Philadelphia Gas Works

2013 Philadelphia
Investor Conference

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Philadelphia Gas Works PGW

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Please see http://www.emma.msrb.org/ or http://www.pgworks.com/ for more information on PGW.

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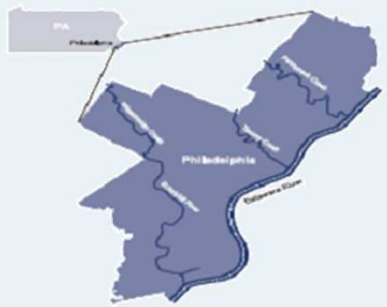
Philadelphia Gas Works

Overview

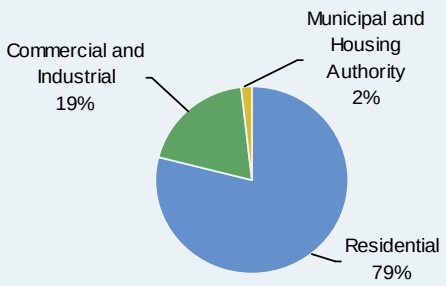
- Philadelphia Gas Works ("PGW") is the nation's largest municipally-owned gas utility, providing service since 1836
- PGW maintains a gas distribution system of approximately 6,000 miles of gas mains and service pipes supplying approximately 503,000 customers
- PGW has 1,636 employees as of 3/31/13
- PGW's rates are regulated by the Pennsylvania Public Utility Commission ("PUC")
  - The PUC has acknowledged that it is obligated to establish rates that permit PGW to meet all of its bond ordinance covenants, which include a 1.50x debt service coverage requirement
- Natural gas is received through nine city gates from two pipeline transmission companies – Texas Eastern (TETCO) and Transcontinental Gas Pipe Line Corporation
- PGW purchases gas through a combination of term contracts and spot market purchases and owns and uses two LNG facilities along with underground storage to manage its gas supply

Service Area

- PGW's service area is coterminous with the City of Philadelphia



2012 Gas Sales Breakdown



Recent Events and Highlights

Experienced Management Team Focused on Improving Financial Position

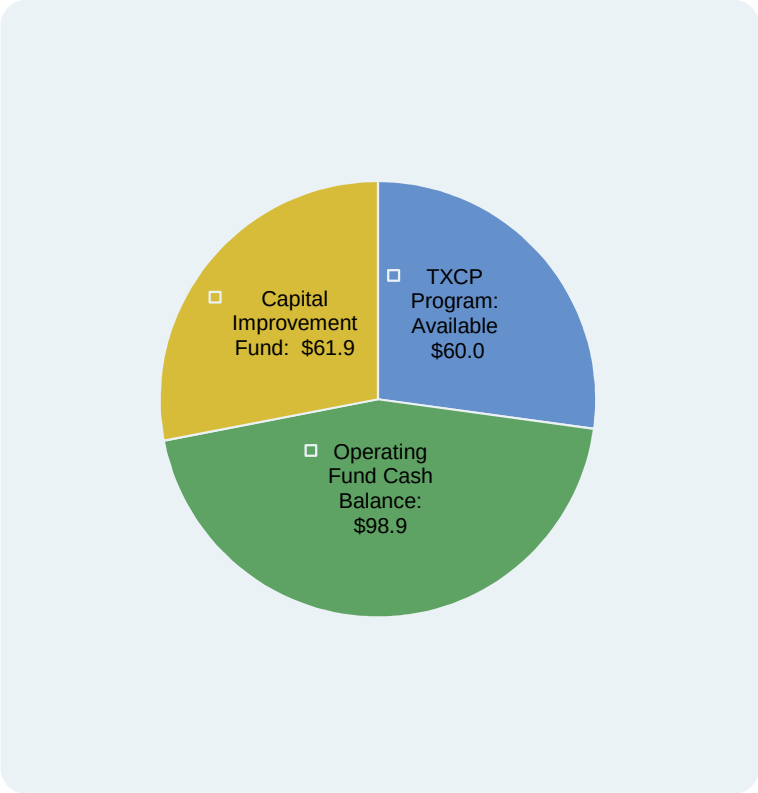
Ratings	■ Fitch upgraded its rating on long term 1975 Ordinance Gas Works Revenue Bonds to **BBB+** (outlook "**Stable**") and on long term 1998 Ordinance Gas Works Revenue Bonds to **BBB** (outlook "**Stable**") in August 2011 ■ S&P upgraded its rating on long term Gas Works Revenue Bonds to **BBB+** (outlook **"Stable"**) in August 2010 ■ Moody's improved its outlook to **"Stable"** on its **Baa2** rating on long term Gas Works Revenue Bonds in July 2010
Successfully Managed Rate Setting Process	■ Secured from the PUC in July 2010: ➢ $60 million of permanent annual rate increase ➢ $16 million of annual rate increase (to fund OPEB's)
Improved Financial Performance	■ Improving net income trend projected to continue ➢ $30 million in FY 2013 vs. $17 million in FY 2009 ■ Halved bad debt expense since FY 2005 (FY 2012 - $36.7 million vs. $70.4 million FY 2005) ■ Operating fund cash balance of $98.9 million as of 3/31/13
Improved Liquidity	■ PGW has not drawn on its TXCP Program since outstanding balance was repaid in May 2009 ■ The rolling 12-month average for collections was 96.6% as of 8/31/12
Strong Debt Coverage	■ Debt Coverage was 4.75x in FY 2012 compared to 4.28x in FY 2008 (1975 Ordinance Bonds) ■ Debt Coverage was 1.75x in FY 2012 compared to 1.88x in FY 2008 (1998 Ordinance Bonds)
Labor Agreement	■ New four year Collective Bargaining Agreement, expires in May 2015, representing 70% of PGW's employees ■ Wage increases of 2.5% and 2% effective May 2013 and May 2014

PGW is Committed to Efficiency and Improving Financial Stability

PGW Closely Monitors Financial Performance

- Capital expenditures are funded through draw-downs from its Capital Improvement Fund and internally generated funds
- Internally generated funds projected to be $25 million in FY 2013
- Operating fund cash balance was $98.9 million as of 3/31/13
- Number of delinquent customers has steadily declined over the past 5 years
- Write-offs have declined more than 50% since FY 2006

PGW Liquidity as of March 31, 2013

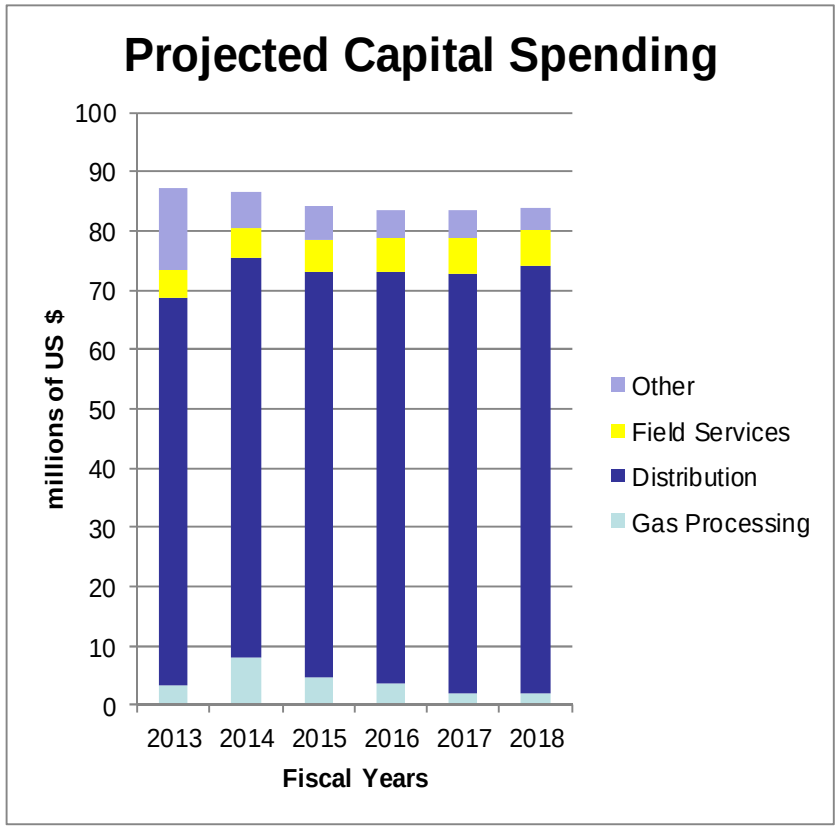


PGW Has a Manageable Capital Improvement Program

Capital Improvement Program

- Black & Veatch concluded in their most recent Engineering Report that "PGW is a competently managed and operated gas distribution utility. PGW and the System are organized, operated, and maintained at a level equal to, or in excess of, regulatory requirements and generally accepted industry practices. The System is in good operating condition."
- PGW's projected Capital Improvement Program ("CIP") encompasses projects aimed at:
  - System maintenance
  - Operational Efficiency Improvement
  - Load growth to increase revenues
- CIP expenditures projected from FY 2013 through FY 2018 total $508.8 million and are expected to be paid from the Capital Improvement Fund, internally generated funds and new Distribution System Improvement Charge ("DSIC") revenue
  - 78% of FY 2012 capital expenditures was committed to Distribution Department projects
- New capital financing is anticipated in FY 2014

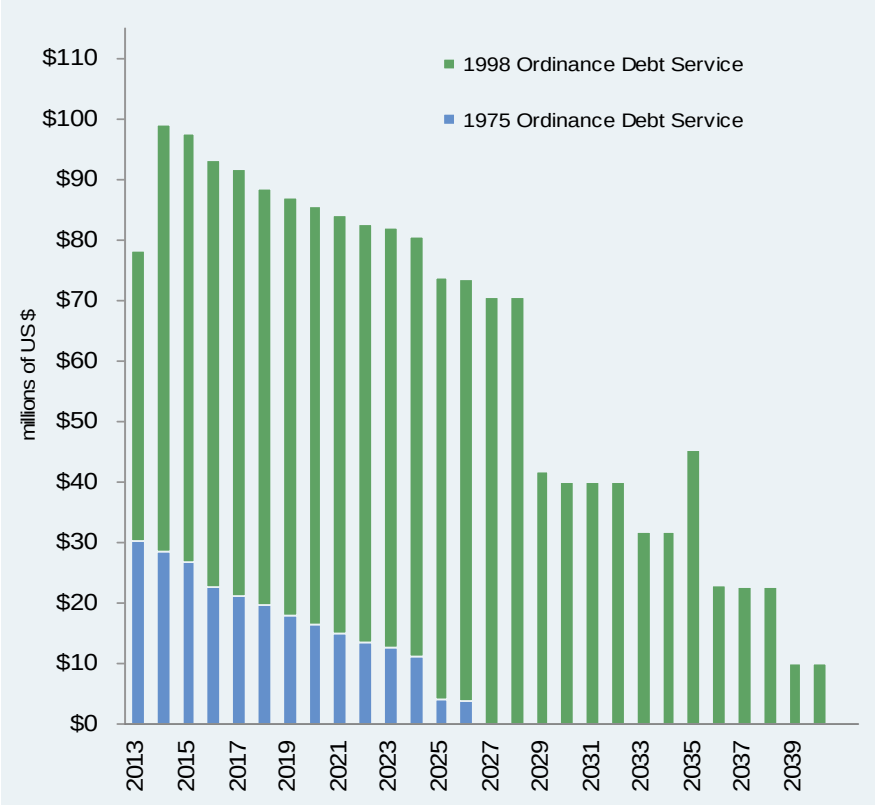
Forecasted Capital Improvement Expenditures



Debt Profile

As of 8/31/2012

Annual Debt Service Payments

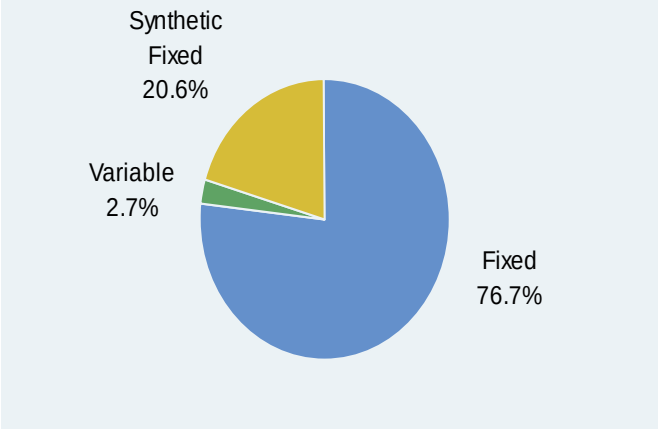


Outstanding Debt

$ millions Type	1975 Ordinance	1998 Ordinance	Total
Fixed	$185.9	$652.0	$837.9
Variable	-	30.0	30.0
Synthetic Fixed[1]	-	225.5	225.5
Total	**$185.9**	**$907.5**	**$1,093.4**

[1] Fixed payer swap layered on Eighth Series B-E, variable rate debt

Debt Mix



Note: Reflects only existing debt service with no projected future issuances.

PHILADELPHIA GAS WORKS
OPERATING & MAINTENANCE COSTS
(millions of US $)

	ACTUAL										
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	
CATEGORY											
Fuel Costs	$ 427	$ 451	$ 510	$ 625	$ 539	$ 512	$ 546	$ 354	$ 331	$ 234	37%
Depreciation	31	34	35	35	35	39	38	38	39	40	43%
Interest	57	59	64	66	69	68	79	71	76	70	54%
City Payment	18	-	-	-	-	-	-	-	18	18	57%
Sub-Total	**533**	**544**	**609**	**726**	**643**	**619**	**663**	**463**	**464**	**362**	
Bad Debt	**85**	**71**	**70**	**40**	**40**	**37**	**42**	**35**	**36**	**37**	63%
Operating Labor	79	81	81	82	84	85	88	88	88	89	76%
Pensions	13	15	15	18	15	15	15	25	23	24	80%
Health & Life Insurance	32	36	35	37	36	34	37	44	48	46	87%
Taxes	6	6	6	6	7	7	7	7	7	7	89%
Labor & Benefits	**130**	**138**	**137**	**143**	**142**	**141**	**147**	**164**	**166**	**166**	
Other:											
Losses/ Insurance/ Utilities/Postage	11	11	10	13	11	13	12	12	9	15	91%
General Material/ Purchased Services	27	26	26	25	24	28	29	30	29	35	96%
Miscellaneous	24	23	22	16	47 a)	41 a)	47 a)	46 b)	48 c)	40 d)	
Capital Additives	(14)	(15)	(17)	(17)	(18)	(17)	(16)	(16)	(17)	(17)	100%
Sub-Total	**48**	**45**	**41**	**37**	**64**	**65**	**72**	**72**	**69**	**73**	
Total	**$ 796**	**$ 798**	**$ 857**	**$ 946**	**$ 889**	**$ 862**	**$ 924**	**$ 734**	**$ 735**	**$ 638**	

a) OPEB $26.0M; b) $27.0M; c) $22.0M; d) $20.0M

Controllable Costs											
Operating Labor & Taxes	$ 85	$ 87	$ 87	$ 88	$ 91	$ 92	$ 95	$ 95	$ 95	$ 96	113%
Losses/ Insurance/ Utilities/Postage	11	11	10	13	11	13	12	12	9	15	136%
General Material/ Purchased Services	27	26	26	25	24	28	29	30	29	35	130%
Miscellaneous	24	23	22	16	21	15	21	19	26	20	83%
Total	**$ 147**	**$ 147**	**$ 145**	**$ 142**	**$ 147**	**$ 148**	**$ 157**	**$ 156**	**$ 159**	**$ 166**	113%
Percentage of 2003 Costs	**100%**	**100%**	**99%**	**97%**	**100%**	**101%**	**107%**	**106%**	**108%**	**113%**	

Summary

PGW Has Shown Solid and Improved Results

- Essential service utility
- Stable service territory
- Rate making methodology requires compliance with bond covenants
- Good working relationship with PUC
- Improved collections and liquidity
- Positive credit trends as reflected in positive long term bonds rating changes:

	1975 Ordinance	1998 Ordinance
Moody's	**Baa2 (Stable)**	**Baa2 (Stable)**
S&P	**BBB+ (Stable)**	**BBB+ (Stable)**
Fitch	**BBB+ (Stable)**	**BBB (Stable)**

Mission Statement

Field Operations' Mission Statement is to Provide the Safe and Reliable Delivery of Natural Gas Service to all of its customers

PGW Infrastructure Overview

- 6,000 miles of mains & services
- 3,026 miles of mains
- Primarily a Low Pressure Distribution system
- 50% of mains are cast iron
- 465,966 services
- 512,958 active meters
- 99.9 % of meters read remotely (AMR)

Infrastructure Risk Management

- PGW manages risk with a four prong approach
  - Well Trained and Experienced work force (Operations management averages 23 years of experience)
  - A maintenance program to repair and replace key infrastructure
    - 18 miles of cast iron mains are removed from service annually which is prioritized using advanced risk based software
  - Leak survey program that exceeds regulatory/Federal standards
  - Emergency leak response capability. PGW consistently meets its goal of responding to 97% of all leak calls within 60 minutes.

Meter Management

- **All residential meters are read remotely – AMR**
  - **AMR system installed in 1990's**
  - **Meter replacement policy based on battery life**
    - Approximately 25,000 meters replaced annually
    - Meter performance monitored daily to insure accurate reads
    - Meters tested on a 20 year cycle to insure accuracy
  - **Meter management software**
    - Detects inaccurately recording meters due to maintenance issues or potential theft of service

PGW Gas Management

PGW LNG Facilities

Liquefied Natural Gas plant – One of PGW's largest assets

- **LNG Benefits**
  - Security of supply
  - Meet design day requirements
  - Lowers pipeline demand charges
  - Provides for a summer/winter price differential
  - Opportunity for off-system sales

Gas Management Overview

Gas management is responsible for providing PGW customers reliable service at the lowest commodity cost

Natural gas is supplied by interstate pipelines and arrives at strategically located natural gas metering stations. PGW's gas supply is delivered on the Transcontinental (Transco), Texas Eastern (TETCO), and Equitrans pipelines. In addition to PGW's pipeline gas supply, PGW operates two (2) liquefied natural gas (LNG) facilities.

- **Gas Planning and Forecasting**
  - **Sales & Revenue Forecasting**
    - FY 2013 Forecasted Sales and Firm Transportation Service of 52 BCF and 77 BCF including Transportation Service
    - Firm Customers are 68% by volume and Interruptible Customers are 32% by volume
      - » 83% long haul pipeline
      - » 14% storage
      - » 3% PGW's LNG
  - **Supply & Asset Planning**
- **Gas Processing**
  - **Operate Meter &Regulating stations**
  - **Plants/ LNG Storage, Liquefaction & Vaporization**

PGW Gas Acquisition

PGW's current strategy for meeting the system's supply requirements is to use a portfolio approach in both contract structures and pricing.

- **Winter-only supply contracts-- Fifty percent (50%)**
  - Ensures security of supply from the pipelines.
  - Takes advantage of varying basis differentiated pricing in the market.

- **First of the month index priced contracts -- Thirteen and a half percent (13.5%), Daily Pricing Contracts -- Thirteen and a half percent (13.5%)**
  - Daily changes in volume.
  - Allows PGW to increase or decrease gas supply to meet variations in sendout requirements at a known price.

- **Pipeline storage services--Twenty three percent (23%)**
  - Provides daily swing.
  - Supply at a fixed price.

- **Some proportion of the supply will always be subject to spot market pricing either daily or monthly due to the constant need to purchase gas to meet sendout variations that are inherent in a residential firm heating load.**

PGW Business Opportunities

COOLING

POWER GENERATION

HEAT

Residential

Commercial

TRANSPORTATION

Projects for FY 2013 and Beyond

14 projects and 6 programs

Load potential total

of more than 1,800,000 MCF/yr

Natural Gas Opportunities

New Construction—Four Projects, load potential of 700,000 dth/yr

Commercial Conversions—Four Projects, load potential of 100,000 dth/yr

CNG— One project to install additional pumps to an existing CNG station with the load potential of 500,000 dth

CHP—Various projects, load potential of 200,000+ dth/yr

LNG—One project to fuel long-haul trucks, load potential 1 BCF/yr

UESC/Federal—Four projects, load potential of 400,000 dth/yr

Conversion Programs

Residential Conversions

- Burner Tip Conversion
- Whole Gas House
- EnergySense Rebates

Contract Compliance

PGW Business Opportunities
Business Development

- Customer Education/Outreach—economic and environmental benefits of NG, new technology such as Fuel Cells and Combined Heat & Power
- Market Research and Planning
- Future market and revenue analysis
- Corporate Identification

PGW Sale Process

- As publicly reported, the City has decided to explore the sale of PGW with the aim of reducing future operational risks and financial liabilities and better serving ratepayers.
- The asset would be sold only if an acceptable price can be achieved and if the Mayor's specified public policy criteria are met.
- To assist with this process, the City and PGW have engaged a number of consultants, including a financial advisor, communications and government relations consultants, and legal counsel.
- A selection process to engage a broker to assist in marketing the assets is currently underway, and an announcement on the selected broker is expected within the next week.
- The City intends for this to be a very thorough and deliberate process, and will be sharing as much information as possible throughout.
- For additional details about the sale process, and for updates as the process moves forward, please refer to the website set up specifically for this purpose: http://www.exploringasale.com/

PGW