN RELY ON ITS COMMERCIAL PAPER PROGRAM FOR ITS SHORT TERM BORROWING NEEDS.[9] IS HE CORRECT?

A. No, he is in serious error. As Ms. Bisgaier shows, the overwhelming majority of municipal utilities – whose rates are, I understand, also set using a cash flow methodology – have <u>several hundred days</u> of <u>cash</u> on hand – not short term borrowing capability. But even if one were to consider PGW's short term borrowing capability, that ability is not sufficient for a Company with almost $1 billion in expenses, as I have shown above. Even if the entire commercial paper line of credit were considered – or even increased to $200 million – that represents just 81 days of expenses. ($200 million ÷ 2479). Finally, as I have also shown, forcing a Company that is providing such a vital service as natural gas to one of America's major cities to be dependent upon its continued ability to convince a consortium of banks to guarantee its short term credit – a

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9 OTS response to PGW II-26(b).

willingness that could change at any time – is extremely risky, and PGW submits, unreasonable.

Q. APPARENTLY CONCLUDING THAT THE FIRST FISCAL YEAR IN WHICH PGW WILL EXPERIENCE A NEED FOR A RATE INCREASE WILL BE FY 2009, MR. PLONSKI SUGGESTS THAT PGW CAN ALWAYS FILE FOR ANOTHER RATE INCREASE IN TWO YEARS TO ADDRESS ANY PROBLEMS. IS MR. PLONSKI CORRECT?

A. No. As I have noted, Mr. Plonski has incorrectly focused on whether PGW is meeting its minimum debt service coverage requirements. This is one important standard, but by no means the only standard. PGW's rates must be able not only to meet minimum debt service coverage requirements but also to generate a "reasonable" cash working capital allowance. Since under Mr. Plonski's recommendation, cash at year end will be 100% borrowed, and is, in fact, negative when these borrowings are offset against the cash on hand, Mr. Plonski fails to recognize that this issue exists right now, it is a known and measurable circumstance that must be addressed, and only worsens in the future. By failing to analyze PGW's cash working capital and liquidity needs in the test year and the following year, both Mr. Plonski and all of the other witnesses have mistakenly concluded that PGW's revenue requirement needs are entirely associated with its proposal to increase rates so as to produce greater internal generation and reduce a percentage of debt in its capital structure over a five year period rather than right now. The five year forecast was presented to show how the requested rate relief would address the concerns not only of the rating agencies but of the demands heard from the legislature, the Governor's office and the City Council to "fix PGW."

PGW has demonstrated its financial need both in the short term (test year) and in the longer-term (through 2012). PGW submits that a cash flow regulated company must utilize a planning horizon to judge the reasonableness of the company's rate making claims. But even though PGW believes that the Commission should adopt such an analysis, PGW's financial deficiencies are clearly test year issues. It has far too little cash working capital and far too high a debt ratio in the test year. Were it any different, why wouldn't the rating agencies have long since upgraded PGW? What is clear is that they have looked at the forecast periods, short term and long, and they have seen the Company wanting; and they are waiting.

Q. IS THERE A PORTION OF PGW'S RATE REQUEST THAT CAN BE CHARACTERIZED AS SIMPLY MAINTAINING THE STATUS QUO FROM PGW'S POSITION AFTER THE COMMISSION'S LAST BASE RATE DECISION.

A. Yes. A large portion of the Company's $100 million request can be analyzed as the costs of simply putting PGW in the same financial position as it was in after the Commission issued its last base rate order. That Order allowed PGW to increase its rates by $36 million on a permanent basis after permitting an emergency rate increase of the same amount in 2002. This award followed closely after the PUC's October 2001 rate award of $33.6 million. As my direct testimony clearly indicates, of the $110 million total additional revenue PGW is requesting ($100 million from base rates and $10 million on average over five years from off-system sales/capacity release proceeds), only approximately ¼ of the request is focused on repairing PGW's long-term debt structure or improving its liquidity beyond the levels implicitly recognized in these prior cases. I calculated this by analyzing the authorized expenses, revenues and income that were permitted by the PUC in PGW's last two rate proceedings and comparing it to my *pro forma* income calculation.

Q. DID ANY OF THE OPPOSING PARTIES ANALYZE OR RESPOND TO PGW'S ANALYSIS OF THE FINANCIAL LEVELS AUTHORIZED BY THE PUC IN PGW'S PRIOR BASE RATE PROCEEDINGS?

A. No. As far as I can tell, none of the witnesses even commented on this "bring down" analysis. Nor did they explain how a $25 million rate increase could be reasonable in light of the fact that, since 2001/2002, PGW's operating and maintenance and depreciation expenses have increased by $28.8 million and its interest expense has increased by $16.1 million.[10] Of course, increases in expenses over those included in the base rates does not necessarily justify an increase in rates. In some cases, a utility's revenues grow at an even faster pace, thereby obviating the need for any rate increase. Unfortunately, the reverse is the case here. While total gas revenues increased since the 2001/2002 proceeding by over $175 million, natural gas expenses increased by $216 million and PGW suffered a net reduction in contribution margin (i.e., revenue available to cover expenses, provide for a surplus, etc.) of almost $40 million.[11] As the analysis in my direct testimony (JRB-3) clearly shows (and which has been accepted by the other parties since they did not response to it), the PUC approved rates in the last two proceedings that produced net income of some $88 million. That, in turn, would have produced sufficient debt service coverages, and year-end cash (still all borrowed) and liquidity to permit PGW to deal with potential contingencies (if PGW had been able to earn at that level). The $88.25 million in net income that the Commission authorized in the prior two rate cases compares to PGW's original *pro forma* net income claim of just $8.9 million. Accordingly, I showed that just to put PGW back in the position that it was

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10 *See*, Exh. JRB-3.

11 *Id.*

in the Commission made its decision in 2001 and 2002, PGW's rates would have to be increased by $79.3 million.[12]

Q. HAVEN'T THE PARTIES DISPUTED YOUR CALCULATION OF 2007 TEST YEAR *PRO FORMA* NET INCOME?

A. Yes they have, but even if all of those adjustments were incorporated into my *pro forma* net income calculation (which I am not endorsing), the Commission would still have to increase PGW's rates by $65.8 million just to allow PGW the same of level of net income that the Commission permitted in the last two rate cases. While in no way agreeing to the merits of these adjustments, PGW submits that this is the minimum level of rate increase that the Commission can award.

Q. HAVE YOU PREPARED AN ANALYSIS SHOWING THE LEVEL OF RATE INCREASE NECESSARY TO MAINTAIN THE STATUS QUO FROM PGW'S PRIOR TWO BASE RATE CASES WHEN THE ADJUSTMENTS PROPOSED BY THE OTS AND THE OCA ARE CONSIDERED?

A. Yes. Exh. JRB-11 shows this analysis. Using PGW's adjusted *pro forma* net income (JRB-13), I have calculated PGW's *pro forma* test year net income including all of the non-duplicative adjustments made by OTS witness Markovich and OCA witness Bleiweis as well as the revenue adjustment made by Mr. Kubas. I have adjusted the revenue effect of Mr. Kubas's adjustment to reflect a slight miscalculation that he made, which is explained in Mr. White's testimony.

Q. WHY DO YOU BELIEVE THAT THE LEVEL OF NET INCOME PERMITTED BY THE PUC IN PGW'S PRIOR TWO BASE RATE PROCEEDINGS IS RELEVANT FOR A COMPANY THAT IS REGULATED ON A CASH FLOW BASIS?

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12 *Id.*

A. This may have been one of the misunderstandings that prompted the other parties not to consider the "bring down" analysis that I presented in my direct testimony. Of course, while PGW is a "cash flow regulated company", its criteria for determining the reasonableness of projected revenue is its ability to produce both acceptable levels of debt service coverage and necessary levels of cash working capital and liquidity. Debt service coverage levels are directly affected by levels of income or surplus realized by the Company. Moreover, the Company's cash and liquidity at fiscal year end again are directly affected by the level of income or surplus of funds in any fiscal year. As noted above, the only way for PGW to realize acceptable levels of liquidity is by getting to a point where it can produce cash-based internally-generated funds.[13] By authorizing PGW to earn, on a *pro forma* basis, $88.25 million, the Commission was also signaling that the levels of debt service coverage cash and liquidity produced by that level of earnings was just, reasonable and adequate. In contrast, the OCA's recommendation, after considering the $22.5 million base rate increase that it claims is all that is justified, would result in PGW's experiencing net earnings of just $31.6 million, over $50 million less than the PUC permitted five years ago. While it is acknowledged that PGW's "cash flow method" of ratemaking is unusual, common sense and general ratemaking theory would mandate the conclusion that permitting a company to earn less than 40% of the amount that was authorized five years previously, particularly when the Company's expenses have

13 Mr. Lelash, for the OCA, seems to suggest that PGW has realized internally-generated capital, which he calls "Funds From Operations." OCA St. 1, Sch. 2. But, for a Cash Flow regulated company, funds from depreciation are not relevant. Moreover, the $18 million City Payment was legally mandated and in virtually every instance represented the only payment the City received for the use of its assets and facilities, rights-of-way, avoidance of taxes, etc.

increased and its net revenues have gone down in the interim, cannot possibly be reasonable. What is also not reasonable is the implied assertion that as long as PGW has any access to capital markets, it is acceptable rate making practice for the Commission to essentially force the substitution of borrowed funds for those of ratepayers irrespective of cost. What is also asserted by implication is that the Company should borrow from its capital fund to meet operating needs as required without any concern that any such borrowings beyond actual capital requirements must be repaid by fiscal year end.

C. **Level Of Debt In PGW's Capital Structure**

Q. **WHAT POSITION DID THE OCA AND THE OTS TAKE WITH RESPECT TO PGW'S PROPOSAL TO ADDRESS THE AMOUNT OF DEBT IN ITS CAPITAL STRUCTURE?**

A. OTS witness Plonski claimed that PGW had not provided any evidence that a "50/50" capital structure was required by rating agencies for a municipality and indicated that municipalities were held to a different standard "due to the municipalities good faith and credit backed by their taxing authority," and that level of debt is "irrelevant" for a cash flow company. Mr. Plonksi is wrong on all counts. It is very important to state clearly that the "50/50" debt/equity ratio is not a goal in and of itself but an indicator of other goals of financial health. PGW, in fact, did, in the testimonies of Mr. Krellenstein and Ms. Bisgaier, supply significant evidence regarding the need to improve the Company's internal generation of revenue and the level of debt in its capital structure. Moreover, Mr. Plonski's assumption that PGW's bonds "are backed by the full faith and credit of a taxing authority" is incorrect. PGW's bonds are revenue bonds, not general obligation bonds and are not backed by the City of Philadelphia's taxing authority or any other taxing authority. I have attached the pertinent page from PGW's most recent "Official Statement" that was issued with its most recent bond issuance (JRB-12). If PGW is unable to pay its debt service or defaults in any other way, the City of Philadelphia is not obligated to reimburse bondholders for any loss or to back up the Company in any other way. Therefore, PGW has a need similar to that of an investor-owned utility to balance its levels of debt and equity in its capital structure to reduce its default risk and reduce costs of borrowing.[14]

Neither Mr. Lelash nor Mr. Plonski disputed PGW's contention that the present level of debt in its capital structure is unreasonable and needs to be addressed, however.

Q. ARE MR. PLONSKI AND MR. LELASH CORRECT THAT PGW'S LEVEL OF DEBT CANNOT BE ADDRESSED BECAUSE IT IS "OUTSIDE THE TEST YEAR?"

A. No, this contention is wrong on several counts. PGW presented its case regarding the level of debt in its capital structure over its five year planning period because, as noted above, it believes that it would be in the best interests of the Company and its ratepayers if these financial issues were considered not based upon one *pro forma* year but over the period in which the financial effects will be felt. While the utilization of a *pro forma* test year may be appropriate for companies being regulated on a rate of return/rate base basis, it is a very limiting and potentially inaccurate mechanism for cash flow companies.

Q. IF THE COMMISSION DECIDES TO ADHERE STRICTLY TO THE "TEST YEAR" CONCEPT, DOES THAT MEAN THAT IT CANNOT DEAL WITH THE EXCESSIVE LEVEL OF DEBT IN PGW'S CAPITAL STRUCTURE?

A. No, not at all. PGW has a current test year problem: the amount of debt that will exist at the end of the test year, FY 2007, is excessive – 83%. The only way to address this issue is by increasing PGW's rates in order to produce internal generation of funds over the

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14 PGW's cash flow method specifically instructs that the Company's rates are to include amounts to pay for "debt reduction and capital additions not otherwise provided … ." PGW Management Agreement Section VII(i)(c), quoted in R-00006042 (Oct. 4, 2001) at 13.

next several years to reduce this level. This is no different in concept than the typical ratemaking methodology of amortizing the effects of periodically occurring events, such as storm damage. The storm occurs in the historic or future test year but the effects are longer lasting. Moreover, the costs of the damage, although occurring in the test year, are then amortized over the period of time deemed reasonable. In this case, PGW has urged the Commission to "amortize" the amount of revenue from rates it needs to repair its capital structure over 5 years, at $30 million annually. This amount, along with the level necessary to produce sufficient cash and liquidity – $80 million – will produce a debt to equity ratio that approximates the balanced capital structure that PGW believes is crucial to its long term financial health.

Q. WILL THE RECOMMENDED LEVEL OF INCREASE BY THE OCA AND THE OTS ADDRESS PGW'S NEED TO REDUCE THE LEVEL OF DEBT IN ITS CAPITAL STRUCTURE?

A. No. As I show on JRB-7, page 5, a $25 million rate increase will do nothing to reduce the level of debt in PGW's capital structure. In fact, by FY 2012 the debt level will be at the same level as in FY 2007 – 83%.

III. SPECIFIC *PRO FORMA* EXPENSE ADJUSTMENTS

A. <u>Bad Debt Expense</u>

1. OTS/OCA Adjustment

Q. PLEASE SUMMARIZE THE POSITION OF THE PARTIES WITH RESPECT TO BAD DEBT EXPENSE.

A. OTS witness Markovich rejects PGW's methodology and its calculation of a test year bad debt expense of $52.3 million, claiming that PGW is using a "funding reserve" method that has been rejected by the PUC and because the "[bad debt] reserve amount can be set using a variety of criteria that does not reflect actual write-offs." She proposes a simple bad debt expense of 4% of gas revenues calculation, using PGW's collections rate in the prior two years as her basis.[15] Mr. Bleiweis, on the other hand, takes no issue with PGW's calculation methodology but recommends that the bad debt expense at proposed rates be calculated using as an input a 96% collections factor. While Ms. Markovich's adjustment results in a reduction of $13.8 million at PGW's present rates ($37.993 million vs PGW's test year at present rates claim of $51.8 million), Mr. Bleiweis' adjustment produces a $2.3 million adjustment at his proposed rate level ($25 million rate increase) to PGW's proposed bad debt expense claim at proposed rates ($59 million). In addition, OCA witness Colton contends that PGW's calculation of the subsidy associated with customers enrolling in CRP may create a "double recovery" because a portion of the amounts collected in the Universal Service Charge allegedly have already been recovered in PGW's bad debt expense allowance. Since this is really a bad debt expense issue, I will show why Mr. Colton's contentions are incorrect in the second part of this section of my rebuttal testimony.

Q. WHAT IS YOUR POSITION WITH RESPECT TO CALCULATION OF PGW'S BAD DEBT EXPENSE?

A. PGW continues to believe that its calculation methodology is the most accurate and fair means of calculating this *pro forma* expense.

Q. MS. MARKOVICH CHARACTERIZES THE COMPANY'S METHOD AS A "FUNDING BAD DEBT RESERVE" METHOD. DO YOU AGREE?

A. No, not entirely. PGW's claim reflects a projection of the actual level of bad debt expense it will experience in FY 2007. The actual bad debt expense experienced in any one year is a combination of the following: an estimate of the collectibility of year-end

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[15] OTS St. at 12.

accounts receivable, the reserve for the uncollectible accounts balance prior to a year-end adjustment, and the impact of accounts written off in the fiscal year. Therefore, contrary to Ms. Markovich's assumption, PGW's method does employ actual write-off levels. PGW's projection of collectibility, which is a key input into its calculation, is audited by PGW's outside auditors and no amount is recorded as an expense without this independent confirmation of reasonableness. Moreover, by determining the expense based upon the amount needed to fund a reserve to cover actual write-offs, PGW's method again takes into account historic write-off experience. The fact that OCA witness Bleiweis utilized PGW's method to calculate his recommended bad debt expense should provide some assurance to the Commission of its reasonableness.

Q. WHAT DID MS. MARKOVICH USE TO CALCULATE A BAD DEBT EXPENSE LEVEL?

A. She utilized PGW's experienced collections rate for the prior year. A collections rate is neither precisely reflective of uncollectible accounts expense or write-offs; rather it reflects as a relationship the amount of revenues the Company actually collects from the customers in any one period compared with the amount that the Company bills in that period. As noted, bad debt expense is an accounting estimate of the collectibility of year end accounts receivable and is impacted by the existing balance of the reserve for bad debt. Generally speaking, an increase in billings would be followed by an increase in bad debt expense, an increase in bad debt reserve, and an increase in write-offs. There would be associated timing differences in the results of these interactions. To the extent cash collections increased, there would be an associated salutary impact on the accounting estimates for bad debt expense, reserve for bad debt and write-offs. Therefore, while, as Mr. Bleiweis points out, the collections rate is an input into a proper bad debt expense calculation, to use it as the sole criteria would fail to recognize the various vintages of revenues being collected and their write-off status.

Q. MS. MARKOVICH CLAIMS THAT IN PGW'S LAST FULLY LITIGATED RATE PROCEEDING, THE PUC DETERMINED THAT "A HISTORICAL ANALYSIS OF PRIOR YEARS UNCOLLECTIBLE ACCOUNT EXPENSE IS AN ACCURATE METHOD OF DETERMINING THE LEVEL OF BAD DEBT EXPENSE," AND THAT PGW SEEKS TO "IGNORE THE COMMISSION'S MOST RECENT ORDERS. . . ." (P. 13-14). CAN YOU RESPOND?

A. First, PGW's method implicitly examines prior years' write-offs and accounts receivables because its accounts receivable balance at any one time is a historical record of billing from many periods that the Company has not written off. PGW's uncollectible reserve similarly reflects the accumulated write-offs and uncollectible expense levels. On the other hand, to the extent that Ms. Markovich is correct that the Commission's policy is to use "historical analysis of prior years uncollectible account expenses," her recommendation also is not consistent with this requirement, as it uses PGW's experienced cash collections rate for the last two years, not write-offs.

Q. HOW DID THE COMMISSION SET PGW'S BAD DEBT EXPENSE IN ITS LAST FULLY LITIGATED RATE CASE?

A. It set the level at $55.6 million or 7.616% of total gas revenues. It used a five year average of <u>net</u> write-offs to arrive at that percentage.

Q. WHAT LEVEL OF BAD DEBT EXPENSE WOULD BE PRODUCED IF THAT APPROACH WERE CONTINUED?

A. The five year average of PGW's net write-offs compared to billed gas revenues (FY 2002-2006) is 8.62%. PGW's five year average uncollectible expense is $65,626 million, or <u>8.68%</u> of PGW's test year gas revenues. PGW's five year average collections rate is 92%. These various figures are presented on JRB-16. These figures compare to PGW's $52.3 million test year bad debt claim, which equates to only 5.55% of gas revenues.

Properly understood, PGW's bad debt expense calculation takes into account past and current write-offs, and accounts receivable balances and, thus, satisfies the PUC's desire to consider historical data. PGW continues to believe that its actual bad debt expense method is the most reasonable and should be used for ratemaking. On the other hand, Ms. Markovich's calculation methodology simply does not measure uncollectibles account expense and would not be a valid means of calculating a reasonable *pro forma* bad debt expense level. It also assumes that the improvement in collections that the Company has experienced in the last two years will continue. While the Company is hopeful that will occur, there is no way to be reasonably certain of this. Natural gas prices continue to be at very high levels and customers will also have to contend with whatever base rate increase the Commission authorizes as a result of this case. If a three year average of collections factors were utilized, the result would be an average factor of 94.7%, which equates, using Ms. Markovich's methodology, to an uncollectible expense percentage of 5.23%. If the Commission seeks a "historical" indicator of PGW's bad debt experience, the most accurate reflection of its current improved collections performance and results, while still being mindful of collections and write-off timing differences, would be last year's bad debt expense – 4.5% of revenues, or the current 12-month rolling average collections rate – 95.5% (as of March 31). Using Ms. Markovich's *pro forma* revenue level, PGW's bad debt expense allowance would be $42,742,000.

Q. CAN YOU COMMENT ON MR. BLEIWEIS' RECOMMENDED ADJUSTMENT?

A. Mr. Bleiweis takes issue with PGW's calculation of bad debt expense at proposed rates, claiming that PGW should have used the same collections factor – 96% – as an input. PGW used 96% to calculate the bad debt expense at present rates, but, recognizing the potential effect on collections of any increase authorized in this case, utilized a 95%

factor to calculate bad debt expense at proposed rates. Mr. Bleiweis believes that PGW is being too conservative in its projections of collections rates.

Q. HOW DO YOU RESPOND TO MR. BLEIWEIS' RECOMMENDATIONS?

A. It would seem intuitively obvious that a substantial increase in base rates will affect PGW's realized collections. Such an increase is one of the factors that affect our results although, to be sure, there are many other factors, such as the rate increase of natural gas prices reflected in the GCR and the overall level of usage by customers. Therefore, I continue to believe that using a collections factor that is less than PGW's recent experience is reasonable. However, if the Commission believes that the actual FY 2007 collections factor should be employed, the 12 month rolling average figure as of March 31 is 95.5% – not 96%.

Q. DO YOU HAVE ANY OTHER ISSUES YOU WOULD LIKE TO RAISE?

A. Yes. Both Ms. Markovich and the PUC in its last order applied their calculated bad debt percentage to PGW's "Total Gas Revenues" only. But since PGW includes revenues from Appliance repair and "Other" operating revenues (chiefly finance charges) in its calculation of net income (and, thus, gives customers the benefit of the income produced by these categories, when calculating a ratemaking allowance, the bad debt percentage should be applied to <u>Total</u> Operating Revenues and sales tax not just gas revenues. This makes a small difference in the expense number produced but it is the more theoretically correct approach. Applying a 4.5% bad debt factor to PGW's *pro forma* total revenues at present rates produces an expense allowance of $43,679 million compared to the Company's revised claim of $51.8 million.

2. Colton - Double Recovery Of Universal Service Charges

Q. WHAT IS YOUR UNDERSTANDING OF THE CONCERN RAISED BY MR. COLTON WITH RESPECT TO A POTENTIAL "DOUBLE RECOVERY" OF UNIVERSAL SERVICE CHARGES?

A. Mr. Colton[16] expressed concern that in collecting what he calls "CRP credits" from remaining ratepayers for new CRP participants, PGW may be double recovering expenses that are already included in its base rates as part of its uncollectible expense allowance. Based upon a PGW report filed with the Bureau of Consumer Services, he observes that some 55.42% of low income customer billings are written off. He suggests, based upon this, that more than half of the credits included in the Company's Universal Service Charge may have already been included in the Company's bad debt expense allowance and included in the Company's base rates. He claims that these amounts should not again be recovered in the USC, and recommends that "the Commission direct PGW to include, beginning in the first quarterly reconciliation of CRP costs . . ., a mechanism to identify and adjust for those CRP credits associated with net changes in the number of CRP participants which adjustment will prevent double recovery of CRP credits."[17]

Q. DO YOU AGREE THAT THERE IS A "DOUBLE RECOVERY" OF CRP CREDITS IN THE COMPANY'S UNIVERSAL SERVICE SURCHARGE?

A. No. Mr. Colton's suggestion that amounts that PGW collects through the USC to account for incremental additions of customers in its CRP program have already been recovered in PGW's uncollectible expense allowance in base rates is simply wrong and based upon factual assumptions which are erroneous.

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16 OCA St. 4 at 5-10.

17 *Id* at 10.

Q. PLEASE EXPLAIN IN MORE DETAIL MR. COLTON'S CONTENTIONS AND WHY THEY ARE INCORRECT.

A. Initially, Mr. Colton admits, and I agree, that PGW's *pro forma* uncollectible expense in the test year already fully accounts for any write-offs associated with CRP customers. PGW has reflected a small adjustment to bad debt expense in its revised *pro forma* test year income statement to account for the increase in the level of CRP customers over the level that had been originally assumed in its FY 2007 budget.

As to incremental additions to the CRP program, Mr. Colton's claim concerns how PGW calculates the effect on the Universal Service Charge for such a CRP customer entering the program. For CRP, the USC charge consists of two items: the CRP discount and forgiven arrearages. Today, when a new customer enters the program, PGW calculates the CRP "discount" i.e., the difference between the customer's bill at the full tariff rate and the amount he/she will be billed under the CRP program, and includes that "discount" in the USC. The CRP program also permits customers to have a portion of their "pre-program arrearage" forgiven. A customer is forgiven one thirty-sixth of his/her pre-program arrearage for every month that the customer pays on time and in full. That forgiven arrearage is also included in the USC. A projection of these items is made at the beginning of each quarter and then trued up in the next quarter when actual data becomes available.

Q. COULD ANY PORTION OF THE DISCOUNT FOR A CUSTOMER ENROLLING IN THE CRP PROGRAM BE INCLUDED IN UNCOLLECTIBLE EXPENSE OR HAVE BEEN PREVIOUSLY WRITTEN OFF?

A. No, that cannot happen, since the discount amounts included in the USC are for billings that have just occurred or have yet to occur. Those amounts would not have been written off when a customer entered the CRP program because they are calculations of what the customer is to be billed (and what will be charged to the USC) on a going forward basis.

Q. COULD ANY PORTION OF THE PRE-PROGRAM ARREARAGE BE INCLUDED IN UNCOLLECTIBLE EXPENSE?

A. No. The pre-program arrearages that can be forgiven under the procedures used by the Company (and thus recovered in PGW's USC) are the arrearages which have not been written off previously. Generally, if a customer enrolls in CRP, his/her arrearages for the last 3 months will be included as pre-program arrearage. PGW only writes off arrearages if they are at least 3 months overdue. To the extent that a customer enrolls in CRP and his/her arrearages have been written off, they are not attributed to him/her as pre-program arrearage and thus are not eligible to be forgiven and recovered in the USC. Thus, there are no amounts or categories of billings that are recovered in the USC that have previously been written off or recovered in PGW's uncollectible expense allowance.

Q. DOES ENROLLING A CUSTOMER IN THE PROGRAM HAVE AN EFFECT ON THE COMPANY'S BAD DEBT EXPENSE?

A. Yes. On a going forward basis, PGW believes that there is a small net decrease to its experienced write-offs and uncollectible expense in that year, all other things equal, when it experiences a net increase in CRP customers. But that effect is prospective only, whereas the Company's bad debt expense allowance is calculated retrospectively.

But, if Mr. Colton was trying to suggest that these prospective effects should be tracked, and used as some sort of credit to its USC collections, PGW does not believe that suggestion is reasonable. Even if one were interested in trying to account for this effect, PGW does not track individual customer payment and write-off history such that it would be able to determine with any degree of accuracy how an incremental CRP customer affected bad debt expense. Moreover, while this one item may have a positive effect on

PGW's realized uncollectibles, there are many factors that affect PGW's overall uncollectible expense, most importantly, the level of billed revenues and the experienced collections factor. The Commission could not reasonably adjust for the effects of a single factor without considering all of these other inputs, even if such an uncollectible expense tracker were legally permissible, which I have been informed it is not.

B. Lobbying Expenses

Q. HAS MS. MARKOVICH RECOMMENDED AN ADJUSTMENT TO REMOVE FROM *PRO FORMA* EXPENSES EXPENDITURES WHICH SHE DEEMED TO BE "LOBBYING?"

A. Yes. Ms. Markovich has removed $230,000 from PGW's *pro forma* operating expenses on the ground that these amounts were characterized by PGW as "government relations" and that no further monetary breakdown was provided for activities not considered lobbying by the Company. The disallowance consists of $100,000 of a $450,000 contract with Wolf Block, and represents the portion attributable to PGW's arrangement with Wolf Block's separate government relations entity, WolfBlock Government Relations, LP. In addition, PGW has a $130,000 contract for government relations with Mardi Enterprises, a private consulting firm. While the contract with Mardi Enterprises has been terminated, PGW fully intends to contract for a fulltime government relations specialist, either on an independent contractor basis or by hiring a fulltime employee. PGW will also continue to engage outside contract government relations specialists such as WolfBlock Government Relations.

Q. WHAT IS THE BASIS FOR THE ADJUSTMENT MADE BY MS. MARKOVICH AND MR. BLEIWEIS?

A. I have been informed that the Public Utility Code prohibits inclusion in rates of money spent for "lobbying," but does not prohibit money spent for "appearances before regulatory or other governmental bodies in connection with the public utility's existing or proposed operations." Ms. Markovich has characterized the entire $230,000 as related to lobbying because PGW had not provided a specific quantification of the amounts that were non-lobbying related, although it indicated that a significant portion was non-lobbying.

Q. HAVE YOU UNDERTAKEN TO OBTAIN AN ANALYSIS OF THE ACTIONS AND OPERATIONS OF PGW'S GOVERNMENT RELATIONS RESOURCES TO DETERMINE THE PORTION THAT FALLS WITHIN THESE TWO CATEGORIES?

A. Yes. I have consulted with PGW's Vice President for Regulatory and External Affairs, who is directly responsible for these activities. I have been informed that no more than 25% of the activities of its fulltime government relations specialist (the role that was performed by: Mardi Enterprises and which will be performed in the future by either a fulltime PGW employee (or an independent contractor) will be associated with "lobbying". The other 75% - 80% is associated with activities such as interacting with the PUC on various issues of concern to the Commission regarding PGW, with the Energy Association of Pennsylvania, with other state and federal trade and industry groups, with public advocates such as the Office of Consumer Advocate and Office of Small Business Advocate, and with customers and other community groups. While the activities of PGW's contract lobbyists, WolfBlock Government Relations, LP, also includes these types of activities, the primary purpose of its contract with PGW is to interact with the General Assembly and the Administration on behalf of PGW. Therefore, PGW is not contending that the bulk of these activities are not "lobbying." However, PGW does believe that presenting its position before the General Assembly and the Administration is a vital function for a municipal gas utility regulated by the

Commission, which creates benefits not only for the Company but also for its employees and customers. For example, a significant portion of this work is devoted to obtaining state funding for LIHEAP. Unlike an investor-owned utility, every dollar of increased surplus accrues to the benefit of customers since it obviates the need for additional rate increases. Accordingly, PGW continues to respectfully request that its lobbying expenses also be included in *pro forma* expenses. I am informed by counsel that the PUC can waive provisions of the Public Utility Code if such a waiver would be reasonable considering PGW's special circumstances. However, if only non-lobbying is to be included, then $100,000 of the $130,000 cost of Mardi Enterprises contract should be permitted.

C. Advertising Expense

Q. HAS OTS WITNESS MARKOVICH RECOMMENDED AN ADJUSTMENT TO THE COMPANY'S CLAIM FOR ADVERTISING EXPENSE?

A. Yes. She has recommended that some $35,000 be removed for advertising expenditures that "relate to customer satisfaction, education and promotion." She also recommended that the Company's *pro forma* expenses be adjusted downward by $175,000 to remove the costs of what she characterizes as "PGW's Corporate Awareness Program." She claimed that these programs were "used to promote the Company" and include forms of image advertising.

Q. WHAT IS PGW'S POSITION ON MS. MARKOVICH'S ADJUSTMENTS?

A. Without commenting on whether image advertising is a legitimate *pro forma* expense, the fact is that PGW does not engage in any image advertising whatsoever. The first category of advertising that Ms. Markovich recommended for disallowance is advertising for "marketing activities relating to customer satisfaction, education and promotion."[18] While Ms. Markovich characterized this advertising as "relating to customer satisfaction, education and promotion," PGW clearly indicated that this advertising was marketing-related. Indeed, the examples of advertising that ran under this program (and which were included in Ms. Markovich's exhibit) are designed to promote the use of natural gas in PGW's service territory, an economic development and marketing related activity that plainly benefits rate payers by increasing the base of customers over which fixed costs can be recovered. The second category of advertising that Ms. Markovich disallowed is related to PGW's "Awareness Campaign Program," which she incorrectly characterized as PGW's "Corporate Awareness Program." In fact, PGW's advertising in that category falls exclusively into the area of making consumers aware of actions and activities they can take to conserve energy, clearly a valuable and proper expenditure for a gas company. I have included material on PGW's Awareness Campaign as an exhibit to by rebuttal testimony (JRB-15).

D. Merger Related Activity

Q. DID MS. MARKOVICH MAKE AN ADJUSTMENT TO REMOVE $50,000 IN THE TEST YEAR FOR SERVICES RELATED TO MERGER ACTIVITIES?

A. Yes.[19]

Q. WHAT IS YOUR POSITION WITH RESPECT TO THIS ADJUSTMENT?

A. At the time that PGW prepared its operating budget on which its test year is based, it had a reasonable basis for believing that it would incur expenses in this category and at this

18 *See* OTS Exh. 2, Schedule 9, p. 1, which is PGW's answer to OTS interrogatory RE-83.

19 OTS St. 2 at 24.

level for the next several years. At this point it is not clear whether such activities will occur and therefore PGW concedes this revision is appropriate.

E. Regulatory Fines and Penalties.

Q. HAS MS. MARKOVICH MADE AN ADJUSTMENT TO REMOVE EXPENDITURES FOR "PENALTIES" THAT THE COMPANY INCURS FOR VIOLATION OF REGULATORY FINES AND PENALTIES?

A. Yes. PGW had budgeted an amount of $50,000 to reflect the fact that on an ongoing basis it has incurred a relatively small level of penalties and fines, for the most part, as a result of settlements of PUC allegations of violations of customer service rules.

Q. DO YOU AGREE WITH THIS RECOMMENDATION?

A. No. In my view, civil fines and penalties assessed by regulatory agencies are legitimate operating expenses for a municipal natural gas utility. Moreover, denying such expenditures as *pro forma* expenses is illogical and nonproductive. As a cash flow-regulated company, all revenues and expenses that are incurred by PGW ultimately either accrue or inure to the benefit or detriment of customers. Thus, when the PUC denies an expense that PGW will nevertheless incur, or is likely to incur, the effect is that an amount of income that would otherwise be used for capital expenditures, to reduce the level of long-term debt or to provide desperately needed cash flow is removed from the Company. All that occurs is that PGW is put in a position of having to request additional rate increases from the PUC in the future to cover this deficiency. Of course, the amount at issue is quite small, it is unlikely that this one item will require PGW to file for a base rate case at some point in the future, but the concern and the issue is legitimate and valid nonetheless.

F. Authority Expenses

Q. PLEASE EXPLAIN THE ADJUSTMENT MR. BLEIWEIS MADE FOR "AUTHORITY EXPENSES" INCLUDED IN THE FY 2007 *PRO FORMA* EXPENSES.

A. Mr. Bleiweis removed $190,000 of charges that PGW anticipated incurring as part of the process of further analyzing proposals that have been made to create an "authority" that would operate Philadelphia Gas Works. While PGW believed that such expenses would be incurred in FY 2007 at the time it prepared its budget, it no longer believes that this will occur, or at least not at the level budgeted. Therefore, PGW agrees that these amounts should be removed from FY 2007 operating expenses.

G. <u>Injuries and Damages Reserve and Associated Expenses</u>

Q. DO YOU AGREE WITH MS. MARKOVICH'S CONCLUSION ABOUT THE CURRENT CLASS ACTION LAWSUIT?

A. No. Ms. Markovich has concluded that PGW does not have recurring class action lawsuits, therefore, the amount for injuries and damages ($475,000)[20] and legal fees ($250,000) should not be included in *pro forma* expenses. Although PGW does not have regular class action lawsuits, large lawsuits of this nature normally happen to companies periodically and PGW is no exception.

There have also been some new developments in this lawsuit. An initial settlement has been rejected by the trial court judge and the appellate court has refused to address the trial court's ruling; therefore, the matter has been remanded back to the trial court for a new settlement or trial. Without a quick appellate disposition, PGW's initial assessment for legal fees in the test year now appears to be low. It is anticipated that

[20] The $475,000 is comprised of two amounts as follows: $425,000 for the class action case and $50,000 for employment matters.

either settlement or trial will result in increased class participation, as is the trial judge's obvious intention, resulting in increased costs for injuries and damages. I have been informed that the Company can reasonably anticipate the floor for either a new settlement or the results of a trial to be at least $1,800,000 and $2,000,000 for injuries, damages and legal fees.

H. Customer Incentive Program (i.e. Marketing-Promotion Expense)

Q. DO YOU AGREE WITH MS. MARKOVICH'S ASSESSMENT OF THE CUSTOMER INCENTIVE PROGRAM (I.E. MARKETING-PROMOTION EXPENSE)?

A. Ms. Markovich wrongly asserts that these costs are not in the public and customers' interest, that the company lacks proper tariff provisions, that a net benefit to ratepayers has not been demonstrated and that dual fuel customers should not have lower negotiated rates.

Incentive programs serve both public and customer interests. Incentives are offered to customers who most likely will not convert from a different fuel source to natural gas due to the initial investment required for the conversion. In the long term, the ratepayers benefit from additional throughput on PGW's system. Additional throughput helps to ensure that PGW's facilities are more fully utilized and that operating costs are distributed among a greater number of ratepayers. Further, the new customer's facilities will be in service far beyond the discount period which means that ratepayers will reap the benefits far into the future. For the foregoing reasons, the costs related to the Customer Incentive Program are just and reasonable. Additionally, programs like this are commonplace in Pennsylvania and other Pennsylvania utilities have similar programs.

Further, Ms. Markovich misconstrues PGW's tariff provisions. Tariff provision 2.3 provides PGW broad discretion, even beyond rates, in its contract terms.

Alternatively, if Ms. Markovich wants to improperly construe Section 2.3 in a narrow manner, incentives are factored into the rates charged as shown by the below example, which also demonstrates a net benefit to ratepayers. This should also answers Ms. Markovich's concern about dual fuel customers receiving discounts. The following example was also provided in response to OTS RE 105 - the customer is on the Interruptible Transportation Rider and converted from a different fuel source to natural gas:

> The starting point is whether the capital costs to provide service exceed 5 years of margin (5 years in this case because it is a conversion). The margin in this case is $49,000 annually, therefore, 5 years of margin is $245,000. Capital costs to provide service are $188,905. As a result, PGW will provide a CIP up to the difference between $245,000 and $188,905. The capital costs and the CIP are added in order to calculate the adjusted cost of $233,905. The IRR (Internal Rate of Return) is calculated based on the adjusted cost (or PGW's investment) of $233,905 and ten years of margin at $49,000 annually. The IRR on this investment with a revenue stream of $49,000 for ten years is 16% (PGW's internal rule of thumb is to approve CIP payments which have an IRR of 12% or greater). Ten years is used because that is the contract term. The volume that produces the margin in this calculation is also included in the contract as the take or pay volume. The simple payback of 4.8 years is $233,905 / $49,000.

In light of the foregoing, PGW's customers benefit from increased margin to the Company because without the CIP the customer would not have converted from another fuel source, the above satisfies Ms. Markovich's narrow (and incorrect) construction of Section 2.3 because the CIP calculation factors in the customer's margin rates and assures the volume by the ten year contract term and the take or pay provision. Additionally, the above calculations address Ms. Markovich's concerns about negotiated rates because of the lengthy contract terms and the take or pay provisions. This program is very worthwhile, provides a benefit to all customers and should excluded from *pro forma* expenses.

IV. UPDATED *PRO FORMA* FINANCIAL RESULTS

Q. HAVE YOU UPDATED THE FY 2007 TEST YEAR TO REFLECT CERTAIN ADDITIONAL ADJUSTMENTS?

A. Yes. I have attached JRB-13 which adjusts my originally filed *pro forma* results to account for three categories of adjustments; 1) acceptance of certain adjustments proposed by the OTS and/or the OCA; 2) the annualized effect of the Company's just completed bond issuance; and 3) inclusion of two adjustments which were omitted from PGW's original presentation as a result of an oversight.

Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE PROPOSED BY THE OTHER PARTIES AND WHICH PGW HAS DETERMINED TO ACCEPT.

A. They are as follows:

1. Mr. Kubas' adjustment to gas revenues and expenses to reflect a higher pro forma customer count. I have included this adjustment at the recalculated levels of revenues as explained by Mr. White. Mr. Kubas included in his calculation revenues that do not increase when the number of customers increase.
2. The adjustments proposed by the OTS and the OCA to remove costs related to converting to an authority and pursing a merger with another natural gas company.
3. The adjustments proposed to Prescription Benefit expense to reflect a revised estimate of this cost for he test year.

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO REFLECT THE ANNUALIZATION OF THE RECENT BOND ISSUANCE.

A. PGW has priced the issuance of bonds that will produce $200 million of new debt and expects that the issuance will close on May 15. I have revised the test year to reflect a full year's interest expense (where previously I had included only three-quarters of accrued interest and only ½ of the interest payments due to my initial assumption about timing) and revised the cash flow and balance sheet to reflect the effect on these calculations. I have not included any claim for the payment of principal on this issuance because the first principal payment will not occur until FY 2009.

Q. DESCRIBE THE CALCULATION ERRORS THAT ARE CORRECTED IN JRB-13.

A. First, I have adjusted Bad Debt Expense to reflect a $.5 million adjustment to account for the increased number of CRP customers that were assumed in the test year. In an answer to an interrogatory, OSBA-II-52, the Company pointed out that it had not made the adjustment, in its initial filing.

Second, I have reduced test year operating revenues by $3.3 million to reflect the fact that the original pro forma amount (JRB-1) had inadvertently included the revenues associated with the Restructuring Surcharge despite the fact that when the rates approved in this case are put into effect the Surcharge will terminate. The cost of all the expenses and plant that were being recovered in the Surcharge are now being recovered in pro forma operating expenses (to the extent that PGW is still incurring the cost) so no corresponding expense adjustment is necessary. PGW has reduced the amount of the revenues being removed by $.1 million to reflect a very small amount of depreciation expense that is included in pro forma expenses ($.1 million) associated with plant the cost of which previously had been recovered in the restructuring surcharge. This is to assure that the Company is not double recovering for these plant items.

Q. WHAT IS THE NET EFFECT OF ALL THESE ADJUSTMENTS?

A. The net effect is a $2.3 million reduction in pro forma income.

Q. HAVE YOU INCLUDED A SCHEDULE WHICH SHOWS ACTUAL RESULTS OF OPERATIONS SO FAR FOR FY 2007?

A. Yes. This is shown on JRB-14. Note that these data are on a non-weather adjusted basis.

Q. DOES THAT COMPLETE YOUR TESTIMONY?

A. Yes it does.

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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940
Sinking Fund Reserve	104,530	93,800	102,050	102,050	110,300	110,300	118,550	118,550
Capital Improvement Fund	102,701	39,732	99,843	21,843	67,993	493	71,643	12,643
Debt Reduction Funding	-	-	-	-	-	-	-	-
Cash	15,221	10,820	50,616	50,551	50,643	50,475	50,619	50,444
Gas	273,805	264,254	243,806	225,861	206,073	183,207	160,088	136,558
Other	12,522	785	506	352	350	350	350	350
Accrued Gas Revenues	8,787	11,300	10,568	11,387	11,010	10,296	10,237	10,147
Reserve for Uncollectible	(207,480)	(191,631)	(183,489)	(168,811)	(150,317)	(127,024)	(98,638)	(66,972)
Accounts Receivable:	87,634	84,708	71,391	68,789	67,116	66,829	72,037	80,083
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	47,671	43,651	47,920	43,676
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	1,669,970	1,613,773	1,697,135	1,645,185	1,743,693	1,696,312
EQUITY & LIABILITIES								
City Equity	222,646	233,063	241,982	259,956	272,081	281,606	268,720	251,554
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,207,915	1,151,820	1,254,251	1,203,616
TECA Accretions	14,313	12,608	13,913	15,314	16,818	18,434	10,933	
Unamortized Discount	(9,484)	(5,113)	(5,683)	(5,201)	(5,732)	(5,217)	(5,733)	(5,220)
Unamortized Premium	22,901	20,797	18,826	16,956	15,183	13,516	11,996	10,550
Capital Equipment Leasing	-	-	-	-	-			
Long Term Debt:	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Notes Payable	49,900	70,000	89,000	114,000	89,000	85,000	104,000	141,000
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	15,963	15,427	17,387	16,837
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	12,717	10,626	8,536
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,669,970	1,613,773	1,697,135	1,645,185	1,743,693	1,696,312

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
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Unamortized Premium	22,901	20,797	18,826	16,956	15,183	13,516	11,996	10,550
Capital Equipment Leasing	-	-	-	-	-			
Long Term Debt:	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Notes Payable	49,900	70,000	89,000	114,000	89,000	85,000	104,000	141,000
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
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Other Liabilities	24,183	19,981	19,056	16,901	14,811	12,717	10,626	8,536
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,669,970	1,613,773	1,697,135	1,645,185	1,743,693	1,696,312

Capitalization

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total Capitalization	1,295,747	1,303,785	1,423,423	1,392,970	1,506,265	1,460,159	1,540,167	1,460,500
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.83	0.81	0.82	0.81	0.83	0.83
Capitalization Ratio	4.82	4.59	4.88	4.36	4.54	4.19	4.73	4.81
Total Capitalization Excluding Leases	1,295,747	1,303,785	1,423,423	1,392,970	1,506,265	1,460,159	1,540,167	1,460,500
Total Long Term Debt Excluding Leases	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.83	0.81	0.82	0.81	0.83	0.83
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312
Regulatory Asset Securitization								
Capital - 106&107	56,300	68,057	75,152	78,597	87,755	70,818	61,587	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232
Accumulated Depreciation	(591,624)	(628,552)	(666,765)	(706,330)	(747,155)	(789,246)	(832,777)	(876,292)
Net Utility Plant	981,722	1,012,851	1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940

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	$ 114,834	$ 116,734	$ 112,487	$ 106,113	$ 105,845	$ 105,471
Gas Transport Service	4,679	6,147	7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	820,732	845,817	816,568	762,697	757,378	749,166
Proposed Base Rate	-	-	-	25,000	25,000	25,000	25,000	25,000
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-
Unbilled Adjustment	(803)	2,513	(732)	819	(377)	(714)	(59)	(90)
Total Gas Revenues	830,550	956,562	942,090	996,259	962,139	902,079	897,629	889,455
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	18,032	18,913	18,288	17,153	17,056	16,901
Total Other Operating Revenues	32,807	28,534	28,564	29,656	29,245	28,330	28,456	28,529
Total Operating Revenues	863,357	985,096	970,654	1,025,915	991,384	930,409	926,085	917,984
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**	**339,813**	**367,423**	**368,016**	**368,008**	**367,837**	**367,090**
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	28,920	29,768	30,279	30,849	31,416	32,016
Distribution	15,115	15,382	16,536	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	52,258	55,422	51,606	46,807	41,714	38,334
Marketing	2,592	2,470	2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	49,741	49,412	49,903	50,589	51,347	52,209
Health Insurance	33,571	34,804	37,784	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	15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments			217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	229,932	246,390	247,301	247,792	248,333	251,380
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	268,128	285,844	288,149	289,856	291,853	294,863
TOTAL OPERATING EXPENSES	793,012	917,374	898,969	944,336	911,517	852,257	850,101	845,757
OPERATING INCOME	70,345	67,722	71,685	81,579	79,867	78,152	75,984	72,227
Other Income	4,778	8,198	11,212	10,526	11,294	9,803	11,596	9,681
INCOME BEFORE INTEREST	75,123	75,920	82,897	92,105	91,161	87,955	87,580	81,908
INTEREST								
Long-Term Debt	53,856	51,778	56,437	56,698	61,578	61,236	65,202	64,046
Other	6,123	9,561	13,186	13,229	13,643	13,684	14,076	14,059
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	79,036	78,430	82,466	81,074
NET INCOME	11,272	10,417	8,919	17,974	12,125	9,525	5,114	834
City Payment	-							
Net Earnings	**$ 11,272**	**$ 10,417**	**$ 8,919**	**$ 17,974**	**$ 12,125**	**$ 9,525**	**$ 5,114**	**$ 834**

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	$ 8,919	$ 17,974	$ 12,125	$ 9,525	$ 5,114	$ 834
Depreciation & Amortization	42,281	43,928	46,007	47,128	48,468	49,476	50,999	50,755
Earnings on Restricted Funds	(3,265)	3,899	38	-	-	-	-	-
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	43,371	60,406	55,875	65,818	61,401	59,916	47,910	39,950
Funds Required for Capital	*66,000*	*60,195*	*72,000*	*78,000*	*86,000*	*67,500*	*61,000*	*59,000*
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	19,000	25,000	-	-	19,000	37,000
TOTAL SOURCES	139,697	168,305	164,875	186,818	165,401	145,416	127,910	135,950
USES								
Net Construction Expenditures	66,910	68,057	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS				16,000	23,000	7,800		
Funded Debt Reduction:								
Revenue Bonds	35,387	29,906	36,675	47,010	46,530	54,530	45,929	48,920
PMA Lease/Subordinate Debt	1,255	1,310	1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	-	-	-	-	-	-	-
Debt Reduction Funding			-	-	-	-	-	-
Temporary Financing Repayment	850	-	-	-	25,000	4,000	-	-
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	(8,118)	(1,154)	(13,476)	(3,329)	610	7,570
Cash Needs	128,142	172,706	125,079	186,883	165,309	145,584	127,766	136,125
Cash Surplus (Shortfall)	11,555	(4,401)	39,796	(65)	92	(168)	144	(175)
TOTAL USES	139,697	168,305	164,875	186,818	165,401	145,416	127,910	135,950
Cash - Beginning of Period	3,666	15,221	10,820	50,616	50,551	50,643	50,475	50,619
Cash - Surplus (Shortfall)	11,555	(4,401)	39,796	(65)	92	(168)	144	(175)
ENDING CASH	**15,221**	**10,820**	**50,616**	**50,551**	**50,643**	**50,475**	**50,619**	**50,444**
Outstanding Commercial Paper	49,900	70,000	89,000	114,000	89,000	85,000	104,000	141,000
City Loan Outstanding	45,000	45,000	43,000	-	-	-	-	-
Internally Generated Funds	-	-	-	-	-	-	-	-

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	$ 942,090	$ 996,259	$ 962,139	$ 902,079	$ 897,629	$ 889,455
Other Operating Revenues	32,807	28,534	28,564	29,656	29,245	28,330	28,456	28,529
Total Operating Revenues	863,357	985,096	970,654	1,025,915	991,384	930,409	926,085	917,984
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	11,250	10,526	11,294	9,803	11,596	9,681
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	1,001,106	1,055,443	1,021,714	959,220	938,666	928,624
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	268,128	285,844	288,149	289,856	291,853	294,863
Total Operating Expenses	793,012	917,374	898,969	944,336	911,517	852,257	850,101	845,757
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	857,082	901,036	866,905	806,350	802,716	798,353
Funds Available to Cover Debt Service	130,103	139,541	144,024	154,407	154,809	152,870	135,950	130,271
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**	**4.03**	**4.49**	**4.78**	**5.07**	**4.42**	**4.05**
Net Available after Prior Debt Service	91,297	97,592	108,276	120,039	122,441	122,715	105,205	98,107
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	108,276	120,039	122,441	122,715	105,205	98,107
1998 Ordinance Bonds Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
New Proposed Bond Debt Service	-	-	-	-	-	-	-	-
Total New Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
Debt Service Coverage 1998 Bonds	**1.94**	**3.01**	**2.03**	**1.77**	**1.71**	**1.46**	**1.23**	**1.07**
Net Available after 1998 Debt Service	43,300	65,125	54,963	52,226	50,714	38,604	19,626	6,091
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**	**27.66**	**26.30**	**25.48**	**19.44**	**9.87**	**3.07**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**122,295**	**132,561**	**133,045**	**131,027**	**132,085**	**126,350**
Aggregrate Debt Service	**88,790**	**76,402**	**91,048**	**104,167**	**106,085**	**116,252**	**118,312**	**126,164**
Fixed Coverage Charge	**1.25**	**1.49**	**1.34**	**1.27**	**1.25**	**1.13**	**1.12**	**1.00**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**1.12**	**1.09**	**1.07**	**0.98**	**0.97**	**0.88**

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	$ 114,834	$ 116,734	$ 112,487	$ 106,113	$ 105,845	$ 105,471
Gas Transport Service	4,679	6,147	7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	820,732	845,817	816,568	762,697	757,378	749,166
Proposed Base Rate	-	-	25,000	25,000	25,000	25,000	25,000	25,000
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-
Unbilled Adjustment	(803)	2,513	(435)	522	(377)	(713)	(59)	(90)
Total Gas Revenues	830,550	956,562	967,387	995,962	962,139	902,080	897,629	889,455
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	18,507	18,913	18,288	17,153	17,056	16,901
Total Other Operating Revenues	32,807	28,534	29,039	29,656	29,245	28,330	28,456	28,529
Total Operating Revenues	863,357	985,096	996,426	1,025,618	991,384	930,410	926,085	917,984
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**	**365,585**	**367,126**	**368,016**	**368,009**	**367,837**	**367,090**
Gas Processing	18,584	16,206	15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	28,920	29,768	30,279	30,849	31,416	32,016
Distribution	15,115	15,382	16,536	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	54,641	58,169	54,409	49,666	44,629	41,473
Marketing	2,592	2,470	2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	49,741	49,412	49,903	50,589	51,347	52,209
Health Insurance	33,571	34,804	37,784	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	15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-	-	383	507	639	753
Pro Forma Adjustments			217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	232,315	249,137	250,104	250,651	251,248	254,519
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	270,511	288,591	290,952	292,715	294,768	298,002
TOTAL OPERATING EXPENSES	793,012	917,374	901,352	947,083	914,320	855,116	853,016	848,896
OPERATING INCOME	70,345	67,722	95,074	78,535	77,064	75,294	73,069	69,088
Other Income	4,778	8,198	11,212	10,526	11,294	9,803	11,596	9,681
INCOME BEFORE INTEREST	75,123	75,920	106,286	89,061	88,358	85,097	84,665	78,769
INTEREST								
Long-Term Debt	53,856	51,778	56,437	56,698	61,578	61,236	65,202	64,046
Other	6,123	9,561	13,186	13,229	13,643	13,684	14,076	14,059
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	79,036	78,430	82,466	81,074
NET INCOME	11,272	10,417	32,308	14,930	9,322	6,667	2,199	(2,305)
City Payment	-							
Net Earnings	**$ 11,272**	**$ 10,417**	**$ 32,308**	**$ 14,930**	**$ 9,322**	**$ 6,667**	**$ 2,199**	**$ (2,305)**

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	$ 32,308	$ 14,930	$ 9,322	$ 6,667	$ 2,199	$ (2,305)
Depreciation & Amortization	42,281	43,928	46,007	47,128	48,468	49,476	50,999	50,755
Earnings on Restricted Funds	(3,265)	3,899	38	-	-	-	-	-
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	43,371	60,406	79,264	62,774	58,598	57,058	44,995	36,811
Funds Required for Capital	68,000	60,195	72,000	78,000	86,000	67,500	61,000	59,000
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	25,000	5,000	-	-	19,000	37,000
TOTAL SOURCES	139,697	168,305	194,264	163,774	162,598	142,558	124,995	132,811
USES								
Net Construction Expenditures	66,910	68,057	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS				16,000	23,000	7,800		
Funded Debt Reduction:								
Revenue Bonds	35,387	29,906	36,675	47,010	46,530	54,530	45,929	48,920
PMA Lease/Subordinate Debt	1,255	1,310	1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	-	-	-	-	-	-	-
Debt Reduction Funding			-	-	-	-	-	-
Temporary Financing Repayment	850	-	-	-	25,000	4,000	-	-
City Loan Repayment/Status	-	-	22,500	22,500	-	-	-	-
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	1,007	(4,198)	(16,279)	(6,187)	(2,305)	4,431
Cash Needs	128,142	172,706	154,704	163,339	162,506	142,726	124,851	132,986
Cash Surplus (Shortfall)	11,555	(4,401)	39,560	435	92	(168)	144	(175)
TOTAL USES	139,697	168,305	194,264	163,774	162,598	142,558	124,995	132,811
Cash - Beginning of Period	3,666	15,221	10,820	50,380	50,815	50,907	50,739	50,883
Cash - Surplus (Shortfall)	11,555	(4,401)	39,560	435	92	(168)	144	(175)
ENDING CASH	**15,221**	**10,820**	**50,380**	**50,815**	**50,907**	**50,739**	**50,883**	**50,708**
Outstanding Commercial Paper	49,900	70,000	95,000	100,000	75,000	71,000	90,000	127,000
City Loan Outstanding	45,000	45,000	22,500	-	-	-	-	-
Internally Generated Funds	-	-	-	-	-	-	-	-

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	$ 967,387	$ 995,962	$ 962,139	$ 902,080	$ 897,629	$ 889,455
Other Operating Revenues	32,807	28,534	29,039	29,656	29,245	28,330	28,456	28,529
Total Operating Revenues	863,357	985,096	996,426	1,025,618	991,384	930,410	926,085	917,984
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	11,250	10,526	11,294	9,803	11,596	9,681
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	1,026,878	1,055,146	1,021,714	959,221	938,666	928,624
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	270,511	288,591	290,952	292,715	294,768	298,002
Total Operating Expenses	793,012	917,374	901,352	947,083	914,320	855,116	853,016	848,896
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	859,465	903,783	869,708	809,209	805,631	801,492
Funds Available to Cover Debt Service	130,103	139,541	167,413	151,363	152,006	150,012	133,035	127,132
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**	**4.68**	**4.40**	**4.70**	**4.97**	**4.33**	**3.95**
Net Available after Prior Debt Service	91,297	97,592	131,665	116,995	119,638	119,857	102,290	94,968
Other Capital Leases	1,998	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	131,665	116,995	119,638	119,857	102,290	94,968
1998 Ordinance Bonds Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
New Proposed Bond Debt Service	-	-	-	-	-	-	-	-
Total New Debt Service	45,999	32,467	53,313	67,813	71,727	84,111	85,579	92,016
Debt Service Coverage 1998 Bonds	**1.94**	**3.01**	**2.47**	**1.73**	**1.67**	**1.42**	**1.20**	**1.03**
Net Available after 1998 Debt Service	43,300	65,125	78,352	49,182	47,911	35,746	16,711	2,952
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**	**39.43**	**24.76**	**24.08**	**18.00**	**8.41**	**1.49**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**145,684**	**129,517**	**130,242**	**128,169**	**129,170**	**123,211**
Aggregrate Debt Service	**88,790**	**76,402**	**91,048**	**104,167**	**106,085**	**116,252**	**118,312**	**126,164**
Fixed Coverage Charge	**1.25**	**1.49**	**1.60**	**1.24**	**1.23**	**1.10**	**1.09**	**0.98**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**1.34**	**1.06**	**1.05**	**0.95**	**0.95**	**0.85**

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	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940
Sinking Fund Reserve	104,530	93,800	102,050	102,050	110,300	110,300	118,550	118,550
Capital Improvement Fund	102,701	39,732	99,843	21,843	67,993	493	71,643	12,643
Debt Reduction Funding	-	-	-	-	-	-	-	-
Cash	15,221	10,820	50,380	50,815	50,907	50,739	50,883	50,708
Gas	273,805	264,254	255,017	237,072	217,284	194,418	171,299	147,769
Other	12,522	785	506	352	350	350	350	350
Accrued Gas Revenues	8,787	11,300	10,865	11,387	11,010	10,297	10,238	10,148
Reserve for Uncollectible	(207,480)	(191,631)	(185,872)	(173,941)	(158,250)	(137,816)	(112,345)	(83,818)
Accounts Receivable:	87,634	84,708	80,516	74,870	70,394	67,249	69,542	74,449
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	47,671	43,651	47,920	43,676
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	1,678,859	1,620,118	1,700,677	1,645,869	1,741,462	1,690,942
EQUITY & LIABILITIES								
City Equity	222,646	233,063	265,371	280,301	289,623	296,290	280,489	260,184
Revenue Bonds	1,045,371	1,042,430	1,154,385	1,105,945	1,207,915	1,151,820	1,254,251	1,203,616
TECA Accretions	14,313	12,608	13,913	15,314	16,818	18,434	10,933	
Unamortized Discount	(9,484)	(5,113)	(5,683)	(5,201)	(5,732)	(5,217)	(5,733)	(5,220)
Unamortized Premium	22,901	20,797	18,826	16,956	15,183	13,516	11,996	10,550
Capital Equipment Leasing	-	-	-	-	-			
Long Term Debt:	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Notes Payable	49,900	70,000	95,000	100,000	75,000	71,000	90,000	127,000
City Loan	45,000	45,000	22,500	-	-			
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	15,963	15,427	17,387	16,837
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	12,717	10,626	8,536
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,678,859	1,620,118	1,700,677	1,645,869	1,741,462	1,690,942

Capitalization

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total Capitalization	1,295,747	1,303,785	1,446,812	1,413,315	1,523,807	1,474,843	1,551,936	1,469,130
Total Long Term Debt	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.82	0.80	0.81	0.80	0.82	0.82
Capitalization Ratio	4.82	4.59	4.45	4.04	4.26	3.98	4.53	4.65
Total Capitalization Excluding Leases	1,295,747	1,303,785	1,446,812	1,413,315	1,523,807	1,474,843	1,551,936	1,469,130
Total Long Term Debt Excluding Leases	1,073,101	1,070,722	1,181,441	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.82	0.80	0.81	0.80	0.82	0.82
Plant in Service	1,517,046	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312
Regulatory Asset Securitization								
Capital - 106&107	56,300	68,057	75,152	78,597	87,755	70,818	61,587	59,920
Total Plant	1,573,346	1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232
Accumulated Depreciation	(591,624)	(628,552)	(666,765)	(706,330)	(747,155)	(789,246)	(832,777)	(876,292)
Net Utility Plant	981,722	1,012,851	1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940

Budgeted Weather 4,525 degree days
City Loan $22.5 MM Outstanding @ 8/31/07
TXCP $150.0 MM with $86.6 MM Outstanding @ 8/31/07
Collection Factor 95% & $25.0M Rate Increase
$18.0 MM City Payment Made and Granted Back to PGW

JRB-9A (2007)

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2007
(Millions of Dollars)

5/3/07		BUDGET Sep	BUDGET Oct	BUDGET Nov	BUDGET Dec	BUDGET Jan	BUDGET Feb	BUDGET Mar	BUDGET Apr	BUDGET May	BUDGET June	BUDGET July	BUDGET Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $70.0 TXCP		10.8	2.6	5.4	7.8	23.8	18.2	20.4	55.4	84.4	94.6	86.6	30.3	10.8
RECEIPTS														
Gas		48.4	54.1	55.7	74.9	100.1	118.4	130.7	115.9	95.7	70.9	57.1	54.1	975.8
Other		0.8	0.8	2.4	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.8	2.7	13.3
Drawn from Capital Funds - Principal		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.0	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	3.1	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		50.6	56.3	59.5	77.1	102.3	120.6	132.9	118.3	98.1	91.2	59.4	133.4	1,099.5
TOTAL		61.4	58.8	64.9	84.9	126.1	138.8	153.3	173.7	182.6	185.7	146.0	163.7	1,110.3
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	68.2	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	10.6	6.3	4.0	1.0	1.0	1.0	44.6	15.5	91.0
TXCP: Interest & Variable Rate Debt Fees		0.8	1.3	0.8	0.8	0.8	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	22.5	22.5
		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		20.1	12.6	14.0	9.9	15.4	18.1	15.8	13.2	13.9	13.9	13.4	12.9	173.1
TOTAL DISBURSEMENTS		68.8	53.5	64.1	66.1	108.0	118.3	97.8	89.3	88.0	99.1	115.7	108.3	1,076.9
MONTHLY CASH FLOW		(18.2)	2.8	(4.6)	11.0	(5.7)	2.2	35.0	29.0	10.1	(7.9)	(56.3)	25.1	22.6
CUMULATIVE CASH FLOW		(18.2)	(15.4)	(20.0)	(9.0)	(14.6)	(12.4)	22.6	51.6	61.8	53.8	(2.5)	22.6	
OPENING TXCP	70.0	70.0	80.0	80.0	87.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	70.0
TXCP ISSUED DURING MONTH		10.0	0.0	7.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.0
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	5.4	5.4
ENDING TXCP		80.0	80.0	87.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	86.6	86.6
OPENING BALANCE - CASH		10.8	2.6	5.4	7.8	23.8	18.2	20.4	55.4	84.4	94.6	86.6	30.3	10.8
MONTHLY CASH FLOW		(18.2)	2.8	(4.6)	11.0	(5.7)	2.2	35.0	29.0	10.1	(7.9)	(56.3)	25.1	22.6
NET TXCP ACTIVITY MONTHLY		10.0	0.0	7.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(5.4)	16.6
ENDING BALANCE - CASH		**2.6**	**5.4**	**7.8**	**23.8**	**18.2**	**20.4**	**55.4**	**84.4**	**94.6**	**86.6**	**30.3**	**50.0**	**50.0**
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	0.0	22.5	22.5
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	22.5	22.5
CASH POSITION NET OF TXCP AND CITY LOAN		(122.4)	(119.6)	(124.2)	(113.2)	(118.8)	(116.6)	(81.6)	(52.6)	(42.4)	(50.4)	(106.7)	(59.1)	

$25.0M Rate Increase
Collection Rate @ 95%
City Loan Paid 8/31/08
Normal Weather 4,525 Degree Days

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2008
(Millions of Dollars)

		ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	
5/3/07		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $86.6 TXCP		50.0	50.0	50.0	50.0	50.0	44.9	36.3	50.0	50.0	50.0	50.0	50.0	50.0
RECEIPTS														
Gas		45.8	52.8	55.1	62.6	94.8	106.5	145.8	117.6	98.4	73.0	57.5	54.4	964.3
Other		1.0	1.0	2.4	0.8	0.5	0.8	0.8	0.9	0.9	0.8	0.8	4.0	14.7
Drawn from Capital Funds - Principal		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.0	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	6.0	6.0
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		1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.5	17.7
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		48.3	55.3	59.0	64.9	96.8	108.8	148.0	119.9	100.7	93.3	59.8	137.9	1,092.7
TOTAL		98.3	105.3	109.0	114.9	146.8	153.7	184.3	169.9	150.7	143.3	109.8	187.9	1,142.7
DISBURSEMENTS														
Labor		12.6	11.5	13.0	14.5	11.8	12.0	14.5	12.0	13.0	12.0	12.5	13.5	152.9
Natural Gas		30.5	44.7	53.2	41.6	68.4	79.9	67.7	62.6	57.8	52.4	42.0	41.0	641.8
Debt Service		3.8	1.0	1.0	1.0	10.4	6.0	3.5	5.0	1.0	1.0	43.3	15.0	92.0
TXCP: Interest & Variable Rate Debt Fees		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	6.0
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	22.5	22.5
		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		16.4	12.8	14.8	11.2	16.1	19.0	16.7	14.0	14.7	14.8	14.3	12.7	177.5
TOTAL DISBURSEMENTS		63.8	70.5	82.5	68.8	107.2	117.4	102.9	94.1	87.0	98.7	112.6	105.2	1,110.7
MONTHLY CASH FLOW		(15.5)	(15.2)	(23.5)	(3.9)	(10.4)	(8.6)	45.1	25.8	13.7	(5.4)	(52.8)	32.7	(18.0)
CUMULATIVE CASH FLOW		(15.5)	(30.7)	(54.2)	(58.1)	(68.5)	(77.1)	(32.0)	(6.2)	7.5	2.1	(50.7)	(18.0)	
OPENING TXCP	86.6	86.6	102.1	117.3	140.8	144.7	150.0	150.0	118.6	92.8	79.1	84.5	137.3	86.6
TXCP ISSUED DURING MONTH		15.5	15.2	23.5	3.9	5.3	0.0	0.0	0.0	0.0	5.4	52.8	0.0	121.6
TXCP PAID DOWN DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	31.4	25.8	13.7	0.0	0.0	32.7	103.6
ENDING TXCP		102.1	117.3	140.8	144.7	150.0	150.0	118.6	92.8	79.1	84.5	137.3	104.6	104.6
OPENING BALANCE - CASH		50.0	50.0	50.0	50.0	50.0	44.9	36.3	50.0	50.0	50.0	50.0	50.0	50.0
MONTHLY CASH FLOW		(15.5)	(15.2)	(23.5)	(3.9)	(10.4)	(8.6)	45.1	25.8	13.7	(5.4)	(52.8)	32.7	(18.0)
NET TXCP ACTIVITY MONTHLY		15.5	15.2	23.5	3.9	5.3	0.0	(31.4)	(25.8)	(13.7)	5.4	52.8	(32.7)	18.0
ENDING BALANCE - CASH		**50.0**	**50.0**	**50.0**	**50.0**	**44.9**	**36.3**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**
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	0.0	22.5	22.5
CITY LOAN UTILIZED - END OF MONTH	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	20.5	20.5
CASH POSITION NET OF TXCP AND CITY LOAN		(95.1)	(110.3)	(133.8)	(137.7)	(148.1)	(156.7)	(111.5)	(85.9)	(72.1)	(77.5)	(130.3)	(75.1)	

Budgeted Weather 4,525 degree days
City Loan $22.5 MM Outstanding @ 8/31/07
TXCP $150.0 MM with $86.6 MM Outstanding @ 8/31/07
Collection Factor 95.5% & $25.0M Rate Increase
$18.0 MM City Payment Made and Granted Back to PGW
$100.0 M Higher Natural Gas Costs Nov,Dec,Jan
$90M Collected in FY 2007
5/3/07

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	
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $70.0 TXCP		10.8	2.6	5.4	4.8	23.8	(1.8)	23.4	50.4	50.4	50.6	50.0	50.7	10.8
RECEIPTS														
Gas		48.4	54.1	57.7	84.9	110.1	141.4	148.7	121.9	101.7	75.9	62.1	59.1	1,065.8
Other		0.8	0.8	2.4	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.8	2.7	13.3
Drawn from Capital Funds - Principal		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.0	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	3.1	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		50.6	56.3	61.5	87.1	112.3	143.6	150.9	124.3	104.1	96.2	64.4	138.4	1,189.5
TOTAL		61.4	58.8	66.9	91.9	136.1	141.8	174.3	174.7	154.6	146.7	114.4	189.1	1,200.3
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	55.5	92.2	98.2	81.1	65.1	62.2	60.0	54.0	44.3	43.7	715.2
Debt Service		4.0	1.0	1.0	1.0	10.6	6.3	4.0	1.0	1.0	1.0	44.6	15.5	91.0
TXCP: Interest & Variable Rate Debt Fees		0.8	1.3	0.8	0.8	0.8	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	22.5	22.5
		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		20.1	12.6	14.0	9.9	15.4	18.1	15.8	13.2	13.9	13.9	13.4	12.9	173.1
TOTAL DISBURSEMENTS		68.8	53.5	84.1	116.1	138.0	118.3	97.8	89.3	88.0	99.1	115.7	108.3	1,176.9
MONTHLY CASH FLOW		(18.2)	2.8	(22.6)	(29.0)	(25.7)	25.2	53.0	35.0	16.1	(2.9)	(51.3)	30.1	12.6
CUMULATIVE CASH FLOW		(18.2)	(15.4)	(38.0)	(67.0)	(92.6)	(67.4)	(14.4)	20.6	36.8	33.8	(17.5)	12.6	
OPENING TXCP	70.0	70.0	80.0	80.0	102.0	150.0	150.0	150.0	124.0	89.0	73.0	75.4	127.4	70.0
TXCP ISSUED DURING MONTH		10.0	0.0	22.0	48.0	0.0	0.0	0.0	0.0	0.0	2.4	52.0	0.0	134.4
TXCP PAID DOWN DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	26.0	35.0	16.0	0.0	0.0	30.8	107.8
ENDING TXCP		80.0	80.0	102.0	150.0	150.0	150.0	124.0	89.0	73.0	75.4	127.4	96.6	96.6
OPENING BALANCE - CASH		10.8	2.6	5.4	4.8	23.8	(1.8)	23.4	50.4	50.4	50.6	50.0	50.7	10.8
MONTHLY CASH FLOW		(18.2)	2.8	(22.6)	(29.0)	(25.7)	25.2	53.0	35.0	16.1	(2.9)	(51.3)	30.1	12.6
NET TXCP ACTIVITY MONTHLY		10.0	0.0	22.0	48.0	0.0	0.0	(26.0)	(35.0)	(16.0)	2.4	52.0	(30.8)	26.6
ENDING BALANCE - CASH		2.6	5.4	4.8	23.8	(1.8)	23.4	50.4	50.4	50.6	50.0	50.7	50.0	50.0
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	0.0	22.5	22.5
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	22.5	22.5
CASH POSITION NET OF TXCP AND CITY LOAN		(122.4)	(119.6)	(142.2)	(171.2)	(196.8)	(171.6)	(118.6)	(83.6)	(67.4)	(70.4)	(121.7)	(59.1)	

Budgeted Weather 4,525 degree days
City Loan $22.5 MM Outstanding @ 8/31/07
TXCP $150.0 MM with $86.6 MM Outstanding @ 8/31/07
Collection Factor 95.5% & $25.0M Rate Increase
$18.0 MM City Payment Made and Granted Back to PGW
$100.0 M Higher Natural Gas Costs Nov,Dec,Jan
$90M Collected in FY 2007
5/3/07

JRB-9B (2007)

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	
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $70.0 TXCP		10.8	2.6	5.4	4.8	23.8	(1.8)	23.4	50.4	50.4	50.6	50.0	50.7	10.8
RECEIPTS														
Gas		48.4	54.1	57.7	84.9	110.1	141.4	148.7	121.9	101.7	75.9	62.1	59.1	1,065.8
Other		0.8	0.8	2.4	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.8	2.7	13.3
Drawn from Capital Funds - Principal		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.0	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	3.1	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		50.6	56.3	61.5	87.1	112.3	143.6	150.9	124.3	104.1	96.2	64.4	138.4	1,189.5
TOTAL		61.4	58.8	66.9	91.9	136.1	141.8	174.3	174.7	154.6	146.7	114.4	189.1	1,200.3
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	55.5	92.2	98.2	81.1	65.1	62.2	60.0	54.0	44.3	43.7	715.2
Debt Service		4.0	1.0	1.0	1.0	10.6	6.3	4.0	1.0	1.0	1.0	44.6	15.5	91.0
TXCP: Interest & Variable Rate Debt Fees		0.8	1.3	0.8	0.8	0.8	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	22.5	22.5
		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		20.1	12.6	14.0	9.9	15.4	18.1	15.8	13.2	13.9	13.9	13.4	12.9	173.1
TOTAL DISBURSEMENTS		68.8	53.5	84.1	116.1	138.0	118.3	97.8	89.3	88.0	99.1	115.7	108.3	1,176.9
MONTHLY CASH FLOW		(18.2)	2.8	(22.6)	(29.0)	(25.7)	25.2	53.0	35.0	16.1	(2.9)	(51.3)	30.1	12.6
CUMULATIVE CASH FLOW		(18.2)	(15.4)	(38.0)	(67.0)	(92.6)	(67.4)	(14.4)	20.6	36.8	33.8	(17.5)	12.6	
OPENING TXCP	70.0	70.0	80.0	80.0	102.0	150.0	150.0	150.0	124.0	89.0	73.0	75.4	127.4	70.0
TXCP ISSUED DURING MONTH		10.0	0.0	22.0	48.0	0.0	0.0	0.0	0.0	0.0	2.4	52.0	0.0	134.4
TXCP PAID DOWN DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	26.0	35.0	16.0	0.0	0.0	30.8	107.8
ENDING TXCP		80.0	80.0	102.0	150.0	150.0	150.0	124.0	89.0	73.0	75.4	127.4	96.6	96.6
OPENING BALANCE - CASH		10.8	2.6	5.4	4.8	23.8	(1.8)	23.4	50.4	50.4	50.6	50.0	50.7	10.8
MONTHLY CASH FLOW		(18.2)	2.8	(22.6)	(29.0)	(25.7)	25.2	53.0	35.0	16.1	(2.9)	(51.3)	30.1	12.6
NET TXCP ACTIVITY MONTHLY		10.0	0.0	22.0	48.0	0.0	0.0	(26.0)	(35.0)	(16.0)	2.4	52.0	(30.8)	26.6
ENDING BALANCE - CASH		**2.6**	**5.4**	**4.8**	**23.8**	**(1.8)**	**23.4**	**50.4**	**50.4**	**50.6**	**50.0**	**50.7**	**50.0**	**50.0**
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	0.0	22.5	22.5
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	22.5	22.5
CASH POSITION NET OF TXCP AND CITY LOAN		(122.4)	(119.5)	(142.2)	(171.2)	(196.8)	(171.6)	(118.5)	(83.6)	(67.4)	(70.4)	(121.7)	(69.1)	

$25.0M Rate Increase
Collection Rate @ 95%
City Loan Paid 8/31/08
Normal Weather 4,525 Degree Days
$100M Higher NG Costs
$90M Collected in FY 2008

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2008
(Millions of Dollars)

		ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	
5/3/07		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES $96.6 TXCP		50.0	50.0	50.0	49.2	6.3	(13.1)	7.3	50.0	50.0	50.0	50.0	50.0	50.0
RECEIPTS														
Gas		45.8	52.8	57.1	67.6	109.8	129.5	162.8	125.6	103.4	78.0	62.5	59.4	1,054.3
Other		1.0	1.0	2.4	0.8	0.5	0.8	0.8	0.9	0.9	0.8	0.8	4.0	14.7
Drawn from Capital Funds - Principal		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	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	6.0	6.0
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		1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.5	17.7
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		54.3	61.3	67.0	75.9	117.8	137.8	171.0	133.9	111.7	104.3	70.8	76.9	1,182.7
TOTAL		104.3	111.3	117.0	125.1	124.1	124.7	178.3	183.9	161.7	154.3	120.8	126.9	1,232.7
DISBURSEMENTS														
Labor		12.6	11.5	13.0	14.5	11.8	12.0	14.5	12.0	13.0	12.0	12.5	13.5	152.9
Natural Gas		30.5	44.7	73.2	91.6	98.4	79.9	67.7	62.6	57.8	52.4	42.0	41.0	741.8
Debt Service		3.8	1.0	1.0	1.0	10.4	6.0	3.5	5.0	1.0	1.0	43.3	15.0	92.0
TXCP: Interest & Variable Rate Debt Fees		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	6.0
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	22.5	22.5
		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		16.4	12.8	14.8	11.2	16.1	19.0	16.7	14.0	14.7	14.8	14.3	12.7	177.5
TOTAL DISBURSEMENTS		63.8	70.5	102.5	118.8	137.2	117.4	102.9	94.1	87.0	98.7	112.6	105.2	1,210.7
MONTHLY CASH FLOW		(9.5)	(9.2)	(35.5)	(42.9)	(19.4)	20.4	68.1	39.8	24.7	5.6	(41.8)	(28.3)	(28.0)
CUMULATIVE CASH FLOW		(9.5)	(18.7)	(54.2)	(97.1)	(116.5)	(96.1)	(28.0)	11.8	36.5	42.1	0.3	(28.0)	
OPENING TXCP	96.6	96.6	106.1	115.3	150.0	150.0	150.0	150.0	124.6	84.8	60.1	54.5	96.3	96.6
TXCP ISSUED DURING MONTH		9.5	9.2	34.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	41.8	28.3	123.5
TXCP PAID DOWN DURING MONTH		0.0	0.0	0.0	0.0	0.0	0.0	25.4	39.8	24.7	5.6	0.0	0.0	95.5
ENDING TXCP		106.1	115.3	150.0	150.0	150.0	150.0	124.6	84.8	60.1	54.5	96.3	124.6	124.6
OPENING BALANCE - CASH		50.0	50.0	50.0	49.2	6.3	(13.1)	7.3	50.0	50.0	50.0	50.0	50.0	50.0
MONTHLY CASH FLOW		(9.5)	(9.2)	(35.5)	(42.9)	(19.4)	20.4	68.1	39.8	24.7	5.6	(41.8)	(28.3)	(28.0)
NET TXCP ACTIVITY MONTHLY		9.5	9.2	34.7	0.0	0.0	0.0	(25.4)	(39.8)	(24.7)	(5.6)	41.8	28.3	28.0
ENDING BALANCE - CASH		**50.0**	**50.0**	**49.2**	**6.3**	**(13.1)**	**7.3**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**	**50.0**
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	0.0	22.5	22.5
CITY LOAN UTILIZED - END OF MONTH	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	20.5	20.5
CASH POSITION NET OF TXCP AND CITY LOAN		(99.1)	(108.3)	(143.8)	(186.7)	(206.1)	(185.7)	(117.5)	(77.8)	(53.1)	(47.5)	(89.3)	(95.1)	

PHILADELPHIA GAS WORKS
FINANCIAL PROJECTIONS
BASE RATE CASE SCENARIOS

Current Rates	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	711,000	50,327,000	145,000,000	1,133,014,000	82%	-	-	3.99 / 1.52	0	-
FY 2009	(7,282,000)	41,366,000	150,000,000	1,234,184,000	84%	-	-	4.18 / 1.44	0	-
FY 2010	(11,310,000)	21,624,000	150,000,000	1,178,553,000	84%	-	-	4.38 / 1.21	0	-
FY 2011	(19,277,000)	(17,053,000)	150,000,000	1,271,447,000	87%	-	18,000,000	3.63 / .94	0	-
FY 2012	(22,953,000)	(7,287,600)	150,000,000	1,208,946,000	89%	-	18,000,000	3.31 / .81	0	-

* 2 New Money Bond Issues $150.0 M FY 2009 & FY 2011.

$25.0M No Capacity	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
			$150.0 M							
FY 2007	$ 8,919,000	$ 50,616,000	$ 89,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	17,974,000	50,551,000	114,000,000	1,133,014,000	81%	-	-	4.49 / 1.77	0	-
FY 2009	12,125,000	50,643,000	89,000,000	1,234,184,000	82%	-	-	4.78 / 1.71	0	-
FY 2010	9,525,000	50,475,000	85,000,000	1,178,553,000	81%	-	-	5.07 / 1.46	0	-
FY 2011	5,114,000	50,619,000	104,000,000	1,271,447,000	83%	-	18,000,000	4.42 / 1.23	0	-
FY 2012	834,000	50,444,000	141,000,000	1,208,946,000	83%	-	18,000,000	4.05 / 1.07	0	-

* 2 New Money Bond Issues $150.0 M FY 2009 & FY 2011.

$50.0M+$10.0M	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	53,819,000	50,920,000	98,000,000	1,133,014,000	79%	-	-	5.54 / 2.30	0	-
FY 2009	51,922,000	50,956,000	83,000,000	1,085,178,000	76%	-	-	5.77 / 2.31	0	-
FY 2010	52,326,000	50,800,000	98,000,000	1,036,085,000	72%	-	-	6.15 / 2.29	0	-
FY 2011	53,080,000	50,954,000	127,000,000	986,355,000	69%	-	18,000,000	5.41 / 2.08	0	-
FY 2012	51,247,000	40,650,000	150,000,000	936,617,000	67%	-	18,000,000	5.02 / 2.12	0	-

* No New Money Bond Issues & No Debt Reduction Fund.

$60.0M+$10.0M	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	64,002,000	50,593,000	88,000,000	1,133,014,000	79%	-	-	5.83 / 2.45	0	-
FY 2009	61,853,000	50,302,000	63,000,000	1,085,178,000	75%	-	-	6.08 / 2.46	0	24,755,000
FY 2010	62,121,000	50,819,000	69,000,000	1,036,085,000	71%	-	-	6.48 / 2.43	0	1,818,000
FY 2011	62,734,000	50,646,000	88,000,000	986,355,000	68%	-	18,000,000	5.73 / 2.23	0	-
FY 2012	61,463,000	49,765,000	110,000,000	936,617,000	64%	-	18,000,000	5.34 / 2.29	0	-

* No New Money Bond Issues & No Debt Reduction Fund.

$70.0M+$10.0M	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	74,275,000	50,266,000	83,000,000	1,133,014,000	78%	-	-	6.13 / 2.60	0	-
FY 2009	72,241,000	50,648,000	58,000,000	1,085,178,000	74%	-	-	6.38 / 2.61	3	29,755,000
FY 2010	72,584,000	50,838,000	54,000,000	1,036,085,000	69%	-	-	6.80 / 2.58	5	16,818,000
FY 2011	73,085,000	50,338,000	63,000,000	986,355,000	66%	-	18,000,000	6.04 / 2.38	1	-
FY 2012	71,609,000	49,723,000	73,000,000	922,617,000	62%	-	18,000,000	5.71 / 2.49	0	-

* No New Money Bond Issues & $14.0 Debt Reduction Fund.

Non-Borrowed Days of Cash on Hand = Cash plus Contribution to Debt Reduction Fund less Outstanding Commercial Paper on a Days of Expense Basis

PHILADELPHIA GAS WORKS
FINANCIAL PROJECTIONS
BASE RATE CASE SCENARIOS

	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
$80.0M+$10.0M			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	84,565,000	51,939,000	80,000,000	1,133,014,000	78%	-	-	6.42 / 2.76	0	-
FY 2009	82,432,000	50,995,000	45,000,000	1,085,178,000	73%	-	-	6.69 / 2.76	11	42,755,000
FY 2010	82,865,000	51,858,000	40,000,000	1,036,085,000	68%	-	-	7.13 / 2.72	18	30,818,000
FY 2011	83,420,000	50,031,000	38,000,000	986,355,000	64%	-	18,000,000	6.36 / 2.53	18	23,587,000
FY 2012	81,738,000	50,286,000	37,000,000	908,617,000	59%	-	18,000,000	6.07 / 2.68	19	22,920,000

* No New Money Bond Issues & $28.0 Debt Reduction Fund.

	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
$85.0M+$7.5M			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	87,117,000	50,775,000	77,000,000	1,133,014,000	77%	-	-	6.50 / 2.79	0	4,097,000
FY 2009	84,874,000	50,666,000	46,000,000	1,085,178,000	72%	-	-	6.77 / 2.79	11	44,255,000
FY 2010	85,225,000	50,366,000	37,000,000	1,036,085,000	67%	-	-	7.21 / 2.75	18	36,318,000
FY 2011	85,923,000	50,375,000	31,000,000	986,355,000	63%	-	-	7.02 / 2.84	26	33,087,000
FY 2012	84,652,000	50,223,000	23,000,000	886,617,000	57%	-	-	6.73 / 3.02	35	39,420,000

* No New Money Bond Issues, $50.0 Debt Reduction Fund City Fee Granted Back thru 2013 & $2.5M New Capital Spending .

	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
$90.0M+$10.0M			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	94,748,000	51,612,000	70,000,000	1,133,014,000	77%	-	-	6.72 / 2.90	0	8,597,000
FY 2009	92,607,000	50,340,000	35,000,000	1,085,178,000	72%	-	-	7.00 / 2.90	19	52,755,000
FY 2010	93,131,000	50,876,000	20,000,000	1,036,085,000	66%	-	-	7.45 / 2.86	31	50,818,000
FY 2011	93,597,000	50,223,000	11,500,000	986,355,000	62%	-	18,000,000	6.67 / 2.68	35	50,087,000
FY 2012	92,098,000	48,282,000	11,500,000	881,617,000	57%	-	18,000,000	6.43 / 2.87	41	48,420,000

* No New Money Bond Issues & $55.0 Debt Reduction Fund.

	Net Income	Year End Cash Balances	Year End TXCP Balance	Year End* LT Debt Balance	Debt To Equity Ratio	$45.0 M City Loan Balance	$18.0 M City Payment	1975 / 1998 Coverage Calc. 1.50x Mandatory	Non Borrowed Days Cash On Hand	Internally Generated Funds
$100.0M+$10.0M			$150.0 M							
FY 2007	$ 8,919,000	$ 51,616,000	$ 90,000,000	$ 1,181,441,000	83%	$ 43,000,000	$ -	4.03 / 2.03	0	$ -
FY 2008	104,930,000	51,285,000	60,000,000	1,133,014,000	77%	-	-	7.02 / 3.05	1	18,597,000
FY 2009	102,751,000	49,686,000	25,000,000	1,085,178,000	71%	-	-	7.30 / 3.05	27	62,755,000
FY 2010	103,602,000	49,895,000	10,000,000	1,036,085,000	65%	-	-	7.78 / 3.01	44	60,818,000
FY 2011	102,992,000	49,744,000	2,500,000	986,355,000	61%	-	18,000,000	6.94 / 2.80	50	59,087,000
FY 2012	101,399,000	50,234,000	-	848,617,000	54%	-	18,000,000	6.78 / 3.06	62	59,920,000

* No New Money Bond Issues & $88.0 Debt Reduction Fund.

Non-Borrowed Days of Cash on Hand = Contribution to Debt Reduction Fund less Outstanding Commercial Paper on a Days of Expense Basis

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME - BRINGDOWN
(Dollars in Thousands)

		2001 + $36M	As Filed Current Rates 2007	Adjust.	Revised Current Rates 2007	Earnings Differential
	Operating Revenues					
1	Total Gas Revenues	$ 766,280	$ 942,090	$ 3,704	$ 945,794	
2	Total Other Operating Revenues	28,026	28,564	-	28,564	
3	**Total Operating Revenues**	794,306	970,654	3,704	974,358	
4						
5	**Operating Expenses**					
6	Fuel	415,065	630,841	4,524	635,365	
7						
8	**Contribution Margin (lines 3 minus 6)**	379,241	339,813	(820)	338,993	
9						
10	Other Operating & Maintenance	206,766	229,932	(17,030)	212,902	
11	Depreciation/Cost of Removal	32,537	38,196	-	38,196	
12	Sub Total Other Oper.& Maint. & Depreciation	239,303	268,128	(17,030)	251,098	
13						
14	**Total Operating Expenses (lines 6 + 12)**	654,368	898,969	(12,506)	886,463	
15						
16	**Operating Income (lines 3 minus 14)**	139,938	71,685	16,210	87,895	
17						
18	Other Income	6,106	11,212	50	11,262	
19						
20	**Income Before Interest**	146,044	82,897	16,260	99,157	
21						
22	Total Interest	57,789	73,978	2,708	76,686	
23						
24	**Net Income**	**$ 88,255**	**$ 8,919**	**$ 13,552**	**$ 22,471**	**$ 65,784**

*** Differential from PGW $100.0 Million Base Rate Increase - $77.529 Million.**

In providing this opinion, we advise you as follows:

(a) With respect to our opinion set forth in paragraph 4 above, the Nineteenth Series Bonds and the Seventh Series Bonds are treated as a single issue of bonds for purposes of federal income taxation. In rendering this opinion, we have assumed compliance by the City with (i) the covenants contained in the bond authorization relating to the Nineteenth Series Bonds, and (ii) the covenants contained in the bond authorization relating to the Seventh Series Bonds that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Nineteenth Series Bonds and the Seventh Series Bonds, respectively, after the issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the Nineteenth Series Bonds and the Seventh Series Bonds. These covenants relate to, *inter alia*, the use of and investment of proceeds of the Nineteenth Series Bonds and the Seventh Series Bonds and rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such covenants could result in the interest on the Nineteenth Series Bonds becoming includible in gross income for federal income tax purposes retroactive to the date of issuance thereof.

(b) The Nineteenth Series Bonds constitute limited obligations of the City and are payable solely from the Project Revenues, as defined in the 1975 General Ordinance, and amounts in the sinking fund, including the sinking fund reserve created under the Act and the 1975 General Ordinance. The Nineteenth Series Bonds do not pledge the credit or taxing power of the City or create any debt or charge against property of the City other than the Project Revenues and amounts in such sinking fund, including the Sinking Fund Reserve.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. We express no opinion herein with respect to, and assume no responsibility for the accuracy, adequacy or completeness of, the preliminary Official Statement or final Official Statement prepared in respect of the Nineteenth Series Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

be excluded from gross income for purposes of federal income taxation. The City has covenanted to comply with all such requirements.

Interest on the Seventh Series Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes; however, we call to your attention that under the Code, to the extent that interest on the Seventh Series Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Seventh Series Bonds or the receipt of interest thereon.

5. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the Seventh Series Bonds, and the interest thereon are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Seventh Series Bonds, or the interest thereon.

In providing this opinion, we advise you as follows:

(a) With respect to our opinion set forth in paragraph 4 above, the Seventh Series Bonds and the Nineteenth Series Bonds are treated as a single issue of bonds for purposes of federal income taxation. In rendering this opinion, we have assumed compliance by the City with (i) the covenants contained in the bond authorization relating to the Seventh Series Bonds and (ii) the covenants contained in the bond authorization relating to the Nineteenth Series Bonds that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Seventh Series Bonds and the Nineteenth Series Bonds, respectively, after the issuance thereof to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the Seventh Series Bonds and the Nineteenth Series Bonds. These covenants relate to, *inter alia*, the use of and investment of proceeds of the Seventh Series Bonds and the Nineteenth Series Bonds and rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such covenants could result in the interest on the Seventh Series Bonds becoming includible in gross income for federal income tax purposes retroactive to the date of issuance thereof.

(b) The Seventh Series Bonds constitute limited obligations of the City and are payable solely from the Gas Works Revenues and amounts in the sinking fund, including the sinking fund reserve created under the Act and the 1998 General Ordinance. The Seventh Series Bonds do not pledge the credit or taxing power of the City or create any debt or charge against property of the City other than the Gas Works Revenues and amounts in such sinking fund, including the Sinking Fund Reserve.

Rebuttal - Present Rates

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

REVISED JRB-13A

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	Adjustments	Revised 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	$ 114,834		$ 114,834	$ 116,734	$ 112,487	$ 106,113	$ 105,845	$ 105,471
Gas Transport Service	4,679	6,147	7,256		7,256	7,889	6,461	8,983	9,465	9,898
Heating	713,159	821,190	820,732	6,497 A	827,229	845,817	818,568	762,697	757,378	749,166
Proposed Base Rate	-	-	-	(3,396) B	(3,396)	-	-	-	-	-
Weather Normalization Adjustment	(1,365)	12,500	-				-	-	-	-
Unbilled Adjustment	(803)	2,513	(732)		(732)	521	(377)	(714)	(59)	(81)
Total Gas Revenues	830,550	956,562	842,090	3,101	945,191	970,961	937,139	877,079	872,629	864,454
Appliance Repair & Other Revenues	10,895	10,669	10,532		10,532	10,743	10,957	11,177	11,400	11,628
Other Operating Revenues	21,912	17,865	18,032		18,032	18,438	17,813	16,678	16,581	16,426
Total Other Operating Revenues	32,807	28,534	28,564	-	28,564	29,181	28,770	27,855	27,981	28,054
Total Operating Revenues	863,357	985,096	970,654	3,101	973,755	1,000,142	965,909	904,934	900,610	892,508
OPERATING EXPENSES					-					
Natural Gas	509,700	639,180	630,836	4,546 C	635,382	658,487	623,363	562,396	558,243	550,889
Other Raw Material	4	5	5		5	5	5	5	5	5
Sub-Total Fuel	509,704	639,185	630,841	4,546	635,387	658,492	623,368	562,401	558,248	550,894
CONTRIBUTION MARGINS	353,653	345,911	339,813	(1,445)	338,368	341,650	342,541	342,533	342,362	341,614
Gas Processing	18,584	16,208	15,715		15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	34,698		34,698	35,786	35,925	35,847	36,348	36,846
Distribution	15,115	15,382	16,536		16,536	16,837	17,152	17,477	17,832	18,217
Collection	10,971	9,225	7,944		7,944	7,771	7,872	7,974	8,101	8,230
Customer Service	12,512	12,028	14,125		14,125	14,168	14,398	14,657	14,883	15,152
Account Management	7,695	7,928	7,625		7,625	7,690	7,787	7,825	7,922	8,019
Bad Debt Expense	70,424	61,519	52,258	(500) D	51,758	47,729	43,884	40,087	36,854	34,124
Marketing	2,592	2,470	2,992		2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	43,963	(240) E	43,723	43,394	44,257	45,591	46,415	47,379
Health Insurance	33,571	34,804	37,784	(460) F	37,324	41,944	45,904	49,654	53,719	58,126
Capitalized Fringe Benefits	(10,348)	(10,099)	(11,281)		(11,281)	(11,547)	(12,158)	(12,844)	(13,461)	(14,180)
Capitalized Administrative Charges	(8,706)	(6,603)	(7,950)		(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	15,075		15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485		6,485	6,836	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-		-	-	383	507	639	753
Pro Forma Adjustments			217		217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)		(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	246,263	241,123	229,932	(1,200)	228,732	238,697	239,559	241,072	243,473	247,170
Depreciation	35,904	36,928	38,213		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	3,200
To Clearing Accounts	(4,502)	(3,062)	(3,217)		(3,217)	(3,311)	(3,177)	(3,227)	(3,211)	(3,232)
	35,045	37,066	38,196	-	38,196	39,454	40,848	42,064	43,520	43,483
Sub Total Other Oper. & Maint. & Depreciation	283,308	278,189	268,128	(1,200)	266,928	278,151	280,407	283,136	286,993	290,653
TOTAL OPERATING EXPENSES	793,012	917,374	898,969	3,346	902,315	936,643	903,775	845,537	845,241	841,547
OPERATING INCOME	70,345	67,722	71,685	(245)	71,440	63,499	62,134	59,397	55,369	50,961
Other Income	4,778	8,198	11,212		11,212	11,343	9,620	7,723	7,820	7,160
INCOME BEFORE INTEREST	75,123	75,920	82,897	(245)	82,652	74,842	71,754	67,120	63,189	58,121
INTEREST										
Long-Term Debt	53,856	51,778	56,437	2,708 G	59,145	56,698	61,578	61,238	65,202	64,046
Other	6,123	9,561	13,186		13,186	13,229	13,643	13,684	14,076	14,059
AFUDC	(907)	(1,168)	(1,202)		(1,202)	(1,002)	(1,036)	(1,008)	(985)	(959)
Loss From Extinguishment of Debt	4,779	5,332	5,557		5,557	5,206	4,851	4,516	4,173	3,928
Total Interest	63,851	65,503	73,978	2,708	76,686	74,131	79,036	78,430	82,468	81,074
NET INCOME	11,272	10,417	8,919	(2,953)	5,966	711	(7,282)	(11,310)	(19,277)	(22,953)
City Payment	-									
Net Earnings	$ 11,272	$ 10,417	$ 8,919	$ (2,953)	$ 5,966	$ 711	$ (7,282)	$ (11,310)	$ (19,277)	$ (22,953)

Rebuttal - Present Rates

REVISED JRB-13A

PHILADELPHIA GAS WORKS
CASHFLOW STATEMENT
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	Adjustments	Revised 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	$ 8,919	$ (2,953)	$ 5,966	$ 711	$ (7,282)	$ (11,310)	$ (19,277)	$ (22,953)
Depreciation & Amortization	42,281	43,928	46,007		46,007	47,128	48,468	49,476	50,999	50,755
Earnings on Restricted Funds	(3,265)	3,899	38		38	-	-	-	-	-
Elimination of Accrued Interest on Refunded Debt	-	3,186				-	-	-	-	-
Increased/(Decreased) Other Assets/Liabilities	(6,917)	(1,024)	911		911	716	808	915	(8,203)	(11,839)
Available From Operations	43,371	60,406	55,875	(2,953)	52,922	48,555	41,994	39,061	23,519	16,163
Funds Required for Capital	68,000	60,195	72,000		72,000	60,000	63,000	61,000	60,000	58,000
Grant Income	18,000	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	6,036	3,680	-		-	-		-	-	-
Temporary Financing	-	20,100	20,000		20,000	55,000	5,000	-	-	-
TOTAL SOURCES	139,697	168,305	165,875	(2,953)	162,922	181,555	127,994	118,081	83,519	74,163
USES										
Net Construction Expenditures	68,910	68,057	75,152		75,152	62,697	64,755	63,018	61,587	59,920
LNG & BCCS						16,000	23,000	7,800		
Funded Debt Reduction:										
Revenue Bonds	35,387	29,906	36,675	5,145 H	41,820	47,010	46,530	54,530	45,929	48,920
PMA Lease/Subordinate Debt	1,255	1,310	1,370		1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	-	-		-	-	-	-	-	-
Debt Reduction Funding			-		-	-	-	-	-	-
Temporary Financing Repayment	850	-				-	-	-	-	-
City Loan Repayment/Status	-	-	2,000		2,000	43,000	-	-	-	-
Distribution of Earnings	18,000	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	(8,118)		(8,118)	(5,193)	(16,830)	(7,090)	(4,960)	1,431
Cash Needs	128,142	172,706	125,079	5,145	130,224	182,844	136,955	137,823	122,196	129,986
Cash Surplus (Shortfall)	11,555	(4,401)	40,796	(8,098)	32,698	(1,289)	(8,961)	(19,742)	(38,677)	(55,823)
TOTAL USES	139,697	168,305	165,875	(2,953)	162,922	181,555	127,994	118,081	83,519	74,163
Cash - Beginning of Period	3,666	15,221	10,820		10,820	51,616	50,327	41,366	21,624	(17,053)
Cash - Surplus (Shortfall)	11,555	(4,401)	40,796	(8,098)	32,698	(1,289)	(8,961)	(19,742)	(38,677)	(55,823)
ENDING CASH	15,221	10,820	51,616	(8,098)	43,518	50,327	41,366	21,624	(17,053)	(72,876)
Outstanding Commercial Paper	49,900	70,000	90,000		110,000	145,000	150,000	150,000	150,000	150,000
City Loan Outstanding	45,000	45,000	43,000		43,000	-	-	-	-	-
Internally Generated Funds	-	-	-		-	-	-	-	-	-

Rebuttal - Present Rates

REVISED JRB-13A

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars In Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	BUDGET 2006-07	Adjustments	Revised 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	$ 856,562	$ 942,090	$ 3,101	$ 945,191	$ 970,961	$ 937,139	$ 877,079	$ 872,629	$ 864,454
Other Operating Revenues	32,807	28,534	28,564		28,564	29,181	28,770	27,855	27,981	28,054
Total Operating Revenues	863,357	985,096	970,654	3,101	973,755	1,000,142	965,909	904,934	900,610	892,508
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	11,250		11,250	11,343	9,620	7,723	7,820	7,160
City Grant	18,000	18,000	18,000		18,000	18,000	18,000	18,000		
AFUDC (Interest)	907	1,168	1,202		1,202	1,002	1,036	1,008	985	959
TOTAL FUNDS PROVIDED	883,777	1,016,361	1,001,106	3,101	1,004,207	1,030,487	994,565	931,665	908,415	900,627
FUNDS APPLIED										
Fuel Costs	509,704	639,185	630,841	4,546	635,387	658,492	623,368	562,401	558,248	550,894
Other Operating Costs	283,308	278,189	268,128	(1,200)	266,928	278,151	280,407	283,136	286,993	290,653
Total Operating Expenses	793,012	917,374	898,969	3,346	902,315	936,643	903,775	845,537	845,241	841,547
Less: Non-Cash Expenses	39,338	40,554	41,887	-	41,887	43,300	44,612	45,907	47,385	47,404
TOTAL FUNDS APPLIED	753,674	876,820	857,082	3,346	860,428	893,343	859,163	799,630	797,856	794,143
Funds Available to Cover Debt Service	130,103	139,541	144,024	(245)	143,779	137,144	135,402	132,035	111,559	106,484
1975 Ordinance Bonds Debt Service	38,806	41,949	35,748		35,748	34,368	32,368	30,155	30,745	32,164
Debt Service Coverage 1975 Bonds	3.35	3.33	4.03		4.02	3.99	4.18	4.38	3.63	3.31
Net Available after Prior Debt Service	91,297	97,592	108,276	(245)	108,031	102,776	103,034	101,880	80,814	74,320
Other Capital Leases	1,998	-	-		-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	108,276	(245)	108,031	102,776	103,034	101,880	80,814	74,320
1998 Ordinance Bonds Debt Service	45,999	32,467	53,313	5,145	58,458	67,813	71,727	84,111	85,579	92,016
New Proposed Bond Debt Service	-	-	-		-	-	-	-	-	-
Total New Debt Service	45,999	32,467	53,313	5,145	58,458	67,813	71,727	84,111	85,579	92,016
Debt Service Coverage 1998 Bonds	1.94	3.01	2.03		1.85	1.52	1.44	1.21	0.94	0.81
Net Available after 1998 Debt Service	43,300	65,125	54,963	(5,390)	49,573	34,963	31,307	17,769	(4,765)	(17,696)
1998 Ordinance Subordinate Bond Debt Ser	1,987	1,986	1,987		1,987	1,988	1,990	1,986	1,988	1,984
Debt Service Coverage Subordinate Bonds	21.79	32.79	27.66		24.95	17.60	15.73	8.95	(2.40)	(8.92)
Net Available To Service Aggregrate Debt Serv	111,075	114,154	122,295	(245)	122,050	115,298	113,638	110,192	107,694	102,563
Aggregrate Debt Service	88,790	76,402	91,048	5,145	96,193	104,167	106,085	116,252	118,312	126,164
Fixed Coverage Charge	1.25	1.49	1.34		1.27	1.11	1.07	0.95	0.91	0.81
Fixed Coverage Charge including $18.0 City Fee	1.04	1.21	1.12		1.07	0.94	0.92	0.82	0.79	0.71

Rebuttal - Present Rates

REVISED JRB-13A

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

	Actual 8/31/05	Estimate 8/31/06	Budget 8/31/07	Adjustments	Revised 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		1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940
Sinking Fund Reserve	104,530	93,800	102,050	5,622	107,672	102,050	110,300	110,300	118,550	118,550
Capital Improvement Fund	102,701	39,732	99,843	44,378	144,221	39,843	108,993	47,993	120,143	62,143
Cash	15,221	10,820	51,616	(8,098)	43,518	50,327	41,366	21,624	(17,053)	(72,876)
Gas	273,805	264,254	243,806		243,806	226,927	211,043	195,196	181,647	170,269
Other	12,522	785	506		506	352	350	350	350	350
Accrued Gas Revenues	8,787	11,300	10,568		10,568	11,089	10,712	9,998	9,939	9,848
Reserve for Uncollectible	(207,480)	(191,631)	(183,489)		(183,489)	(173,618)	(162,382)	(149,869)	(136,623)	(123,247)
Accounts Receivable:	87,634	84,708	71,391		71,391	64,750	59,723	55,675	55,313	57,220
Materials & Supplies	129,984	183,784	180,389		180,389	176,809	162,083	159,236	155,999	152,694
Other Current Assets	(164)	2,986	3,056		3,056	3,236	3,441	3,596	3,751	3,906
Deferred Debits	2,796	8,448	3,228		3,228	2,487	2,362	2,262	2,337	2,387
Unamortized Bond Issuance Expense	39,094	42,089	46,912		46,912	43,166	47,671	43,651	47,920	43,676
Unamortized Extraordinary Loss	38,494	55,859	50,301		50,301	45,095	40,244	35,726	31,552	27,624
Deferred Environmental	9,513	9,513	9,513		9,513	8,000	6,500	5,000	3,500	2,000
Other Assets	8,297	3,411	2,881		2,881	2,925	3,030	3,138	3,250	3,365
TOTAL ASSETS	1,519,822	1,548,001	1,670,970	41,902	1,712,872	1,627,510	1,721,465	1,652,680	1,707,797	1,599,629
EQUITY & LIABILITIES										
City Equity	222,646	233,063	241,982	(2,953)	239,029	242,693	235,411	224,101	186,824	145,871
Revenue Bonds	1,045,371	1,042,430	1,154,385	44,855	1,199,240	1,105,945	1,207,915	1,151,820	1,254,251	1,203,616
TECA Accretions	14,313	12,608	13,913		13,913	15,314	16,818	18,434	10,933	
Unamortized Discount	(9,484)	(5,113)	(5,683)		(5,683)	(5,201)	(5,732)	(5,217)	(5,733)	(5,220)
Unamortized Premium	22,901	20,797	18,826		18,826	16,956	15,183	13,516	11,996	10,550
Capital Equipment Leasing	-	-	-		-	-	-			
Long Term Debt:	1,073,101	1,070,722	1,181,441	44,855	1,226,296	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Notes Payable	49,900	70,000	90,000		90,000	145,000	150,000	150,000	150,000	150,000
City Loan	45,000	45,000	43,000		43,000	-	-			
Accounts Payable	63,918	72,285	59,468		59,468	57,930	52,987	53,688	53,234	52,826
Customer Deposits	6,280	8,250	9,000		9,000	8,750	8,500	8,000	7,500	7,000
Other Current Liabilities	3,734	3,431	2,129		2,129	2,137	2,195	2,254	2,313	2,372
Deferred Credits	14,608	5,814	4,724		4,724	1,323	1,326	1,331	1,336	1,341
Accrued Interest	9,591	12,224	14,374		14,374	13,945	15,863	15,427	17,387	16,837
Accrued Taxes & Wages	3,861	4,231	2,796		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	3,000
Other Liabilities	24,183	19,981	19,056		19,056	16,901	14,811	12,717	10,626	8,536
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,670,970	41,902	1,712,872	1,627,510	1,721,465	1,652,680	1,707,797	1,599,629

Capitalization

	FY2005	FY2006	FY2007	Adjustments	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total Capitalization	1,295,747	1,303,785	1,423,423	42,527	1,465,325	1,375,707	1,469,595	1,402,654	1,458,271	1,354,817
Total Long Term Debt	1,073,101	1,070,722	1,181,441	44,855	1,226,296	1,133,014	1,234,184	1,178,553	1,271,447	1,208,946
Debt to Equity Ratio	0.83	0.82	0.83		0.84	0.82	0.84	0.84	0.87	0.89
Capitalization Ratio	4.82	4.59	4.88		5.13	4.67	5.24	5.26	6.81	8.29
Plant in Service	1,517,046	1,573,346	1,641,403		1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312
Regulatory Asset Securitization										
Capital - 106&107	56,300	68,057	75,152		75,152	78,597	87,755	70,818	61,587	59,920
Total Plant	1,573,346	1,641,403	1,716,555		1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232
Accumulated Depreciation	(591,624)	(628,552)	(666,765)		(666,765)	(706,330)	(747,155)	(789,246)	(832,777)	(876,292)
Net Utility Plant	981,722	1,012,851	1,049,790		1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940

PHILADELPHIA GAS WORKS

FISCAL YEAR 2007
OPERATING BUDGET ADJUSTMENTS

RE: REBUTTAL EXHIBIT JRB – 13A

Operating Revenue/Operating Expense/Other Income & Interest Expense Adjustments

A. The $6.5 million in additional revenues at present rates represents the additional customers that PGW has accepted as a reasonable adjustment based on OTS witness Kubas' testimony.

B. The $3.396 million reduction in revenues reflects PGW's inclusion in pro forma revenues those associated with PGW's Restructuring Charge in its original filing (JRB-1). As PGW is eliminating this separate surcharge, the revenues associated with the Restructuring Surcharge will no longer be billed and collected and thus should have been eliminated from test year revenues as a known and definite change.

C. The $4.546 million in higher natural gas costs reflects the added customer utilization for the previously mentioned adjustment to the customer count.

D. The $.5 million decrease in bad debt expense reflects the impact of the additional customers anticipated to be participants in PGW's CRP program, compared to the original assumption that these customers would be in the General Service category.

E. The $.24 million decrease reflects PGW's acceptance of OTS witness Markovich's and OCA witness Bleiweis' adjustments related to Authority ($190,000) and Merger ($50,000) expenses.

F. The $.46 million reduction reflects PGW's acceptance of OTS witness Markovich's adjustment related to health insurance costs.

G. The $2.708 million increase in accrued long term debt interest reflects the inclusion of the costs associated with the recently completed $200.0 million bond issue on an annualized basis. The original filing included a partial year impact and a $150.0 million bond issue.

H. The $5.145 million increase in revenue bond debt service reflects the inclusion of an annualized payment associated with the recently completed $200.0 million bond issue. The original filing included a partial year impact and a $150.0 million bond issue.

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

	Actual 8/31/05	Estimate 8/31/06	Budget 8/31/07	Adjustments	Revised Budget 8/31/07	Forecast 8/31/08	Forecast 8/31/09	Forecast 8/31/10	Forecast 8/31/11	Forecast 8/31/12	Normal
ASSETS											
Utility Plant Net	981,722	1,012,851	1,049,790		1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940	
Sinking Fund Reserve	104,530	93,800	102,050	**5,622**	112,050	102,050	102,050	102,050	102,050	102,050	
Capital Improvement Fund	102,701	39,732	99,843	**44,378**	139,843	39,843	-	-	-	-	
Debt Reduction Funding	-	-	40,419		40,419	57,658	116,628	157,853	185,616	-	
Cash	15,221	10,820	47,764	(7,473)	40,291	52,399	50,812	49,052	48,568	53,780	
Gas	273,805	264,254	254,134		254,134	240,307	224,591	205,778	186,746	167,304	
Other	12,522	785	506		506	352	350	350	350	350	
Accrued Gas Revenues	8,787	11,300	11,805		11,805	12,327	11,951	11,238	11,180	11,091	
Reserve for Uncollectible	(207,480)	(191,631)	(185,777)		(185,777)	(174,639)	(160,774)	(143,237)	(121,782)	(98,725)	
Accounts Receivable:	87,634	84,708	80,668		80,668	78,347	76,118	74,129	76,494	80,020	
Materials & Supplies	129,984	183,784	180,389		180,389	176,809	162,083	159,236	155,999	152,694	
Other Current Assets	(164)	2,986	3,056		3,056	3,236	3,441	3,596	3,751	3,906	
Deferred Debits	2,796	8,448	3,228		3,228	2,487	2,362	2,262	2,337	2,387	
Unamortized Bond Issuance Expense	39,094	42,089	46,912		46,912	43,166	39,574	36,138	32,868	29,740	
Unamortized Extraordinary Loss	38,494	55,859	50,301		50,301	45,095	40,244	35,726	31,552	27,624	
Deferred Environmental	9,513	9,513	9,513		9,513	8,000	6,500	5,000	3,500	2,000	
Other Assets	8,297	3,411	2,881		2,881	2,925	3,030	3,138	3,250	3,365	
TOTAL ASSETS	1,519,822	1,548,001	1,716,814	**42,527**	1,759,341	1,700,837	1,738,594	1,792,659	1,828,520	1,656,506	
EQUITY & LIABILITIES											
City Equity	222,646	233,063	347,826	(2,328)	345,498	451,020	553,983	658,877	747,300	834,529	834,529
Revenue Bonds	1,045,371	1,042,430	1,154,385	**44,855**	1,199,240	1,105,945	1,057,915	1,008,430	967,311	724,576	929,576
TECA Accretions	14,313	12,608	13,913		13,913	15,314	16,818	18,434	10,933		
Unamortized Discount	(9,484)	(5,113)	(5,683)		(5,683)	(5,201)	(4,738)	(4,295)	(3,885)	(3,509)	(3,509)
Unamortized Premium	22,901	20,797	18,826		18,826	16,956	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	**44,855**	1,226,296	1,133,014	1,085,178	1,036,085	986,355	731,617	936,617
Notes Payable	49,900	70,000	30,000		30,000	10,000	-	-	-	-	-
City Loan	45,000	45,000	43,000		43,000	-	-				
Accounts Payable	63,918	72,285	59,468		59,468	57,930	52,987	53,688	53,234	52,826	
Customer Deposits	6,280	8,250	9,000		9,000	8,750	8,500	8,000	7,500	7,000	
Other Current Liabilities	3,734	3,431	2,129		2,129	2,137	2,195	2,254	2,313	2,372	
Deferred Credits	14,608	5,814	4,724		4,724	1,323	1,326	1,331	1,336	1,341	
Accrued Interest	9,591	12,224	14,374		14,374	13,945	13,526	13,097	12,725	12,385	
Accrued Taxes & Wages	3,861	4,231	2,796		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	3,000	
Other Liabilities	24,183	19,981	19,056		19,056	16,901	14,811	12,718	10,627	8,536	
TOTAL EQUITY & LIABILITIES	1,519,822	1,548,001	1,716,814	**42,527**	1,759,341	1,700,837	1,738,594	1,792,659	1,828,520	1,656,506	

Capitalization

	FY2005	FY2006	FY2007	Adjustments	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	Normal Amortiz. FY2012
Total Capitalization	1,295,747	1,303,785	1,529,267	**42,527**	1,571,794	1,584,034	1,639,161	1,694,962	1,733,655	1,566,146	1,771,146
Total Long Term Debt	1,073,101	1,070,722	1,181,441	**44,855**	1,226,296	1,133,014	1,085,178	1,036,085	986,355	731,617	936,617
Debt to Equity Ratio	0.83	0.82	0.77		0.78	0.72	0.66	0.61	0.57	0.47	0.53
Capitalization Ratio	4.82	4.59	3.40		3.55	2.51	1.96	1.57	1.32	0.88	1.12
Plant in Service	1,517,046	1,573,346	1,641,403		1,641,403	1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,015,312
Capital - 106&107	56,300	68,057	75,152		75,152	78,597	87,755	70,818	61,587	59,920	59,920
Total Plant	1,573,346	1,641,403	1,716,555		1,716,555	1,795,152	1,882,907	1,953,725	2,015,312	2,075,232	2,075,232
Accumulated Depreciation	(591,624)	(628,552)	(666,765)		(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		1,049,790	1,088,822	1,135,752	1,164,479	1,182,535	1,198,940	1,198,940

Rebuttal - $100.0M + $10.0M Rate Increase

JRB-13B -

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	Test Year BUDGET 2006-07	Adjustments	Revised 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	$ 115,126		$ 115,126	$ 117,022	$ 112,771	$ 106,389	$ 106,117	$ 105,739
Gas Transport Service	4,679	6,147	7,256		7,256	7,889	8,461	8,983	9,465	9,908
Heating	713,159	821,190	824,440	7,100 A	831,540	849,529	820,284	766,421	761,106	752,898
Proposed Base Rate	-	-	100,000	(3,396) B	96,604	100,000	100,000	100,000	100,000	100,000
Weather Normalization Adjustment	(1,365)	12,500	-		-	-	-	-	-	-
Unbilled Adjustment	(803)	2,513	505		505	522	(376)	(713)	(58)	(89)
Total Gas Revenues	830,550	956,562	1,047,327	3,704	1,051,031	1,074,962	1,041,140	981,080	976,630	968,456
Appliance Repair & Other Revenues	10,895	10,669	10,532		10,532	10,743	10,957	11,177	11,400	11,628
Other Operating Revenues	21,912	17,865	20,008		20,008	20,414	19,789	18,654	18,557	18,402
Total Other Operating Revenues	32,807	28,534	30,540	-	30,540	31,157	30,746	29,831	29,957	30,030
Total Operating Revenues	863,357	985,096	1,077,867	3,704	1,081,571	1,106,119	1,071,886	1,010,911	1,006,587	998,486
OPERATING EXPENSES										
Natural Gas	509,700	639,180	630,836	4,524 C	635,360	658,487	623,363	562,396	558,243	550,889
Other Raw Material	4	5	5		5	5	5	5	5	5
Sub-Total Fuel	509,704	639,185	630,841	4,524	635,365	658,492	623,368	562,401	558,248	550,894
CONTRIBUTION MARGINS	353,653	345,911	447,026	(820)	446,206	447,627	448,518	448,510	448,339	447,592
Gas Processing	18,584	16,206	15,715		15,715	17,245	17,458	17,670	17,935	18,270
Field Services	28,455	27,377	34,698		34,698	35,786	35,925	35,847	36,348	36,846
Distribution	15,115	15,382	16,536		16,536	16,837	17,152	17,477	17,832	18,217
Collection	10,971	9,225	7,944		7,944	7,771	7,872	7,974	8,101	8,230
Customer Service	12,512	12,026	14,125		14,125	14,168	14,398	14,657	14,863	15,152
Account Management	7,695	7,928	7,625		7,625	7,690	7,787	7,825	7,922	8,019
Bad Debt Expense	70,424	61,519	59,546	(500) D	59,046	58,962	56,235	52,563	48,645	46,943
Marketing	2,592	2,470	2,992		2,992	3,088	3,031	3,085	3,140	3,132
Administrative & General	43,391	47,931	43,963	(240) E	43,723	43,394	44,257	45,591	46,415	47,379
Health Insurance	33,571	34,804	37,784	(460) F	37,324	41,944	45,904	49,654	53,719	58,126
Capitalized Fringe Benefits	(10,348)	(10,099)	(11,261)		(11,261)	(11,547)	(12,158)	(12,844)	(13,461)	(14,180)
Capitalized Administrative Charges	(6,706)	(6,603)	(7,950)		(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	15,075		15,075	14,611	14,265	13,911	13,571	13,233
Taxes	6,218	5,678	6,485		6,485	6,636	6,700	6,760	6,815	6,877
Environmental Expenses	-	-	-		-	-	383	507	639	753
Pro Forma Adjustments			217		217	603	250	250		
Cost / Labor Savings	-	(1,105)	(6,274)		(6,274)	-	-	-	-	-
Sub-Total Other Oper.& Maintenance	248,263	241,123	237,220	(1,200)	236,020	249,930	251,930	253,548	255,264	259,989
Depreciation	35,904	36,928	38,213		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	3,200
To Clearing Accounts	(4,502)	(3,062)	(3,217)		(3,217)	(3,311)	(3,177)	(3,227)	(3,211)	(3,232)
	35,045	37,066	38,196	-	38,196	39,454	40,848	42,064	43,520	43,483
Sub Total Other Oper. & Maint. & Depreciation	283,308	278,189	275,416	(1,200)	274,216	289,384	292,778	295,612	298,784	303,472
TOTAL OPERATING EXPENSES	793,012	917,374	906,257	3,324	909,581	947,876	916,146	858,013	857,032	854,366
OPERATING INCOME	70,345	67,722	171,610	380	171,990	158,243	155,740	152,898	149,555	144,120
Other Income	4,778	8,198	17,131	-	17,131	19,082	18,437	20,343	21,881	22,907
INCOME BEFORE INTEREST	75,123	75,920	188,741	380	189,121	177,325	174,177	173,241	171,436	167,027
INTEREST										
Long-Term Debt	53,856	51,778	56,437	2,708 G	59,145	56,698	54,265	51,809	48,884	46,024
Other	6,123	9,561	13,186		13,186	13,229	13,134	13,028	12,941	12,805
AFUDC	(907)	(1,168)	(1,202)		(1,202)	(1,002)	(1,036)	(1,008)	(985)	(959)
Loss From Extinguishment of Debt	4,779	5,332	5,557		5,557	5,206	4,851	4,518	4,173	3,928
Total Interest	63,851	65,503	73,978	2,708	76,686	74,131	71,214	68,347	65,013	61,798
NET INCOME	11,272	10,417	114,763	(2,328)	112,435	103,194	102,963	104,894	106,423	105,229
City Payment	-									
Net Earnings	$ 11,272	$ 10,417	$ 114,763	$ (2,328)	$ 112,435	$ 103,194	$ 102,963	$ 104,894	$ 106,423	$ 105,229

PHILADELPHIA GAS WORKS
CASHFLOW STATEMENT
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	Test Year BUDGET 2006-07	Adjustments	Revised 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	$ 114,763	$ (2,328)	$ 112,435	$ 103,194	$ 102,963	$ 104,894	$ 106,423	$ 105,229
Depreciation & Amortization	42,281	43,928	46,007	-	46,007	47,128	47,959	48,821	49,864	49,501
Earnings on Restricted Funds	(3,265)	3,899	(381)		(381)	(2,239)	(3,970)	(6,225)	(7,763)	20,616
Elimination of Accrued Interest on Refunded Debt	-	3,186				-	-	-	-	-
Increased/(Decreased) Other Assets/Liabilities	(6,917)	(1,024)	911	-	911	716	808	915	(8,203)	(11,639)
Available From Operations	43,371	60,406	161,300	(2,328)	158,972	148,799	147,760	148,405	140,321	163,707
Funds Required for Capital	68,000	60,195	72,000	-	72,000	60,000	39,843	-	-	-
Grant Income	18,000	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				-	-	-	-	-
TOTAL SOURCES	139,697	168,305	251,300	(2,328)	248,972	226,799	205,603	166,405	140,321	163,707
USES										
Net Construction Expenditures	66,910	68,057	75,152	-	75,152	62,597	64,755	63,018	61,587	59,920
LNG & BCCS						16,000	23,000	7,800		
Funded Debt Reduction:										
Revenue Bonds	35,387	29,906	36,675	5,145 H	41,820	47,010	46,530	47,920	39,479	36,020
PMA Lease/Subordinate Debt	1,255	1,310	1,370	-	1,370	1,430	1,500	1,565	1,640	1,715
Capital Lease	1,947	-	-	-	-	-	-	-	-	-
Debt Reduction Funding			40,000	-	40,000	15,000	55,000	35,000	20,000	40,000
Post Retirement Benefit Funding			-	-	-	-	-	-	-	-
Temporary Financing Repayment	850	-	40,000	-	40,000	20,000	10,000	-	-	-
City Loan Repayment/Status	-	-	2,000	-	2,000	43,000	-	-	-	-
Distribution of Earnings	18,000	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	1,159	-	1,159	(873)	(11,595)	(5,138)	99	2,840
Cash Needs	128,142	172,706	214,356	5,145	219,501	222,164	207,190	168,165	140,805	158,495
Cash Surplus (Shortfall)	11,555	(4,401)	36,944	(7,473)	29,471	4,635	(1,587)	(1,760)	(484)	5,212
TOTAL USES	139,697	168,305	251,300	(2,328)	248,972	226,799	205,603	166,405	140,321	163,707
Cash - Beginning of Period	3,666	15,221	10,820		10,820	47,764	52,399	50,812	49,052	48,568
Cash - Surplus (Shortfall)	11,555	(4,401)	36,944	(7,473)	29,471	4,635	(1,587)	(1,760)	(484)	5,212
ENDING CASH	**15,221**	**10,820**	**47,764**	**(7,473)**	**40,291**	**52,399**	**50,812**	**49,052**	**48,568**	**53,780**
Outstanding Commercial Paper	49,900	70,000	30,000	**30,000**	30,000	10,000	-	-	-	-
City Loan Outstanding	45,000	45,000	43,000	**43,000**	43,000	-	-	-	-	-
Internally Generated Funds	-	-	-	-	-	-	47,912	70,818	61,587	59,920

Rebuttal - $100.0M + $10.0M Rate Increase

JRB-13B -

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

	ACTUAL 2004-05	ESTIMATE 2005-06	Test Year BUDGET 2006-07	Adjustments	Revised 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	$ 1,047,327	$ 3,704	$ 1,051,031	$ 1,074,962	$ 1,041,140	$ 981,080	$ 976,630	$ 968,456
Other Operating Revenues	32,807	28,534	30,540		30,540	31,157	30,746	29,831	29,957	30,030
Total Operating Revenues	863,357	985,096	1,077,867	3,704	1,081,571	1,106,119	1,071,886	1,010,911	1,006,587	998,486
Other Income Incr. / (Decr.) Restricted Funds	1,513	12,097	16,750	-	16,750	16,843	14,467	14,118	14,118	43,523
City Grant	18,000	18,000	18,000	-	18,000	18,000	18,000	18,000		
AFUDC (Interest)	907	1,168	1,202	-	1,202	1,002	1,036	1,008	985	959
TOTAL FUNDS PROVIDED	883,777	1,016,361	1,113,819	3,704	1,117,523	1,141,964	1,105,389	1,044,037	1,021,690	1,042,968
FUNDS APPLIED										
Fuel Costs	509,704	639,185	630,841	4,524	635,365	658,492	623,368	562,401	558,248	550,894
Other Operating Costs	283,308	278,189	275,416	(1,200)	274,216	289,384	292,778	295,612	298,784	303,472
Total Operating Expenses	793,012	917,374	906,257	3,324	909,581	947,876	916,146	858,013	857,032	854,366
Less: Non-Cash Expenses	39,338	40,554	41,887	-	41,887	43,300	44,612	45,907	47,385	47,404
TOTAL FUNDS APPLIED	753,674	876,820	864,370	3,324	867,694	904,576	871,534	812,106	809,647	806,962
Funds Available to Cover Debt Service	130,103	139,541	249,449	380	249,829	237,388	233,855	231,931	212,043	236,006
1975 Ordinance Bonds Debt Service	38,806	41,949	35,748		35,748	34,368	32,368	30,155	30,745	32,164
Debt Service Coverage 1975 Bonds	**3.35**	**3.33**	**6.98**		**6.99**	**6.91**	**7.22**	**7.69**	**6.90**	**7.34**
Net Available after Prior Debt Service	91,297	97,592	213,701	380	214,081	203,020	201,487	201,776	181,298	203,842
Other Capital Leases	1,998	-	-		-	-	-	-	-	-
Net Available after Prior Capital Leases	89,299	97,592	213,701	380	214,081	203,020	201,487	201,776	181,298	203,842
1998 Ordinance Bonds Debt Service	45,999	32,467	53,313	5,145	58,458	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	5,145	58,458	67,813	66,852	67,966	65,143	60,885
Debt Service Coverage 1998 Bonds	**1.94**	**3.01**	**4.01**		**3.66**	**2.99**	**3.01**	**2.97**	**2.78**	**3.35**
Net Available after 1998 Debt Service	43,300	65,125	160,388	(4,765)	155,623	135,207	134,635	133,810	116,155	142,957
1998 Ordinance Subordinate Bond Debt Ser	1,987	1,986	1,987		1,987	1,986	1,990	1,986	1,988	1,984
Debt Service Coverage Subordinate Bonds	**21.79**	**32.79**	**80.72**		**78.32**	**68.08**	**67.66**	**67.38**	**58.43**	**72.05**
Net Available To Service Aggregrate Debt Serv	**111,075**	**114,154**	**228,139**	**380**	**228,519**	**217,781**	**216,061**	**216,313**	**215,941**	**211,469**
Aggregrate Debt Service	**88,790**	**76,402**	**91,048**	**5,145**	**96,193**	**104,167**	**101,210**	**100,107**	**97,876**	**95,033**
Fixed Coverage Charge	**1.25**	**1.49**	**2.51**		**2.38**	**2.09**	**2.13**	**2.16**	**2.21**	**2.23**
Fixed Coverage Charge Including $18.0 City Fee	**1.04**	**1.21**	**2.09**		**2.00**	**1.78**	**1.81**	**1.83**	**1.86**	**1.87**

JRB-13B

PHILADELPHIA GAS WORKS

FISCAL YEAR 2007
OPERATING BUDGET ADJUSTMENTS

RE: REBUTTAL EXHIBIT JRB - 13B

Operating Revenue/Operating Expense/Other Income & Interest Expense Adjustments

A. The $7.1 million in additional revenues at proposed rates represents the additional customers that PGW has accepted as a reasonable adjustment based on OTS witness Kubas' testimony.

B. The $3.396 million reduction in revenues reflects PGW's inclusion in pro forma revenues those associated with PGW's Restructuring Charge in its original filing (JRB-1). As PGW is eliminating this separate surcharge, the revenues associated with the Restructuring Surcharge will no longer be billed and collected and thus should have been eliminated from test year revenues as a known and definite change.

C. The $4.524 million in higher natural gas costs reflects the added customer utilization for the previously mentioned adjustment to the customer count.

D. The $.5 million decrease in bad debt expense reflects the impact of the additional customers anticipated to be participants in PGW's CRP program, compared to the original assumption that these customers would be in the General Service category.

E. The $.24 million decrease reflects PGW's acceptance of OTS witness Markovich's and OCA witness Bleiweis' adjustments related to Authority ($190,000) and Merger ($50,000) expenses.

F. The $.46 million reduction reflects PGW's acceptance of OTS witness Markovich's adjustment related to health insurance costs.

G. The $2.708 million increase in accrued long term debt interest reflects the inclusion of the costs associated with the recently completed $200.0 million bond issue on an annualized basis. The original filing included a partial year impact and a $150.0 million bond issue.

H. The $5.145 million increase in revenue bond debt service reflects the inclusion of an annualized payment associated with the recently completed $200.0 million bond issue. The original filing included a partial year impact and a $150.0 million bond issue.

PHILADELPHIA GAS WORKS
FISCAL YEAR 2006-07
ACTUAL/ESTIMATED INCOME STATEMENT

5/3/2007

Income Statement	Estimate 2006-07
Operating Revenues	
Gas Revenues	$837,588
Other Revenues	23,708
Weather Normalization Adjust.	6,250
Total Operating Revenues	$867,546
Operating Expenses	
Natural Gas Costs	$538,902
Raw Material Exp.	5
Total Nat. Gas & Raw Mat'l.	$538,907
Contribution Margins	$328,639
Supply & Field Expenses	$66,321
Customer Services	29,044
Bad Debt Expense	43,304
Marketing	2,892
Administrative & General	42,771
Health Insurance	36,406
Capitalized Benefits & A&G	(16,711)
Amortization	-
Pensions	15,075
Taxes	6,635
Environmental	-
Cost Reductions	-
Total Oper. & Maint.	$225,737
Depreciation	$38,196
Total Oper. & Maint. Exp.	$263,933
Total Operating Expenses	$802,840
Operating Income	$64,706
Other Income	11,012
Income Before Interest	$75,718
Interest	
Long-Term Debt	$52,437
Other	12,786
AFUDC	(802)
Loss on Extinguished Debt	5,557
Total Interest	$69,978
Net Income	**$5,740**

PHILADELPHIA GAS WORKS
FISCAL YEAR 2006-07
ACTUAL/ESTIMATED DEBT SERVICE COVERAGE

Debt Service Coverage	Estimate 2006-07
Funds Provided	
Operating Revenues	$867,546
Other Income +/- Restricted Funds	29,050
AFUDC	802
Total Funds Provided	$897,398
Funds Applied	
Fuel Costs	$538,907
Other Operating Exp.	263,933
Less: Non-Cash Exp.	(41,887)
Total Funds Applied	$760,953
Funds Available To Cover Debt Service	$136,445
1975 Debt Service	**$35,748**
Coverage Ratio	**3.82**
Funds Available To Cover	$100,697
Capital Leases	**-**
Funds Available To Cover	$100,697
1998 Sr.Debt Service	**48,438**
Coverage Ratio	**2.08**
Cushion Over 1.50x	**$28,040**
Funds Available To Cover	$52,259
1998 Subordinate Debt Ser.	**1,987**
Coverage Ratio	**26.30**
Fixed Coverage Charge LT DEBT	**1.33**
Fixed Coverage Charge LT DEBT & $18.0 M City Payment	**1.10**
Aggregrate Debt Service	**86,173**

EXHIBIT

JRB-15

Examples of "Awareness Campaign" Advertisement

EXHIBIT JRB-15

CONSERVATION RADIO SCRIPT

November 2006
(00:30)
"PREPARE, CONSERVE & SAVE"

[WIND, WINDOWS RATTLING, SHUTTERS BANGING]

ANNOUNCER:

WOULD YOU LIKE TO SAVE BIG ON YOUR HEATING BILLS THIS WINTER?

PGW, THE CITY OF PHILADELPHIA, AND UNITED WAY OF SOUTHEASTERN PENNSYLVANIA ARE SPONSORING A SERIES OF FREE ENERGY WORKSHOPS TO HELP YOU SAVE ENERGY AND MONEY... ALL WINTER LONG.

FOR WORKSHOP TIMES, DATES, AND PLACES, CHECK PGW'S WEB SITE, WWW.PGWORKS.COM, OR CALL 215-684-6100. THAT'S 215-684-6100.

IT REALLY DOES PAY TO PREPARE, CONSERVE AND SAVE.

EXHIBIT JRB-15

CONSERVATION RADIO SCRIPT

November 2006
(00:60)
"PREPARE, CONSERVE & SAVE"

[WIND, WINDOWS RATTLING, SHUTTERS BANGING]

ANNOUNCER:

WOULD YOU LIKE TO SAVE BIG ON YOUR HEATING BILLS THIS WINTER?

BY SIMPLY TURNING DOWN YOUR THERMOSTAT TO 58 DEGREES WHEN YOU ARE AWAY FROM YOUR HOME FOR MORE THAN A FEW HOURS OR BY INSTALLING A PROGRAMMABLE THERMOSTAT THAT CAN BE ADJUSTED ACCORDING TO YOUR SCHEDULE YOU COULD SAVE ON YOUR NATURAL GAS BILLS.

ALSO, BE SURE TO SEAL UP AIR LEAKS, ESPECIALLY AROUND WINDOWS AND DOORS WITH CAULK OR WEATHER-STRIPPING.

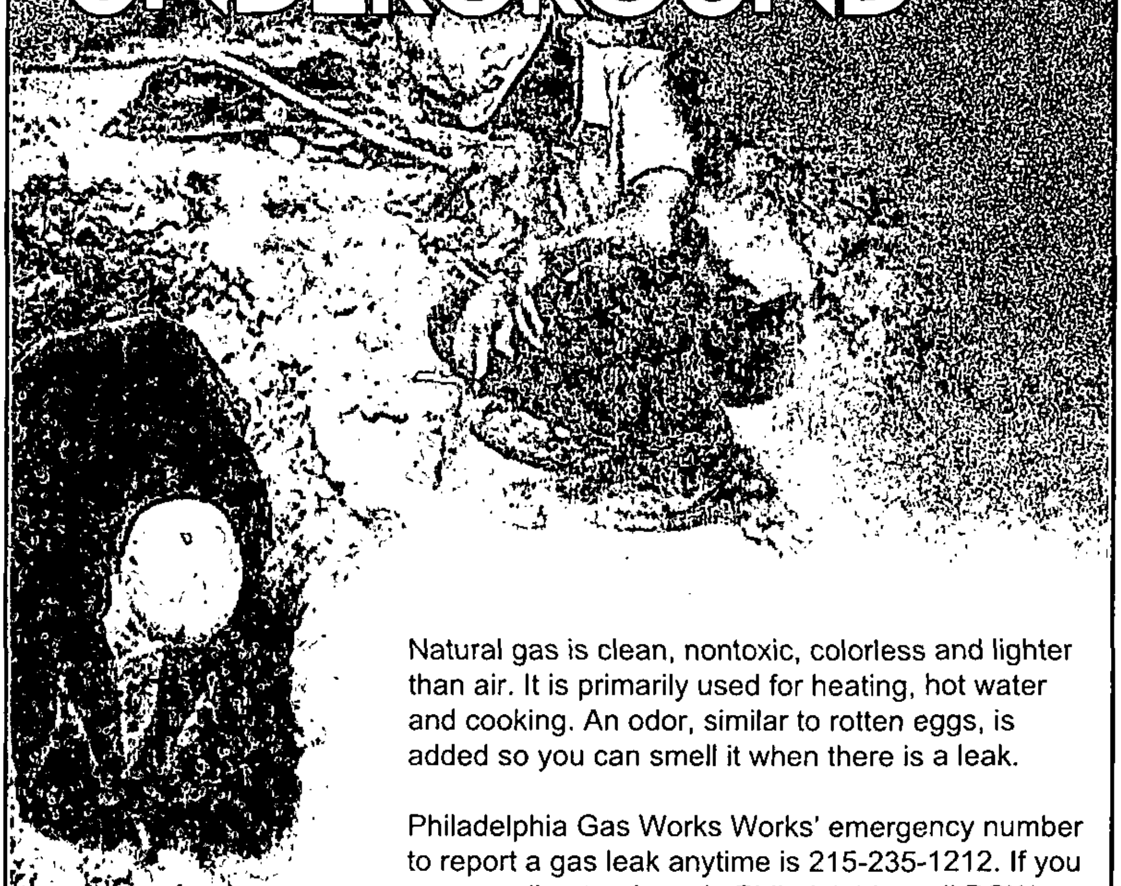
TO HELP PGW CUSTOMERS SAVE ENERGY AND MONEY ALL WINTER LONG.....PGW, THE CITY OF PHILADELPHIA, AND THE UNITED WAY OF SOUTHEASTERN PENNSYLVANIA ARE SPONSORING A SERIES OF FREE ENERGY WORKSHOPS.

FOR WORKSHOP TIMES, DATES, AND PLACES, CHECK PGW'S WEB SITE, WWW.PGWORKS.COM, OR CALL 215-684-6100. THAT'S 215-684-6100.

IT REALLY DOES PAY TO PREPARE, CONSERVE AND SAVE.

JRB-15

SAFE, SOUND & UNDERGROUND



Natural gas is clean, nontoxic, colorless and lighter than air. It is primarily used for heating, hot water and cooking. An odor, similar to rotten eggs, is added so you can smell it when there is a leak.

Philadelphia Gas Works Works' emergency number to report a gas leak anytime is 215-235-1212. If you ever smell natural gas in Philadelphia, call PGW or 911 immediately.

If you would like to receive a free brochure on natural gas safety and pipeline damage prevention, call PGW at 215-684-6624. Or visit PGW's website at www.pgworks.com.

PGW

Safe. Reliable. Service.

Accounts Receivable, Reserve For Bad Debt Expense, Net Write-Off Expenses, Delinquent Customers and Revenue Statistics (Dollar Amounts in Thousands)

	Fiscal Year Ended August 31,				
	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006
Billed Gas Revenues During the Year	557,466	755,920	786,406	846,729	899,174
Accounts Receivable at August 31	254,047	321,408	323,340	295,274	243,249
Reserve for Bad Debt	(187,461)	(228,548)	(230,216)	(217,439)	(168,889)
Net Accounts Receivable at August 31	66,586	92,860	93,124	77,835	74,360
Reserve For Bad Debt as a Percentage of Accounts Receivable	73.8%	71.1%	71.2%	73.6%	69.4%
Write-Offs Net ($000)	48,411	43,914	69,332	93,201	78,723
Restated Reserve Adjust. Reactivated Accts.	-	-	-	-	-
Receivable as a Percentage of Billed Gas Revenues	45.6%	42.5%	41.1%	34.9%	27.1%
Bad Debt Expense	51,548	85,000	71,000	80,424	40,132
Bad Debt Expense as a Percentage of Billed Gas Revenues	9.2%	11.2%	9.0%	9.5%	4.5%
Bad Debt Expense as a Percentage/Accounts Receivable	20.3%	26.4%	22.0%	27.2%	16.5%

PGW St. 5
5/22/07
Phila
wjH

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF

CRAIG WHITE

ON BEHALF OF

PHILADELPHIA GAS WORKS

Docket No. R-00061931

December 2006

I. QUALIFICATIONS AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME, POSITION WITH THE COMPANY AND BUSINESS ADDRESS.

A. My name is Craig White. My position is Executive Vice President and Acting Chief Operating Officer. My business address is 800 W. Montgomery Avenue, Philadelphia, PA.

Q. HOW LONG HAVE YOU HELD THIS POSITION?

A. I assumed the position of Acting Chief Operating Officer on July 26, 2001. My two most recent positions before Acting Chief Operating Officer were Vice President, Marketing/Economic and New Business Development (November 1998 to November 1999) and Senior Vice President, Marketing & Supply Services (November 1999 to July 2001).

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. My formal responsibilities include the management of the following areas: Operations, Customer Service, Sales and Marketing, Gas Management, Human Resources and Information Technology.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I have held the following positions at PGW: Accounting Specialist, Office of VP, Finance; Demand Analyst, Energy Planning & Forecasting Department; Planning Analyst, Corporate Planning & Analysis Department; Federal Regulatory Specialist and Administrator - Federal Regulatory Affairs, Gas Acquisitions & Federal Regulatory Affairs Department; Manager – Energy Planning & Federal Regulatory Affairs Department, Vice President, Marketing/Economic and New Business Development, and Senior Vice President, Marketing & Supply Services.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor's Degree in Business Administration, from Kutztown University in 1978 and a Master's Degree (MBA) Finance/Management from Drexel University in 1986.

Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION BEFORE?

A. Yes. I have provided direct written testimony concerning PGW's Proposed 2000-2001 Gas Cost Rate. I have also submitted testimony in: 1) PGW's interim rate proceeding (Docket No. R-00005654); 2) its last two base rate proceedings (Docket Nos. R-00006042 and R-00017034); the Company's Restructuring Proceeding (Docket No. M-00021612; and 4) the Exelon/PSEG Merger Proceeding (Docket No. A110550F0160).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe and support:

1) the process used to develop the sales forecast for the test year;

2) PGW's rate methodology for Interruptible Service and Interruptible Transportation Service; and

3) the allocation of the proposed $100 million base rate increase by customer class.

I will also explain the Company's Capital Budget constraints.

II. SALES FORECAST PROCEDURES

Q. WHAT PROCEDURES DID PGW EMPLOY WHEN FORECASTING SALES FOR THE TEST YEAR?

A. The total system-wide demand is a function of the projected gas demand per customer and the anticipated number of customers in each class. In determining customer demand, consideration is given to projecting customer usage, augmented by significant gains or losses in each of 44 homogeneous groups for the period being projected. PGW's Gas

Planning Department attempts to determine for each customer class the level of demand related to experienced temperatures and the level of demand that is not affected by changes in temperature. Within each class the most recent summer and winter usage patterns are established from historical records. Summer data provides each class of customer's non-temperature sensitive load requirements (baseload) which can be expressed in terms of thousands of cubic feet (Mcf) per day, per customer. Similarly, winter data, after removal of the daily baseload level, determines the temperature sensitive load requirements for each class of customer.

This temperature sensitive usage primarily reflects space heating, but also includes such other temperature sensitive usage as water heating attributable to colder water inlet temperatures due to colder ground temperatures and similar process variations, as well as supplementary heating. This overall heating requirement can be expressed in terms of the cubic feet of gas utilized per degree of temperature change on a per customer basis for each separate customer classification. In addition, consideration is given to the variation of customer utilization patterns for space heating over the year, recognizing the transitional fall start-up of heaters, the deep winter period needs and the tapering off and shut-down which occurs in the spring. These usage patterns, taken in conjunction with anticipated customer counts and average temperature, form the basis of determining customer class and total system demands.

Q. WHAT IS A DEGREE DAY?

A. The term "degree days" quantifies the daily average degrees of temperature below a base level of 65 degrees Fahrenheit and is used as a tool to measure space heating requirements, i.e., on a day experiencing an average temperature of 40 degrees F., there would be 25 degree days.

Q. PLEASE EXPLAIN THE USE OF "NORMALIZED" TEMPERATURES.

A. Due to the inconsistencies of weather and weather forecasting techniques, and because test year data are required to reflect "normal" conditions, no attempt is made to predict the specific daily temperatures of the projection period. Instead, PGW has developed a normal monthly temperature pattern by analyzing statistical records of actual temperature patterns over a 30-year period. This pattern reflects 4,525 degree-days annually.

The annual 4,525 degree-days which compose the PGW normal monthly temperature patterns form the basis of the calculation of the temperature sensitive component of demand. Exhibit CW-1 documents Philadelphia's 30 year monthly degree day history. The application of the above-described baseload and space heating factors and customer counts, when applied to a calendar-based daily temperature pattern, produces a daily total of customer requirements identified as sendout.

Q. AFTER APPLYING THESE FORECASTING PROCEDURES, WHAT SALES VOLUME DID PGW DETERMINE WAS APPROPRIATE FOR THE TEST YEAR?

A. After considering all relevant factors, it was determined that sales volume would remain static from FY 2006 to FY 2007 (the test year). Therefore, PGW has modeled test year sales based on FY 2006 sales experience. PGW's sales data reveal a steady decline in its firm sales volume, on a normalized basis, during the past four fiscal years. Exhibit CW-2 documents actual sales volumes normalized to 4,525 degree days for the four fiscal years ending August 31, 2003, 2004, 2005 and 2006. As shown on line 40 of Exhibit CW-2 and in Exhibit CW-3, normalized firm sales have decreased by 1.2 Bcf, 2.7 Bcf and 3.6 Bcf from FY 2003 to 2004, FY 2004 to 2005 and FY 2005 to 2006, respectively, for a total reduction of 7.5 Bcf. It is clear that firm sales have decreased, in large part, due to conservation and energy efficiency. This reduction is related both to the increased saturation of energy efficient appliances and more energy efficient buildings, as well as in response to increased heating bills. Due to the fact that PGW is forecasting natural gas prices to remain relatively the same in FY 2007 as compared to FY 2006, it does not reasonably anticipate firm sales to decrease further during FY 2007 due to customer conservation efforts related to price, nor, conversely, increase for the same reason. This forecast is conservative because it does not take into account the effect of the continued penetration of energy efficient appliances.

Q. PLEASE DESCRIBE IN GREATER DETAIL THE FACTORS THAT PGW HAS CONSIDERED IN DETERMINING FORECASTED TEST YEAR SALES?

A. Several other factors have been considered; specifically, PGW's historical firm sales decline, the advent of energy efficient appliances combined with better insulated homes and Philadelphia's declining population. As a result of all of these factors, PGW has experienced a historical decline in firm sales and normalized average annual residential heating usage. As shown in Exhibit CW-4, normalized average annual residential heating usage has decreased from 135 Mcf annually during FY 1976 to the present average of 89 Mcf. PGW believes that firm sales decline is based upon two main factors: energy efficiency/conservation and Philadelphia's declining population.

Energy efficiency/conservation - a recent American Gas Association report has found that individual consumer natural gas usage has steadily decreased during the period of 1980 to 2001 due to conservation efforts. The report states that "[a]lthough the number of gas customers in the U.S. increased by nearly 33 percent between 1980 and 2001, overall consumption increased very little because of increased energy efficiency. The average use [nationally] per residential gas customer (weather normalized) was 109 MMBtu per year in 1980, but only 85 MMBtu per year in 2001." According to the AGA, "[o]ver half of this dramatic reduction is attributable to more efficient appliances and about one-quarter is due to tighter homes. The remainder is due to a variety of demographic and miscellaneous factors."[1] Additionally, the AGA projects that gas consumption per customer will continue to fall throughout its most recent forecast period (i.e. until 2020) but at a slower rate – "roughly 0.5 percent per year versus the 1 percent annually experienced since 1980.[2]

Philadelphia's population and occupied housing unit decline – According to U.S. Census Bureau data, the population of Philadelphia has decreased by 122,000 people and the occupied housing units have decreased by almost 38,000 units during the 15 year period from 1990 to 2005. During the same 15 year period, the eight counties closest to Philadelphia in Pennsylvania and New Jersey have experienced population growth by almost 442,000 people. See Exhibit CW-5. Furthermore, U.S. Census data shows that from 1970 to 2005, Philadelphia's population and occupied housing units have decreased by 486,000 people and 77,000 units, respectively. See Exhibit CW-6.

In conclusion, it is apparent that factors will continue to exist in Philadelphia that erode PGW's sales. Even if natural gas prices were to remain at current levels or slightly decrease, national studies show that individual consumer natural gas usage will continue to drop as the result of the installation of more energy efficient appliances, better insulated homes and conservation. Beyond that, both Philadelphia's population and occupied housing units have been trending downward for the last 35 years.

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[1] American Gas Association and Energy and Environmental Analysis, Inc., *Natural Gas outlook to 2020, The U.S. Natural Gas Market – Outlook and Options for the Future,* February 2005, p. 25.

[2] *Id.*

III. PGW'S RATE METHODOLOGY FOR INTERRUPTIBLE SERVICE AND INTERRUPTIBLE TRANSPORTATION SERVICE

Q. DID PGW PREPARE AN ANALYSIS OF THE COST OF PROVIDING INTERRUPTIBLE TRANSPORTATION SERVICE?

A. Yes, the Company was directed to present such a cost study by the Commission in its Restructuring Proceeding (Docket No. M-00021612). The cost study is presented in Mr. Gorman's testimony (PGW St. 8) as Exhibit HSG-8.

Q. WHAT DOES THE COST STUDY SHOW?

A. The cost study shows that, in total, interruptible transportation margin exceeds the cost of providing the service to those customers by $2,070,000.

Q. WHAT DOES THE COST OF SERVICE STUDY SHOW FOR INTERRUPTIBLE SALES CUSTOMERS?

A. The cost study shows that the charges to the interruptible sales class of customers (i.e., customers with alternative fuel capability that buy a bundled, natural gas product) are $2,735,000 below the cost of providing the service. See Mr. Gorman's testimony (PGW St. 8) - Exhibit HSG-7C.

Q. WHAT IS PGW'S PROPOSAL FOR SETTING INTERRUPTIBLE TRANSPORTATION AND INTERRUPTIBLE SALES RATES?

A. The Company is not proposing any change to the GTS / IT Rate Classes' maximum rates because interruptible transportation customer rates are set by contract and reflect market prices related to the alternative fuel.

As for the interruptible sales rate classes, the customer charges were increased by the system average distribution revenue increase (distribution revenue includes delivery charge revenue plus customer charge revenue). This worked out to a 23% increase in customer charges for the interruptible sales rate classes. No other changes were proposed to the interruptible sales rate classes because the rates are set on a market basis in relation to alternative fuel prices.

Q. PLEASE FURTHER EXPLAIN PGW'S PROPOSAL.

A. The customers in these interruptible transportation and interruptible sales rate classes have the choice to burn natural gas or their alternative fuel. The market price of the commodities determines the customer's fuel choice. The rates are set through negotiation with the alternative fuel price available to the customer as the starting point.

The current interruptible transportation service maximum price structure is based on the average bundled interruptible service margins during the 5 years prior to PGW's restructuring. If PGW were to adjust the maximum IT rates to reflect the most current five years average, the IT rate maximums would be increased. Alternatively, if the maximum IT rates were to be adjusted downward, the burden would fall on the firm customer to replace these revenues. In other words, the rates of firm customers would have to be increased to a greater level in order to recover the reduced margin PGW presently projects it will recover from this customer class. Moreover, the rates that IT customers now pay are individually negotiated based upon the customer's alternative fuel opportunities, whether the customer is willing to agree to minimum usage levels and other factors. Most customers are currently charged a rate that is lower than the maximum rates.

Similarly, the current interruptible sales rates are defined by the tariff and are based on the price of the competitive fuel source. The tariff provides a price range, and the rates are set on a monthly basis, giving consideration to the market conditions. The margin from interruptible sales customers is used to reduce the GCR. Therefore, a reduction in interruptible sales rates would directly increase the GCR rates for firm sales customers. Therefore, PGW is not proposing any revision of the maximum rates set forth in the tariff.

IV. ALLOCATION OF PROPOSED RATE INCREASE BY CUSTOMER CLASS

Q. WHAT WERE THE GOALS OF THE COMPANY'S PROPOSED REVENUE ALLOCATION AND RATE DESIGN?

A. The Company's goals in its proposed revenue allocation and rate design were:

- To gradually move the Rate Classes closer to their full cost of service;
- To maintain equal delivery charge rates among Rate Classes where equality exists today (e.g., among Residential Heat, Residential Non-Heat and Philadelphia Housing Authority General Service);
- To minimize the impact on low load factor customers; and
- To avoid the "rate shock" and cost shifts that would occur if all customers were moved immediately to their full cost of service.

Q. PLEASE DESCRIBE HOW THE COMPANY IMPLEMENTED THESE GOALS.

A. The Company implemented its revenue allocation goals by directing Mr. Gorman to adhere to the following general directives:

1. Observe the principles of gradualism and avoid rate shock by allocating the rate increase in such a way that carefully moves the Residential Heating Class's rate of return at proposed rates closer to the system rate of return, as compared to the Class's rate of return at present rates.

2. Make no changes to GTS/IT Rate Class maximum rates because these customers' rates are set by contract in relation to alternative fuel prices.

3. Make no change to Interruptible Sales volumetric rates, while increasing the customer charge to cover costs.

4. Allocate the remaining rate increase to the other firm sales Rate Classes, to produce the needed rate increase in a fair and reasonable manner.

Mr. Gorman used these directives to produce the proposed rates that are displayed in his testimony, as presented on Exhibit HSG-7A.

Q. HOW DID THE COMPANY USE THIS INFORMATION IN ITS PROPOSED RATE DESIGN?

A. The Company specified the following for developing proposed rates for firm sales classes:

1. No changes to Customer charges.

2. Delivery charges rates were set to be the same among Rate Classes where equality exists today (e.g., Residential Heat, Residential Non-Heat and Philadelphia Housing Authority General Service).

The results of these computations, which also display PGW's Proof of Revenue are presented on Exhibit CW-7. The proposed rates used to prepare the proof of revenue at the Company's proposed rates, are displayed in Exhibit HSG-6T.

Q. DO THE PROPOSED REVENUE ALLOCATION AND RATE DESIGN MEET THE COMPANY'S GOALS AS YOU STATED THEM EARLIER?

A. Yes, they do.

- To implement a gradual process of moving the Rate Classes closer to their full cost of service: Exhibit HSG-7C line 23 shows that each Rate Class has made considerable progress toward unity based on relative rates of return.

- To maintain equal delivery charges rates among Rate Classes where equality exists today: this has been maintained.

- To minimize the impact on low load factor customers: this was accomplished by keeping the Customer Charge the same as at present.

- To avoid the "rate shock" and cost shifts that would occur if all customers were moved immediately to their full cost of service; this has been accomplished. In other words, PGW applied the principles of gradualism by not attempting to progress towards unity in one single base rate proceeding, but in accordance with a plan to achieve this result over the next several years.

V. CAPITAL BUDGET CONSTRAINTS DUE TO CASH FLOW

Q. HAS PGW EXPERIENCED CONSTRAINTS ON ITS CAPITAL SPENDING DURING THE LAST SEVERAL YEARS DUE TO ITS FINANCIAL CONDITION?

A. Yes. During the last several years, the financial condition of the Company has required it to exclude from its capital budgets many projects that were not directly needed for the safety and reliability of its system. This "safety and reliability only" approach to capital improvements has forced the Company to extend the use of various structures, equipment and facilities well beyond their normal, useful life, thereby increasing maintenance costs and making them more susceptible to costly failure. Should such equipment fail suddenly, PGW would have to spend unbudgeted funds for replacement. Customer service or certain other operations could be affected by such failures.

Q. WHAT ARE SOME AREAS IN WHICH SPENDING HAS BEEN CONSTRAINED?

A. PGW has delayed projects in the Gas Processing and Facilities departments for projects totaling $17 million and $14 million, respectively. Further, although PGW is currently in the midst of a safety, reliability and customer service-related fleet revitalization program, fleet purchases were woefully inadequate during the seven year period from 1999 to 2005.

Q. WHAT TYPES OF CAPITAL PROJECTS HAVE BEEN DELAYED IN THE GAS PROCESSING AND FACILITIES DEPARTMENTS?

A. The following are examples of delayed Gas Processing projects:

- Upgrades/Replacements of Emergency Generating and Switchgear Equipment ($5.0 MM) – Emergency electrical generating equipment and switchgear in some cases are over 35 years old with obsolete and increasingly unreliable components.
- Security Enhancements ($2.5 MM) – Security enhancements have been made at some locations. Other areas have been deferred as federal funding through the Department of Homeland Security is pursued.
- Replace Station Heaters ($3.0 MM) – Process heaters at Meter and Regulatory Stations in some cases date back to the 1950's.
- Upgrade LNG Control Room ($0.5 MM) – The antiquated LNG Control Room at the Richmond Plant is over 35 years old. Upgrading has been delayed until the Cascade Liquefier is fully replaced.

The following are examples of delayed Facilities projects:

- Roofs ($2.7 MM) – the roofs were evaluated using an Engineering firm specializing in roof systems.
  - 1849 N. 9th Street- Originally placed in 1953.
  - 1800 N. 9th Street – Twenty year old roof with major leaks.
  - North Philadelphia District Office – Originally placed in 1979. Major active leaks.
  - 800 North 9th Street – Originally placed in 1988. The overall condition is poor and has reached its life expectancy. Active leaks.
  - West Philadelphia District Office – Twenty plus years in poor condition. Several active roof leaks.

- o Porter Outlying Station – Age of roof unknown. Limited amount of drainage, several active leaks, and the membrane is in poor condition.
- o Belfield Outlying Station – Twenty five year old roof. The roof is in poor condition with multiple active leaks.
- Chillers ($1.3 MM) – These units have failed due to deferments.
- o 800 Building – Originally placed in 1988. This unit has a fifteen year life expectancy. Fourteen condenser tubes are damaged beyond repair. The second unit is operating at 50% capacity.
- o 1800 N. 9th - Unit is thirty-five years old. This unit has totally failed. The second unit was placed in 1986 and has exceeded its life expectancy.
- o North Philadelphia District Office – The unit was installed in 1989. This unit has totally failed.
- Windows ($5 MM) – The windows in 1800 N. 9th are thirty years old with major leaks creating damage to offices and furniture.
- District Office Renovations ($2.7 MM) – The District Offices have gone through several alterations, but no renovations since the 1990's. The ceiling tiles, air packaging units, carpet, wiring, cubicle and office furniture and walls require replacement. The offices are in poor condition. The offices are our first physical contact with the customer.

Q. WHAT HAS BEEN PGW'S HISTORY OF FINANCIAL CONSTRAINTS WITH RESPECT TO VEHICLE REPLACEMENT?

A. From 1999 to 2005, PGW did not consistently fund a vehicle equipment replacement and preventive maintenance program. In fact, during this seven year period, the annual cost of recurring annual capital expenditures to keep the fleet on an optimal life cycle is estimated to be $23MM while PGW only spent $9MM. This lack of spending drove operating costs higher, drove vehicle reliability lower, and imposed productivity penalties on the organization, thereby, affecting customer service. Moreover, vehicles were aging without replacement; failure rates were up and vehicle availability dropped; vehicles were pushed into a run to failure mode; and daily operations consisted of handling breakdowns and other driver/operator reported problems.

As noted, PGW adopted a five year fleet revitalization plan in 2005. PGW's newly initiated program includes all types of vehicles and equipment replacement including sedans, trucks, compressors, and construction equipment. Without adequate resources, however, PGW may soon find itself facing the same types of deficiencies as it experienced in the 1999-2005 period.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

Philadelphia Gas Works
Annual Degree Day History

Exhibit CW-1

YEAR	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	TOTAL	HTG SEASON
1975-76	50	180	369	870	1,104	677	585	301	115	14	0	1	4,266	4,251
1976-77	35	367	713	1,030	1,296	833	517	303	77	31	0	0	5,202	5,171
1977-78	22	304	507	923	1,129	1,053	771	392	171	8	7	0	5,287	5,272
1978-79	51	263	492	809	1,014	1,136	552	398	76	19	7	0	4,817	4,791
1979-80	27	328	435	800	986	991	752	309	64	20	8	8	4,728	4,692
1980-81	12	297	628	973	1,154	702	719	265	97	5	0	0	4,852	4,847
1981-82	38	320	542	896	1,189	837	685	389	49	23	0	0	4,968	4,945
1982-83	23	242	463	682	912	811	631	337	112	2	0	0	4,215	4,213
1983-84	42	241	503	965	1,112	741	858	382	128	0	1	2	4,975	4,972
1984-85	68	100	546	676	1,143	839	644	319	93	20	0	0	4,448	4,428
1985-86	40	186	430	953	972	914	607	352	82	9	0	13	4,558	4,536
1986-87	23	222	575	787	988	860	582	344	117	0	0	0	4,498	4,498
1987-88	19	336	485	767	1,089	855	603	413	109	32	0	0	4,708	4,676
1988-89	28	378	474	868	829	828	684	344	146	1	0	0	4,580	4,579
1989-90	47	210	565	1,187	727	650	578	352	115	5	1	1	4,438	4,431
1990-91	51	159	452	705	908	674	598	308	45	12	0	0	3,912	3,900
1991-92	60	228	504	769	883	787	732	408	171	14	1	3	4,560	4,542
1992-93	64	332	537	816	836	946	786	355	59	12	0	1	4,744	4,731
1993-94	73	281	522	868	1,210	932	721	232	159	2	0	2	5,002	4,998
1994-95	23	242	412	718	835	919	583	353	115	6	0	0	4,206	4,200
1995-96	48	227	685	1,013	1,055	859	783	355	192	6	0	0	5,223	5,217
1996-97	42	258	680	766	1,000	678	661	383	154	40	0	0	4,662	4,622
1997-98	45	274	625	825	727	607	588	241	64	7	1	0	4,004	3,996
1998-99	7	188	441	657	884	700	654	297	58	6	0	0	3,892	3,886
1999-00	25	235	403	725	974	738	456	329	75	19	1	1	3,981	3,960
2000-01	57	197	537	1,011	926	728	700	283	66	1	0	0	4,506	4,505
2001-02	51	193	302	633	723	631	548	273	109	8	0	1	3,472	3,463
2002-03	5	282	541	851	1,081	909	597	361	167	31	0	0	4,825	4,794
2003-04	14	249	395	804	1,149	771	564	303	43	13	0	0	4,305	4,292
2004-05	15	236	448	783	984	746	728	246	141	6	0	0	4,333	4,327
30 year average	37	252	507	838	994	812	649	331	106	12	1	1	4,539	4,525
New Temperature Pattern	37	252	507	838	994	812	649	331	105					4,525

NORMALIZED SALES*

Exhibit CW-2

4525 DEGREE DAYS

		ACTUAL 2002-03	ACTUAL 2003-04	ACTUAL 2004-05	ACTUAL 2005-06	ESTIMATED 2006-07
1	Non-Heating					
2	Residential	1,852,983	1,824,015	1,786,120	1,476,725	1,301,851
3	CRP	191,811	176,932	214,084	173,417	160,236
4	Commercial	1,830,889	1,829,041	1,780,942	1,746,562	1,705,062
5	Industrial	417,021	398,021	332,006	330,665	345,260
6	Municipal	279,140	278,814	286,266	300,550	262,687
7	Housing Authority	-	-	-	-	-
8	NGV Firm	-	-	-	205	367
9						
10	*Total Firm Non-Heating*	4,571,845	4,506,822	4,399,416	4,028,124	3,775,463
11						
12	Interruptible					
13	BPS Small	202,045	138,378	205,052	138,990	162,979
14	LBS-L Direct	435,406	261,893	97,363	12,859	20,549
15	LBS-XL Direct	196,520	111,660	10,520	5,530	2,280
16	BPS Large	2,519,029	2,112,027	2,685,780	1,434,847	1,930,440
17	LBS-L Indirect	1,046,910	551,949	390,664	147,920	374,983
18	LBS-S	1,004,609	649,581	787,319	375,222	528,265
19	LBS-XL Indirect	351,858	34,636	62,348	188,569	54,118
20	CO-GEN Indirect	110,392	97,770	46,639	16,741	15,834
21	GTS Sales	8,074	9,819	115,814	12,987	-
22	BPS A/C	219,140	135,711	108,978	92,193	109,062
23	NGV				0	0
24						
25	*Total Interruptible*	6,093,984	4,103,424	4,510,477	2,425,858	3,198,508
26						
27	*Total Non-Heating*	10,665,829	8,610,246	8,909,893	6,453,981	6,973,971
28						
29	Heating					
30	Residential	36,532,166	34,327,557	32,460,730	28,261,461	28,330,724
31	CRP	6,426,569	7,750,986	7,604,731	8,717,133	8,676,014
32	Housing Authority - GS	413,485	344,658	288,614	276,313	281,374
33	Commercial	8,868,057	8,929,618	8,605,626	8,394,848	8,498,418
34	Industrial	867,193	764,477	733,705	680,563	734,897
35	Municipal	1,134,763	1,040,093	858,081	997,551	1,006,598
36	Housing Authority - PHA	649,915	605,894	580,196	590,446	548,297
37						
38	*Total Heating*	54,892,147	53,763,283	51,131,684	47,918,317	48,076,322
39						
40	*Total Firm*	59,463,992	58,270,105	55,531,100	51,946,441	51,851,785
41						
42	*Total Gas Sales*	65,557,976	62,373,529	60,041,577	54,372,298	55,050,293
43						
44	GTS Transport	10,827,982	8,946,447	11,624,395	10,727,487	13,323,287
45						
46	*Total Gas Sales & Transpon*	76,385,958	71,319,976	71,665,972	65,099,785	68,373,580
47						
48	Degree Days (Sept. - May)	4,794	4,292	4,327	3,819	4,525

Philadelphia Gas Works | **Exhbit CW-3**

	2002-3	**2003-4**	**2004-5**	**2005-6**	**2006-7**
Total Firm Sales - Mcf (Exhibit CW-2)	59,464,000	58,270,000	55,531,000	51,946,441	51,851,785
Annual Firm Sales Decrease		(1,194,000)	(2,739,000)	(3,584,559)	
Cumulative Firm Sales Decrease		(1,194,000)	(3,933,000)	(7,517,559)	
Actual Average Residential Heating Bill	$ 1,301.00	$ 1,425.00	$ 1,572.00	$ 1,676.00	
Actual Average Annual Residential Usage - Mcf	104	96	97	80	
Heating Degree Days	4,825	4,305	4,394	3,821	

30 Year History of Firm Sendout

Exhibit CW-4

		Degree Days	Actual * Firm Sendout (MCFS)	Actual * Firm Sales (MCFS)	Normalized Avg. usage Residential Heating (Incl CRP & GS PHA)	Normalized Degree Days
	1975-76	4,251	66,636,601	64,263,153	135	4,600
	1976-77	5,171	72,140,440	69,776,021	132	4,600
	1977-78	5,272	73,013,873	70,310,495	131	4,600
	1978-79	4,791	69,857,430	67,271,446	130	4,600
	1979-80	4,692	71,380,450	68,245,364	126	4,600
	1980-81	4,847	77,031,062	73,512,195	129	4,600
	1981-82	4,950	72,864,957	70,570,434	125	4,600
	1982-83	4,253	61,532,199	59,852,766	117	4,600
	1983-84	4,972	67,016,489	65,431,904	116	4,600
	1984-85	4,428	60,479,535	58,478,748	112	4,600
	1985-86	4,536	62,878,074	60,488,488	112	4,600
	1986-87	4,498	63,339,307	61,062,454	114	4,600
	1987-88	4,676	64,442,197	62,857,333	114	4,600
	1988-89	4,579	64,560,074	62,089,829	113	4,600
	1989-90	4,431	63,085,559	61,490,531	113	4,600
	1990-91	3,900	57,514,348	56,429,388	111	4,600
	1991-92	4,542	63,307,894	61,229,637	109	4,600
	1992-93	4,744	65,409,560	63,121,368	109	4,600
	1993-94	4,998	68,562,020	65,447,189	109	4,600
	1994-95	4,200	58,363,993	56,293,911	106	4,600
	1995-96	5,169	68,082,909	65,445,097	107	4,600
	1996-97	4,622	62,311,409	59,750,160	105	4,600
	1997-98	4,004	54,829,411	53,631,087	104	4,600
	1998-99 **	3,886	56,104,064	53,750,575		
	1999-00 **	3,960	58,581,424	54,863,781		
	2000-01	4,506	62,336,148	60,787,516	103	4,555
	2001-02	3,463	49,562,584	47,689,182	98	4,555
	2002-03	4,794	64,320,834	62,158,347	102	4,555
	2003-04	4,292	58,697,275	56,267,326	100	4,555
	2004-05	4,327	56,113,854	53,902,476	95	4,555
7 & 5 Act/Est	2005-06	3,982	50,132,597	48,374,214	89	4,525
Budget	2006-07	4,525	54,459,936	52,553,847	89	4,525

*Includes Utility use

**No data available due to implementation of BCCS

			Exhibit CW-5
U.S. Census Bureau Data			
			2005
	1990	2000	Census Bur.
	Census	Census	Estimate
Philadelphia - Population	1,585,577	1,517,550	1,463,281
1990 to 2000 decrease	68,027		
2000 to 2005 decrease	54,269		
1990 to 2005 decrease	122,296		
Philadelphia - Occupied Housing Units	603,075	590,071	565,433
1990 to 2000 decrease	13,004		
2000 to 2005 decrease	24,638		
1990 to 2005 decrease	37,642		

			2005
	1990	2000	Census Bur.
Surrounding Counties - Population	Census	Census	Estimate
PA Counties			
Bucks	541,174	597,635	621,342
Chester	376,396	433,501	474,027
Delaware	547,651	551,974	555,648
Montgomery	678,193	750,097	775,883
NJ Counties			
Burlington	395,066	423,394	450,743
Camden	502,824	508,932	518,249
Gloucester	230,082	254,673	276,910
Mercer	325,824	350,761	366,256
	3,597,210	3,870,967	4,039,058
1990 to 2000 increase	(273,757)		
2000 to 2005 increase	(168,091)		
1990 to 2005 increase	(441,848)		

Sources:
http://quickfacts.census.gov/qfd/states/42/42101.html
http://factfinder.census.gov/servlet/SAFFPopulation?_submenuId=population_0&_sse=on

Exhibit CW-6

U.S. Census Bureau Data

Philadelphia - Population	1970 Census	1980 Census	1990 Census	2000 Census	2005 Census Bur. Estimate
	1,948,609	1,688,210	1,585,577	1,517,550	1,463,281
1970 to 1980 decrease	260,399				
1980 to 1990 decrease	102,633				
1990 to 2000 decrease	68,027				
2000 to 2005 decrease	54,269				
1970 to 2005 decrease	485,328				

Philadelphia - Occupied Housing Units	1970 Census	1980 Census	1990 Census	2000 Census	2005 Census Bur. Estimate
	642,145	619,781	603,075	590,071	565,433
1970 to 1980 decrease	22,364				
1980 to 1990 decrease	16,706				
1990 to 2000 decrease	13,004				
2000 to 2005 decrease	24,638				
1970 to 2005 decrease	76,712				

Sources:
http://quickfacts.census.gov/qfd/states/42/42101.html
http://factfinder.census.gov/servlet/SAFFPopulation?_submenuId=population_0&_sse=on
U.S. Census Bureau - Philadelphia Office

Exhibit CW-7

Philadelphia Gas Works
Class Cost of Service Study - 2006
Tariff Revenue at Company's Proposed Rates

	Test Year 2007			Company's Proposed Tariff Rates				Amounts in $000s					
	No. of Customers	No. of Annual Bills	Annual Sales (mcf)	Monthly Cust. Charge	GCR Charge	Univ. Service Charge	Delivery Charge	Cust. Charge Revenue	GCR Charge Revenue	Unive. Service Charge Revenue		Delivery Charge Revenue	Total Full Tariff Revenue
Non-Heating:													
Residential	47,922	575,067	1,387,356	$12.00	$10.9709	$2.5387	$6.0799	6,901	15,221	3,522		8,435	34,078
Residential-Senior	3,322	39,868	74,732	$12.00	$10.9709	$2.5387	$6.0799	478	820	190		454	1,942
Commercial	5,604	67,247	1,705,062	$18.00	$10.9709	$2.5387	$6.7944	1,210	18,706	4,329		11,585	35,830
Industrial	254	3,048	345,261	$50.00	$10.9709	$2.5387	$6.0749	152	3,788	877		2,097	6,914
Municipal/MS	335	4,020	262,687	$18.00	$10.9709	$2.5387	$4.9416	72	2,882	667		1,298	4,919
NGV	1	12	367	$35.00	$10.9709	$2.5387	$0.9254	0	4	1		0	6
Total Non-Heat Firm	57,439	689,262	3,775,465					8,815	41,420	9,585		23,870	83,690
Heating:													
Residential	369,201	4,430,417	32,855,506	$12.00	$10.9709	$2.5387	$6.0799	53,165	360,455	83,410		199,758	696,788
Residential-Senior	45,232	542,788	4,151,233	$12.00	$10.9709	$2.5387	$6.0799	6,513	45,543	10,539		25,239	87,834
Commercial	19,431	233,177	8,498,417	$18.00	$10.9709	$2.5387	$6.7944	4,197	93,235	21,575		57,742	176,749
Industrial	606	7,271	734,898	$50.00	$10.9709	$2.5387	$6.0749	364	8,063	1,866		4,464	14,756
Municipal/MS	557	6,682	1,006,599	$18.00	$10.9709	$2.5387	$4.9416	120	11,043	2,555		4,974	18,693
PHA Rate 8	780	9,354	548,297	$18.00	$10.9709	$2.5387	$6.6390	168	6,015	1,392		3,640	11,216
PHA/GS	2,577	30,924	270,534	$12.00	$10.9709	$2.5387	$6.0799	371	2,968	687		1,645	5,671
PHA/GS- Senior	101	1,212	10,840	$12.00	$10.9709	$2.5387	$6.0799	15	119	28		66	227
Total HeatiFirm	438,485	5,261,825	48,076,324	34%				64,913	527,441	122,051		297,528	1,011,934
Total Heating & Non-Heating Firm	**495,924**	**5,951,087**	**51,851,789**					**73,728**	**568,861**	**131,636**		**321,399**	**1,095,624**
Interruptible:													
BPS, SMALL	113	1,354	162,977	$43.06	$15.6414			58				2,549	2,607
BPS, LARGE	162	1,944	1,930,441	$92.27	$13.5573			179				26,172	26,351
BPS, A/C	8	96	109,062	$43.06	$10.1585			4				1,108	1,112
LBS-S, INDIRECT	18	220	528,264	$123.02	$11.4126			27				6,029	6,056
LBS-L, INDIRECT	6	76	374,982	$215.29	$10.8689			16				4,076	4,092
LBS-L, DIRECT	1	12	20,547	$215.25	$10.6121			3				218	221
LBS-XL, DIRECT	2	24	2,281	$307.54	$10.4980			7				24	31
LBS-XL, INDIRECT	4	48	54,119	$307.56	$10.8419			15				587	602
CO-GEN	3	40	15,833	$307.55	$10.2449			12				162	175
Total Interrutpible	318	3,814	3,198,506					322				40,924	41,246
Total PGW	496,242	5,954,901	55,050,295					74,051	568,861	131,636	0	362,323	1,136,871
GTS / IT Revenue													7,256
Proposed Tariff Revenue at Full Tariff Rates													1,144,126

PGW St. 5R

5/22/07
Phila
w/d

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

CRAIG WHITE

ON BEHALF OF

PHILADELPHIA GAS WORKS

Docket No. R-00061931

May 4, 2007

Q. PLEASE STATE YOUR NAME, POSITION WITH THE COMPANY AND BUSINESS ADDRESS.

A. My name is Craig White. I am Executive Vice President and Acting Chief Operating Officer of PGW. My business address is 800 W. Montgomery Avenue, Philadelphia, PA. I have previously filed testimony in this case (PGW Statement No. 5).

Q. WHAT ISSUES WILL YOU ADDRESS IN THIS TESTIMONY?

A. First, I will respond to claims made by Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") witness Dr. Lewis C. Cohen regarding PGW's interruptible transportation rates. Dr. Cohen's testimony repeats the same criticisms that PICGUG lodged against the Company's interruptible transportation rates during its restructuring proceeding – and offers similar assertions about the fate of interruptible transport on PGW's system if his recommended cost-based rates are not mandated – despite the fact of the admittedly positive experience his client Jefferson Health Systems ("JHS") has had using interruptible transportation in the intervening years.

Second, I address gas safety issues raised by Office of Trial Staff ("OTS") witness Ralph Graeser. While the Company agrees with the majority of Mr. Graeser's recommendations concerning gas leaks, his suggestion regarding the servicing of Class 2 leaks would unnecessarily restrict PGW's leak response flexibility and impinge on the safe and efficient management of PGW's operating system.

Third, I will clarify PGW's position as to the recommendations of OTS witness Joseph Kubas regarding an increase in the number of residential heating customers and associated net revenues and income from the additional sales to those customers.

Fourth, I will state PGW's position on the various proposals for allocating any allowed rate increase as a result of this proceeding and will show that the suggestion made by OCA witness Lelash that PGW's efforts to construct and operate its new liquefaction facilities constituted inadequate service is unfounded and incorrect.

Finally, I will respond to the testimony of the School District of Philadelphia ("School District" or "District"), Philadelphia Housing Authority ("PHA") and the Archdiocese of Philadelphia ("Archdiocese"), all of which raise similar, unpersuasive and invalid arguments against the Company's base rate proposal.

I. INTERRUPTIBLE TRANSPORTATION RATES

Q. PLEASE DESCRIBE THE POSITION OF PICGUG WITNESS COHEN WITH RESPECT TO THE LEVEL OF INTERRUPTIBLE TRANSPORTATION RATES.

A. Dr. Cohen urges the PUC to set aside PGW's currently effective unbundled transportation rates for interruptible customers on the claimed basis that they are excessive and will preclude customers from using them. He submits that the only way customers will be able to obtain "reasonable" interruptible transportation ("IT") rates is if the Commission directs that PGW establish "cost-based" IT rates. Essentially, regardless of the negative impact to the Company and its firm customers, Dr. Cohen believes that PGW's IT rates should be roughly equivalent to PECO's IT rates.

Q. DO DR. COHEN'S CLAIMS SOUND FAMILIAR?

A. Yes, Dr. Cohen literally reiterates virtually the same position he and PICGUG witness Richard Baudino took nearly five years ago in PGW's restructuring proceeding. Since that time, however, there is a record of his customers and others successfully transporting, at reasonable IT rates negotiated with PGW, to refute his dire prognostications. In fact, Dr. Cohen admits this fact in his testimony in regard to JHS, but inexplicably jumps to the unfounded conclusion that all of the ongoing successful transport on PGW's system, along with the Company's desire to negotiate reasonable IT agreements, will come to a screeching halt unless PGW's current IT rate methodology is thrown out and his recommendations are implemented.

Q. TO REFRESH, PGW HAS NOT PROPOSED ANY INCREASE IN ITS IT RATE CLASSES, CORRECT?

A. That is correct. As I explained in my direct testimony, the Company has not proposed any change for these rates because they are maximum rates and the actual IT rate a particular customer pays is set by contract in relation to the market prices for alternative fuel sources and other factors. Much like PICGUG's testimony in PGW's restructuring case, Dr. Cohen seems to overlook the fact that the Company's tariffed rates are its maximum rates. He states in his testimony that "PGW is . . . refusing to lower IT rates below the current margin." PICGUG St. No. 1 at 9. This is just not right. As I testified on direct, most customers, including JHS, are charged a rate that is lower than the maximum rates or current margins as a result of negotiations specific to individual customers.

Q. HAVE PGW'S IT RATES PROHIBITED TRANSPORT AS PICGUG PREDICTED IN THE COMPANY'S RESTRUCTURING PROCEEDING?

A. No, not at all. In fact, our response to PICGUG then has been proven true by the experience of PGW's IT customers since that time, and that experience should be sufficient alone to reject Dr. Cohen's rehashed position. As I testified nearly five years ago, the Company intended to utilize its "non-standard" contract authority to negotiate with such customers to attempt to meet legitimate competitive alternatives as well as provide the type of rate stability they desired. These negotiated rates provide an economic advantage to the IT customer to use natural gas (as opposed to oil or other alternative fuels), while maximizing the margin produced from this service and, thus, the contribution to the benefit of the firm customers. As I noted in my restructuring testimony, to the extent that PGW is able to use the negotiated IT rates to secure incremental load through expanding usage by existing customers, ensuring guaranteed minimum levels of gas usage, or attracting a new facility into the service territory, the result is a "win-win-win" for the IT customer, the Company and its firm customers. On both of these points, my previous testimony has been proven correct.

Q. PLEASE EXPLAIN.

A. Dr. Cohen's own testimony confirms this fact. As he states on page 4 of PICGUG St. No. 1: "JHS and PGW negotiated multi-year agreements for JHS's facilities, which have allowed JHS to successfully implement an economic transport program." Should PICGUG's demand for cost-based rates be inflicted on the Company, two of those "wins" will be lost and the firm customers would endure a significant negative impact on their rates.

Q. GIVEN THE ADMITTED SUCCESS OF JHS IN NEGOTIATING WITH PGW AND IMPLEMENTING "AN ECONOMIC TRANSPORT PROGRAM," AND THE SUCCESS OF THE IT PROGRAM IN GENERAL, WHY IS DR. COHEN SO DOUR ABOUT THE FUTURE OF PGW'S IT SERVICE AND THE PROSPECT OF RENEWING JHS'S IT AGREEMENTS?

A. I have no idea – because Dr. Cohen does not offer a single basis for his assumption that PGW will refuse to negotiate another IT agreement with JHS or renew JHS's IT agreements at reasonable IT rates. Dr. Cohen repeats the same baseless assumption in regard to PGW's willingness to offer the Philadelphia College of Osteopathic Medicine ("PCOM") – which does not even qualify for any interruptible service as it has no alternative fuel capabilities – "a reasonable rate to enable it to transport natural gas" absent mandated cost-based rates. PICGUG St. No. 1 at 5. There is simply no evidence to support these wrong-headed assumptions, and Dr. Cohen does not offer any. Instead, much like PICGUG's witnesses did in PGW's restructuring proceeding, Dr. Cohen simply "cries wolf" claiming that IT customers will be unable to secure fair rates or transport gas. The experience of PICGUG's own members – and PGW's experience with IT service in general – contradicts this. Moreover, Dr. Cohen's testimony recognizes the potential gain – and thus substantial incentive – PGW has in attracting and keeping its IT customers on those rates as opposed to other forms of energy which produce no margin for PGW.

Q. MUCH LIKE PICGUG'S RESTRUCTURING TESTIMONY, DR. COHEN ESSENTIALLY ADOPTS A "USE PECO'S RATES" POSITION AS TO INTERRUPTIBLE RATES. IS THIS POSITION ANY MORE VALID TODAY THAN IT WAS WHEN IT WAS REJECTED BY THE COMMISSION FIVE YEARS AGO?

A. Absolutely not. Constantly invoking PECO's name and IT rates is no more relevant than a Philadelphia City resident citing Bensalem Township or other surrounding municipality to complain that his City taxes are too high. There are many reasons why PECO's IT rates and PGW's rates are different, and simply comparing the two is not particularly helpful – nor is it a justifiable way of setting PGW's rates under any accepted regulatory theory. The Company's rates and margins were designed to reflect the price of alternative fuels to serve customers averaged over a five year period, and thus are market driven, which is an accepted basis for establishing rates for competitive services.

Q. HAVE THE IT RATES ESTABLISHED IN PGW'S RESTRUCTURING PROCEEDING PERMITTED CUSTOMERS TO UTILIZE IT SERVICE?

A. Yes. Since 2002, the amount of throughput being delivered via interruptible transportation has increased tenfold, from approximately 350 Mcf to 3.5 Bcf. The rates have saved the IT customers money (or else they would not use them) and have contributed to the coverage of PGW's fixed costs, thereby benefiting remaining customers.

Q. DR. COHEN SUGGESTS AT PAGE 9 OF HIS TESTIMONY THAT WITHOUT COST-BASED RATES, PGW'S IT CUSTOMERS WILL MIGRATE TO OIL ON A FULL-TIME BASIS AND REMAIN OFF NATURAL GAS FOR LONGER PERIODS OF TIME. DO YOU AGREE WITH THIS PREDICTION?

A. No, I do not. This is the same type of "sky-is-falling" claim that was made by these customers during restructuring. First, Dr. Cohen complains about the volatility of PGW's interruptible sales rates, but the cost of oil can also be quite volatile. Second, PGW's flexibility to negotiate non-standard contracts renders Dr. Cohen's hypothetical situation economically irrational. Absent a dramatic and unlikely drop in the cost of oil, PGW will always have the economic incentive and ability to negotiate IT rates that afford the customer an economic advantage over the use of oil and still provide a positive return for the Company and its firm customers. If Dr. Cohen's premise were correct, then his clients and PGW's other IT customers should already have switched to oil or other alternative sources for their full energy needs. Obviously, they have not done so despite having negotiated, margin-based rates.

Q. DR. COHEN STATES, AT PAGE 7 OF HIS TESTIMONY, THAT "THE ONLY PRACTICAL" ALTERNATIVES TO NATURAL GAS FOR HIS CLIENTS ARE PROPANE AND NO. 2 OIL. HOW DO PGW'S MAXIMUM RATES COMPARE WITH NO. 2 OIL?

A. Looking at the last three years, very well. And, the comparison further confirms that ample room exists in PGW's IT rate structure for the Company to negotiate reasonable, non-standard competitive rates with customers that will provide them with an economic advantage compared to their use of No. 2 oil as an alternative fuel. Attached hereto as Exhibit CW-8 is a comparison of PGW's IT max rates and the delivered cost for No. 2 oil. The comparison utilizes an average of the NYMEX closing prices for natural gas over the respective periods, adjusted for basis, delivery to the meter and supplier profit, with the delivered cost of oil as advertised in published prices by a supplier in PGW's territory. As one can see, in each year, the cost of using No. 2 oil well exceeds PGW's maximum IT rates, with the difference being well in excess of $3.00 for 2006 and 2007. Obviously, both the prices of oil and natural gas featured in the schedule may be subject to negotiation, but the analysis clearly demonstrates that even PGW's maximum IT rate provides a reasonable and advantageous alternative to No. 2 oil and, as stated, the Company has every intention to continue to do so. In terms of propane, while it may be an alternative for use during interruptions, it is unlikely that customers of the size of PICGUG's members could install sufficient propane for 100% of their energy needs, not to mention the prohibitive cost *vis-à-vis* natural gas.

Q. THAT SAID, IS PRICE THE ONLY FACTOR THAT TRANSPORTATION CUSTOMERS CONSIDER IN DETERMINING WHICH FUEL SOURCE THEY WILL UTILIZE?

A. No, and JHS proves this point as well. As I testified during PGW's restructuring proceeding, JHS is a sophisticated energy user that had used a mix of energy sources for several years prior to that point, and that I believed would continue to do so post-restructuring regardless of any reduction in transportation rates that PGW could offer. Since that time, despite PGW having negotiated what Dr. Cohen admits are reasonable IT agreements that have enabled JHS successfully to implement a transport program, JHS has utilized Trigen's steam service for the majority of its energy needs. JHS made this decision despite the fact that its annual fuel costs using steam are more than double the cost of natural gas.

Q. TURNING TO PCOM, DOES IT EVEN HAVE THE DUEL FUEL CAPABILITY REQUIRED TO BE ELIGIBLE FOR TRANSPORTATION SERVICE, BUNDLED OR UNBUNDLED?

A. No, it does not. As such, I am not sure what the basis is for it to even be in this discussion. PCOM cannot use either interruptible transportation or interruptible sales service because it currently lacks any means of meeting its energy needs in the case of an interruption. Based upon Dr. Cohen's testimony, PCOM appears to be suggesting that PGW should be required to reduce its IT rates – at the cost of other firm customers – in order to help PCOM install alternative fuel capability. Obviously, PGW has no such responsibility. I am informed that there is nothing in the Natural Gas Choice and Competition Act or any of the PUC policies or directives emanating from the restructuring proceedings that compels natural gas distribution companies to set their transportations rates at levels that encourage customers to utilize transportation at the expense of other customers, much less at levels that help fund their installation of dual fuel capabilities.

Q. FOR THAT MATTER, IS IT PGW'S RESPONSIBILITY TO GUARANTEE SAVINGS TO INTERRUPTIBLE TRANSPORTATION CUSTOMERS?

A. No, it is not. PGW is required to provide the ability for customers to transport gas using alternative suppliers. PGW has provided that ability, and has even solicited natural gas suppliers to be active on its system. It is better for PGW if a customer utilizes IT service rather than an alternative fuel source. But ultimately, it is market forces that determine whether customers use natural gas for their energy needs. They will do so if they will realize savings from interruptible transportation.

Q. AT PAGE 8 OF HIS TESTIMONY, DR. COHEN STATES: "FOR THOSE FACILITIES THAT HAVE NOT BEEN OFFERED A REASONABLE, COST-BASED TRANSPORTATION RATE ON PGW'S SYSTEM . . . ." HAS PGW ENGAGED IN NEGOTIATIONS WITH PCOM OVER IT RATES?

A. No. As stated, PCOM does not have dual fuel capability and for that reason there would be no reason to negotiate or basis on which to formulate an IT agreement.

Q. SO WHY DOES DR. COHEN STATE (P. 5) THAT "IF THE IT RATE IS MARGIN-BASED, THEN PCOM WILL MOST LIKELY NOT BE OFFERED A

REASONABLE RATE THAT WOULD ENABLE IT TO TRANSPORT NATURAL GAS?

A. I have no idea. As I stated, Dr. Cohen does not offer any support or basis whatsoever for his assumptions about PGW's unwillingness to negotiate a reasonable, margin-based IT rate with customers that are eligible for IT service. JHS's admittedly reasonable and successful IT agreements with PGW make this accusation even more perplexing.

Q. WHAT WOULD BE THE RESULT SHOULD DR. COHEN'S REDUCTIONS IN THE IT RATES BE REQUIRED AS A RESULT OF THIS PROCEEDING?

A. The result, just as it was during the restructuring proceeding when a move to cost-based rates was rejected, would be a significant negative impact on the rates of PGW's remaining firm customers. As is evident from the Cost of Service Study ("COSS"), PGW's maximum IT rates result in a positive margin. That margin makes a contribution to the Company's cost of service that benefits the firm customers. Without the revenue realized from PGW's IT customers, the Company would be forced to recover those revenues from its remaining firm customers. Eliminating that margin in one fell swoop in this proceeding would clearly violate the approved theory of gradualism.

Q. DOES DR. COHEN ADDRESS THIS NEGATIVE IMPACT ON PGW'S FIRM CUSTOMERS?

A. He attempts to respond to this reality, but offers no substantive solution. Instead, he dismisses the burden firm customers would experience in replacing the Company's lost revenues by unfairly invoking "the crush of PGW's continual rate increases for many years." PICGUG St. No. 1 at 10. The fact of the matter is that in the last 13 years, PGW has raised its base rates <u>only three times</u> – in 2001 and 2002 (the last of these being a settlement where the emergency rate increase granted the Company as a result of its dire financial needs was agreed to be made permanent). I would submit that very few companies have kept their prices the same for 13 years.

II. GAS SAFETY MANAGEMENT

Q. BRIEFLY, WHAT ARE THE GAS SAFETY MANAGEMENT RECOMMENDATIONS OFFERED BY OTS WITNESS RALPH GRAESER?

A. Mr. Graeser recommends that PGW do all of the following:

1. Implement an electronic leak monitoring system;
2. Institute a Class 2 leak repair schedule that ensures that Class 2 leaks will be repaired within 12 months; and
3. Continue to meet and, when possible, exceed an annual cast iron pipe replacement rate of 1%.

Q. DO YOU AGREE WITH MR. GRAESER'S RECOMMENDATIONS?

A. I do agree generally with the first and third recommendations:

- As to his first recommendation – PGW is currently developing a suitable electronic leak tracking program. The Company anticipates that the new program will be operational by the first quarter of Fiscal Year 2008.
- As to Mr. Graeser's third recommendation – PGW plans to continue to submit its annual capital budgets to the Philadelphia Gas Commission with an annual cast iron pipe replacement rate of 1% as one of the major objectives and will try to exceed that standard if possible. Being able to exceed this goal will very much depend upon PGW's financial circumstances and particularly on its ability to generate internal capital rather than rely on additional bond issuance. PGW constantly evaluates risk in its system and will, pursuant to PGC Order, undertake a new evaluation to establish the appropriate level of cast iron main replacements.

Q. DO YOU AGREE WITH THE SECOND RECOMMENDATION – INSTITUTING A CLASS 2 LEAK REPAIR SCHEDULE THAT ENSURES THAT CLASS 2 LEAKS WILL BE REPAIRED WITHIN 12 MONTHS?

A. No, I do not. Mr. Graeser has stated that PGW's system of open Class 2 leak management is both inadequate and may lead to existing leaks becoming hazardous. He further suggests that PGW adopt an arbitrary rule that Class 2 leak repairs be completed within one year of discovery. I believe that Mr. Graeser's position is detrimental to the safe and efficient management of PGW's operating system.

Q. WHY DO YOU BELIEVE THIS TO BE TRUE?

A. PGW has developed policies and procedures which have proven through the years to be effective in managing leaks in a safe manner, and have successfully prioritized the leak repairs in such a way that the policies and procedures focus on all potentially hazardous leaks. Mr. Graeser's assertion – that PGW's leak repair system "can allow existing leaks to become hazardous to the public and would require immediate action to make the leak safe" – is baseless.

Q. HOW DOES PGW MANAGE CLASS 2 LEAKS?

A. PGW does not manage leaks by Class as described in Mr. Graeser's testimony. Rather, PGW manages leaks in a more comprehensive manner based on the characteristics of the leak. Leaks are characterized based upon gas monitor readings coupled with the leak location and type of structure (manhole, curb box, etc). (Please see PGW's response to OTS-GS-2, attached hereto as CW-9). When a reading is initially found or found on a revisit, a qualified PGW employee is required to evaluate the leak based on the criteria listed on page 1 of CW-9 in order to determine if immediate work is required. Included in this criteria is a separate determination as to whether the leak is currently safe and will remain safe until rechecked. After this decision is made, the work is audited by management to assure correct decisions are being made. After an initial leak is discovered and no repair has been made, a secondary visit is scheduled within 72 hours in order to determine if the initial decision was correct. The foregoing procedure demonstrates that even for a low level leak, two assessments have been made after the initial discovery of the leak. Additionally, PGW's procedures result in 80% of all initial leaks being worked and repaired on the first visit with the remaining 20% being placed on schedule for "pinpoint, repair or recheck" as set forth on page 2 of Exhibit CW-9. This procedure continually places responsibility on PGW employees to follow the same requirements as the initial visit, assess the readings and structures, follow the guidelines and repair the leak if necessary. In other words, PGW employees are NOT revisiting the site just to monitor or recheck readings – the same critical approach is followed during each successive visit.

Q. ARE THERE ANY OTHER ISSUES IN MR. GRAESER'S TESTIMONY WHICH YOU WOULD LIKE TO ADDRESS?

A. Yes. Mr. Graeser implies that repairing Class 2 leaks would be more economical than revisiting the leaks. He bases this on an assumption that the same 343 Class 2 leaks indicated in PGW's supplemental response to OTS-RS-3 remain static during the year and result in 4,116 annual site visits. This is inaccurate and does not provide a clear picture of actual operations.

Q. WHY DO YOU DISAGREE WITH MR. GRAESER'S ASSUMPTION?

A. Mr. Graeser applies the worst case scenario by implying that the same 343 leaks remain for an entire 12 month period. On the contrary – the 343 leaks identified in response to OTS-RS-3 continually evolve in that some leaks are repaired and fall off the list while other leaks are newly discovered and newly included on the list. As a result, there are very few revisits associated with many leaks. Additionally, PGW estimates that a PGW employee would have to revisit a leak site 137 times (monthly over a period of 11.4 years) in order to equal the average cost of repair (i.e. $2,700).

Even more important than the foregoing, PGW repairs over 4,000 services and 1,400 joint leaks per year. PGW requires the flexibility of the existing leak management system in order to provide repairs that are safe, properly prioritized and economical. If PGW were forced to apply Mr. Graeser's system, which does not assess leaks as comprehensively as PGW's system, PGW would be forced to divert financial resources in order to repair leaks of a lower priority.

Furthermore, PGW annually replaces 18 miles of main and 10,000 services. This cast iron main replacement program incorporates leak repairs as a criteria for replacement. Many leak readings are cleared by this program, but not necessarily within the time frame mandated by Mr. Graeser's approach. Therefore, under his approach, PGW would be forced to repair a leak that would eventually be remedied by PGW's cast iron main replacement program. As a result of the foregoing, Mr. Graeser's approach would cause PGW to incur an unnecessary cost, the need for which is obviated by the cast iron main replacement program.

III. PRESENT RATE REVENUE ISSUES

Q. DOES PGW CONTEST THE RECOMMENDATION OF OTS WITNESS JOSEPH KUBAS FOR 418,183 RESIDENTIAL HEATING CUSTOMERS, WHICH IS 3,750 MORE CUSTOMERS THAN PGW FILED?

A. PGW does not contest the OTS recommendation of 3,750 additional residential heating customers, which would result in a total of 418,183 residential heating customers.

Q. IS PGW IN AGREEMENT WITH THE OTS INCREASE IN REVENUE OF $6,496,000 AT PRESENT RATES AND $7,100,000 AT PROPOSED RATES DUE TO THE ADDITIONAL 3,750 RESIDENTIAL HEATING CUSTOMERS?

A. Yes, PGW is in agreement with these increases.

Q. IS PGW IN AGREEMENT WITH MR. KUBAS' RECOMMENDATION OF AN ADDITIONAL PURCHASE OF 334,875 MCF OF GAS AND A $3,673,900 INCREASE IN THE COST OF GAS DUE TO THESE ADDITIONAL 3,750 RESIDENTIAL HEATING CUSTOMERS?

A. Yes, PGW is in agreement with these recommendations.

Q. DOES PGW AGREE WITH THE RESULTANT OTS INCREASE IN NET REVENUES AND NET INCOME OF $2,822,700 AT PRESENT RATES AND $3,426,000 AT PROPOSED RATES?

A. No. The OTS increase in net revenues and net income included increased revenue for the Universal Service Surcharge and the Restructuring and Consumer Education Surcharge. Just as OTS subtracted the additional cost of gas expense from the total additional revenue, the increased revenue from the Universal Service Surcharge and the Restructuring and Consumer Education Surcharge should be subtracted from the total additional revenue. This will reduce the increase in net revenues and net income due to the additional residential heating customers and sales.

Q. WHY SHOULD THE INCREASED REVENUE FROM THESE SURCHARGES BE SUBTRACTED FROM THE TOTAL ADDITIONAL REVENUE?

A. There would not be any increased revenue from these surcharges with the additional sales of 334,875 Mcf due to the additional 3,750 residential heating customers. The revenue from these surcharges offset the costs of the Universal Service and Restructuring Programs and the costs of both these programs would not increase due to the additional customers and sales. Therefore, the total revenue required to offset these programs would not increase.

Q. WHY WOULD THE TOTAL REVENUE FROM THESE SURCHARGES REMAIN UNCHANGED?

A. The rate per Mcf for these programs is calculated by taking the total costs for these programs and dividing those costs by the firm sales. Since there now are more firm sales due to the presumed additional customers, the rate per Mcf for these programs would decrease and the total revenue from these surcharges would remain unchanged.

Q. WHAT IS THE EFFECT ON NET REVENUES AND NET INCOME AFTER REFLECTING 418,183 RESIDENTIAL HEATING CUSTOMERS AND PURCHASING AN ADDITIONAL 334,875 MCF OF GAS?

A. At present rates, the net revenues and net income would increase by $1,950,600 ($6,496,600 – $3,673,900 - $872,100). At proposed rates, the net revenues and net income would increase $2,576,000 ($7,100,000 - $3,674,000 - $850,000). Mr. Bogdonavage is incorporating this adjustment in his revised FY 2007 *pro forma* income statement.

IV. ALLOCATION OF PROPOSED INCREASE

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE PARTIES POSITIONS REGARDING PGW'S PROPOSAL TO ALLOCATE ANY INCREASE AWARDED BY THE COMMISSION IN THIS PROCEEDING.

A. The OCA, through the testimony of Richard Galligan, supports PGW's proposed allocation of any authorized increase on the ground that it reasonably approximates the relative responsibility for costs that is produced by his revised Cost of Service Study (COSS).[1] OTS witness Kubas took issue with PGW's proposed allocation on the ground that it did not reduce the relative rates of return sufficiently for the Commercial, the Industrial and the PHA-Housing GS rate classes. He recommends a "targeted scale back" of the proposed increase to reduce and potentially eliminate the increase for these classes.[2] If implemented, Mr. Kubas asserts that the rates of return of most classes will

[1] OCA St. 3 at 28.

[2] OTS St. 3 at 20-28.

be closer to the proposed system average rate of return than under the Company's methodology. OSBA witness Knecht also takes issue with PGW's proposed allocation of increase, claiming that for the commercial classes not enough progress is being made toward cost-based rates.[3] He then proposes two alternative proposals which would move the rate classes farther toward system average rate of return than under the PGW approach. Several individual customers, such as the School District, PHA and the Archdiocese, claim that their rates are subsidizing the residential rates and that they should be exempt from any increase, regardless of the level of increase granted.

Q. WHAT IS PGW'S RESPONSE TO THESE RECOMMENDATIONS?

A. As I stated in my direct testimony, the process of allocating a base rate increase is always difficult and contentious. PGW recognizes that the residential rate class is not paying at the system average rate of return under present rates, and we made a good faith effort consistent with the principle of gradualism to begin the process of moving that class closer to the system average under the proposed rate allocation. While reasonable people can differ (as the parties here have demonstrated) as to whether PGW's proposal is too conservative or too radical, or does or does not fully satisfy the principle of gradualism, PGW continues to stand by its original position that, under the special circumstances existing in its service territory the allocation of rate increase to the residential classes as originally proposed properly balances the competing goals to charge cost-based rates while avoiding severe dislocations to residential customers, and particularly low income residential customers. The allocation of the increase, in PGW's view, must take account of the high level of low income customers in Philadelphia – far more than any other

[3] OSBA St. 1 at 20-29.

NGDC in Pennsylvania – and among the highest of any utility. It would be inappropriate to simply apply some standard rule of gradualism to PGW's customer base. Further, if the Commission denies a portion of the requested $100 million rate increase, we support OCA's position that the proposed increase should be scaled back in the same proportion as the final award bears to the original request.

V. SCHOOL DISTRICT, PHA AND ARCHDIOCESE ISSUES

Q. DID YOU FIND ANY OVERARCHING OR COMMON THEMES IN THE TESTIMONY PRESENTED BY THE DISTRICT, PHA AND ARCHDIOCESE?

A. Yes, several. First, and perhaps the main point of these parties' testimony, is the simple claim that they cannot afford to pay the increased rates. While the Company is sympathetic to these entities' concerns and their various missions, this claim is plainly not a basis for establishing PGW's proper base rates. Indeed, literally every type of customer represented in this proceeding, whether residential, small businesses or larger commercial and industrial customers, have registered this same complaint in one form or another – just as they do virtually every time PGW – or any other utility – proposes a rate increase.

The invalidity of this line of argument as a basis for denying PGW's request is evidenced by the testimony of these entities and their varied reasons for being on hard times. The School District, for example, has an unexplained budget shortfall of $73 million, along with a facilities complex, the vast majority of which is very old. Vallas at 5. PHA suffers from declining funding, in relation to the percentage of its operating budget, from the United States Department of Housing and Urban Development ("HUD"). Greene at 3. Meanwhile, the Archdiocese "relies largely" upon private donations for its operating funds and has made no provision for increased utility costs.

Magee at 4. It cannot be that PGW can't raise its base rates because HUD cut funding to PHA, etc. Every customer will have a different reason that utility rates cannot go up, and the Company cannot be held hostage to them.

Q. EACH OF THESE PARTIES OBJECTS TO THE PROPOSED BASE RATE INCREASE ON THE GROUNDS THAT THEY ARE SUBSIDIZING THE RESIDENTIAL CLASS. HOW DO YOU RESPOND TO THAT POINT?

A. To the extent that these customers' rate classes are providing revenue in excess of their cost of service, while the revenues attributable to the residential class fail to cover their costs, I agree that some level of subsidy is being provided to the residential class. However, the mere fact that a subsidy exists is not a reason to deny PGW's base rate proposal. As I explained in my direct testimony, the Company's goals in this proceeding include gradually eliminating such subsidies and moving the rate classes into unity with their cost of service. As such, the Company's proposal avoids the "rate shock" and cost shifts that would occur if all customers were moved immediately to their full cost of service. As I have indicated, the principles of gradualism endorse such an approach, and the Company's plan is to progress toward unity over the next several years.

Q. THESE PARTIES ALSO CONTEND THAT THE COMPANY'S NEED FOR A RATE INCREASE IS DUE TO, AND THAT THEY ARE BEING PENALIZED BECAUSE OF, THE "POOR DELINQUENT PAYMENTS" OF THE RESIDENTIAL CUSTOMERS AND PGW'S "OPERATIONAL INEFFICIENCIES" IN COLLECTING THOSE PAYMENTS. DO YOU AGREE WITH THIS ASSESSMENT?

A. Absolutely not. The claims on this point by witness Judith Mondre are both uninformed and unfortunate in that they continue to perpetuate an unfounded myth. Since PGW sought needed flexibility for its collections efforts, the Company's bad debt expense has <u>decreased</u> while its collection rates have <u>increased</u>. Specifically, PGW's claimed bad debt expense is $3 million lower than the level it was authorized to include in rates in

2001. Similarly, the Company's collections performance has increased substantially, reaching 96% from a low of 86%. Thus, the facts show that Ms. Mondre's testimony and accusations are completely unsubstantiated. PGW's uncollectible expense is not the reason for this rate increase. It is harmful to PGW and, at the least, reckless, for Ms. Mondre to make such ill-founded statements on behalf of the School District, PHA and the Archdiocese.

Q. TURNING TO CLAIMS MADE SPECIFICALLY BY THE SCHOOL DISTRICT, THE DISTRICT ALLEGES THAT PGW HAS INCLUDED UNREASONABLE EXPENSES IN ITS COSS. DO YOU AGREE?

A. No, I do not. One such expense that the District claims is unreasonable is the health benefits that the Company offers to its retirees. Ms. Mondre asserts that the benefits are more generous than those offered by the School District and other unnamed public agencies (although she provides no information to prove the same), which apparently in her view makes the benefits *per se* unreasonable. However, these health benefits are, in substantial part, the product of and a requirement under collective bargaining agreements imposing binding obligations on the Company. As such, they are reasonably included in the COSS.

Q. THE DISTRICT ALSO ASSERTS THAT THE COMPANY HAS MADE QUESTIONABLE REAL ESTATE EXPENDITURES, PARTICULARLY IN REGARD TO THE PASSYUNK PLANT. SPECIFICALLY, MS. MONDRE STATES THAT PGW PURCHASED PROPERTY NEXT TO ITS PASSYUNK PLANT FOR $900,000 – IS THAT TRUE?

A. No. PGW filed a FY 2006 Capital Budget Amendment for the purchase of a property that is bordered on three sides by the Richmond facility for an amount up to $900,000. The property, vacant for several years, continually posed a security risk for the Richmond facility due to how it was situated within the natural footprint of that facility. Additionally, sale of this property to a third party posed even greater security concerns for PGW. After the Capital Budget Amendment was approved, PGW actually purchased the property for $265,000.

Q. IF THE PROPERTY WAS SOLD TO A THIRD PARTY, WHAT SECURITY MEASURES WOULD PGW HAVE TAKEN?

A. Had a third party purchased and occupied the property, a security consultant recommended the construction of a wall surrounding the property. PGW engineers estimated that construction of such a wall would cost approximately $900,000.

Q. WERE THERE OTHER REASONS PGW WAS INTERESTED IN PURCHASING THIS PROPERTY?

A. Yes. The optimal siting of the Phase 2 liquefaction plant borders this property but could not be built on this optimal site without the buffer zone provided by acquiring this property. If the property was not acquired, the Phase 2 plant would have to be located at either of two alternate sites on the Richmond facility property. Due to the fact that the optimal site is located closest to PGW's feed from the interstate pipeline, PGW will avoid significant costs related to piping from the feed to the Phase 2 plant.

Q. IS THE ACQUISITION OF THIS PROPERTY RELATED TO THE PASSYUNK PLANT RFP INCLUDED IN MS. MONDRE'S TESTIMONY?

A. No. The Passyunk Plant is located in South Philadelphia and is approximately 9 to 10 miles from the Richmond facility which is located in the lower Northeast section of Philadelphia.

Q. DID PGW ACQUIRE ANY PROPERTY NEXT TO THE PASSYUNK PLANT?

A. No. Additionally, the Company has not submitted any such request in any of its capital budget filings.

Q. MS. MONDRE ALSO ATTACHED TO HER TESTIMONY AN RFP REQUESTING PROPOSALS REGARDING THE PASSYUNK PLANT. WHAT WAS THE PURPOSE OF THAT RFP?

A. The RFP sought proposals from interested partners to develop the Passyunk site in order to attain the "best and highest use." This is part of PGW's continued efforts to maximize the return from its assets and operations to reduce costs to customers. This process is at a very preliminary stage, however, any projects that may develop from this RFP are many years in the future.

Q. MS. MONDRE ALSO CRITICIZES PGW'S EFFORTS TO SOLICIT THIRD-PARTY SUPPLIERS TO BECOME ACTIVE ON ITS SYSTEM. IS HER CLAIM VALID?

A. No, it is not, and frankly it is difficult to understand how it is relevant to these proceedings. First, under the Gas Choice Act, PGW has no obligation to "aggressively solicit" NGSs to market customers on its system – it is only required to open its distribution system to those suppliers, which it plainly has. Second, Ms. Mondre admits that PGW has in fact solicited and provided information to suppliers. Finally, and most importantly, the number of suppliers active on PGW's system is irrelevant to this proceeding as it only impacts (potentially) the commodity or gas costs paid by Ms. Mondre's clients. As PGW makes the same margin from a customer whether it buys natural gas from PGW or from a supplier and uses PGW for transportation service, the Company has no reason to discourage NGSs to sell gas on its system.

Q. MS. MONDRE CLAIMS THAT PGW IS "UNWILLING" TO ATTEMPT TO CONTROL COSTS OR SAVE ON EXPENSES (P. 10). IS THAT CHARACTERIZATION ACCURATE?

A. No. Again this opinion is provided without any opinion or factual support. In fact, PGW has successfully reduced costs by millions of dollars over the last several years. In addition, only a small percentage – less than 5% – of PGW's annual expenses are non-discretionary. Much of PGW's operating expenses, such as natural gas costs and costs mandated by collective bargaining agreements are not within the Company's discretion to reduce materially.

Q. THE SCHOOL DISTRICT ALSO MAKES THE CLAIM THAT PGW IS NOT IN COMPLIANCE WITH THE COMPANY'S TARIFF WITH REGARD TO HOW PGW APPLIES SECTION 10 TO THE SCHOOL DISTRICT OF PHILADELPHIA. IS THIS CORRECT?

A. No. First and foremost, the School District flatly ignores prominent language in Section 10.1.B. which confers upon the Company discretion as to when and how it applies Section 10.1.B. Specifically, Section 10.1.B. states:

> 10.1.B. Commercial And Industrial Gas Service - For permanent commercial and industrial Customers or developers making application for extensions or enlargements, **where the Company in its sole judgment** anticipates long-term, continuous usage at projected volumes of Gas: (a) where the combined estimated cost of delivery-main and service-delivery pipe is less than $10,000, the Company will furnish and install, at no cost to the Customer or developer, service-delivery pipe and delivery-main of an amount up to three times the anticipated annual base rate revenue less the fuel cost component included therein, and the Customer or developer shall pay for any costs in excess of this allowance; or (b) where the combined estimated cost of delivery-main and service-delivery pipe installation is $10,000 or more, the Customer or developer shall pay a customer contribution for the amount of the estimated cost in excess of the investment determined by the Company to be warranted by the anticipated revenue to be derived from the extension. Included in the calculation of the above cost may be an appropriate allowance for transmission and distribution main extensions required to furnish the Gas supply to local areas where Gas Service is needed. Permanent commercial and industrial Customers or developers making use of new facilities which required a customer contribution from an original Customer or developer within the previous three years shall be deemed to have made application at the same time as the original contributing Customer or developer and shall pay a pro rata customer contribution for such facilities to be determined by the Company. (Emphasis added).

Based upon the foregoing language in Section 10.1.B., PGW can apply this tariff provision in any manner necessary to protect the interests of the Company. In other words, PGW can require the School District to pay for mains and services "up front" and provide subsequent reimbursement only upon successful completion of the School District usage contracts without providing any basis for this requirement. Regardless, PGW has a good reason to require the School District to make these up front payments.

During the latter part of the 1990's, the School District was contractually obligated to use natural gas exclusively for approximately 80 schools during the pay back period for the capital costs that PGW had advanced for mains and services which connected these schools to PGW's distribution system. Additionally, each of these contracts required a certain level of usage. PGW subsequently discovered that the School District wasn't exclusively using natural gas and/or not fulfilling the level of usage required by the contracts during the pay back periods. Due to the School District's failure to comply with the terms of these usage contracts, PGW never recovered the considerable capital costs it spent on the construction of mains and services in order to provide gas service to 80 schools. As a result of the foregoing, PGW now requires the School District to pay these costs up front.

Q. THE SCHOOL DISTRICT COMPLAINS THAT IT HAS NOT RECEIVED ANY REIMBURSEMENT AND/OR CREDITS FOR THE CAPITAL COSTS THAT THE SCHOOL DISTRICT HAS PAID "UP FRONT." HAS PGW REIMBURSED OR CREDITED THE SCHOOL DISTRICT FOR THESE COSTS?

A. Not yet. The School District has not yet successfully fulfilled the contractual criteria set forth qualifying the School District for reimbursement or credit. After the School District fulfills its contractual obligations, PGW will reimburse or credit the School District for its capital costs as outlined in each contract.

Q. THE SCHOOL DISTRICT FURTHER DEMANDS THAT – DESPITE USING PGW TO PROVIDE GAS TO 327 DIFFERENT SCHOOL PROPERTIES – IT SHOULD BE TREATED AS ONE CUSTOMER FOR THE PURPOSES OF METER CHARGES. DO YOU AGREE?

A. No, and the request falls of its own weight. First, the District appears to be literally asking that its 327 some different, metered locations be treated as a single customer for purposes of assessing meter charges. Ms. Mondre suggests that the District should be considered a "single customer unit," but yet acknowledges that to do so the Company would need to consider the District's 327 locations as "a single premises with one delivery and metering point." SD Mondre at 12. But, the District simply does not meet that description. This request is unsupportable, would not cover the Company's costs, and would not be fair to its other customers.

Second, the provision of PGW's tariff cited by Ms. Mondre, Section 9.10.C, does not even address meter charges or afford PGW the discretion to "amend its meter charging methodology for interruptible customers if it so chooses." SD Mondre at 12. Instead, Section 9.10.C of the tariff involves combined or consolidated billing. It states:

> <u>9.10.C. Gas Delivered at Separate Delivery Points/Combined Billing.</u> Gas delivered at separate delivery points shall be <u>**billed for**</u> separately; except that when, in the judgment of the Company, Customers generally would benefit. The total amount of Gas delivered under the same rate classification through multiple delivery points for the same premises may be added <u>**for billing purposes**</u> (such billing to be known as "combined billing"). In those cases where combined billing is permitted, the Customer may be required to pay PGW's cost of providing the Gas delivery facilities to the additional delivery points. (Emphasis added).

Notably, even as to billing, this section concerns the delivery of gas under the same rate class through multiple delivery points for "the same premises." The District's 327 different premises, thus, should not even qualify. Nonetheless, as acknowledged by District witness James Lewis (p. 6), the District does receive a combined bill.

Finally, as the District admits, whatever Section 9.10.C entails, it places the authority squarely within the Company's discretion and judgment. The School District has failed to provide any evidence, much less the level of evidence necessary to prove, that PGW has abused its discretion in regard to it.

Q. TURNING TO CLAIMS SPECIFIC TO PHA, MS. MONDRE CLAIMS THAT THE PHA RATE CLASS WAS "APPARENTLY" ESTABLISHED TO PROVIDE A DISCOUNT TO THE PHA AND THAT THIS PURPOSE IS NO LONGER BEING MET. IS THIS CORRECT?

A. It is unclear, and Ms. Mondre provides nothing more than her own supposition as to the purpose of the PHA 8 rate class. Notably, Ms. Mondre actually surmises that the "apparent rationale" for the rate was to provide a discount to "tenants in public housing." PHA Mondre at 6. Yet, as Ms. Mondre's testimony establishes, the tenants do not pay for their gas service received under the PHA rate class. Rather, the PHA is the customer under the PHA 8 rate class, it – not the tenants -- is the entity billed and the PHA (via HUD monies) pays those bills. Furthermore, a historical comparison of the rates does not support Ms. Mondre's contention. As shown on CW-10, since 1993 the rate charged under the PHA 8 rate class has been higher than the municipal rate class (Ms. Mondre's presumed comparative rate class) or comparable to or higher than the commercial, industrial and residential rate classes. Accordingly, for at least the last 14 years, which well precedes the Commission's jurisdiction and covers a substantial period of time when the Company was under the purview of the City's Gas Commission, PGW's PHA rates reflected no such "apparent rationale" to afford a discount. Presumably, the Philadelphia Gas Commission would have been particularly sensitive to the fact that the Philadelphia Housing Authority was not receiving its intended discount, if such a discount was truly intended.

Q. PHA ALSO SUGGESTS THAT IT HAS OVERPAID PGW BY $4 MILLION IN RELATION TO THE AMOUNTS THAT WOULD HAVE BEEN DUE FROM THE RESIDENTS AT ITS SCATTERED SITES UNDER PGW'S CUSTOMER RESPONSIBILITY PLAN ("CRP"). IS THIS ACCURATE?

A. No, not at all. Obviously, this claim is flawed on several levels. Despite the utility subsidy payments provided by PHA, the residents of PHA's scattered sites, and not the PHA, are the customers of record for those accounts. The resident customers at issue would have had to enroll in CRP for the reduced payment terms to have applied. As PHA acknowledges, those enrollments did not occur.

Q. PHA LIKEWISE CLAIMS THAT IT HAS BEEN "OVERCOMPENSATING" PGW BY AT LEAST $2.8 MILLION OVER THE PAST FIVE YEARS BECAUSE IT HAS NOT BEEN RECLASSIFIED AS A MUNICIPAL RATE ("MS") CUSTOMER. IS THERE ANY BASIS FOR THIS CLAIM?

A. Once again, no. By the plain terms of the tariff, PHA does not qualify for the MS rate. Its properties are not owned or occupied by the City of Philadelphia. The properties are not owned or occupied by the Board of Education. Nor is PHA, which I am advised by counsel was created by state statute, an agency or instrumentality of the City or Board of Education. A customer cannot claim that it has "overcompensated" PGW because it did not get to pay the rates charged to a rate class for which it was not eligible. The claim is nonsense.

Ms. Mondre talks about how PHA has "similarities" and "hallmarks" of entities that qualify for the MS rate, but that is not enough. PHA Mondre at 13. An entity either qualifies for the MS rate or it does not. PHA invokes the Philadelphia Water Department's discounts for "special customers." But, in addition to being completely irrelevant to the meaning of PGW's tariff, the Water Department's special customer classification, by the plain terms cited by Ms. Mondre, is far broader than the MS rate, including private and parochial schools, colleges, universities and places of religious worship. Further, I am advised by counsel that the fact that PHA is a quasi-governmental institution does not render it an "instrumentality" of the City or School District as that term is used in the legal sense. Finally, unlike PGW, the Water Department is not regulated by the PUC. The PUC permits such discounts only if shown to be not unreasonably discriminatory.

Q. NONETHELESS, WOULD PGW CONSIDER RECLASSIFYING PHA INTO THE MS RATE?

A. If the PUC approved it and the other parties to this proceeding did not object, PGW would not object to reclassifying PHA's conventional sites, currently served under the PHA 8 rate class, as MS rate customers. Given the complete lack of even similarities between the individual residential customers at PHA's scattered sites and those entities eligible for the MS rate, the Company does not support extending the MS rate to customers at those locations. Additionally, any lost revenue from the reclassification would need to be recovered from PGW's remaining customers.

Q. THE ARCHDIOCESE WITNESSES ALSO INVOKE THE WATER DEPARTMENT'S "SPECIAL CUSTOMER" STATUS. DOES THE GAS CHOICE ACT OR THE PUBLIC UTILITY CODE PERMIT PGW TO TREAT CUSTOMERS DIFFERENTLY AND AFFORD THEM DISCOUNTS BASED UPON RELIGIOUS AFFILIATION?

A. I am advised by counsel that nothing in the Gas Choice Act would permit that, and that the Public Utility Code would actually prohibit it.

VI. LNG EXPANDER PROJECT

Q. HAS MR. LELASH FAIRLY CHARACTERIZED THE DELAY IN THE LNG EXPANDER PROJECT AND THE RELATED EFFECT ON PGW's LNG STORAGE?

A. No, and in order to properly reply to Mr. Lelash's characterization, I need to provide a little bit of background before discussing the delay. PGW's Cascade liquefier plant is over thirty years old and PGW has primarily sought to replace the Cascade with the construction of two new lower cost operating liquefaction plants in order to increase reliability (not to increase liquefaction). PGW built an expander plant as the first facility because it requires far less fuel and operating costs to function. Nonetheless, the expander plant has limitations to its LNG production during periods when PGW draws lower volumes from the pipelines into its city gates. Hence, this maximum sized expander liquefier only provides a portion of PGW's liquefaction requirement and does not have operational redundancy like the cascade plant (as explained later in this section of my testimony), therefore, PGW always planned to build a second LNG facility that would supplement the expander plant's capabilities.

Q. WHAT DIFFICULTIES WERE ENCOUNTERED DURING THE EXPANDER PLANT START-UP?

A. PGW experienced a few problems after construction was completed and began a process with the vendor to remedy the problems. PGW disagreed with the vendor as to the cause of the problems and the Company believes that it would have prevailed in litigation but instead chose to work with the vendor to remedy the problems at no additional cost to PGW rather than to retain a different vendor to remedy the problem and engage in years of litigation. Had PGW chosen to use a different vendor, operation of the expander plant was projected to be delayed well beyond March 2005 – the date when the expander plant was put into operation. As part of PGW's efforts to get the plant on-line sooner and to avoid additional costs that would remain in limbo during litigation of the matter, the Company chose to accept a lower production rate than originally anticipated.

Q. WHAT IMPACT DID THE EXPANDER HAVE ON THE UTILIZATION OF THE LNG?

A. From the Fall of 2002, when the expander plant start-up began, until March 2005, when the plant was operational, the LNG storage was not filled to the maximum level in order to leave space for the expander plants operational test. When the expander failed to meet production, the volume was left unfilled. PGW continued to manage the LNG asset so as to meet the requirements of the firm rate class, while simultaneously managing an LNG plant start-up schedule to completion.

Q. IS THE PHASE 2 PLANT A NEW PROPOSAL?

A. No. As I stated earlier, a Phase 2 plant has always been planned. However, due to the expander plant delays and the Company's attempt to develop the Richmond site as an LNG terminal facility, the Company determined that it was imprudent to go forth with the Phase 2 plans at that time. Now that negotiations to develop the Richmond site have ceased, the Company has issued an RFP with the Phase 2 plant specifications that it developed contemporaneously during the Richmond site development negotiations. In light of the foregoing, Mr. Lelash has unfairly characterized PGW's actions as imprudent while the facts indicate otherwise.

Q. WHY IS THERE A NEED FOR A PHASE 2 PLANT?

A. As I stated earlier, there was always a plan to build two plants. The operation of the expander plant is limited to periods of time when there is higher sendout to the City of Philadelphia. The related level of expander plant production during these periods of higher sendout is not sufficient to meet the overall system design winter requirements. Alternatively, the Phase 2 plant does not have the same sendout requirements, therefore, its liquefaction capabilities are more independent. Additionally, the expander plant does not have internal operational redundancy like the cascade plant. The cascade liquefier utilizes two sets of engines to meet full production. If one of the engines fails, the plant could still operate at a lower level of production. This level of redundancy will be achieved with the Phase 2 plant, thereby providing a level of security of LNG supply for the firm rate classes that currently does not exist.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

	Transport cost $/Dt				Oil		Transport -
Month	NYMEX Closing	Basis and Profit	Delivery	Total	#2 ($/Gal)	#2 ($/Dt)	#2 ($/Dt)
January-05	6.21	0.93	1.66	8.80	1.41	9.90	-1.09
February-05	6.29	0.94	1.66	8.89	1.43	10.03	-1.13
March-05	6.30	0.95	1.66	8.91	1.66	11.67	-2.76
April-05	7.32	1.10	1.66	10.08	1.64	11.54	-1.45
May-05	6.75	1.01	1.66	9.42	1.50	10.56	-1.14
June-05	6.12	0.92	1.66	8.70	1.69	11.90	-3.20
July-05	6.98	1.05	1.66	9.68	1.73	12.14	-2.45
August-05	7.65	1.15	1.66	10.45	1.86	13.10	-2.65
September-05	10.85	1.63	1.66	14.13	2.05	14.41	-0.28
October-05	13.91	2.09	1.66	17.65	2.02	14.21	3.44
November-05	13.83	2.07	1.66	17.57	1.81	12.74	4.83
December-05	11.18	1.68	1.66	14.52	1.83	12.84	1.68
January-06	11.43	1.71	1.66	14.81	1.85	13.05	1.76
February-06	8.40	1.26	1.66	11.32	1.74	12.24	-0.92
March-06	7.11	1.07	1.66	9.84	1.87	13.18	-3.34
April-06	7.23	1.08	1.66	9.98	2.08	14.62	-4.64
May-06	7.20	1.08	1.66	9.94	2.08	14.60	-4.67
June-06	5.93	0.89	1.66	8.47	2.01	14.17	-5.69
July-06	5.89	0.88	1.66	8.43	2.02	14.21	-5.78
August-06	7.04	1.06	1.66	9.76	2.09	14.69	-4.93
September-06	6.82	1.02	1.66	9.50	1.81	12.74	-3.24
October-06	4.20	0.63	1.66	6.49	1.75	12.28	-5.79
November-06	7.15	1.07	1.66	9.89	1.73	12.17	-2.28
December-06	8.32	1.25	1.66	11.23	1.81	12.75	-1.52
January-07	5.84	0.88	1.66	8.37	1.61	11.34	-2.97
February-07	6.92	1.04	1.66	9.61	1.84	12.94	-3.33
March-07	7.55	1.13	1.66	10.34	1.86	13.10	-2.76
Average	**7.79**	**1.17**	**1.66**	**10.62**	**1.81**	**12.71**	**-2.09**

To revise assumptions, change the cells in yellow

Basis and Profit (% of NYMEX close)	15%
Delivery	$1.66

	Average Transport Gas ($/Dt)	Average #2 ($/Dt)	Transport - #2 ($/Dt)
2005	11.57	12.09	-0.52
2006	9.86	13.45	-3.59
2007	9.44	12.46	-3.02

CW-8

RESPONSE TO OFFICE OF TRIAL STAFF DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

OTS-GS-2 What is the leak monitoring schedule by leak classification?

Response Provided By: Steven Groeber, Director – Field Operations and Work Planning

Response: Distribution Department Bulletin #126 (attached).

DISTRIBUTION DEPARTMENT BULLETIN #126

INVESTIGATION AND REPAIRS OF UNDERGROUND LEAKS
(Work Initiation Schedule)

The following minimum requirements shall be adhered to in scheduling investigations, repairs and rechecks of reported gas leaks from underground sources. These are minimum requirements and are not to restrict the foreman or supervisor from doing more extensive investigation or repair work which experience, safety and good judgment indicate.

1. **Conditions Requiring Immediate Investigation or Work**

When initially discovered, conditions listed below will require immediate investigation or work shall be continued until a supervisor considers the leak safe to hold. A written order shall be originated specifying what future work is required and when such work shall be scheduled.

a. A customer leak complaint

b. Combustible gas indicator readings in a sewer system, including vents at curb

c. Combustible gas indicator readings in subways, tunnels, or in vents from structures

d. Combustible gas indicator readings of 76% LEL or higher in a ductline manhole

e. Combustible gas indicator readings in a building

f. Combustible gas indicator readings along routes of natural gas supply mains

g. Combustible gas indicator readings in PGW regulator manholes (investigation by Pressure Force personnel)

h. Combustible gas indicator readings of 76% LEL or higher in gas main valve manhole (investigation by Pressure Force personnel)

i. Combustible gas indication along a Transmission main.

NOTE: A house check is compulsory whenever a reading is found in a water or gas stopbox or in a sewer vent.

Bulletin #126

2. Work or Recheck Schedule

Conditions that do not require immediate work will be rechecked within 72 hours. Based on the readings obtained on the 72 hour and subsequent rechecks, the condition shall be handled as follows:

LEL Reading	Non-Conduit Type Structure*	Conduit Type Structure	Gas or Water Service Box High Pressure Drip or Test Pipe Box
25 or less	Recheck next scheduled survey	Pinpoint, repair or recheck 3 months	Repair or recheck 30 days
26 to 50	Recheck next scheduled survey	Pinpoint, repair or recheck 3 months	Repair or recheck 30 days
51 to 75	Pinpoint, repair or recheck 1 year	Pinpoint, repair or recheck 1 month	Repair or recheck 30 days
76 to 95	Pinpoint, repair or recheck 3 months	See #1 above	Repair or recheck 15 days
96 or higher	Pinpoint, repair or recheck 3 months	See #1 above	Repair or recheck 15 days

*Water valve manholes, low pressure drip boxes and other non-conduit surface boxes such as those housing buried valves, electrolysis devices, etc.

NOTE: The above table refers to readings individual manholes or boxes. Where multiple readings are found in interconnected manholes and/or in non-connected manholes in close proximity to reach other, a supervisor shall issue a written order specifying what future action is required.

S. H. VI-49

Bulletin #126

3. **Finaling Leak Orders**

Leaks will be finaled when readings are reduced to zero. On-site inspection by a supervisor will be required to "final" all leaks where readings were previously found in sewers, subways, tunnels and ductlines.

Exceptions to these minimum requirements may be made with the authorization of a General Supervisor.

STEVEN A. GROEBER

APPROVED: ______________________________

PAUL A MONDIMORE
Vice President, Field Operations

JJJ:dls/c

cc: Ms. Janice Walsh
Distribution Department Supervisory Personnel

Original Issue: 9/22/76
Reissued: 11/8/04

Philadelphia Gas Works
Base Rate History
09/01/1993 to present

	Residential	**Commercial**	**Industrial**	**PHA**	**MS**
9/1/2003 to present	$4.2124	$4.3056	$4.3029	$4.2952	$3.1470
6/1/2003	4.2984	4.3916	4.3889	4.3812	3.2330
4/11/2003	4.2984	4.3916	4.3889	4.3812	3.2330
3/1/2003	4.2984	4.3916	4.3889	4.3812	3.2330
12/1/2002	4.2984	4.3916	4.3889	4.3812	3.2330
9/1/2002	4.2984	4.3916	4.3889	4.3812	3.2330
6/1/2002	4.2984	4.3916	4.3889	4.3812	3.2330
6/1/2002	4.1134	3.9400	3.9400	3.9460	3.2330
4/16/2002	4.2984	4.3916	4.3889	4.3812	3.2330
4/16/2002	4.1134	3.9400	3.9400	3.9460	3.2330
3/1/2002	3.5970	3.9400	3.9400	3.9460	3.2330
3/1/2002	3.4120	3.9400	3.9400	3.9460	3.2330
12/1/2001	3.7319	3.9400	3.9400	3.9460	3.2330
10/13/2001	3.7319	3.9400	3.9400	3.9460	3.2330
9/1/2001	3.4330	3.9400	3.9400	3.9460	3.2330
3/1/2001	3.4330	3.9400	3.9400	3.9460	3.2330
1/1/2001	3.4330	3.9400	3.9400	3.9460	3.2330
11/22/2000	3.4330	3.9400	3.9400	3.9460	3.2330
1/1/2000	3.4330	3.9400	3.9400	3.9460	3.2330
12/1/1999	3.4330	3.9400	3.9400	3.9460	3.2330
6/1/1999	3.4330	3.9400	3.9400	3.9460	3.2330
1/19/1999	3.9400	3.9400	3.9400	3.9460	3.2330
12/1/1996	3.9400	3.9400	3.9400	3.9460	3.2330
10/1/1996	3.9400	3.9400	3.9400	3.9460	3.2330
9/1/1995	3.9400	3.9400	3.9400	3.9460	3.2330
9/1/1994	3.9400	3.9400	3.9400	3.9460	3.2330
9/1/1993	3.9400	3.9400	3.9400	3.9460	3.2330

Note: *the above rate prior to 9/1/03 were published in PGW's tariff in an amount that included* $3.18 related gas costs (i.e. the pre-9/1/03 rates above are net of the $3.18).