FitchRatings

FITCH RATES PHILADELPHIA GAS WORKS PA'S $16.43MM TWENTIETH & $58.665MM TENTH SERIES GAS REVS

Fitch Ratings-New York-29 August 2011: Fitch Ratings has assigned the following ratings on Philadelphia Gas Works (PGW) bonds:

--$16.43 million gas works revenue refunding bonds, twentieth series (1975 general ordinance), 'BBB+';
--$58.665 million gas works revenue refunding bonds, tenth series (senior 1998 general ordinance), 'BBB'.

PGW expects to issue the fixed rate bonds during the week of Sept. 12, 2011. The final maturity of the twentieth series bonds will be Aug. 31, 2015. The tenth series bonds will have serial maturities from 2012 - 2026. Proceeds will be used to current refund the sixteenth series of bonds under the 1975 general ordinance and the second and third series of bonds under the senior 1998 general ordinance.

In addition, Fitch affirms the ratings on the following bonds:

--$239.53 million gas works revenue bonds, various series, (1975 general ordinance), 'BBB+';
--$866.62 million gas works revenue refunding bonds, various series (senior 1998 general ordinance), 'BBB';
--$7.05 million gas works revenue refunding bonds, various series (subordinate 1998 general ordinance), 'BBB'.

The Rating Outlook for all bonds is Stable.

SECURITY

The 1975 general ordinance bonds are secured by a first lien on net revenues of the gas works utility. The 1998 general ordinance bonds are secured by net revenues of the gas works utility subordinate to the prior pledge of the 1975 general ordinance bonds. The subordinate 1998 general ordinance bonds are further subordinated to the senior 1998 general ordinance bonds.

KEY RATING DRIVERS

Stronger Financial Performance: Financial performance for the first 11 months of fiscal 2011 showed continued improvement and reflects the positive impact of the rate increase that went into effect on Sept. 1, 2010. Accounts receivable collection rates remain acceptable, after years at substandard levels.

Supportive Regulation: PGW benefits from a supportive relationship with the Pennsylvania Public Utility Commission (PUC), which regulates the utility's retail rates.

Reduced Debt Funding: PGW has generated positive cash flow after debt service in recent years and has not issued commercial paper to fund operations since May 2009. Total debt remains high, but PGW has reduced its reliance on short-term and long-term financing to fund capital expenditures.

Weak But Stable Demographics: Declines in PGW's customer base and related gas usage have generally mirrored the declining population of the city, but recent census data seems to indicate that Philadelphia's population trends may be stabilizing. Wealth indicators throughout the service area remain weak as approximately 19% of PGW's residential customers are enrolled in low-income, customer responsibility programs.

Priority Lien Recognized: The 'BBB+' rating on the 1975 general ordinance bonds reflects their priority lien in the flow of funds, which is closed to future bond issues, over the 1998 ordinance bonds (rated 'BBB' by Fitch), as well as the distinct separation between the 1975 and 1998 ordinances.

WHAT COULD TRIGGER A RATING ACTION
Weaker Cash Flow: The inability to fund a share of capital improvements from internally generated cash flow, thereby increasing PGW's reliance on debt funding, would be viewed negatively.

CREDIT SUMMARY:
The Largest U.S. Municipal Gas Utility

PGW is the largest municipal gas distribution utility in the nation and is owned by the City of Philadelphia. Through diverse supply arrangements, PGW acquires natural gas supply and delivers gas service through its gas storage and distribution facilities. The service area consists of an urban area located in the southeast portion of Pennsylvania along the Delaware River that includes the City of Philadelphia. PGW serves approximately 505,000 customers, 95% of who are residential consumers.

Weather-impacted Sales Volumes

Sales volumes, including gas transportation deliveries, totaled 69.3 billion cubic feet (Bcf) if fiscal 2010, but were 3.5% lower than the prior year due to a reduction in residential customers and warmer heating-season weather. Volumes for fiscal 2011 are expected to rebound strongly due to winter weather that, while still warmer than average, was colder than the prior year.

Improving Financial Metrics

Earnings and cash flow metrics at PGW improved slightly in fiscal 2010 including Fitch calculated debt service coverage (1.31x), equity/capitalization (18%) and cash on hand (46 days). Interim financials for the eleven months ending July 31, 2011 indicate that the improvement in PGW's financial metrics should continue through fiscal 2011 and reflecting the full impact of PGW's 2010 rate increase, as well as stronger gas sales. Debt levels are expected to remain high, but leverage and liquidity metrics should show continued improvement.

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In addition to the sources of information identified in the Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 20, 2011);
--'Public Power Rating Guidelines' (March 28, 2011);
--'US Public Power Peer Study' (June 20, 2011).

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=613065
2011 U.S. Public Power Peer Study — Excel Addendum
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=638690