FIRST SUPPLEMENT TO REMARKETING CIRCULAR DATED AUGUST 29, 2011
DATED JULY 26, 2013

(See "RATINGS" herein)

Not a New Issue **Book-Entry Only**

On August 20, 2009, Co-Bond Counsel, delivered opinions, that under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Eighth Series C Bonds and the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT and that under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date thereof, interest on the Eighth Series C Bonds and the Eighth Series D Bonds is exempt from Pennsylvania personal income tax and the Eighth Series C Bonds and the Eighth Series D Bonds are exempt from Pennsylvania personal property taxes. In connection with the remarketing of the Eighth Series C Bonds and the Eighth Series D Bonds as a result of the substitutions of the Eighth Series C Letter of Credit and the Eighth Series D Letter of Credit, as described in this First Supplement to Remarketing Circular, Co-Bond Counsel will deliver opinions to the effect that the substitution of the Eighth Series C Letter of Credit and the Eighth Series D Letter of Credit, as described in this First Supplement to Remarketing Circular, does not, in and of itself, adversely affect the exclusion of interest on the Eighth Series C Bonds and Eighth Series D Bonds, respectively, from gross income of the owners thereof for federal income tax purposes.

CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS,
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

$50,000,000	$75,000,000
GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES C (1998 GENERAL ORDINANCE)	GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES D (1998 GENERAL ORDINANCE)

Dated: August 20, 2009 **Due: August 1, 2031**

The City of Philadelphia, Pennsylvania (the "City"), a city of the first class under the laws of the Commonwealth of Pennsylvania, previously issued its Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) consisting of the Eighth Series B Bonds (the "Eighth Series B Bonds"), the Eighth Series C Bonds (the "Eighth Series C Bonds"), the Eighth Series D Bonds (the "Eighth Series D Bonds") and the Eighth Series E Bonds (the "Eighth Series E Bonds," and collectively with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds") pursuant to the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 (the "Act"), the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) (the "1998 General Ordinance"), the Ninth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 090322), enacted by the Council of the City on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 (the "Ninth Supplemental Ordinance") and a Bond Authorization executed on August 13, 2009 (the "Original Bond Authorization") by the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof (the "Bond Committee"). The Eighth Series Bonds were previously remarketed pursuant to a Remarketing Circular, dated August 29, 2011 (the "Original Remarketing Circular") which was prepared in connection with the extension of certain letters of credit and the substitution of an irrevocable direct pay letter of credit for the letters of credit which enhanced the applicable Series of the Bonds, as described herein.

This First Supplement to Remarketing Circular, dated July 26, 2013 (the "First Supplement") supplements and amends certain information contained in the Original Remarketing Circular and presents certain information concerning the substitution of the letters of credit relating to the Eighth Series C Bonds and the Eighth Series D Bonds, as described herein, and should be read together with the Original Remarketing Circular (a copy of which is attached hereto as Appendix "A" and incorporated herein by reference). To the extent that the information in this First Supplement, including information incorporated by reference herein, conflicts with the information in the Original Remarketing Circular, the information in (and incorporated in) this First Supplement shall govern. Unless otherwise defined in this First Supplement, all terms herein shall have the same meanings as in the Original Remarketing Circular.

In accordance with the requirements of the Bond Authorization, supplemented by a First Supplement to Bond Authorization of the Bond Committee, dated August 29, 2011 (the "First Supplement to Bond Authorization") and a Second Supplement to Bond Authorization of the Bond Committee, expected to be dated on

or about July 30, 2013 (the "Second Supplement to Bond Authorization" and, together with the Original Bond Authorization and the First Supplement to Bond Authorization, the "Bond Authorization") and as a result of the replacement of the letter of credit applicable to the Eighth Series C Bonds and the letter of credit applicable to the Eighth Series D Bonds, the Eighth Series C Bonds and Eighth Series D Bonds are subject to and have been called for mandatory tender for purchase on August 1, 2013 (the "Mandatory Purchase Date"). The Eighth Series C Bonds will be remarketed on the Mandatory Purchase Date by Barclays Capital Inc., which will be appointed as of July 31, 2013, as remarketing agent for the Eighth Series C Bonds (the "Eighth Series C Remarketing Agent"). The Eighth Series D Bonds will be remarketed on the Mandatory Purchase Date by RBC Capital Markets, LLC, which will be appointed as of July 31, 2013, as remarketing agent for the Eighth Series D Bonds (the "Eighth Series D Remarketing Agent"). The Eighth Series C Bonds and the Eighth Series D Bonds are currently in the Weekly Mode and bear interest at the Weekly Rate, and will remain in the Weekly Mode and bear interest at the Weekly Rate on and after the Mandatory Purchase Date. See "REMARKETING" herein.

Barclays Capital Inc.
as Remarketing Agent for the Eighth Series C Bonds

RBC Capital Markets
as Remarketing Agent for the Eighth Series D Bonds

Barclays Bank PLC will issue, on the Mandatory Purchase Date, an irrevocable, direct-pay letter of credit (the "Eighth Series C Letter of Credit") with respect to the Eighth Series C Bonds, which will entitle the Fiscal Agent to draw up to an amount equal to the principal of and up to fifty-one (51) days' accrued interest at a maximum rate of 12% to be used to pay the principal or redemption price of and interest on the Eighth Series C Bonds or the purchase price of the Eighth Series C Bonds calculated on the basis of a year of 365 days. The Eighth Series C Letter of Credit will expire on August 1, 2016 unless terminated earlier or extended as described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C LETTER OF CREDIT AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein.

Royal Bank of Canada will issue, on the Mandatory Purchase Date, an irrevocable, direct-pay letter of credit (the "Eighth Series D Letter of Credit") with respect to the Eighth Series D Bonds, which will entitle the Fiscal Agent to draw up to an amount equal to the principal of and up to fifty-two (52) days' accrued interest at a maximum rate of 12% to be used to pay the principal or redemption price of and interest on the Eighth Series D Bonds or the purchase price of the Eighth Series D Bonds calculated on the basis of a year of 365 or 366 days, as applicable. The Eighth Series D Letter of Credit will expire on August 1, 2016 unless terminated earlier or extended as described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D LETTER OF CREDIT AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein.

Royal Bank of Canada

THE INFORMATION CONTAINED IN THIS FIRST SUPPLEMENT IS SUBJECT TO MORE COMPLETE INFORMATION CONTAINED IN THE ORIGINAL REMARKETING CIRCULAR. THIS FIRST SUPPLEMENT IS REQUIRED TO BE PHYSICALLY AFFIXED TO, AND IS TO BE READ ONLY IN CONJUNCTION WITH, THE ORIGINAL REMARKETING CIRCULAR. THIS FIRST SUPPLEMENT SHOULD NOT BE SEPARATED FROM THE ORIGINAL REMARKETING CIRCULAR, AND NEITHER THIS FIRST SUPPLEMENT, NOR THE ORIGINAL REMARKETING CIRCULAR, MAY BE RELIED UPON IN ANY WAY INDEPENDENT OF EACH OTHER.

THE FINANCIAL AND OTHER INFORMATION WITH RESPECT TO THE PHILADELPHIA GAS WORKS ("PGW") CONTAINED IN THE ORIGINAL REMARKETING CIRCULAR SHOULD NOT BE RELIED UPON. PGW'S MOST RECENT FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION REPORT (WITH INDEPENDENT AUDITOR'S REPORT THERON) ARE AVAILABLE FOR REVIEW BY INVESTORS AND ARE FILED ANNUALLY BY THE CITY WITH THE MSRB VIA THE ELECTRONIC MUNICIPAL MARKET ACCESS SYSTEM ("EMMA") AT http://emma.msrb.org AND ARE INCLUDED AS CONTINUING DISCLOSURE FOR THE EIGHTH SERIES BONDS.

THE FINANCIAL AND OTHER INFORMATION WITH RESPECT TO THE CITY OF PHILADELPHIA CONTAINED IN THE ORIGINAL REMARKETING CIRCULAR SHOULD NOT BE RELIED UPON. FOR MORE RECENT FINANCIAL AND OTHER INFORMATION WITH RESPECT TO THE CITY OF PHILADELPHIA, INVESTORS SHOULD VIEW THE APPENDICES TITLED "GOVERNMENT AND FINANCIAL INFORMATION" AND "CITY SOCIOECONOMIC INFORMATION", RESPECTIVELY, CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT RELATING TO THE CITY'S GENERAL OBLIGATION BONDS, SERIES 2013A AND SERIES 2013B WHICH IS POSTED ON THE CITY'S INVESTOR INFORMATION BOND CALENDAR WEB PAGE AT http://www.phila.gov/investor//Bond_Calendar.html. IT IS ANTICIPATED THAT THE FINAL OFFICIAL STATEMENT FOR THIS BOND ISSUE WILL BE AVAILABLE ON THE CITY'S INVESTOR INFORMATION BOND CALENDAR WEB PAGE AND ON EMMA ON OR ABOUT JULY 29, 2013.

The Original Remarketing Circular, as supplemented by this First Supplement (together, the "Remarketing Circular"), in general describes the Eighth Series Bonds while they bear interest at the Weekly Rate. If the Eighth Series Bonds are converted from a Weekly Mode to another Mode, information regarding the new Mode will be provided to prospective purchasers and a mandatory tender of the applicable Series of Eighth Series Bonds shall occur.

REPLACEMENT OF LETTER OF CREDIT APPLICABLE TO EIGHTH SERIES C BONDS

On August 20, 2009, The Bank of Nova Scotia, acting through its New York Agency (the "Original Eighth Series C Credit Provider") issued its letter of credit with respect to the Eighth Series C Bonds (the "Original Eighth Series C Letter of Credit"). The Original Eighth Series C Letter of Credit was extended on September 1, 2011 and will expire on August 30, 2013. The City and the Original Eighth Series C Credit Provider have agreed to terminate the Original Eighth Series C Letter of Credit prior to August 30, 2013 and Barclays Bank PLC (the "Eighth Series C Credit Provider") has agreed to issue on the Mandatory Purchase Date the Eighth Series C Letter of Credit for the benefit of the Eighth Series C Bonds pursuant to a Letter of Credit and Reimbursement Agreement, dated as of August 1, 2013, between the City and the Eighth Series C Credit Provider (the "Eighth Series C Reimbursement Agreement"). The replacement of the Original Eighth Series C Letter of Credit with the Eighth Series C Letter of Credit, the execution and delivery of the Eighth Series C Reimbursement Agreement and the remarketing of the Eighth Series C Bonds are authorized pursuant to the Act, the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization.

The Eighth Series C Letter of Credit provides that, while the Eighth Series C Bonds are in the Weekly Mode, the outstanding principal of and up to fifty-one (51) days' interest on the Eighth Series C Bonds calculated on the basis of a year of 365 days for the number of days actually elapsed, when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series C Bonds tendered for purchase, as described herein and in the Original Remarketing Circular, will be paid by the Fiscal Agent using funds drawn under the Eighth Series C Letter of Credit. The Eighth Series C Letter of Credit is subject to certain terms and conditions as described herein and in the Eighth Series C Reimbursement Agreement. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C LETTER OF CREDIT AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C LETTER OF CREDIT AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT

THE EIGHTH SERIES C LETTER OF CREDIT

The following is a summary of certain provisions of the Eighth Series C Letter of Credit. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Eighth Series C Letter of Credit to which reference is hereby made. Wherever defined terms in the Eighth Series C Letter of Credit are referred to, such defined terms are incorporated herein by reference as a part of the statement made, and the statement is qualified in its entirety by such reference. Capitalized terms used under this heading "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C LETTER OF CREDIT AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" but not defined shall have the meaning assigned to such term in the Eighth Series C Reimbursement Agreement or Eighth Series C Letter of Credit, as applicable**.**

The Eighth Series C Letter of Credit will be an irrevocable transferable direct pay obligation of the Eighth Series C Credit Provider to pay to the Fiscal Agent for the Eighth Series C Bonds, upon request and in accordance with the terms thereof, an aggregate amount not exceeding $50,838,357 (as reduced and reinstated from time to time as provided therein), of which (a) an amount not exceeding $50,000,000 may be drawn upon by the Fiscal Agent with respect to payment of the principal amount of the Eighth Series C Bonds, whether at maturity or upon redemption, or the principal portion of the purchase price of Eighth Series C Bonds tendered or deemed tendered under the Bond Authorization and (b) an amount not exceeding $838,357 may be drawn upon by the Fiscal Agent with respect to the payment of interest on the Eighth Series C Bonds, or the interest portion of the purchase price of Eighth Series C Bonds so tendered for purchase, representing interest for a period of fifty-one (51) days at a rate of 12.0% per annum, as calculated on the basis of a year of 365 days.

Multiple drawings may be made under the Eighth Series C Letter of Credit, *provided*, that each A Drawing and C Drawing honored by the Eighth Series C Credit Provider thereunder shall pro tanto reduce the amount available under the Eighth Series C Letter of Credit for such Drawings and *provided, further*, that, each B Drawing and D Drawing honored by the Bank thereunder shall pro tanto reduce the amount available under the Eighth Series C Letter of Credit for such Drawings. Payments made in respect of any drawing shall so reduce by the amount of such payment the amounts which the Fiscal Agent may draw under the Eighth Series C Letter of Credit notwithstanding any acts or omissions, whether authorized or unauthorized, of the Fiscal Agent or any officer, director, employee or agent of the Fiscal Agent in connection with any drawing under the Eighth Series C Letter of Credit of the proceeds of the Eighth Series C Letter of Credit or otherwise in connection with the Eighth Series C Letter of Credit. In addition, prior to the Conversion Date, in the event of the remarketing of the Eighth Series C Bonds (or portions thereof) previously purchased with the proceeds of a C Drawing and D Drawing, the Eighth Series C Credit Provider's obligation to honor drawings under the Eighth Series C Letter of Credit shall be automatically reinstated concurrently upon receipt by the Eighth Series C Credit Provider, or the Fiscal Agent on the Eighth Series C Credit Provider's behalf, of a reinstatement certificate and an amount equal to the amount stated in such reinstatement certificate.

If the Fiscal Agent shall draw on the Eighth Series C Letter of Credit by presentation of a B Drawing to the Eighth Series C Credit Provider without regard to an A Drawing, the amount of such B Drawing shall be automatically reinstated, on the third (3rd) calendar day following the date such B Drawing is honored if the Fiscal Agent shall not have received notice from the Eighth Series C Credit Provider that an Event of Default has occurred under the Eighth Series C Reimbursement Agreement and, as a result thereof, the amount of such B Drawing shall not be reinstated.

The Eighth Series C Letter of Credit will terminate upon the earliest of (i) August 1, 2016 (as extended from time to time); (ii) the fifth (5th) Business Day following the first date on which all of the Eighth Series C Bonds outstanding have been converted to a rate of interest other than the Weekly Rate ("*Non-Covered Rate Bonds*") as certified by the Fiscal Agent; (iii) the Eighth Series C Credit Provider's receipt from the Fiscal Agent of a fully executed certificate stating that (1) no Eighth Series C Bonds (other than Non-Covered Rate Bonds) remain outstanding within the meaning of the Bond Authorization or (2) a substitute or replacement letter of credit or

alternate credit facility has been issued to replace the Eighth Series C Letter of Credit in accordance with the Eighth Series C Reimbursement Agreement and the Bond Authorization or (3) all drawings required to be made under the Bond Authorization and available under the Eighth Series C Letter of Credit have been made and honored; or (iv) the tenth (10th) Business Day after the Fiscal Agent's receipt of written notice from the Eighth Series C Credit Provider specifying that an Event of Default under the Eighth Series C Reimbursement Agreement has occurred and directing the Fiscal Agent to cause a mandatory tender of the Eighth Series C Bonds.

THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Eighth Series C Reimbursement Agreement. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Eighth Series C Reimbursement Agreement, to which reference is hereby made. Wherever defined terms in the Eighth Series C Reimbursement Agreement are referred to, such defined terms are incorporated herein by reference as a part of the statement made, and the statement is qualified in its entirety by such reference.

Events of Default

Each of the following events, acts or occurrences shall constitute an Event of Default under the Eighth Series C Reimbursement Agreement:

(1) The City shall fail to pay on the date on which the same is due and payable (a) any payment required by the Eighth Series C Reimbursement Agreement representing a payment or reimbursement for payments made by the Eighth Series C Credit Provider under the Eighth Series C Letter of Credit, plus interest thereon, to the extent any interest is due thereon, (b) any payment representing a payment of Bank Bonds required by the Eighth Series C Reimbursement Agreement, plus interest thereon, to the extent any interest is due thereon or (c) any fees or other amounts owing under the Eighth Series C Reimbursement Agreement within five (5) Business Days.

(2) (a) The City shall default in the payment when due (subject to any applicable notice or grace period), whether at stated maturity or otherwise, of any principal of or interest on (howsoever designated) any indebtedness for borrowed money payable from Revenues in excess of $500,000, whether such indebtedness exists on the date of the Eighth Series C Reimbursement Agreement or shall thereafter be created.

(b) An event of default as defined in any mortgage, indenture, instrument or resolution under which there may be issued, or by which there may be secured or evidenced, any indebtedness for money borrowed of, or guaranteed by, the City and payable from Revenues in excess of $500,000, whether such indebtedness on the date of the Eighth Series C Reimbursement Agreement or shall thereafter be created, shall occur and shall result in the indebtedness becoming due and payable prior to the stated maturity or due date thereof.

(c) Any event shall occur which shall permit such indebtedness described in (a) or (b) above in excess of $500,000 to be so declared due and payable prior to its stated maturity or due date and such event shall continue unremedied past any period of grace provided for in any mortgage, indenture, instrument or resolution under which such indebtedness is issued.

(3) Any representation or warranty made by the City in the Eighth Series C Reimbursement Agreement or in any other Document or in any certificate, letter or other writing or instrument furnished or delivered by the City to the Eighth Series C Credit Provider pursuant thereto or in connection with the Eighth Series C Reimbursement Agreement or therewith shall prove to have been untrue or incorrect in any material respect when made or when reaffirmed, as the case may be.

(4) (i) The City or PGW shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it or seeking to adjudicate it insolvent or a bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for itself or for any substantial part of its property, or the City shall make a general assignment for the benefit of its creditors, or (ii) there shall be commenced against the City or PGW any case, proceeding or other action of a nature referred to in clause (i) and the same shall remain undismissed for a period of 30 days, or (iii) there shall be commenced against the City or PGW any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within 30 days from the entry thereof, or (iv) the City shall take action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above, or (v) the City shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due.

(5) The City shall default in the due observance of any covenant, condition or agreement contained in the General Ordinance or any Document and the expiration of any applicable grace period shall have occurred.

(6) The City shall (a) default in the observance of certain covenants set forth in the Eighth Series C Reimbursement Agreement, or (b) default in the observance of its other covenants under the Eighth Series C Reimbursement Agreement not specifically referred to under this subheading *"Events of Default"*, and such default shall continue unremedied for thirty (30) days after the earlier of (i) written notice thereof to the City or (ii) the date the Senior Management, the City Solicitor, the City Controller and/or the Director of Finance has knowledge that such failure has occurred.

(7) The Credit Account, the Sinking Fund or any funds on deposit in, or otherwise to the credit of, such accounts shall become subject to any writ, order, judgment, warrant of attachment, execution or similar process and such writ, order, judgment, warrant of attachment, execution or similar process prevents payment into or out of such Accounts for the purposes and at the times contemplated by the Documents, unless such writ, order, judgment, warrant of attachment, execution or similar process shall be fully bonded.

(8) Any judgment arising out of the operation of the City or PGW in an aggregate amount in excess of $15,000,000 as to the City or an aggregate amount in excess of $5,000,000 as to PGW shall be entered against the City or PGW as the case may be and which is not (a) appealed, stayed or bonded, or (b) paid within ninety (90) days of becoming final.

(9) Any provision of the Eighth Series C Reimbursement Agreement or any of the other Documents or the General Ordinance shall at any time for any reason cease to be valid and binding on the related obligor thereunder or shall be declared to be null and void by any court or Governmental Authority or agency having jurisdiction over the City, or the validity or the enforceability thereof shall be contested by the City or PGW in a judicial or administrative proceeding.

(10) Any change shall be made in any provision of the Act, new legislation shall be enacted or a judicial decision shall be published with respect to the foregoing if such change, new legislation or interpretation would, in the reasonable judgment of the Eighth Series C Credit Provider, materially and adversely affect the ability of the City to pay any amount coming due under the Eighth Series C Reimbursement Agreement.

(11) (a) The City shall default in the payment when due of any obligations (subject to any applicable notice or grace period) owed to the issuer of any Swap; (b) if the City is permitted to post collateral for a Swap under applicable law, the City shall fail to post collateral as required by the terms of any Swap; or (c) any event shall occur under any Swap which shall permit any obligation under any Swap in excess of $500,000 to be terminated or otherwise declared due and payable prior to its stated maturity and such event shall continue unremedied past any period of grace provided for in any agreement under which such Swap is issued.

(12) A Governmental Authority with appropriate jurisdiction shall impose a debt moratorium, debt restructuring or debt adjustment on any indebtedness for borrowed money of the City which is a general obligation of the City or which is payable from Revenues.

(13) Any of Fitch, Moody's or S&P shall have downgraded its rating of any long-term unenhanced senior debt issued under the General Ordinance secured by the Revenues to below "BBB-" (or its equivalent), "Baa3" (or its equivalent), or "BBB-" (or its equivalent) respectively, or suspended or withdrawn its rating of the same.

Remedies

If any Event of Default shall occur and be continuing under the Eighth Series C Reimbursement Agreement, then, and in any such event, the Eighth Series C Credit Provider may immediately in its sole discretion take any or all of the following actions:

(a) Notify the Fiscal Agent of such Event of Default and direct the Fiscal Agent to cause a mandatory tender of the Eighth Series C Bonds within two (2) Business Days following the date of receipt by the Fiscal Agent of such notice, and after payment of such mandatory tender, declare the Eighth Series C Letter of Credit to be terminated, whereupon the Eighth Series C Letter of Credit shall forthwith terminate on the tenth day following the date of receipt by the Fiscal Agent of such notice.

(b) Declare all amounts payable under the Eighth Series C Reimbursement Agreement, including, without limitation, the Payment Obligations, to be due and payable, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the City; *provided* that in the case of any Event of Default specified in paragraph (4) under the subheading *"Events of Default"* above, with respect to the City, all amounts payable under the Eighth Series C Reimbursement Agreement shall be immediately due and payable without the giving of any notice to the City or the taking of any other action by any Person.

(c) Declare all of the unpaid principal amount of the Bank Bonds, interest accrued thereon and all other amounts owing by the City under the Eighth Series C Reimbursement Agreement or under the Bank Bonds to be due and payable whereupon the same shall become, immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived, and an action therefor shall immediately accrue; *provided, however*, that with respect to an Event of Default under paragraph (4) under the subheading *"Events of Default"* above, all the unpaid principal amount of the Bank Bonds interest accrued thereon and all other amounts owing by the City under the Eighth Series C Reimbursement Agreement or under the Bank Bonds shall be immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived, and an action therefor shall immediately accrue.

(d) Exercise any rights and remedies available to it by law or under the Eighth Series C Reimbursement Agreement or under the Documents or otherwise.

THE EIGHTH SERIES C CREDIT PROVIDER

The information under this heading has been provided solely by Barclays Bank PLC. This information has not been verified independently by the City. The City makes no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the "Group") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1 by Standard & Poor's Credit Market Services Europe Limited, P-1 by Moody's Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated A by Standard & Poor's Credit Market Services Europe Limited, A2 by Moody's Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended 31 December 2012, the Group had total assets of £1,490,747 million (2011: £1,563,402 million), total net loans and advances[1] of £466,627 million (2011: £478,726 million), total deposits[2] of £462,806 million (2011: £457,161 million), and total shareholders' equity of £62,894 million (2011: £65,170 million) (including non-controlling interests of £2,856 million (2011: £3,092 million)). The profit before tax from continuing operations of the Group for the year ended 31 December 2012 was £99 million (2011: £5,974 million) after credit impairment charges and other provisions of £3,596 million (2011: £3,802 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended 31 December 2012.

The delivery of the information concerning Barclays Bank PLC and the Group herein shall not create any implication that there has been no change in the affairs of Barclays Bank PLC and the Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Barclays Bank PLC is responsible only for the information contained in this section captioned "The Eighth Series C Credit Provider" of this First Supplement to Remarketing Circular and did not participate in the preparation of, or in any way verify the information contained in, any other part of this First Supplement to Remarketing Circular. Accordingly, Barclays Bank PLC assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of this First Supplement to Remarketing Circular.

REPLACEMENT OF LETTER OF CREDIT APPLICABLE TO EIGHTH SERIES D BONDS

On August 20, 2009, Bank of America, N.A. (the "Original Eighth Series D Credit Provider") issued its letter of credit with respect to the Eighth Series D Bonds (the "Original Eighth Series D Letter of Credit"). The Original Eighth Series D Letter of Credit was extended on September 1, 2011 and will expire on August 30, 2013. The City and the Original Eighth Series D Credit Provider have agreed to terminate the Original Eighth Series D Letter of Credit prior to the Expiration Date and Royal Bank of Canada (the "Eighth Series D Credit Provider") has agreed to issue, on the Mandatory Purchase Date, its irrevocable transferable direct pay letter of credit (the "Eighth Series D Letter of Credit") for the benefit of the Eighth Series D Bonds pursuant to a Reimbursement Agreement, dated as of August 1, 2013, between the City and Royal Bank of Canada (the "Eighth Series D Reimbursement Agreement"). The replacement of the Original Eighth Series D Letter of Credit with the Eighth Series D Letter of

[1] Total net loans and advances include balances relating to both bank and customer accounts.

[2] Total deposits include deposits from bank and customer accounts.

Credit, the execution and delivery of the Eighth Series D Reimbursement Agreement and the remarketing of the Eighth Series D Bonds are authorized pursuant to the Act, the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization.

The Eighth Series D Letter of Credit provides that, while the Eighth Series D Bonds are in the Weekly Mode, the outstanding principal of and up to fifty-two (52) days' interest on the Eighth Series D Bonds calculated on the basis of a year 365 or 366 days, as applicable, for the number of days actually elapsed, when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series D Bonds tendered for purchase, as described herein and in the Original Remarketing Circular, will be paid by the Fiscal Agent using funds drawn under the Eighth Series D Letter of Credit. The Eighth Series D Letter of Credit is subject to certain terms and conditions as described herein and in the Eighth Series D Reimbursement Agreement. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D LETTER OF CREDIT AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D LETTER OF CREDIT AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT

GENERAL

The Eighth Series D Credit Provider has agreed to issue, in favor of the Fiscal Agent on behalf of the owners of the Eighth Series D Bonds, and pursuant to the Reimbursement Agreement, dated as of August 1, 2013 (the "Eighth Series D Reimbursement Agreement"), between the City and the Eighth Series D Credit Provider, an irrevocable transferable direct pay letter of credit in support of the Eighth Series D Bonds (the "Eighth Series D Letter of Credit").

Under the Eighth Series D Reimbursement Agreement, the City has agreed to pay to the Eighth Series D Credit Provider an amount equal to all amounts drawn under the Eighth Series D Letter of Credit, together with interest on any such amounts from the date of the drawing to the day of repayment. The City has also agreed to pay certain fees and expenses of the Eighth Series D Credit Provider in connection with the issuance of the Eighth Series D Letter of Credit.

THE EIGHTH SERIES D LETTER OF CREDIT

The following is a summary of certain provisions of the Eighth Series D Letter of Credit. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Eighth Series D Letter of Credit to which reference is hereby made. Wherever defined terms in the Eighth Series D Letter of Credit are referred to, such defined terms are incorporated herein by reference as a part of the statement made, and the statement is qualified in its entirety by such reference. Capitalized terms used under this heading "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D LETTER OF CREDIT AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" but not defined have the meaning assigned to such term in the Eighth Series D Reimbursement Agreement or Eighth Series D Letter of Credit, as applicable.

The Eighth Series D Letter of Credit will be issued in an amount equal to $76,282,192 (as reduced or reinstated from time to time, the "Stated Amount"), of which up to $75,000,000 is available for the payment of the unpaid principal of the Eighth Series D Bonds, and up to $1,282,192 is available for the payment of unpaid interest accrued on the Eighth Series D Bonds. The Eighth Series D Letter of Credit will permit the Fiscal Agent to draw an amount sufficient to pay (i) up to $75,000,000 for payment of the principal amount of the Eighth Series D Bonds, whether at maturity or upon redemption, or the principal portion of the purchase price of Eighth Series D Bonds tendered or deemed tendered under the Bond Authorization, and (ii) up to $1,282,192 with respect to the payment of interest on the Eighth Series D Bonds, or the interest portion of the purchase price of Eighth Series D Bonds so tendered for purchase, representing interest for a period of fifty-two (52) days at a rate of 12.00% per annum, as calculated on the basis of a year of 365 days.

The Eighth Series D Letter of Credit will be effective upon remarketing of the Eighth Series D Bonds and expires on August 1, 2016 (as such date may be extended pursuant to the terms of the Eighth Series D Letter of Credit, the "Stated Expiration Date"), unless terminated earlier or extended in accordance with the provisions set forth in the Eighth Series D Letter of Credit. The Eighth Series D Letter of Credit will terminate on the earliest of (a) the date the Eighth Series D Credit Provider honors the final drawing available to be made under the Eighth Series D Letter of Credit; (b) the Stated Expiration Date; (c) the date specified to the Eighth Series D Credit Provider in a notice signed by the Fiscal Agent stating that the Eighth Series D Letter of Credit has been replaced by an Alternate Liquidity Facility or an Alternate Credit Facility delivered pursuant to the Bond Authorization, provided that all drawings under the Eighth Series D Letter of Credit have been honored; and (d) the twelfth (12th) day after the Fiscal Agent's receipt of written notice from the Eighth Series D Credit Provider specifying that an Event of Default under the Eighth Series D Reimbursement Agreement has occurred and directing the Fiscal Agent to cause a mandatory tender of the Eighth Series D Bonds. In addition, the Eighth Series D Letter of Credit is also automatically terminated in whole prior to its Stated Expiration Date on the date the Eighth Series D Credit Provider honors a drawing or drawings made under the Eighth Series D Letter of Credit upon (x) the conversion of all of the Eighth Series D Bonds from the Weekly Mode to any other Rate Mode, (y) the payment or redemption in whole of the Eighth Series D Bonds or (z) the purchase and cancellation by the City of all of the Eighth Series D Bonds. Prior to the final day on which a drawing or drawings may be made under the Eighth Series D Letter of Credit, the Eighth Series D Credit Provider may extend the Stated Expiration Date from time to time at the request of the City as provided in the Eighth Series D Letter of Credit.

The Eighth Series D Letter of Credit may only be drawn on by the Fiscal Agent or by a transferee that has succeeded to the duties of the Fiscal Agent and to which the Eighth Series D Letter of Credit has been properly transferred in accordance with its terms.

The Eighth Series D Letter of Credit is available solely to pay the principal and interest due in connection with, and the purchase price of, the Eighth Series D Bonds and is not available, under any circumstance, to pay the principal and interest due in connection with, and the purchase price of, any other bonds, notes or other indebtedness issued and outstanding pursuant to the Bond Authorization, the 1975 Ordinance, the 1998 Ordinance or the Ninth Supplement.

THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Eighth Series D Reimbursement Agreement. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Eighth Series D Reimbursement Agreement, to which reference is hereby made. Wherever defined terms in the Eighth Series D Reimbursement Agreement are referred to, such defined terms are incorporated herein by reference as a part of the statement made, and the statement is qualified in its entirety by such reference.

Events of Default

The occurrence of any of the following events is an "Event of Default" under the Eighth Series D Reimbursement Agreement:

(a) The City fails to pay on the date on which the same is due and payable (i) any payment representing a payment or reimbursement for payments made by the Eighth Series D Credit Provider under the Eighth Series D Letter of Credit, plus interest thereon, to the extent any interest is due thereon, or (ii) any payment representing a payment of a Term Loan, plus interest thereon, to the extent any interest is due thereon;

(b) The City fails to pay on the date on which the same are due and payable, any fees, costs, expenses or other payments required by the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter or by any other Related Document to be paid by the City, and such failure to pay is not fully cured within ten (10) days after the earlier of (i) the date such payment is due under the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter or such other Related Document and (ii) the date of delivery to the City of an invoice from the Eighth Series D Credit Provider with respect to fees, costs, expenses or other payments not having a specific due date under the Eighth Series D Reimbursement Agreement;

(c) The City (i) fails to perform or observe certain terms, covenants, agreements or conditions in the Eighth Series D Reimbursement Agreement; or (ii) fails to perform or observe any other term, covenant, agreement or condition in the Eighth Series D Reimbursement Agreement or is in violation of or non-compliance with any provision of the Eighth Series D Reimbursement Agreement not specifically referred to under the heading "Events of Default Under the Eighth Series D Reimbursement Agreement", and has not remedied and fully cured such non-performance, non-observance, violation of or non-compliance within thirty (30) Business Days after the earlier of (a) the date the Eighth Series D Credit Provider has given written notice thereof to the City and (b) the date Senior Management of the Gas Works the City Solicitor, the City Controller and/or the Director of Finance has knowledge that such failure has occurred; *provided* that such cure period does not apply to violations referred to in clause (i) above;

(d) (i) The City defaults in the payment when due (subject to any applicable notice or grace period), whether at stated maturity, required prepayment, demand or otherwise, of any principal of or interest on (howsoever designated) any Indebtedness in excess of $500,000, whether such Indebtedness now exists or is created after the effective date of the Eighth Series D Letter of Credit; (ii) an event of default as defined in any mortgage, indenture, instrument or resolutions under which there may be issued, or by which there may be secured or evidenced, any Indebtedness for money borrowed of, or guaranteed by, the City in excess of $500,000, whether such Indebtedness now exists or is created after the effective date of the Eighth Series D Letter of Credit, occurs and results in the Indebtedness becoming due and payable prior to the stated maturity or due date thereof; or (iii) any event occurs which permits such Indebtedness described in clause (i) or (ii) above in excess of $500,000 to be so declared due and payable prior to its stated maturity or due date and such event continues unremedied past any period of grace provided for in any mortgage, indenture, instrument or Bond Authorization under which such Indebtedness is issued, secured or evidenced;

(e) The validity, binding nature of, or enforceability of any term or provision of the Eighth Series D Reimbursement Agreement or any other Related Document is disputed by, on behalf of, or in the right or name of the City or by any Governmental Authority of competent jurisdiction or any term or provision of the Eighth Series D Reimbursement Agreement or any other Related Document is found or declared to be invalid, avoidable, or non-enforceable by any court or any other Governmental Authority of competent jurisdiction; or any law is enacted which declares the contractual obligations of the City under the Eighth Series D Reimbursement Agreement invalid, unavailable or unenforceable;

(f) Any financial statement of the City or any warranty or representation made by the City in the Eighth Series D Reimbursement Agreement or any other Related Document or in any certificate, letter, or other writing or instrument furnished or delivered under or pursuant to the Eighth Series D Reimbursement Agreement or any other Related Document, or in connection with any provision of the Eighth Series D Reimbursement Agreement or any other Related Document related to the transactions contemplated by the Eighth Series D Reimbursement Agreement proves to have been false or incorrect or breached in any material respect on the date as of which made or when reaffirmed, as the case may be;

(g) (i) The City or the Gas Works commences any case, proceeding or other action (A) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, moratorium, restructuring or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the City or the Gas Works makes a general assignment for the benefit of its creditors; (ii) there is commenced against the City or the Gas Works, any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of thirty (30) days; (iii) there is commenced against the City or the Gas Works, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which is not vacated, discharged, or stayed or bonded pending appeal within thirty (30) days after the entry thereof; (iv) the City or the Gas Works takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the

acts set forth in clause (i), (ii) or (iii) above; or (v) the City or the Gas Works is generally not, or is unable to, or admits in writing its inability to, pay its debts as they become due;

(h) Any judgment arising out of the operation of the City or the Gas Works, in an aggregate amount in excess of $5,000,000 is entered against the City or the Gas Works as the case may be, and is not (i) appealed, (ii) stayed, or (iii) paid, in each case, within ninety (90) days after becoming final;

(i) The Sinking Fund or the Sinking Fund Reserve or any funds on deposit in, or otherwise to the credit of, such accounts becomes subject to any writ, order, judgment, warrant of attachment, execution or similar process and such writ, order, judgment, warrant of attachment, execution or similar process prevents payment into or out of such Account for the purposes and at the times contemplated by the Related Documents, unless such writ, order, judgment, warrant of attachment, execution or similar process is fully bonded or stayed;

(j) Any change is made in any provision of the Act if such change would, in the reasonable judgment of the Eighth Series D Credit Provider, materially and adversely affect the ability of the City to pay any amount coming due under Eighth Series D Reimbursement Agreement or under the Eighth Series D Fee Letter or the Bank Bonds;

(k) There occurs any "default" or "event of default" in any Related Document (other than the Eighth Series D Reimbursement Agreement), subject to applicable notice and cure periods;

(l) (i) The City defaults in the payment when due of any obligation (subject to any applicable notice or grace period) owed to the issuer of any Swap; (ii) if the City is permitted to post collateral for a Swap under applicable law, the City fails to post collateral as required by the terms of any Swap; or (iii) any event occurs under any Swap which permits any obligation under any Swap in excess of $200,000 to be terminated or otherwise declared due and payable prior to its stated maturity and such event continues unremedied past any period of grace provided for in any agreement under which such Swap is issued;

(m) A Governmental Authority with appropriate jurisdiction imposes a debt moratorium, debt restructuring or debt adjustment on any Indebtedness of the City or the Gas Works; or

(n) Any unenhanced rating assigned to the Indebtedness of the City issued under the 1975 Ordinance (whether senior or subordinate) or the 1998 Ordinance (whether senior or subordinate) by Moody's, S&P or Fitch is withdrawn or suspended for credit-related reasons or falls below "Baa3", "BBB-" or "BBB-", respectively.

Remedies

(a) If an Event of Default under the Eighth Series D Reimbursement Agreement has occurred and is continuing uncured, the Eighth Series D Credit Provider may, in its sole discretion,

(i) Notify the Fiscal Agent and the City of such Event of Default and give notice of termination of the Eighth Series D Letter of Credit; direct the Fiscal Agent to cause a mandatory tender of all of the Eighth Series D Bonds; direct the Fiscal Agent to draw under the Eighth Series D Letter of Credit by a Liquidity Drawing, whereupon all amounts drawn under the Eighth Series D Letter of Credit, all interest thereon and all other amounts payable under the Eighth Series D Reimbursement Agreement or in respect of the Eighth Series D Reimbursement Agreement will automatically be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the City; and direct the Fiscal Agent to exercise remedies available to it under the Related Documents;

(ii) Declare any outstanding Term Loans to be immediately due and payable in full, whereupon all such Term Loans (together with all interest accrued but unpaid thereon to the date of payment) will be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the City;

(iii) By written notice to the City, declare the City's Obligations under the Eighth Series D Reimbursement Agreement and under the Eighth Series D Fee Letter to be, whereupon the same will become, immediately due and payable; *provided, however*, that upon the occurrence of an Event of Default under paragraph (g) above under the heading "Events of Default under the Eighth Series D Reimbursement Agreement," all Obligations under the Eighth Series D Reimbursement Agreement and under the Eighth Series D Fee Letter will automatically become immediately due and payable;

(iv) Increase the interest rate on all Obligations under the Eighth Series D Reimbursement Agreement and under the Eighth Series D Fee Letter to the Default Rate from the date of the Event of Default; or

(v) Exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter and the other Related Documents, the Act or at law or in equity.

(b) No remedy conferred or reserved in the Eighth Series D Reimbursement Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy is cumulative and is in addition to every other remedy given under the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter or any other Related Document or now or after the effective date of the Eighth Series D Letter of Credit existing at law or in equity or by statute.

Definitions

"*Bank Bonds*" means any Eighth Series D Bonds that are purchased (or deemed purchased) by the Eighth Series D Credit Provider with the proceeds of a Liquidity Drawing.

"*Eighth Series D Fee Letter"* means the letter from the Eighth Series D Credit Provider to the City detailing the fees, expenses and other amounts that are due and payable by the City to the Eighth Series D Credit Provider from time to time.

"*Governmental Authority*" means any national, state, city or other local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, tribunal, agency, bureau, court or entity (including the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, any central bank and any comparable authority), or any arbitrator with authority to bind any of the parties to the Eighth Series D Reimbursement Agreement at law.

"*Indebtedness*" of the City means at any date, without duplication, any of the following obligations, but only to the extent payable from Gas Works Revenues: (a) all obligations of the City for borrowed money; (b) all obligations of the City evidenced by bonds, debentures, notes or other similar instruments, including bonds, debentures, notes and other similar instruments issued under the 1975 Ordinance and the 1998 Ordinance, in each case including senior and subordinate obligations; (c) all obligations of the City to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (d) all obligations of the City as lessee under capital leases; (e) all obligations of the City to purchase securities (or other assets) that arise out of or in connection with the sale of the same or substantially similar securities or assets; (f) all obligations of the City to reimburse any bank or any other Person in respect of amounts paid under a letter of credit, liquidity facility or any other similar instrument; (g) all indebtedness of others secured by a lien on any asset of the City, whether or not such indebtedness is assumed by the City; and (h) all guarantees by the City of indebtedness of other Persons.

"*Liquidity Drawing*" means a drawing under the Eighth Series D Letter of Credit to provide the funds necessary to pay the principal and/or interest comprising the purchase price of Eighth Series D Bonds that have been tendered by the owners thereof but not remarketed.

"*Obligations*" means all loans, advances, reimbursement obligations, term loans, debts, liabilities, obligations, fees and interest owing by the City to the Eighth Series D Credit Provider of any kind and description,

direct or indirect, absolute or contingent and due or to become due, arising out of the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter and any other Related Document, by law or otherwise, including all interest and other costs and expenses (including reasonable attorneys' fees) for which the City is obligated under the Eighth Series D Reimbursement Agreement and the Eighth Series D Fee Letter.

"*Related Documents*" means the Eighth Series D Reimbursement Agreement, the Eighth Series D Fee Letter, the Bond Authorization, the 1998 Ordinance (including the Ninth Supplement), the Eighth Series D Bonds, the Agreement Relating to Bonds, the Fiscal Agent Agreement and the Eighth Series D Remarketing Agreement, as the same may be amended or modified from time to time in accordance with their respective terms and the terms of the Eighth Series D Reimbursement Agreement.

"*Swaps*" means Qualified Swaps and Exchange Agreements, in each case, which relate to Senior Bonds or Subordinate Bonds (as such terms are defined in the 1998 Ordinance) and any other swap contract entered into by the City which relates to any bonds issued pursuant to the 1998 Ordinance.

"*Term Loan*" means the amortizing term loan to the City resulting from the conversion of the reimbursement obligation with respect to a Liquidity Drawing with respect to Eighth Series D Bonds that have not been remarketed by the first to occur of (i) ninety (90) days after the date of such Liquidity Drawing and (ii) the date of the expiration of the Eighth Series D Letter of Credit, which loan, subject to satisfaction of the conditions specified in the Eighth Series D Reimbursement Agreement, will be subject to repayment in twelve (12) equal or nearly equal installments, together with interest thereon, with all principal and interest due on the third anniversary of the date such Term Loan was made.

THE EIGHTH SERIES D CREDIT PROVIDER

The information under this heading has been provided solely by Royal Bank of Canada. This information has not been verified independently by the City. The City makes no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Royal Bank of Canada is a Schedule I bank under the *Bank Act* (Canada), which constitutes its charter and governs its operations. Royal Bank of Canada's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada. Royal Bank of Canada is the parent company of RBC Capital Markets, LLC, the Eighth Series D Remarketing Agent.

Royal Bank of Canada and its subsidiaries operate under the master brand name RBC. Royal Bank of Canada is Canada's largest bank as measured by assets and market capitalization and is among the largest banks in the world based on market capitalization. Royal Bank of Canada is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, investor services and wholesale banking on a global basis. Royal Bank of Canada and its subsidiaries employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 44 other countries.

Royal Bank of Canada had, on a consolidated basis, as at April 30, 2013, total assets of C$868 billion (approximately US$861 billion*), equity attributable to shareholders of C$46 billion (approximately US$46 billion*), and total deposits of C$531 billion (approximately US$527 billion*). The foregoing figures were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and have been extracted and derived from, and are qualified by reference to, Royal Bank of Canada's unaudited Interim Condensed Consolidated Financial Statements included in Royal Bank of Canada's quarterly Report to Shareholders for the fiscal period ended April 30, 2013.

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* As at April 30, 2013: C$1.00 = US$0.992555.

The senior long-term unsecured debt of Royal Bank of Canada has been assigned ratings of AA- (stable outlook) by Standard & Poor's Ratings Services, Aa3 (stable outlook) by Moody's Investors Service and AA (stable outlook) by Fitch Ratings. Royal Bank of Canada's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, Royal Bank of Canada will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this First Supplement to Remarketing Circular is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2W7, Canada, or by calling (416) 955-7802, or by visiting rbc.com/investorrelations.

The delivery of this First Supplement to Remarketing Circular does not imply that there has been no change in the affairs of Royal Bank of Canada since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

Royal Bank of Canada is responsible only for the information contained in this section captioned "The Eighth Series D Credit Provider" of this First Supplement to Remarketing Circular and did not participate in the preparation of, or in any way verify the information contained in, any other part of this First Supplement to Remarketing Circular. Accordingly, Royal Bank of Canada assumes no responsibility for, and makes no representation or warranty as to, the accuracy or completeness of information contained in any other part of this First Supplement to Remarketing Circular.

REMARKETING

EIGHTH SERIES C BONDS REMARKETING AGENT

Barclays Capital Inc. (the "Eighth Series C Remarketing Agent") will be appointed as exclusive remarketing agent for the Eighth Series C Bonds effective July 31, 2013. Subject to certain conditions, upon the delivery or deemed delivery of Eighth Series C Bonds tendered for purchase by any owners thereof, on and after August 1, 2013, the Eighth Series C Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Eighth Series C Bonds, any such remarketing to be made on the date such tendered Eighth Series C Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Eighth Series C Remarketing Agent may be removed or replaced by the City and may also resign in accordance with the provisions of the Bond Authorization and a Remarketing Agreement entered into between the City and the Eighth Series C Remarketing Agent (the "Eighth Series C Remarketing Agreement").

EIGHTH SERIES D BONDS REMARKETING AGENT

RBC Capital Markets, LLC (the "Eighth Series D Remarketing Agent" and, together with the Eighth Series C Remarketing Agent, the "Remarketing Agents") will be appointed as exclusive remarketing agent for the Eighth Series D Bonds effective July 31, 2013. Subject to certain conditions, upon the delivery or deemed delivery of Eighth Series D Bonds tendered for purchase by any owners thereof, on and after August 1, 2013, the Eighth Series D Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Eighth Series D Bonds, any such remarketing to be made on the date such tendered Eighth Series D Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Eighth Series D Remarketing Agent may be removed or replaced by the City and may also resign in accordance with the provisions of the Bond Authorization and a Remarketing Agreement entered into between the City and the Eighth Series D Remarketing Agent (the "Eighth Series D Remarketing Agreement").

Special Considerations Relating to the Eighth Series D Bonds Bearing Interest at a Weekly Rate

The Eighth Series D Remarketing Agent Is Paid by the City

The Eighth Series D Remarketing Agent's responsibilities include determining the interest rate from time to time and using best efforts to remarket Eighth Series D Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Eighth Series D Remarketing Agreement), as further described in the Remarketing Circular. The Eighth Series D Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Eighth Series D Remarketing Agent may differ from those of existing holders and potential purchasers of Eighth Series D Bonds.

The Eighth Series D Remarketing Agent May Purchase Eighth Series D Bonds for Its Own Account

The Eighth Series D Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may purchase such obligations for its own account. The Eighth Series D Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series D Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Eighth Series D Bonds in order to achieve a successful remarketing of the Eighth Series D Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Eighth Series D Bonds) or for other reasons. However, the Eighth Series D Remarketing Agent is not obligated to purchase Eighth Series D Bonds and may cease doing so at any time without notice. The Eighth Series D Remarketing Agent may also make a market in the Eighth Series D Bonds by routinely purchasing and selling Eighth Series D Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Eighth Series D Remarketing Agent is not required to make a market in the Eighth Series D Bonds. The Eighth Series D Remarketing Agent may also sell any Eighth Series D Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series D Bonds. The purchase of Eighth Series D Bonds by the Eighth Series D Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series D Bonds in the market than is actually the case. The practices described above also may result in fewer Eighth Series D Bonds being tendered in a remarketing.

Eighth Series D Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date

Pursuant to the Remarketing Agreement, the Eighth Series D Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Eighth Series D Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series D Bonds (including whether the Eighth Series D Remarketing Agent is willing to purchase Eighth Series D Bonds for its own account). There may or may not be Eighth Series D Bonds tendered and remarketed on a Rate Determination Date, the Eighth Series D Remarketing Agent may or may not be able to remarket any Eighth Series D Bonds tendered for purchase on such date at par and the Eighth Series D Remarketing Agent may sell Eighth Series D Bonds at varying prices to different investors on such date or any other date. The Eighth Series D Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series D Bonds at the remarketing price. In the event the Eighth Series D Remarketing Agent owns any Eighth Series D Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Eighth Series D Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Eighth Series D Bonds Other Than through Tender Process May Be Limited

The Eighth Series D Remarketing Agent may buy and sell Eighth Series D Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Eighth Series D Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Eighth Series D Bonds, whether in a remarketing or otherwise, should not

assume that they will be able to sell their Eighth Series D Bonds other than by tendering the Eighth Series D Bonds in accordance with the tender process.

The Remarketing Agents have provided the following sentence for inclusion in this First Supplement to Remarketing Circular: The Remarketing Agents have reviewed the information in this First Supplement to Remarketing Circular pursuant to their responsibilities to investors under the federal securities laws, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

RATINGS

Moody's and S&P are expected to assign to the Eighth Series C Bonds the ratings of "A1/VMIG 1" and "AA+/A-1", respectively. The ratings are based upon (i) the ratings of the Eighth Series C Credit Provider, (ii) the long-term ratings the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series C Credit Provider and PGW. The Eighth Series C Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this First Supplement to Remarketing Circular are "A2" and "A+" and "P-1" and "A-1", respectively.

Moody's and S&P are expected to assign to the Eighth Series D Bonds the ratings of "Aa2/VMIG 1" and "AAA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series D Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series D Credit Provider and PGW. The Eighth Series D Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this First Supplement to Remarketing Circular are "Aa3" and "AA-" and "P-1" and "A-1+", respectively.

Any explanation of these ratings may only be obtained from the rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. No assurance is given that such ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of any of such ratings may have an adverse effect on the market price of the Eighth Series C Bonds and the Eighth Series D Bonds, respectively.

The Eighth Series C Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series D Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The City is not required to maintain any particular rating on the Eighth Series C Bonds or the Eighth Series D Bonds and shall have no liability if a rating is lowered, withdrawn or suspended.

TAX MATTERS

On August 20, 2009, Co-Bond Counsel delivered its opinions (the "Opinions") with respect to the issuance of the Eighth Series C Bonds and the Eighth Series D Bonds. Copies of the Opinions are attached hereto as Appendix "B". The Opinions speak only as of the date thereof. In connection with the remarketing of the Eighth Series C Bonds and the Eighth Series D Bonds, on August 1, 2013, Co-Bond Counsel will each deliver their opinions ("No Adverse Effect Opinions") to the effect that the remarketing on August 1, 2013 of the Eighth Series C Bonds as a result of the substitution of the Eighth Series C Letter of Credit, and the remarketing on August 1, 2013 of the Eighth Series D Bonds as a result of the substitution of the Eighth Series D Letter of Credit, will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Eighth Series C Bonds or Eighth Series D Bonds, respectively. The forms of the No Adverse Effect Opinions are attached hereto as Appendix "C".

CERTAIN LEGAL MATTERS

All legal matters incident to the remarketing of the Eighth Series C Bonds and Eighth Series D Bonds are subject to approval of the legality of the remarketing of the Eighth Series C Bonds and the Eighth Series D Bonds by Blank Rome LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works. Certain legal matters will be passed upon for the Eighth Series C Credit Provider by Chapman and Cutler LLP, Chicago, Illinois, special counsel to the Eighth Series C Credit Provider, internal counsel to the Eighth Series C Credit Provider and McDermott Will & Emery UK LLP, English legal advisors to the Eighth Series C Credit Provider, and certain legal matters will be passed upon for the Eighth Series D Credit Provider by Nixon Peabody, LLP, New York New York, special U.S. counsel to the Eighth Series D Credit Provider, and Norton Rose Fulbright Canada LLP, special Canadian counsel to the Eighth Series D Credit Provider.

CO-FINANCIAL ADVISORS

Public Financial Management, Inc. and Phoenix Capital Partners, LLP both of Philadelphia, Pennsylvania, have served as financial advisors (the "Financial Advisors") to the City in respect of the remarketing of the Eighth Series C Bonds and Eighth Series D Bonds. The Financial Advisors assisted in the preparation of this First Supplement to Remarketing Circular and have provided other advice. Public Financial Management, Inc. and Phoenix Capital Partners, LLP are financial advisory and consulting organizations and are not engaged in the business of the remarketing or marketing of municipal securities or any other negotiable instruments.

CERTAIN RELATIONSHIPS

Public Financial Management, Inc., financial advisor to the City, acts as a consultant to PGW on certain management and labor relations issues and has provided testimony before the PUC on several of PGW's rate cases. Blank Rome LLP and Andre C. Dasent, P.C. each provide certain legal services to the City and to PGW.

Royal Bank of Canada is the parent company of RBC Capital Markets, LLC, the Eighth Series D Remarketing Agent. Barclays Capital Inc., the Eighth Series C Remarketing Agent, is an indirect subsidiary of Barclays Bank PLC, the Eighth Series C Credit Provider.

NO LITIGATION

To the knowledge of the City of Philadelphia Law Department and, solely with respect to (E) below, based upon certain representations from PGW's General Counsel, after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the remarketing of the Eighth Series C Bonds or the Eighth Series D Bonds, (B) which contests the validity or enforceability of the Eighth Series C Bonds or the Eighth Series D Bonds or any proceedings of the City taken with respect to the remarketing thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Eighth Series C Bonds or the Eighth Series D Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

On August 1, 2013, the City Solicitor shall furnish a written confirmation, to the effect, among other things, that except for litigation which is disclosed in this First Supplement to Remarketing Circular, to the knowledge of the Law Department after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain the remarketing of the Eighth Series C Bonds or the Eighth Series D Bonds, (B) which contests the validity or enforceability of the Eighth Series C Bonds or the Eighth Series D Bonds or any proceedings of the City taken with respect to the remarketing of the Eighth Series C Bonds or the Eighth Series D Bonds, (C) which contests the pledge or application of any monies or security provided for the payment of the Eighth Series C Bonds or the Eighth Series D Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

NEGOTIABLE INSTRUMENTS

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

CERTAIN REFERENCES

All summaries of the provisions of the Eighth Series C Bonds or the Eighth Series D Bonds and the security therefor, the Act, the General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization set forth herein, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as statements are made in this First Supplement to Remarketing Circular involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

CONTINUING DISCLOSURE

In connection with the original issuance of the Eighth Series C Bonds and Eighth Series D Bonds, the City entered into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., which constitutes a written undertaking for the benefit of the owners and beneficial owners of the Eighth Series C Bonds and Eighth Series D Bonds. A copy of the Continuing Disclosure Agreement is attached to the Original Remarketing Circular as APPENDIX E.

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This First Supplement to Remarketing Circular has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA, PENNSYLVANIA

By: /s/ Michael A. Nutter
Honorable Michael A. Nutter, Mayor

By: /s/ Alan L. Butkovitz
Honorable Alan L. Butkovitz, City Controller

By: /s/ Shelley R. Smith
Shelley R. Smith, City Solicitor

Approved:

By: /s/ Rob Dubow
Rob Dubow, Director of Finance

APPENDIX “A”

ORIGINAL REMARKETING CIRCULAR

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REMARKETING CIRCULAR **(See "RATINGS" herein)**
Not a New Issue **Book-Entry Only**

On August 20, 2009, Co-Bond Counsel, delivered an opinion, that under existing statutes, regulations, rulings, and court decisions, assuming that the City complies with covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT and that under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date thereof, interest on the Bonds is exempt from Pennsylvania personal income tax and the Bonds are exempt from Pennsylvania personal property taxes. In connection with the initial remarketing of the Bonds as a result of the extensions of the Eighth Series B Letter of Credit, the Eighth Series C Letter of Credit, and the Eighth Series D Letter of Credit and the substitution of the Eighth Series E Letter of Credit, as described in this Remarketing Circular, Co-Bond Counsel, will deliver an opinion to the effect that the extension and substitution of the Letters of Credit, as described in this Remarketing Circular, does not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

$225,520,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES B (1998 GENERAL ORDINANCE);	$50,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES C (1998 GENERAL ORDINANCE);	$75,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES D (1998 GENERAL ORDINANCE);	$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES E (1998 GENERAL ORDINANCE)

Dated: August 20, 2009 **Due: August 1, 2031**

The City of Philadelphia, Pennsylvania (the "City"), a city of the first class under the laws of the Commonwealth of Pennsylvania, issued its Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) consisting of the Eighth Series B Bonds (the "Eighth Series B Bonds"), the Eighth Series C Bonds (the "Eighth Series C Bonds"), the Eighth Series D Bonds (the "Eighth Series D Bonds"), and the Eighth Series E Bonds (the "Eighth Series E Bonds," and collectively with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Bonds") pursuant to the Act, the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Bond Authorization (as such terms are defined herein). This Remarketing Circular has been prepared in connection with the extension of certain letters of credit and the substitution of an irrevocable direct pay letter of credit for the letters of credit which enhance the applicable Series of the Bonds, as described herein.

The Bonds were issued as fully registered bonds in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The Bonds bear interest at the Weekly Rate as determined by the respective Remarketing Agent for the applicable series of Bonds in accordance with the procedures detailed herein (See "DESCRIPTION OF THE BONDS – Description of the Bonds in the Weekly Mode"). Each Series of the Bonds may, at the option of the City, subject to certain conditions, be converted in whole or in part to a Daily Mode, Term Mode or Fixed Mode as described herein. The Bonds are registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), which acts as securities depository for the Bonds. Purchases of the beneficial ownership interests in the Bonds will be made in book entry only form. Purchasers will not receive certificates representing their ownership interests in the Bonds during the period in which Cede & Co. is the owner of the Bonds, as nominee of DTC. References herein to the bondholders, Holders and registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "DESCRIPTION OF THE BONDS — Book Entry Only System."

This Remarketing Circular in general describes the Bonds only during the period that such Bonds bear interest at the Weekly Rate. If the Bonds are converted from a Weekly Mode to another Mode, information regarding the new Mode will be provided to prospective purchasers.

The principal and redemption price of the Bonds are payable at the corporate trust office of U.S. Bank National Association, as Fiscal Agent and Sinking Fund Depository for the Bonds (the "Fiscal Agent"), in Philadelphia, Pennsylvania, at the times and in the amounts set forth herein. While the Bonds bear interest in the Weekly Mode, interest is payable on the first Business Day of each month, by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the Business Day immediately preceding each interest payment date. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds are payable directly to Cede & Co. for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of Bonds, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such Bonds.

The Bonds are subject to optional redemption and mandatory redemption prior to maturity as described herein. The Bonds are also subject to optional and mandatory tender while in the Weekly Mode, as set forth herein.

THE BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA ("CITY") OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OR CREATE A LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS ("PGW" OR "GAS WORKS") REFERRED TO HEREIN.

THE BONDS WERE ISSUED ON A PARITY WITH OTHER SENIOR 1998 ORDINANCE BONDS ISSUED UNDER THE 1998 GENERAL ORDINANCE AND ARE SUBORDINATED IN RIGHT OF PAYMENT AND SECURITY TO ALL BONDS ISSUED AND OUTSTANDING UNDER THE 1975 GENERAL ORDINANCE (AS DEFINED HEREIN), AS DESCRIBED IN THIS REMARKETING CIRCULAR.

On August 20, 2009, Wells Fargo Bank, National Association (the "Eighth Series B Credit Provider") issued its letter of credit with respect to the Eighth Series B Bonds (the "Eighth Series B Letter of Credit"). The Eighth Series B Letter of Credit has been extended and will expire on August 30, 2013 (unless earlier terminated or extended as described herein), and while the Eighth Series B Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series B Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series B Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under the Eighth Series B Letter of Credit. The Eighth Series B Letter of Credit is subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended, and as amended by a Second Amendment to Reimbursement, Credit and Security Agreement dated as of September 1, 2011, entered into between the City and the Eighth Series B Credit Provider (the "Eighth Series B Reimbursement Agreement"). See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" herein.

WELLS FARGO

On August 20, 2009, The Bank of Nova Scotia, acting through its New York Agency (the "Eighth Series C Credit Provider") issued its letter of credit with respect to the Eighth Series C Bonds (the "Eighth Series C Letter of Credit"). The Eighth Series C Letter of Credit has been extended and will expire on August 30, 2013 (unless earlier terminated or extended as described herein), and while the Eighth Series C Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series C Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series C Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under the Eighth Series C Letter of Credit. The Eighth Series C Letter of Credit is subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as amended by a First Amendment to Reimbursement, Credit and Security Agreement dated as of September 1, 2011, entered into between the City and the Eighth Series C Credit Provider (the "Eighth Series C Reimbursement Agreement"). See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein.

Scotiabank

On August 20, 2009, Bank of America, N.A. (the "Eighth Series D Credit Provider") issued its letter of credit with respect to the Eighth Series D Bonds (the "Eighth Series D Letter of Credit"). The Eighth Series D Letter of Credit has been extended and will expire on August 30, 2013 (unless earlier terminated or extended as described herein), and while the Eighth Series D Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series D Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series D Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under the Eighth Series D Letter of Credit. The Eighth Series D Letter of Credit is subject to certain terms and conditions as described herein and in a Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended, and as amended by a Second Amendment to Reimbursement, Credit and Security Agreement dated as of September 1, 2011, entered into between the City and the Eighth Series D Credit Provider (the "Eighth Series D Reimbursement Agreement"). See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein.

Bank of America

On September 1, 2011, PNC Bank, National Association (the "Eighth Series E Credit Provider") will issue its direct pay irrevocable letter of credit with respect to the Series E Bonds (the "Eighth Series E Letter of Credit"). The Eighth Series E Letter of Credit will expire on August 30, 2013, (unless earlier terminated or extended as described herein), and while the Eighth Series E Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series E Bonds when and as the same shall be due and payable, and payment of the purchase price of the Eighth Series E Bonds tendered for purchase, as described herein, will be paid by the Fiscal Agent using funds drawn under the Eighth Series E Letter of Credit, subject to certain terms and conditions as described herein and in a Reimbursement Agreement dated as of September 1, 2011, entered into between the City and the Eighth Series E Credit Provider (the "Eighth Series E Reimbursement Agreement"). See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" herein.

PNC

Each letter of credit enhances only the Series of Bonds to which it relates and not any other Series of Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. PROSPECTIVE INVESTORS MUST READ THE ENTIRE REMARKETING CIRCULAR TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

In connection with the remarketing of the Bonds, certain legal matters will be passed upon by Blank Rome LLP and Andre C. Dasent, P.C., Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania. Certain legal matters will be passed upon for the Remarketing Agents by Greenberg Traurig, LLP and The Smyler Firm, Co-Counsel to the Remarketing Agents. Certain legal matters will be passed upon for the Eighth Series B Credit Provider and the Eighth Series D Credit Provider by Duane Morris LLP, Philadelphia, Pennsylvania, counsel to the Eighth Series B Credit Provider and Eighth Series D Credit Provider. Certain legal matters will be passed upon for the Eighth Series C Credit Provider by Chapman and Cutler LLP, Chicago, Illinois, counsel to the Eighth Series C Credit Provider. Certain legal matters will be passed upon for the Eighth Series E Credit Provider by Nixon Peabody LLP, New York, New York, counsel to the Eighth Series E Credit Provider. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 1, 2011.

Remarketing Agent for the Eighth Series B Bonds & Eighth Series C Bonds WELLS FARGO BANK	**Remarketing Agent for the Eighth Series D Bonds BofA MERRILL LYNCH**	**Remarketing Agent for the Eighth Series E Bonds PNC BANK**

Dated: August 29, 2011

MATURITY SCHEDULE

$225,520,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS,
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES B (1998 GENERAL ORDINANCE);	$50,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES C (1998 GENERAL ORDINANCE);	$75,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES D (1998 GENERAL ORDINANCE);	$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES E (1998 GENERAL ORDINANCE)

$50,260,000
Gas Works Revenue Refunding Bonds,
Eighth Series B
(1998 General Ordinance)

Due (August 1)	Next Reset Date	Interest Payment Dates	Price	CUSIP No.*
2031	September 8, 2011	First Business Day of the Month	100%	717823 2P2

$50,000,000
Gas Works Revenue Refunding Bonds,
Eighth Series C
(1998 General Ordinance)

Due (August 1)	Next Reset Date	Interest Payment Dates	Price	CUSIP No.*
2031	September 8, 2011	First Business Day of the Month	100%	717823 2R8

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* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

$75,000,000
Gas Works Revenue Refunding Bonds,
Eighth Series D
(1998 General Ordinance)

Due (August 1)	Next Reset Date	Interest Payment Dates	Price	CUSIP No.*
2031	September 8, 2011	First Business Day of the Month	100%	717823 2T4

$50,260,000
Gas Works Revenue Refunding Bonds,
Eighth Series E
(1998 General Ordinance)

Due (August 1)	Next Reset Date	Interest Payment Dates	Price	CUSIP No.*
2031	September 8, 2011	First Business Day of the Month	100%	717823 5S3

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* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

CITY OF PHILADELPHIA, PENNSYLVANIA
MAYOR
HONORABLE MICHAEL A. NUTTER

MAYOR'S INTERIM CHIEF OF STAFF
SUZANNE R. BIEMILLER

MAYOR'S CABINET

Richard Negrin, Esquire ..... Deputy Mayor for Administration and Coordination/Managing Director
Rob Dubow ..... Director of Finance
Shelley R. Smith, Esquire ..... City Solicitor
Rina Cutler ..... Deputy Mayor of Transportation and Utilities
Everett A. Gillison ..... Deputy Mayor for Public Safety
Alan Greenberger ..... Deputy Mayor for Economic Development and Commerce Director
Donald F. Schwarz, M.D. ..... Deputy Mayor for Health and Opportunity and Health Commissioner
Michael DiBerardinis ..... Deputy Mayor for Environmental and Community Resources
Thomas Jones ..... Acting Chief Information Officer
Katherine Gajewski ..... Director of Sustainability
Teresa A. Gillen ..... Director, Federal Legislative Affairs
Melanie Johnson ..... City Representative
Amy L. Kurland ..... Inspector General
Joan L. Markman ..... Chief Integrity Officer
Lewis Rosman ..... Director, Legislative and Government Affairs
Lori A. Shorr, Ph.D. ..... Chief Education Officer
Gary P. Steuer ..... Chief Cultural Officer
David G. Wilson ..... First Deputy Managing Director

City Treasurer
Nancy E. Winkler

City Controller
Alan L. Butkovitz

PHILADELPHIA GAS WORKS

800 W. Montgomery Avenue
Philadelphia, Pennsylvania 19122

Craig E. White ..... President and Chief Executive Officer
Joseph R. Bogdonavage ..... Interim Executive Vice President and Chief Financial Officer
Randall J. Gyory ..... Interim Executive Vice President and Chief Operating Officer
Charles J. Grant ..... Chief of Staff
Thomas L. Kuczynski ..... Senior Vice President — Enterprise Strategic Services
Douglas A. Moser ..... Senior Vice President — Gas Management
Douglas Oliver ..... Senior Vice President — Marketing and Corporate Communications
Abby L. Pozefsky, Esq. ..... Senior Vice President — Administration and General Counsel
Raquel N. Guzman, Esq. ..... Vice President — Legal and Associate General Counsel
Steven P. Hershey ..... Vice President — Regulatory and External Affairs
Michael Jones ..... Vice President —Technical Compliance
Paul A. Mondimore ..... Vice President — Field Operations
Jo Ann Muniz ..... Vice President — Supply Chain
William C. Muntzer ..... Vice President — Human Resources
Joseph A. Smith ..... Vice President — Marketing and Corporate Communications
John P. Straub ..... Vice President — Corporate Preparedness
Lorraine S. Webb ..... Vice President — Organizational Development
Eloise N. Young ..... Vice President — Information Services and Chief Information Officer
Joseph F. Golden, Jr. ..... Controller

CO-FINANCIAL ADVISORS
Public Financial Management, Inc.
Phoenix Capital Partners, LLP
FISCAL AGENT
U.S. Bank National Association

THE ORDER AND PLACEMENT OF MATERIALS IN THIS REMARKETING CIRCULAR, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS REMARKETING CIRCULAR, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE REMARKETING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE REMARKETING CIRCULAR.

No dealer, broker, salesperson or other person has been authorized by the City, PGW or the Remarketing Agents to give any information or to make any representations, other than those contained in this Remarketing Circular and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Remarketing Circular does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from PGW and other sources which are believed to be reliable, but, as to information from other sources, is not guaranteed as to accuracy or completeness by PGW. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of PGW or with respect to other matters set forth herein since the date hereof or the date as of which particular information is given, if earlier.

The Eighth Series B Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES B CREDIT PROVIDER" in this Remarketing Circular and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Remarketing Circular.

The Eighth Series C Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES C CREDIT PROVIDER" in this Remarketing Circular and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Remarketing Circular.

The Eighth Series D Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES D CREDIT PROVIDER" in this Remarketing Circular and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Remarketing Circular.

The Eighth Series E Credit Provider has provided only the information with respect to itself and its affiliates set forth under the caption "THE EIGHTH SERIES E CREDIT PROVIDER" in this Remarketing Circular and makes no reference or warranty, express or implied, as to the accuracy or completeness of any other information contained in this Remarketing Circular.

The Remarketing Agents have provided the following sentence for inclusion in this Remarketing Circular. The Remarketing Agents have reviewed the information in this Remarketing Circular in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information. The information and the opinions expressed herein are subject to change without notice, and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the operations of the Philadelphia Gas Works or the City of Philadelphia since the date hereof, or as to the information under "PGW BUDGET, RATES AND FINANCES – Fiscal Years 2011 and 2012 Operating Budgets," as of the date hereof.

This Remarketing Circular is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the complete text of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

This Remarketing Circular is submitted in connection with the remarketing of the Bonds and may not be reproduced or be used, as a whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY.

If and when included in this Remarketing Circular, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Remarketing Circular. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Remarketing Circular speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. The Remarketing Circular will be made available through the Electronic Municipal Market Access System ("EMMA"), which, effective July 1, 2009, is the sole Nationally Recognized Municipal Securities Information Repository.

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REMARKETING CIRCULAR

$225,520,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE REFUNDING BONDS,
EIGHTH SERIES
(1998 GENERAL ORDINANCE)
CONSISTING OF:

$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES B (1998 GENERAL ORDINANCE);	**$50,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES C (1998 GENERAL ORDINANCE);**	**$75,000,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES D (1998 GENERAL ORDINANCE);**	**$50,260,000 GAS WORKS REVENUE REFUNDING BONDS, EIGHTH SERIES E (1998 GENERAL ORDINANCE)**

INTRODUCTION

General

This Remarketing Circular, including the cover page, inside front cover page, table of contents, tables and appendices, sets forth information with respect to the remarketing by the City of Philadelphia, Pennsylvania (the "City") of its Gas Works Revenue Bonds, Eighth Series (1998 General Ordinance), consisting of the Eighth Series B Bonds (the "Eighth Series B Bonds"), the Eighth Series C Bonds (the "Eighth Series C Bonds"), the Eighth Series D Bonds, (the "Eighth Series D Bonds") and the Eighth Series E Bonds (the "Eighth Series E Bonds," and collectively with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Bonds" or the "Variable Rate Bonds"). The Bonds were issued as Senior 1998 Ordinance Bonds, as defined in this Remarketing Circular, pursuant to (i) the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234, approved October 18, 1972, P.L. 955 (the "Act"), (ii) the General Gas Works Revenue Bond Ordinance of 1998, approved on May 30, 1998, Bill No. 980232, as amended and supplemented from time to time and in particular, as supplemented by the Ninth Supplemental Ordinance, approved June 3, 2009, Bill No. 090322 (collectively, the "1998 General Ordinance") and (iii) the Bond Authorization dated August 13, 2009 adopted by the Bond Committee of the City (consisting of the Mayor, City Solicitor and City Controller and acting by a majority of at least a majority thereof), and in connection with the remarketing of the Bonds pursuant to this Remarketing Circular, as supplemented by the First Supplement to Bond Authorization dated August 29, 2011 (the "First Supplement to Bond Authorization"), adopted by the Bond Committee of the City (together, the "Bond Authorization").

Pursuant to the First Supplement to Bond Authorization, (i) each Series of the Bonds is being reallocated in the principal amounts set forth herein to correspond to the respective Letters of Credit which enhance such Series of Bonds, (ii) a portion of each Series of the Bonds equal to the sinking fund installments of each Series of Bonds due on August 1, 2029, August 1, 2030 and August 1, 2031 is being redeemed by the City and in connection therewith, a portion of the Swap Agreement, referred to herein, is being terminated, and (iii) the amounts of the sinking fund installments on each Series of Bonds are being reallocated to correspond to the reallocation of each Series of Bonds.

The Bonds were issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance but are subordinated in right of payment and security to all bonds issued and outstanding under the General Gas Works Revenue Bond Ordinance of 1975, approved on May 30, 1975, Bill No. 1871, as amended and supplemented from time to time (the "1975 General Ordinance" and, together with the 1998 General Ordinance, the "General Ordinances"), as described herein. The Bonds were also issued on a parity with the obligation of the City to make payments (other than termination payments) due under any Qualified Swap (as defined in the 1998 General Ordinance) including the Qualified Swap (the "Swap Agreement") between the City and JPMorgan Chase Bank, National Association entered into in connection with $313,390,000 City of Philadelphia Gas Works Revenue Bonds, Sixth Series (1998 General Ordinance), provided, however, the Qualified Swap Provider shall have no lien on and security interest in the Sinking Fund or the Sinking Fund Reserve. Portions of the Swap Agreement in notional amounts equal to the principal amounts of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, respectively, are now related to the Eighth Series B Bonds, the Eighth Series C Bonds, Eighth Series D Bonds and the Eighth Series E Bonds, as more fully described below under "INTRODUCTION - Interest Rate Swap Agreement." Upon the remarketing of the Bonds, a portion of the Swap

Agreement will be terminated and a portion of the Swap Agreement will remain outstanding with $50,260,000 notional amount related to the Eighth Series B Bonds, $50,000,000 notional amount related to the Eighth Series C Bonds, $75,000,000 notional amount related to the Eighth Series D Bonds and $50,260,000 notional amount related to the Eighth Series E Bonds. See "INTRODUCTION - Interest Rate Swap Agreement" herein.

The Bonds were initially issued by means of an Official Statement dated August 13, 2009 (the "2009 Official Statement'). This Remarketing Circular updates much of the information contained in the 2009 Official Statement. From and after the date of this Remarketing Circular, prospective purchasers of the Bonds should rely on this Remarketing Circular and not on the 2009 Official Statement.

The pledge of Gas Works Revenues (as defined in the 1998 General Ordinance) to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues (as defined in the 1975 General Ordinance) under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

The City's fiscal year begins on July 1 and ends on June 30 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the City refers to the fiscal year of the City ending June 30 of that year. For example, "Fiscal Year 2010" when used in connection with the City refers to the fiscal year ending June 30, 2010. The fiscal year of the Philadelphia Gas Works ("PGW" or the "Gas Works") begins on September 1 and ends on August 31 of the following calendar year. The term "Fiscal Year" when followed by a year and used in connection with the Gas Works refers to the fiscal year of the Gas Works ending August 31 of that year. For example, "Fiscal Year 2010" when used in connection with PGW refers to the fiscal year ending August 31, 2010. Certain capitalized terms used in this Remarketing Circular and not otherwise defined are defined in APPENDIX D - "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds."

This introduction is a brief description of certain matters described in this Remarketing Circular and is qualified by reference to the entire Remarketing Circular. Prospective purchasers of any of the Bonds should read this Remarketing Circular, including the cover page, inside front cover page, table of contents, tables and appendices, in its entirety. The information contained herein is subject to change. All estimates and assumptions of financial and other information are based on information currently available, are believed to be reasonable and are not to be construed as assurances of actual outcomes.

If and when included in this Remarketing Circular, the words "expects," "forecasts," "projects," "outlook," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties that could affect the revenues and obligations of PGW include, among others, changes in economic conditions, mandates from regulatory authorities, lack of approval, in whole or in part, of requests by PGW from regulatory authorities and conditions and circumstances, many of which are beyond the control of PGW. Such forward-looking statements speak only as of the date of this Remarketing Circular. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any changes in PGW's expressions with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Philadelphia Gas Works

The Gas Works presently consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas within the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. See "PHILADELPHIA GAS WORKS" herein.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the distributor and principal supplier of natural gas in the City. PGW has no distribution mains and provides no service to customers outside the City limits. As of June 30, 2011, PGW served approximately 505,000 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission (the "Gas Commission") to be constituted and appointed in accordance with the provisions of contracts between the City and the operator of PGW as may from time to time be in effect, or, in the absence of a contract, as may be provided by ordinance. For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" herein.

Since January 1, 1973, PGW has been managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement"). See "PHILADELPHIA GAS WORKS – Management Agreement."

Rates and charges of PGW are fixed by the Public Utility Commission of the Commonwealth of Pennsylvania (the "PUC"). The PUC has acknowledged that it is obligated to establish rates that permit PGW to meet all of its bond ordinance covenants in the General Ordinances. See "PHILADELPHIA GAS WORKS – Effects of the Natural Gas Choice and Competition Act" and "PGW BUDGET, RATES AND FINANCES" herein for a further discussion of PGW's budget process and recent rate proceedings.

PGW's Basic Financial Statements and Supplementary Information as of and for the years ended August 31, 2010 and 2009 (with Independent Auditor's Report Thereon) are presented in APPENDIX A. For certain information regarding the government of and fiscal affairs of the City, see APPENDIX C – "Certain Information Concerning the City of Philadelphia".

Prior Issues of Gas Works Revenue Bonds

Since 1975, the City has issued nineteen (19) separate series of Gas Works Revenue Bonds and one Revenue Bond Anticipation Note (including the Twentieth Series Bonds, collectively, the "1975 Ordinance Bonds"), all pursuant to the Act and the 1975 General Ordinance. As of June 30, 2011, $217,045,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding. The 1975 Ordinance Bonds were all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1975 General Ordinance. In the 1975 General Ordinance, the City has, for the security and payment of all 1975 Ordinance Bonds issued under the 1975 General Ordinance, granted a security interest in all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the "Project Revenues," as such term is defined in the 1975 General Ordinance), and all accounts, contract rights and general intangibles related thereto and all proceeds of the foregoing. The 1975 Ordinance Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act and the 1975 General Ordinance. All series of 1975 Ordinance Bonds issued or to be issued are issued on a parity basis and share equally and ratably in the pledge or Project Revenues provided for in the 1975 General Ordinance.

Since 1998, the City has issued nine (9) separate series of Gas Works Revenue Bonds (including the Eighth Series Bonds, collectively, the "1998 Ordinance Bonds") pursuant to the Act and the 1998 General Ordinance. As of June 30, 2011, $1,003,750,000 aggregate principal amount of Senior 1998 Ordinance Bonds and $7,050,000 aggregate principal amount of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance. In the 1998 General Ordinance, the City covenanted that it would not issue any additional bonds under the 1975 General Ordinance except to refund outstanding 1975 Ordinance Bonds.

Pursuant to the 1998 General Ordinance, all 1998 Ordinance Bonds (as defined below), including the Eighth Series Bonds, are subordinated in right of payment and security to the 1975 Ordinance Bonds. 1998 Ordinance Bonds may be issued as Senior 1998 Ordinance Bonds ("Senior 1998 Ordinance Bonds") or Subordinate 1998 Ordinance Bonds ("Subordinate 1998 Ordinance Bonds"). Senior 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance. Senior 1998 Ordinance Bonds are subordinated in right of payment and security to the 1975 Ordinance Bonds, but are prior in right of payment and security to Subordinate 1998 Ordinance Bonds. Subordinate 1998 Ordinance Bonds are all issued on a parity basis and share equally and ratably in the pledge of revenues provided for in the 1998 General Ordinance, subject to the prior right of payment and security of the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds, to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance

Bonds and to payments (other than termination payments) due under any Qualified Swaps (as defined in the 1998 General Ordinance). In the 1998 General Ordinance, the City has pledged for the security and payment of all bonds issued under the 1998 General Ordinance a lien on and security interest in all Gas Works Revenues (as defined in the 1998 General Ordinance) all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance. Such lien is subject to the prior pledge and lien on the Project Revenues created by the 1975 General Ordinance for the benefit of the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Priority in Application of Revenues."

On or about September 28, 2011, the City expects to issue approximately $16,400,000, Gas Works Revenue Refunding Bonds Twentieth Series (1975 General Ordinance) to currently refund all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixteenth Series (1975 General Ordinance) and approximately $65,800,000 Gas Works Revenue Refunding Bonds Tenth Series (1998 General Ordinance) to currently refund for savings, all or a portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, First Series A, Second Series A and Third Series (1998 General Ordinance). The offering of such bonds (the "Refunding Bonds") will be made pursuant to an Official Statement to be issued prior to the offering of the Refunding Bonds.

Authorization to Issue the Bonds

The Bonds were issued as Senior 1998 Ordinance Bonds pursuant to the Act, the 1998 General Ordinance, and the Ninth Supplemental Ordinance and the Bond Authorization.

The Bonds

The Bonds were dated August 20, 2009, the original date of delivery. During the Weekly Mode, interest is payable on the first Business Day of each month. The City may designate a different Rate Mode for all or a portion of each series of Bonds which may be a Daily Mode, Term Mode or Fixed Mode. The Bonds of each series, while in the Weekly Mode, were issued as fully registered bonds and are in the aggregate principal amount set forth on the inside front cover page hereof in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The principal and redemption price of the Bonds is payable at the corporate trust office of U.S. Bank National Association (the "Fiscal Agent") in Philadelphia, Pennsylvania. Interest on the Bonds, while in the Weekly Mode, will be paid by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the close of business on the Business Day immediately preceding an Interest Payment Date; provided, however, in the case of any default by the City in payment of interest due, shall be payable to the persons in whose names the Bonds are registered on a special record date as determined by the Fiscal Agent. See "DESCRIPTION OF THE BONDS" herein. Registered Owners of at least $1,000,000 aggregate principal amount of a series of Bonds may elect to receive interest payments by wire transfer if so requested in a written notice provided to the Fiscal Agent not less than ten (10) days prior to the relevant interest payment date.

The Bonds are available in book-entry form only. See "DESCRIPTION OF THE BONDS — Book-Entry Only System" herein.

The Bonds are subject to optional redemption and mandatory redemption as described herein. While in the Weekly Mode, the Bonds are subject to optional and mandatory tender as set forth herein. See "DESCRIPTION OF THE BONDS."

Purpose of the Bonds

The proceeds of the Bonds, together with other available monies of the City were used for the purpose of providing funds for the following purposes: (i) the current refunding of all of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds (1998 General Ordinance) Sixth Series (the "Sixth Series Bonds"); (ii) paying the costs of terminating a portion of the Swap Agreement for the Sixth Series Bonds; and (iii) paying the

costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2009 Project").

Security for the Bonds

The Bonds are secured solely and payable solely from the Gas Works Revenues as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Such pledge of Gas Works Revenues is subject and subordinate to the prior pledge of Project Revenues granted by the 1975 General Ordinance. Neither the general credit nor the taxing power of the City is pledged to any such payment.

The City has pledged and granted a security interest on a parity basis in all Gas Works Revenues and the proceeds thereof for security and payment of all 1998 Ordinance Bonds, including the Bonds, and for security and payment of all payments (other than termination payments) due from the City under the Swap Agreement (except that the Swap Agreement shall have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve). The City has covenanted in the Ninth Supplemental Ordinance that, so long as any of the Bonds shall remain Outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of PGW. Pursuant to the 1998 General Ordinance, all monies deposited in the 1998 Ordinance Sinking Fund (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of 1998 Ordinance Bonds until such monies are properly disbursed. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Pledge of Revenues and Funds" and "REMEDIES OF BONDHOLDERS" herein. The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds.

In the 1998 General Ordinance, the City covenants to impose, charge and collect in each Fiscal Year, rates and charges which, together with all other Gas Works Revenues to be received in such Fiscal Year, shall be sufficient to meet, among other things, debt service coverage requirements as specified in the 1998 General Ordinance (the "1998 Ordinance Rate Covenant"). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Rate Covenant and Rate Requirements" and APPENDIX D — "Summaries of the Act and Legislation Authorizing the Issuance of the Bonds" herein.

The 1998 General Ordinance permits the issuance of additional bonds which may be Senior 1998 Ordinance Bonds or Subordinate 1998 Ordinance Bonds. See "ADDITIONAL BONDS — Additional 1998 Ordinance Bonds" herein.

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve which is established in the 1998 Ordinance Sinking Fund as a separate account which is held for the benefit of owners of all bonds issued under the 1998 General Ordinance. See " SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Sinking Fund Reserve" herein.

The 1998 General Ordinance permits the City to enter into a Qualified Swap or Exchange Agreement with respect to a series of bonds or a portion thereof. The Ninth Supplemental Ordinance authorizes Qualified Swap and Exchange Agreements with respect to the Bonds. Payments, other than termination payments, due to the issuer of a Qualified Swap related to Senior 1998 Ordinance Bonds are payable on a parity with debt service on Senior 1998 Ordinance Bonds, except that the Qualified Swap shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve. On January 20, 2006, the City entered into the Swap Agreement in connection with the Sixth Series Bonds. Upon original issuance of the Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds was terminated. In connection with the remarketing of the Bonds, a portion of the Swap Agreement will be terminated and a portion of the Swap Agreement will remain outstanding with $50,260,000 notional amount related to the Eighth Series B Bonds, $50,000,000 notional amount related to the Eighth Series C Bonds, $75,000,000 notional amount related to the Eighth Series D Bonds and $50,260,000 notional amount related to the Eighth Series E Bonds. See "INTRODUCTION – Interest Rate Swap Agreement" herein. There are currently no other Qualified Swaps or Exchange Agreements to which the City is a party under the 1998 General Ordinance.

Credit Facility and Liquidity Facility

Eighth Series B Bonds

While the Eighth Series B Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series B Bonds, and the Purchase Price of the Eighth Series B Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series B Credit Facility") issued by Wells Fargo Bank, National Association (the "Eighth Series B Credit Provider") pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended and as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 (the "Eighth Series B Reimbursement Agreement"), between the City and the Eighth Series B Credit Provider. The Eighth Series B Credit Facility is also serving as the Liquidity Facility for the Eighth Series B Bonds and the Eighth Series B Credit Provider is also the Liquidity Provider for the Eighth Series B Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" herein. The Eighth Series B Credit Facility will expire on August 30, 2013, unless extended at the option of the Eighth Series B Credit Provider. Under certain circumstances, the Eighth Series B Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series B Credit Facility secures only the Eighth Series B Bonds while in the Weekly Mode.

Eighth Series C Bonds

While the Eighth Series C Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series C Bonds, and the Purchase Price of the Eighth Series C Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series C Credit Facility") issued by The Bank of Nova Scotia, acting through its New York Agency (the "Eighth Series C Credit Provider") pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as amended by a First Amendment to Reimbursement Agreement dated as of September 1, 2011 (the "Eighth Series C Reimbursement Agreement"), between the City and the Eighth Series C Credit Provider. The Eighth Series C Credit Facility is also serving as the Liquidity Facility for the Eighth Series C Bonds and the Eighth Series C Credit Provider is also the Liquidity Provider for the Eighth Series C Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT" herein. The Eighth Series C Credit Facility will expire on August 30, 2013, unless extended at the option of the Eighth Series C Credit Provider. Under certain circumstances, the Eighth Series C Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series C Credit Facility secures only the Eighth Series C Bonds while in the Weekly Mode.

Eighth Series D Bonds

While the Eighth Series D Bonds are in the Weekly Mode, the principal of and up to fifty-two (52) days' interest on the Eighth Series D Bonds, and the Purchase Price of the Eighth Series D Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series D Credit Facility") issued by Bank of America, N.A. (the "Eighth Series D Credit Provider") pursuant to the Reimbursement, Credit and Security Agreement dated as of August 20, 2009, as previously amended and as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 (the "Eighth Series D Reimbursement Agreement"), between the City and the Eighth Series D Credit Provider. The Eighth Series D Credit Facility is also serving as the Liquidity Facility for the Eighth Series D Bonds and the Eighth Series D Credit Provider is also the Liquidity Provider for the Eighth Series D Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" herein. The Eighth Series D Credit Facility will expire on August 30, 2013, unless extended at the option of the Eighth Series D Credit Provider. Under certain circumstances, the Eighth Series D Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility.

See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series D Credit Facility secures only the Eighth Series D Bonds while in the Weekly Mode.

Eighth Series E Bonds

On and after September 1, 2011, the principal of and up to fifty-two (52) days' interest on the Eighth Series E Bonds, and the Purchase Price of the Eighth Series E Bonds that are tendered for payment and not remarketed, will be paid by the Fiscal Agent using funds drawn under an irrevocable, direct pay letter of credit (together with any Alternate Credit Facility and/or Alternate Liquidity Facility, the "Eighth Series E Credit Facility") issued by PNC Bank, National Association (the "Eighth Series E Credit Provider"), pursuant to the Reimbursement Agreement dated as of September 1, 2011 (the "Eighth Series E Reimbursement Agreement"), between the City and the Eighth Series E Credit Provider. The Eighth Series E Credit Facility is also serving as the Liquidity Facility for the Eighth Series E Bonds and the Eighth Series E Credit Provider is also the Liquidity Provider for the Eighth Series E Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" herein. The Eighth Series E Credit Facility will expire on August 30, 2013, unless extended at the option of the Eighth Series E Credit Provider. Under certain circumstances, the Eighth Series E Credit Facility may be terminated or replaced by an Alternate Credit Facility and/or Alternate Liquidity Facility. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein. The Eighth Series E Credit Facility secures only the Eighth Series E Bonds while in the Weekly Mode.

Interest Rate Swap Agreement

The City entered into the Swap Agreement with JPMorgan Chase Bank, National Association (the "Swap Provider"), a bank affiliate of J.P. Morgan Securities, Inc., in connection and concurrently with the issuance of the Sixth Series Bonds. Upon issuance of the Bonds, a portion of the Swap Agreement related to the Sixth Series Bonds was terminated and the Swap Agreement amended to reflect the portion of the notional amount of the Swap Agreement related to each series of bonds in the principal amount of such series.

Upon the remarketing of the Bonds, a portion of the Swap Agreement will be terminated and the Swap Agreement will be amended to reflect that $50,260,000 notional amount relates to the Eighth Series B Bonds, $50,000,000 notional amount relates to the Eighth Series C Bonds, $75,000,000 notional amount relates to the Eighth Series D Bonds and $50,260,000 notional amount relates to the Eighth Series E Bonds. The Swap Agreement, as amended, provides, in general, that the City will pay to the Swap Provider semiannually on each February 1 and August 1 a fixed rate payment of 3.6745% on a notional amount equal to $225,520,000, amortizing in accordance with the principal amortization schedules of the Eighth Series B Bonds, the Eighth Series C Bonds, the Eighth Series D Bonds and the Eighth Series E Bonds, as set forth in the Swap Agreement, and that the Swap Provider will pay to the City on the first day of each calendar month a floating rate payment equal to 70% of one-month LIBOR, on the notional amount from time to time outstanding. The amendment of the Swap Agreement will not alter the City's obligation to pay the principal of, premium, if any, and interest on the Bonds.

The Swap Agreement continues to constitute a Qualified Swap under the 1998 General Ordinance. The City's payment obligations under the Swap Agreement are payable solely from Gas Works Revenues. The City's scheduled periodic payments due under the Swap Agreement are payable on a parity with the Senior 1998 Ordinance Bonds (except that the Swap Provider shall have no right or claim at any time to amounts on deposit in the 1998 Ordinance Sinking Fund or the 1998 Ordinance Sinking Fund Reserve). PGW calculates required sinking fund deposits for purposes of compliance with the 1998 General Ordinance Rate Covenant without regard to the effect of the Swap Agreement. See " SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Pledge of Revenues and Funds" herein.

Under certain circumstances (including certain events of default with respect to the City or the Swap Provider), the Swap Agreement could terminate in whole or in part prior to its stated termination date. Following any such early termination of the Swap Agreement, either the City or the Swap Provider, as applicable, may owe a termination payment to the other, depending upon market conditions. If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreement was executed and delivered, the City could owe a substantial termination payment to the Swap Provider. Any

termination payments owed by the City will be subordinate to the City's obligation to make all payments due and owing on Senior 1998 Ordinance Bonds (including the Bonds) and periodic payments due under the Swap Agreement.

The City's payments under the Swap Agreement, including any termination payment due in connection with a termination at the direction of Financial Security Assurance, Inc., the insurer of the Swap Agreement, but excluding all other termination payments, are guaranteed by Financial Security Assurance Inc. under a Swap Insurance Policy. Financial Security Assurance Inc. has certain rights under the Swap Agreement, including rights to consent to the designation of an Early Termination Date upon the occurrence of certain events and the right to designate an Early Termination Date with respect to the City if an event of default under the Swap Agreement occurs with respect to the City as a defaulting party.

Independent Consultant's Engineering Report

In connection with the contemplated issuance of the Refunding Bonds, the City retained an independent consulting engineer, as hereinafter described. The report of the independent consulting engineer is being provided in connection with the remarketing of the Bonds pursuant to this Remarketing Circular.

In connection with the contemplated issuance of the Refunding Bonds, to establish that Project Revenues and Gas Works Revenues will be sufficient to amortize all bonds outstanding under the 1975 General Ordinance and the 1998 General Ordinance, the Act and the General Ordinances require a finding to be made in the supplemental ordinance authorizing the issuance of a series of bonds that the pledged Project Revenues or Gas Works Revenues (as the case may be) will be sufficient to comply with the corresponding rate covenant and to pay all costs, expenses and payments required to be paid from Project Revenues or Gas Works Revenues (as the case may be) in the order of priority set forth in the respective General Ordinance and to pay any prior or parity charges on such pledged Project Revenues or Gas Works Revenues (as the case may be) and the principal and interest on such series of bonds. The finding is to be based on a report of the chief fiscal officer of the City filed with City Council and supported by appropriate schedules and summaries. As provided by the Act, the report of the chief fiscal officer of the City may be based on a report of an independent engineer employed by the City to evaluate PGW. Black & Veatch Corporation ("Black & Veatch"), a consulting company independent of the City and PGW, was retained to evaluate PGW and submitted certain financial data, dated June 3, 2011, upon which the chief fiscal officer relied in submitting his report to City Council in connection with adoption of the Twentieth Supplemental Ordinance and the Eleventh Supplemental Ordinance. Black & Veatch submitted an independent engineering report, dated June 15, 2011, to City Council prior to final enactment of the Twentieth Supplemental Ordinance and the Eleventh Supplemental Ordinance (the "Independent Consultant's Engineering Report" or the "2011 Report"). In its 2011 Report, which is attached hereto as APPENDIX B, Black & Veatch has opined and concluded, based upon its investigation, 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.

- Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System, the System should yield Project Revenues and Gas Works Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance), respectively, over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all bonds (including the Twentieth Series Bonds and the Tenth Series Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues and Gas Works Revenues forming the basis of Black & Veatch's opinion

comply with the requirements of the definition of Project Revenues contained in Section 2 of the Act.

- The Project Revenues and Gas Works Revenues which are pledged as security for the bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.

- The capital improvements proposed during the projection period, September 1, 2011 through August 31, 2016, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

- Contracted PGW gas supplies plus: (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

Independent Consultant's Assumptions with Respect to City Payments

PGW makes an annual base payment of $18,000,000 to the City. For Fiscal Years 2007 through 2010, inclusive, the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years. In Fiscal Year 2011, the City did not grant the $18,000,000 back to PGW. The City's Twentieth Five-Year Plan includes the $18,000,000 PGW payment to the City but discontinues the City's grant back to PGW for Fiscal Years 2012 through 2016.

Continuing Disclosure

In connection with the original issuance of the Bonds, the City entered into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with Digital Assurance Certification, L.L.C. with respect to the Bonds. See "CONTINUING DISCLOSURE" herein and a copy of the Continuing Disclosure Agreement is attached hereto as APPENDIX E.

Miscellaneous

Any quotation from, and summaries and explanations of, the Constitution and laws of the Commonwealth of Pennsylvania and ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Bonds are qualified in their entirety by reference to the definitive form of the Bonds. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Act and the General Ordinances. See "APPENDIX D" herein. Copies of the Act, the General Ordinances and the Supplemental Ordinances are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

DESCRIPTION OF THE BONDS

General

This Remarketing Circular only describes the terms and provisions applicable to the Bonds while bearing interest at the Weekly Rate. In the event the Bonds are converted to another Rate Mode, a remarketing memorandum or remarketing circular may be distributed describing the terms of the Bonds during the period in which the Bonds are in another Rate Mode.

Each series of Bonds is dated August 20, 2009, the original date of delivery thereof, will bear interest from the date of its remarketing, will continue in the Weekly Mode and bear interest at the Weekly Rate, and during such Weekly Mode, interest will be payable on the first Business Day of each month. Thereafter, all or any portion of a series of Bonds may be converted, at the option of the City and subject to certain restrictions, to the Daily Mode, Term Mode or Fixed Mode. Generally, the Rate Modes have different operating features, including different demand features, purchase features, redemption provisions, interest rate determination dates, rate change dates and interest payment dates. Capitalized terms used within this "DESCRIPTION OF THE BONDS" section, which are not defined herein, shall have the meanings ascribed to such terms in APPENDIX D hereto.

If a different Rate Mode is designated for all or any portion of a series of Bonds, the Fiscal Agent will, not less than thirty (30) days prior to the Conversion Date, or ten (10) days if the Bonds subject to conversion are then in the Weekly Mode, give written notice to the owner of each affected Bond, that such Bond be will be subject to mandatory purchase on the Conversion Date.

Each series of Bonds was issued as fully registered bonds and reoffered in the aggregate principal amounts set forth on the inside front cover page hereof. While in the Weekly Mode, the Bonds will be in denominations of $100,000 and any integral multiple of $5,000 in excess thereof. The Bonds are registered in the name of Cede & Co., as nominee for DTC, one bond for each series of Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form (without certificates) in the denominations of $100,000 and any integral multiple of $5,000 in excess hereof.

The principal of the Bonds is payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on close of business on the Business Day immediately preceding each Interest Payment Date. So long as a series of Bonds is in book-entry form, the principal of and interest on such Bonds are payable by check mailed to or by wire transfer of funds to Cede & Co., as nominee for DTC as registered owner thereof for redistribution by DTC to the Direct Participants and in turn to Indirect Participants or Beneficial Owners as described under "Book-Entry Only System" below. Registered Owners of at least $1,000,000 aggregate principal amount of a Series of Bonds may elect to receive interest payments by wire transfer, provided that notice is provided to the Fiscal Agent not less than ten (10) days prior to the relevant Interest Payment Date. In the event of any default by the City in the payment of interest due on any Interest Payment Date, such defaulted interest shall be payable to the persons in whose names such series of Bonds are registered at the close of business on a special record date which shall be established, with notification to Bondholders as provided in the 1998 General Ordinance.

Description of the Bonds in the Weekly Mode

While Bonds of any series are in a Weekly Mode, interest on such Bonds will be payable for each Weekly Rate Period on each Interest Payment Date. In addition, while Bonds of any series bear interest at the Daily Rate, the Weekly Rate or the Term Rate, interest will also be payable on each Purchase Date applicable thereto. Interest on Bonds will accrue from and including the Series Issue Date thereof until payment of the principal or redemption price thereof shall have been made or provided. Interest on Bonds during a Daily Mode or a Weekly Mode will be computed on the basis of a year of 365 or 366 days, as applicable, for the number of days actually elapsed. On and after the Conversion Date to a Term Mode or the Fixed Mode, interest shall be computed on the basis of a 360-day year of twelve 30-day months. See APPENDIX D hereto.

For so long as any Bonds of any series are Outstanding in the Weekly Mode, a Weekly Rate shall be determined for such Bonds for each Weekly Rate Period. The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such Weekly Rate Period and shall remain in effect through and including the last day thereof. Each such Weekly Rate shall be determined by the applicable Remarketing Agent for a series of Bonds on the Weekly Rate Calculation Date (i.e., Wednesday in each calendar week or, if such Wednesday is not a Business Day, the first Business Day preceding such Wednesday) and shall be provided by such Remarketing Agent in writing to the Fiscal Agent by the close of business on that same day, except that the Weekly Rate for the first Weekly Rate Period may be determined by the applicable Remarketing Agent on the Series Issue Date or on any Business Day preceding the Series Issue Date. The initial Weekly Rate Period following the remarketing of the Bonds shall commence on the remarketing date and continue to and including the next Weekly

Rate Calculation Date. Each Weekly Rate so to be determined shall be the lowest rate of interest which, in the reasonable judgment of the applicable Remarketing Agent, would cause the applicable Bonds to have a price equal to the principal amount thereof, taking into account Prevailing Market Conditions as of the date of determination.

If a Remarketing Agent for a series of Bonds fails for any reason to determine and notify the Fiscal Agent and the City of the Weekly Rate for any Weekly Rate Period, such Weekly Rate shall be the same as the Weekly Rate in effect for the immediately preceding Weekly Rate Period, except that if such failure continues for more than one consecutive Weekly Rate Period, the Weekly Rate thereafter shall be the 30 day tax-exempt commercial paper rate published for the applicable Weekly Rate Period by Munifacts Wire System, Inc. (or a replacement publisher of a tax-exempt commercial paper rate designated in writing by the City to the Fiscal Agent and the Remarketing Agents), representing, as of the publication date, the average of 30-day yield evaluations at par of tax-exempt securities rated by each rating service in its highest commercial paper rating category; provided, that if Munifacts Wire System, Inc. or such replacement publisher does not publish such a tax-exempt or taxable commercial paper rate on a day on which a Weekly Rate is to be set, the Weekly Rate shall be 85% of the interest rate for 30-day taxable commercial paper (prime paper placed through dealers) announced on such day by the Federal Reserve Bank of New York. In no event shall the Weekly Rate for any Weekly Rate Period exceed 12% per annum. The applicable Remarketing Agent shall give notice of the applicable Weekly Rates to the City and the Fiscal Agent. Holders of Bonds in the Weekly Rate Mode may obtain Weekly Rates from the applicable Remarketing Agent

Optional Tender for Purchase of Bonds in the Weekly Mode

Bonds of a series bearing interest at the Weekly Rate (or any portion thereof in amounts equal to Authorized Denominations), other than Bank Bonds, will be purchased on a Purchase Date upon the demand of the Holder thereof, at a purchase price equal to 100% of the principal amount thereof (or of such portions), plus accrued interest, if any, to such Purchase Date, upon written notice to the Fiscal Agent and the applicable Remarketing Agent at their respective offices. Such notice shall be given during the Weekly Mode, by 5:00 p.m. New York time, on the Business Day seven (7) days prior to the applicable Purchase Date. Any such notice must state (i) the series and principal amount of the Bonds to which the notice relates, (ii) that the Holder irrevocably demands purchase of such Bond (or a specified portion thereof in an Authorized Denomination), (iii) the Purchase Date on which such Bond (or specified portion) is to be purchased, (iv) the Holder's taxpayer identification number, and (v) payment instructions with respect to the purchase price.

The Purchase Date shall be the Business Day specified in the notice received by the Fiscal Agent upon which the Holder of such Bond intends to tender such Bond (or any portion thereof in an Authorized Denomination) for purchase, which Business Day shall be not less than seven (7) calendar days after the date such notice is received.

Any Holder of Bonds who has so demanded purchase of such Holder's Bonds is required to deliver such Bonds (properly endorsed for transfer in blank and with all signatures guaranteed to the satisfaction of the Fiscal Agent) to the Fiscal Agent at its designated office prior to 11:00 a.m., New York time, on the Purchase Date specified in his or her notice in order to receive payment of the purchase price by 4:30 p.m., New York time, on such date.

Each notice of tender automatically constitutes (i) an irrevocable offer to sell the Bond (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (ii) an irrevocable authorization and instruction to the Fiscal Agent to effect transfer of such Bond (or portion thereof) upon payment of such price to the Fiscal Agent on the Purchase Date, (iii) an irrevocable authorization and instruction to the Fiscal Agent to effect the exchange of such Bond in whole or in part for other Bonds of such series in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (iv) an acknowledgment that such Holder will have no further rights with respect to such Bond (or portion thereof) upon payment of the purchase price thereof to the Fiscal Agent on the Purchase Date, except for the right of such Holder to receive such purchase price upon surrender of such Bond to the Fiscal Agent endorsed for transfer in blank and with guaranty of signatures satisfactory to the Fiscal Agent, and that after the Purchase Date such Holder will hold such Bond as agent for the Fiscal Agent. The Fiscal Agent shall hold all Bonds registered in the names of the new Holders thereof for delivery to the applicable Remarketing Agent.

Mandatory Tender for Purchase of Weekly Rate Bonds

Bonds of a series bearing interest at the Weekly Rate are required to be tendered by the Holders thereof to the Fiscal Agent for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date on the following dates applicable to such series of Bonds (or a portion thereof):

(a) Each Conversion Date unless a conversion election has been rescinded by the City.

(b) The Interest Payment Date immediately preceding the expiration date of a Liquidity Facility and/or Credit Facility, as the case may be, then in effect (or if such Interest Payment Date is not a Business Day, the Business Day next following such Interest Payment Date), but such Interest Payment Date shall be not less than five (5) days prior to the expiration of the Liquidity Facility and/or Credit Facility, as the case may be, in the event such Liquidity Facility and/or Credit Facility, as the case may be, shall not have been extended on or before the 20th day prior to such Interest Payment Date.

(c) The date of replacement of a Liquidity Facility with an Alternate Liquidity Facility or the replacement of a Credit Facility with an Alternate Credit Facility.

(d) The date established by the Fiscal Agent for mandatory tender, following receipt by the Fiscal Agent of a notice from a Liquidity Provider and/or Credit Provider, as the case may be, of a mandatory tender to the extent provided under the applicable Liquidity Facility and/or Credit Facility.

On any mandatory tender date, the Holders of Bonds subject to such mandatory purchase who duly tender their Bonds (with any necessary endorsements) to the Fiscal Agent by 11:00 a.m., New York time, on such date will be paid a purchase price equal to 100% of the principal amount thereof, plus, unless such mandatory tender date is an Interest Payment Date, accrued interest to the date of purchase.

Conversion of Bonds

The City shall have the option to convert all or any portion of the Bonds of any series from the Weekly Mode to a Daily Mode, Term Mode, or Fixed Mode on any Conversion Date selected by the City; provided that (i) each Conversion Date shall be an Interest Payment Date, (ii) Bonds, or any portion thereof, in a Term Mode cannot be converted to another Rate Mode prior to the date on or after which the Bonds may first be redeemed at the option of the City at a redemption price of par, or at the end of a Term Rate Period, and (iii) Bonds in the Fixed Mode may not be converted to another Rate Mode. The City shall exercise such option by giving written notice to the applicable Remarketing Agent, Liquidity Provider and/or Credit Provider, and the Fiscal Agent stating its election to convert the Rate Mode of the applicable Bonds to another Rate Mode specified in such notice, the principal amount of such Bonds to be converted and stating the Conversion Date therefor, not less than forty-five (45) days prior to such Conversion Date (or in the case of Bonds in the Daily Mode or Weekly Mode, not less than fifteen (15) days prior to such Conversion Date). In connection with each conversion to a Term Mode, the Nominal Term Rate Period and Interest Payment Dates for such Term Rate Period shall be selected by the City and designated in such notice. In the case of a conversion to the Fixed Mode, the City shall determine the principal amount of Bonds to be converted (which amount shall be in Authorized Denominations), shall select the Interest Payment Dates and shall determine any bond maturity and mandatory sinking fund redemption schedule to be applicable to the Bonds after such conversion to a Fixed Mode, and such information shall be designated in such notice. If a series of Bonds is to be converted to any Mode in part, the Bonds to be so converted and subject to mandatory tender and purchase shall be determined in accordance with the policies and procedures of DTC.

In the case of any conversion, the Fiscal Agent shall give notice by first class mail (postage prepaid) to the Holders of the Bonds subject to conversion not less than thirty (30) days (or in the case of a conversion of Bonds in the Daily Mode or Weekly Mode, ten (10) days) prior to the proposed Conversion Date.

Bank Bonds

Bank Bonds are any Bonds of a series purchased by a Liquidity Provider with funds drawn on or advanced under the applicable Liquidity Facility. For such time as any Bond is a Bank Bond, it shall bear interest as provided in the applicable Liquidity Facility. Payments of interest on Bank Bonds shall be paid to the applicable Liquidity Provider as holder thereof on each Interest Payment Date or as otherwise provided in such Liquidity Facility, by wire transfer to the account number of such holder on file with the Fiscal Agent or to another account number of which the holder shall give at least five days notice to the Fiscal Agent prior to such Interest Payment Date or otherwise as provided in such Liquidity Facility. Principal of Bank Bonds subject to redemption as provided in the Bank Bonds or the applicable Reimbursement Agreement, shall be payable from amounts in the appropriate account of the Sinking Fund.

Bank Bonds shall not be cancelled and the City's liability thereon shall be not discharged until amounts due to the applicable Liquidity Provider as a result of being holders of Bank Bonds have been paid in full. The Fiscal Agent shall hold Bank Bonds in its custody or as otherwise instructed by the applicable Liquidity Provider. No Bank Bonds shall be released by the Fiscal Agent until the Fiscal Agent has confirmed that funds for the payment of the purchase price of the Bank Bonds have been transferred to the Liquidity Provider as provided in the Liquidity Facility or the Liquidity Provider has instructed the Fiscal Agent to release Bank Bonds.

Remarketing of Bonds

Upon the receipt by a Remarketing Agent of any notice described in "Optional Tender for Purchase of Bonds in the Weekly Mode" herein, the applicable Remarketing Agent, subject to the terms of the applicable Remarketing Agreement, shall use its best efforts to offer for sale and sell the Bonds in respect of which such notice has been given. Unless otherwise instructed by the City, each Remarketing Agent, subject to the terms of the applicable Remarketing Agreement, shall use its best efforts to offer for sale and sell Bonds of a series; provided however that, if the applicable Credit Facility or Liquidity Facility has expired and such Bonds have not been converted to a Term Mode or a Fixed Mode, the applicable Remarketing Agent shall be under no obligation to remarket such Bonds unless an Alternate Credit Facility or an Alternate Liquidity Facility has been provided. Any such Bonds shall be offered: (i) at a price equal to the principal amount thereof, plus interest accrued, if any, to the Purchase Date, and (ii) pursuant to terms calling for payment of the purchase price on such Purchase Date against delivery of such Bonds.

(a) If any Bonds to be remarketed have been called for redemption, the applicable Remarketing Agent shall give notice thereof to prospective purchasers of Bonds.

(b) Anything in the Ninth Supplemental Ordinance or the Bond Authorization to the contrary notwithstanding, there shall be no remarketing of Bonds if there shall have occurred and be continuing a Default (therein defined) under the Ordinances or any draw under an applicable Liquidity Facility has been dishonored.

(c) During a Weekly Rate Period, the applicable Remarketing Agent shall advise the Fiscal Agent of the principal amount of the applicable series of Bonds which have been remarketed, together with the denominations and registration instructions (including taxpayer identification numbers) by 10:30 a.m., New York time, on the Purchase Date. The Remarketing Agent shall also advise the City and the Fiscal Agent of the principal amount of Bonds which have not been remarketed at the times set forth in the previous sentence.

The proceeds of the sale by the Remarketing Agent of any Bonds during a Weekly Rate Period shall be transferred to the Fiscal Agent by 11:30 a.m., New York City time, respectively, on the purchase date.

Inadequate Funds

In the event funds are insufficient to purchase Bonds optionally tendered on a Purchase Date, the tendered Bonds shall not be purchased but instead shall be returned to the tendering Bondholders. Thereafter, the applicable

Remarketing Agent will continue to establish the Daily Rate, the Weekly Rate or the Term Rate for such Bonds, as applicable.

The failure to pay the purchase price of a Bond upon optional or mandatory tender, as a result of a failure of the applicable Credit Provider or Liquidity Provider to honor a draw under the applicable Credit Facility or Liquidity Facility, shall not constitute an event of default with respect to the Bonds nor shall the City have any obligation to replace such Credit Facility or Liquidity Facility or provide any funds to make payment with respect to the Bonds tendered.

Book-Entry Only System

The information in this section has been provided by DTC and is not to be deemed to be a representation of the City, PGW or the Underwriters.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts

such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant of such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption payments, payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

THE CITY, PGW AND THE FISCAL AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS REMARKETING CIRCULAR. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY, PGW NOR THE FISCAL AGENT SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER

OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE FISCAL AGENT AS BEING A BONDHOLDER WITH RESPECT TO (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE APPLICABLE GENERAL ORDINANCE TO BE GIVEN TO BONDHOLDERS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

The City may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be prepared and delivered as described in the applicable Supplemental Ordinance.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Holders, holders, owners or registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

In the event that the Book-Entry Only System is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions applicable to registered owners would apply: (i) Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity and series in other authorized denominations, upon surrender thereof at the designated corporate trust office of the Fiscal Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Fiscal Agent for such purpose only upon the surrender thereof to the Fiscal Agent together with a duly executed assignment in form satisfactory to the City and the Fiscal Agent; and (iii) for every exchange or registration of transfer of Bonds, the Fiscal Agent may impose a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds.

Optional Redemption

While any Bonds of a series are in the Weekly Mode, such Bonds may be redeemed at the option of the City, in whole or in part on any Interest Payment Date, prior to maturity at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Mandatory Redemption

Eighth Series B Bonds

The Eighth Series B Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series B Bonds to be redeemed plus interest accrued to the date fixed for redemption:

Date (August 1)	Amount
2017	$380,000
2018	3,005,000
2019	3,290,000
2020	3,580,000
2021	3,890,000
2022	4,210,000
2023	4,535,000
2024	4,720,000
2025	5,085,000
2026	5,340,000
2027	5,985,000
2028*	6,240,000

* Final Amount

Eighth Series C Bonds

The Eighth Series C Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series C Bonds to be redeemed plus interest accrued to the date fixed for redemption:

Date (August 1)	Amount
2017	$380,000
2018	2,990,000
2019	3,270,000
2020	3,565,000
2021	3,870,000
2022	4,185,000
2023	4,515,000
2024	4,695,000
2025	5,060,000
2026	5,310,000
2027	5,955,000
2028*	6,205,000

* Final Amount

Eighth Series D Bonds

The Eighth Series D Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series D Bonds to be redeemed plus interest accrued to the date fixed for redemption:

Date (August 1)	Amount
2017	$570,000
2018	4,485,000
2019	4,905,000
2020	5,345,000
2021	5,800,000
2022	6,280,000
2023	6,770,000
2024	7,045,000
2025	7,590,000
2026	7,970,000
2027	8,935,000
2028*	9,305,000

* Final Amount

Eighth Series E Bonds

The Eighth Series E Bonds are subject to mandatory redemption prior to maturity by the City, in part, on August 1 of the years and in the principal amounts set forth below, by lot, at a redemption price of the principal amount of Eighth Series E Bonds to be redeemed plus interest accrued to the date fixed for redemption:

Date (August 1)	Amount
2017	$380,000
2018	3,005,000
2019	3,290,000
2020	3,580,000
2021	3,890,000
2022	4,210,000
2023	4,535,000
2024	4,720,000
2025	5,085,000
2026	5,340,000
2027	5,985,000
2028*	6,240,000

* Final Amount

Selection of Bonds to be Called for Redemption

Except where DTC or its nominee is the registered owner of the Bonds as described above, if less than all of a series of Bonds are to be redeemed, the particular Bonds of a series to be called for redemption shall be selected by lot or by such other method as the Fiscal Agent deems fair and appropriate; provided however that any Bank Bonds (as defined herein) shall be redeemed first to the extent redemption monies are available therefor.

Notice of Redemption of Bonds

Notice of redemption of Bonds shall be made not less than thirty (30) days nor more than (60) days before the date fixed for redemption with respect to the Bonds to the Registered Owners appearing on the Bond Register of the Bonds to be redeemed. Any notice of redemption mailed in accordance with the requirements set forth in the 1998 General Ordinance shall be conclusively presumed to have been duly given, whether or not such notice is actually received by the Bondholders. No defect in the notice with respect to any Bond (whether in the form of

notice or the mailing thereof) shall affect the validity of the redemption proceedings for any other Bonds. If a notice is given with respect to an optional redemption of the Bonds prior to monies for such redemption being deposited with the Fiscal Agent, such notice shall be conditioned upon the deposit of monies with the Fiscal Agent on or before the date fixed for redemption and in such event, such notice shall be of no effect unless such monies are deposited. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on the Bonds called for redemption accruing after the date fixed for redemption shall cease, and the Registered Owners of the Bonds called for redemption shall have no security, benefit or lien under the 1998 General Ordinance or any rights thereunder, except to receive payment of the redemption price.

Notice of Mandatory Tender of Bonds

In connection with the mandatory tender of Bonds of a series (other than Bank Bonds), the Fiscal Agent is required to give notice to the Holders of the Bonds as follows:

(a) In the event of a proposed Conversion of all or a portion of any series of Bonds, the Fiscal Agent is required to give written notice by first class mail to the Holders of such Bonds not later than the 30th day (or the 10th day in the case of Bonds in the Daily Mode or the Weekly Mode) next preceding the Conversion Date.

(b) In the event of a mandatory purchase upon expiration of a Liquidity Facility and/or Credit Facility, the Fiscal Agent is required to give written notice by first class mail to the Holders of the applicable Bonds no later than the 10th day next preceding the mandatory tender date if the Liquidity Facility and/or Credit Facility will not be extended, stating that (A) the Fiscal Agent has not received an extension of the then effective Liquidity Facility and/or Credit Facility, and (B) the Bonds are required to be purchased by the Fiscal Agent on the mandatory tender date specified in such notice at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date.

(c) If the City has given notice of the provision of an Alternate Liquidity Facility and/or an Alternate Credit Facility and has complied with the conditions set forth herein, the Fiscal Agent is required to give written notice by first class mail to the Holders of the applicable Bonds no later than the 10th day next preceding the mandatory tender date, stating that (A) the Fiscal Agent has received notice of the provision of an Alternate Liquidity Facility and/or an Alternate Credit Facility and (B) such Bonds are required to be purchased by the Fiscal Agent on the mandatory tender date specified in such notice at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to such Purchase Date.

(d) If a Liquidity Provider and/or a Credit Provider has provided written notice of mandatory tender to the Fiscal Agent to the extent provided under the applicable Liquidity Facility and/or Credit Facility, the Fiscal Agent shall promptly notify the Holders of the applicable Bonds that such notice has been received and that such Bonds shall be subject to mandatory tender in accordance with the provisions for mandatory tender set forth in the Bond Authorization on the date set forth by the Fiscal Agent in the notice, which date shall be not more than ten (10) days following the Fiscal Agent's receipt of notice from the applicable Liquidity Provider and/or applicable Credit Provider.

Transfer of Bonds

Bonds are transferable and exchangeable by the Registered Owners thereof at the designated corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania in the manner and subject to the limitations contained in the and 1998 General Ordinance and the Ninth Supplemental Ordinance. The Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Bonds (a) during the period five (5) days prior to any interest payment date for such Bonds, or (b) during the period five (5) days prior to any mailing of notice of redemption of such Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

Credit Facilities

Eighth Series B Bonds

The City has entered into a Reimbursement, Credit and Security Agreement, dated as of August 20, 2009, as previously amended and as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 with the Eighth Series B Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series B Credit Provider has issued the Eighth Series B Credit Facility for the scheduled payment of principal of interest on and purchase price of the Eighth Series B Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" below.

Eighth Series C Bonds

The City has entered into a Reimbursement, Credit and Security Agreement, dated as of August 20, 2009, as amended by a First Amendment to Reimbursement Agreement dated as of September 1, 2011 with the Eighth Series C Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series C Credit Provider has issued the Eighth Series C Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series C Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT" below.

Eighth Series D Bonds

The City has entered into a Reimbursement, Credit and Security Agreement ,dated as of August 20, 2009, as previously amended and as amended by a Second Amendment to Reimbursement Agreement dated as of September 1, 2011 with the Eighth Series D Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series D Credit Provider has issued the Eighth Series D Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series D Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT" below.

Eighth Series E Bonds

The City will enter into the Eighth Series E Reimbursement Agreement dated as of September 1, 2011, with the Eighth Series E Credit Provider, whereby, subject to the terms and conditions contained therein, the Eighth Series E Credit Provider will issue the Eighth Series E Credit Facility for the scheduled payment of principal of, interest on and purchase price of the Eighth Series E Bonds while in the Weekly Mode. See "SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT" below.

Pledge of Revenues and Funds

The Bonds were issued as Senior 1998 Ordinance Bonds and are secured solely by and payable solely from Gas Works Revenues and the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve therein, as provided in the Act, the 1998 General Ordinance and the Ninth Supplemental Ordinance. Gas Works Revenues include all operating and non-operating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments

shall be included in Gas Works Revenues. At such time as there are no 1975 Ordinance Bonds outstanding, Gas Works Revenues shall not include any portions of the Gas Works' rents, rates and charges, if any, which are securitized and sold pursuant to the 1998 General Ordinance.

The Act subjects all monies deposited in the 1998 Ordinance Sinking Fund, including the 1998 Ordinance Sinking Fund Reserve, to a security interest for the 1998 Ordinance Bonds until such monies are properly disbursed and provides that no bonds issued under the Act shall pledge the credit or taxing power of the City or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than Gas Works Revenues and monies deposited in the 1998 Ordinance Sinking Fund.

The pledge of the Gas Works Revenues to secure the Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance (including the Tenth Series Bonds) is at all times subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance securing the 1975 Ordinance Bonds. Gas Works Revenues and Project Revenues are treated by PGW as the same revenues and include grants from the City, properly authorized, including, if applicable and if so authorized, any grant back to PGW of any portion of PGW's Base Payment to the City. See "SECURITY - Priority in Application of Revenues." As of June 30, 2011, $217,045,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding under the 1975 General Ordinance, $1,003,750,000 aggregate principal amount of Senior 1998 Ordinance Bonds and $7,050,000 of Subordinate 1998 Ordinance Bonds were outstanding under the 1998 General Ordinance.

PGW has sold the right to receive the earnings through the year 2021 on approximately $61,400,000 of deposits (of total deposits of slightly more than $99,000,000) in the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve pursuant to two separate investment agreements among FSA Capital Markets Services LLC, the Fiscal Agent and the City (the "Guaranteed Investment Contracts") dated August 23, 2002. Pursuant to the Guaranteed Investment Contracts, the $61,400,000 amortizes over the term of such agreements and the current balance is approximately $44,257,000. PGW's proceeds from the Guaranteed Investment Contracts of approximately $20,100,000 were treated as Project Revenues under the 1975 General Ordinance and Gas Works Revenues under the 1998 General Ordinance in the year received. The portion of such earnings on the 1975 Ordinance Sinking Fund Reserve and the 1998 Ordinance Sinking Fund Reserve which has been sold pursuant to the Guaranteed Investment Contracts no longer belongs to PGW and therefore does not constitute Project Revenues or Gas Works Revenues and are not subject to the lien and security interest of the 1975 General Ordinance or the 1998 General Ordinance.

Covenant Against Commingling with Other City Funds

The City has covenanted in the Supplemental Ordinances that so long as any of the respective series of Bonds remain outstanding, all pledged Gas Works Revenues shall be deposited and held in and disbursed from, one or more unsegregated accounts of PGW which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for PGW purposes. See "REMEDIES OF BONDHOLDERS."

The effectiveness of the separation of proceeds of the Bonds and revenues from other City accounts may be limited under certain circumstances, including a bankruptcy filing by the City. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "REMEDIES OF BONDHOLDERS" herein. Pursuant to the 1998 General Ordinance, all monies deposited in the Sinking Fund established under the 1998 General Ordinance (including the 1998 Ordinance Sinking Fund Reserve), are subject to a security interest in favor of all Holders of the Bonds until such monies are properly disbursed. See "SECURITY — Pledge of Revenues and Funds" herein.

Priority in Application of Revenues

Project Revenues - 1975 Ordinance Bonds

The 1975 General Ordinance creates a lien on and pledge of all Project Revenues of PGW for the benefit of the Holders of 1975 Ordinance Bonds and creates a priority in application of Project Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (*i.e.* Operating Expenses exclusive of City Charges);

Second, to required payments into the 1975 Ordinance Sinking Fund to pay the principal of, and interest on, all 1975 Ordinance Bonds and, if required, to accumulate funds in, or to restore any deficiency in, the 1975 Ordinance Sinking Fund Reserve;

Third, to the payment of any general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from PGW;[11]

Fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for PGW;[1] and

Fifth, to the payment of City Charges, including any Base Payment due to the City.

City Charges are the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works, including without limitation, the expenses of the Gas Commission and also means the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues. During PGW's Fiscal Years 2007-2010, City Charges (exclusive of the $18,000,000 Base Payment and of Gas Commission charges) have averaged approximately $1,240,000 per year.

The 1975 General Ordinance provides that all interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may, to the extent not required to comply with the requirements of the 1975 General Ordinance relating to the 1975 Ordinance Sinking Fund Reserve, and to the extent not sold pursuant to the Guaranteed Investment Contracts referred to under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Pledge of Revenues and Funds" above, be transferred to the operating funds of PGW to be applied as Project Revenues in accordance with the terms of the 1975 General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues (after application under the 1975 General Ordinance as modified by the 1998 General Ordinance and the 2010 Note Ordinance), such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of the 1975 Ordinance Sinking Fund Reserve earnings transferred to the operating funds of PGW during the same Fiscal Year.

Gas Works Revenues — 1998 Ordinance Bonds

The 1998 General Ordinance creates a lien on and security interest in all Gas Works Revenues for the benefit of the Holders of the Bonds and creates a priority in application of Gas Works Revenues in each Fiscal Year as follows:

First, to Net Operating Expenses (i.e. Operating Expenses exclusive of City Charges) then payable;

Second, to debt service on the 1975 Ordinance Bonds issued under the 1975 General Ordinance and amounts required to be paid into the 1975 Ordinance Sinking Fund Reserve under the 1975 General Ordinance;

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

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

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[1] No general obligation debt of the City described in items Third and Fourth above is currently outstanding.

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

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

Seventh, to required payments of the Rebate Amount to the United States;

Eighth, to replenishment of any deficiency in the 1998 Ordinance Sinking Fund Reserve;

Ninth, to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues[2];

Tenth, to debt service on other general obligation bonds issued for the Gas Works[2], and

Eleventh, to City Charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

City Charges are the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works, including without limitation, the expenses of the Gas Commission and also means the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues. During PGW's Fiscal Years 2007-2010, City Charges (exclusive of the $18,000,000 Base Payment and of Gas Commission charges) have averaged approximately $1,240,000 per year.

Operating Expenses

Operating Expenses are defined in the 1975 General Ordinance and the 1998 General Ordinance as all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and include, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges. The 1998 General Ordinance, however, excludes Unrelated Expenses (consisting of those expenses which are unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto) from the definition of Operating Expenses.

Rate Covenant and Rate Requirements

1975 Ordinance Bonds

The 1975 General Ordinance contains the 1975 Ordinance Rate Covenant requiring that, so long as 1975 Ordinance Bonds are outstanding, at a minimum, the City impose, charge and collect in each Fiscal Year, such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of (a) the sum of (i) all Net Operating Expenses payable during such Fiscal Year plus (ii) 150% of the amount required to pay 1975 Ordinance Sinking Fund requirements for principal of and interest on all

[2] No general obligation debt of the City described in items Ninth and Tenth above is currently outstanding.

outstanding 1975 Ordinance Bonds which will become due and payable during such Fiscal Year and (iii) the amount, if any, required to be paid into the 1975 Ordinance Sinking Fund Reserve during such year, or (b) the sum of (i) all Net Operating Expenses payable during such Fiscal Year plus (ii) the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and all outstanding City general obligation bonds issued for improvements to PGW and all amounts, if any, required during such year to be paid into the 1975 Ordinance Sinking Fund Reserve. For a further discussion of the 1975 Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

1998 Ordinance Bonds

The 1998 General Ordinance contains a covenant that requires the City, for so long as the 1998 Ordinance Bonds are outstanding, at a minimum, to impose, charge and collect in each Fiscal Year of the Gas Works such gas rates and charges as shall, together with all other Gas Works Revenues to be received in such Fiscal Year, equal not less than the greater of (a) or (b) below:

(a) The sum of:

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

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the 1975 Ordinance Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay 1998 Ordinance Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Senior 1998 Ordinance Bonds and 100% of the amounts payable in respect of the Prior Obligations during such Fiscal Year;

(iv) the amount required to pay 1998 Ordinance Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding Subordinate 1998 Ordinance Bonds and other obligations of the Gas Works on a parity with Subordinate 1998 Ordinance Bonds payable during such Fiscal Year;

(v) the amount, if any, required to be paid into the 1998 Ordinance Sinking Fund Reserve during such Fiscal Year;

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

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

(b) The sum of:

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

(ii) all principal of and interest on 1975 Ordinance Bonds issued and outstanding under the 1975 General Ordinance payable during such Fiscal Year and amounts required to be paid into the 1975 Ordinance Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) all 1998 Ordinance Sinking Fund deposits required during such Fiscal Year in respect of all Outstanding 1998 Ordinance Bonds and all amounts payable in respect of obligations of the Gas Works which are on a parity with any of the 1998 Ordinance Bonds and in respect of general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the 1998 Ordinance Sinking Fund Reserve;

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

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

In calculating PGW's compliance with the rate covenant with respect to 1998 Ordinance Bonds set forth above, required sinking fund deposits are calculated without regard to the effect of any Qualified Swap. For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio."

Sinking Funds

1975 Ordinance Sinking Fund

Pursuant to the Act, the 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund for the benefit and security of the Holders of all 1975 Ordinance Bonds to be held separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the 1975 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1975 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the 1975 Ordinance Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the 1975 Ordinance Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. The 1975 Ordinance Sinking Fund is a consolidated fund for the equal and proportionate benefit of the Holders of all 1975 Ordinance Bonds from time to time outstanding under the 1975 General Ordinance and may be invested and reinvested on a consolidated basis. Interest and profit from any such investment shall be added to the 1975 Ordinance Sinking Fund and credited in reduction of or to satisfy required deposits into the 1975 Ordinance Sinking Fund. *The 1975 Ordinance Sinking Fund, including the 1975 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds, including the Twentieth Series Bonds. Neither Holders of 1998 Ordinance Bonds, including the Tenth Series Bonds, nor a Qualified Swap Provider of Qualified Swaps, shall have any claim to amounts in the 1975 Ordinance Sinking Fund.*

1998 Ordinance Sinking Fund

Pursuant to the Act, the 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund for the benefit and security of the Holders of all 1998 Ordinance Bonds to be held in the name of the City separate and apart from all other accounts of the City and directs the Director of Finance to deposit therein from the Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate (exclusive of the amount in the 1998 Ordinance Sinking Fund Reserve), on or before each interest and principal payment date of the 1998 Ordinance Bonds, the amounts required to pay the principal of and interest on the 1998 Ordinance Bonds then becoming due and payable. It is the current practice of the City to make deposits into the 1998 Ordinance Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the 1998 Ordinance Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance of the City. The 1998 Ordinance Sinking Fund is a consolidated fund for equal and proportionate benefit of the Holders of all 1998 Ordinance Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest and profits (and losses, if any) realized on investments in the 1998 Ordinance Sinking Fund shall be allocated pro rata among the series of 1998 Ordinance Bonds or the specific 1998 Ordinance Bonds in respect of which such investments were made without distinction or priority. Payments shall be made from the 1998 Ordinance Sinking Fund in the order of priority set forth in the 1998 General Ordinance, except that monies (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular 1998 Ordinance Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium. *The 1998 Ordinance Sinking Fund,*

including the 1998 Ordinance Sinking Fund Reserve established therein, is established solely for the benefit of the Holders of 1998 Ordinance Bonds, including the Tenth Series Bonds. Neither Holders of 1975 Ordinance Bonds nor a Qualified Swap Provider of a Qualified Swap shall have any claim to amounts in the 1998 Ordinance Sinking Fund.

Sinking Fund Reserve

1975 Ordinance Sinking Fund Reserve

The 1975 General Ordinance establishes the 1975 Ordinance Sinking Fund Reserve as part of the 1975 Ordinance Sinking Fund. The City is required to deposit in the 1975 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of 1975 Ordinance Bonds an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the 1975 Ordinance Bonds of such series coming due and payable in that Fiscal Year unless the supplemental ordinance authorizing the series of 1975 Ordinance Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six Fiscal Years after the issuance and delivery of the 1975 Ordinance Bonds. The money and investments (valued at market) in the 1975 Ordinance Sinking Fund Reserve must be held and maintained, at all times, in an amount equal to the maximum principal and interest requirements of all outstanding 1975 Ordinance Bonds in any subsequent Fiscal Year. The City verifies the value of amounts in the 1975 Ordinance Sinking Fund Reserve on a periodic basis. As of June 30, 2011, the value of the funds and investments on deposit in the 1975 Sinking Fund Reserve was required to be at least $32,110,000, and the amount in the 1975 Ordinance Sinking Fund Reserve met this requirement.

If, at any time and for any reason, the monies in the 1975 Ordinance Sinking Fund (other than the 1975 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any 1975 Ordinance Bonds, the 1975 Ordinance Sinking Fund Depositary is required to pay over to the Fiscal Agent, from the 1975 Ordinance Sinking Fund Reserve, the amount of the deficiency. The 1975 Ordinance Sinking Fund and 1975 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The 1975 General Ordinance provides that interest and income earned on monies held in the 1975 Ordinance Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS— Priority in Application of Revenues." *The 1975 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1975 Ordinance Bonds, including the Twentieth Series Bonds. Neither holders of 1998 Ordinance Bonds, including the Holders of the Tenth Series Bonds, nor a Qualified Swap Provider, shall have any claim to amounts in the 1975 Ordinance Sinking Fund Reserve.*

1998 Ordinance Sinking Fund Reserve

The 1998 General Ordinance establishes the 1998 Ordinance Sinking Fund Reserve as part of the 1998 Ordinance Sinking Fund. The City is required to deposit to the credit of the 1998 Ordinance Sinking Fund Reserve from the proceeds of sale of each series of bonds issued under the 1998 General Ordinance and/or Gas Works Revenues an amount which, together with other amounts in the 1998 Ordinance Sinking Fund Reserve, equal the maximum amount required in any Fiscal Year to pay principal of and interest on the 1998 Ordinance Bonds of such series coming due and payable in that Fiscal Year. In lieu of a deposit to the credit of the 1998 Ordinance Sinking Fund Reserve or in substitution for amounts in the 1998 Ordinance Sinking Fund Reserve, the City may provide one or more letters of credit or other Credit Facilities in the same aggregate amount, issued by a provider or providers whose credit facilities are such that bonds secured by such credit facilities are rated in one of the three (3) highest rating categories by Moody's Investors Service, Inc., Fitch Ratings or Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc., all in the manner described under "The 1998 General Ordinance — Sinking Fund and Sinking Fund Reserve" in APPENDIX D.

If, at any time and for any reason, the monies in the 1998 Ordinance Sinking Fund (other than the 1998 Ordinance Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any bond or bonds secured by the 1998 Ordinance Sinking Fund Reserve, the 1998 Ordinance Sinking Fund Depositary is required to pay over to the Fiscal Agent, from the 1998 Ordinance Sinking Fund Reserve, the amount of the deficiency. If by reason of such withdrawal (including draws on any Credit Facilities held to satisfy the 1998 Ordinance Sinking Fund

Reserve Requirement) or for any other reason there shall be a deficiency in the 1998 Ordinance Sinking Fund Reserve, the City has covenanted to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of the Credit Facilities) within twelve (12) months. The 1998 Ordinance Sinking Fund Reserve shall be valued by the 1998 Ordinance Sinking Fund Depositary promptly after any withdrawal from the 1998 Ordinance Sinking Fund Reserve or any other event indicating a possible deficiency in the 1998 Ordinance Sinking Fund Reserve and on August 31 of each Fiscal Year of PGW. As of June 30, 2011, the value of the funds and investments on deposit in the 1998 Ordinance Sinking Fund Reserve was required to be at least $72,424,000 and the amount in the 1998 Ordinance Sinking Fund Reserve met this requirement. The 1998 Ordinance Sinking Fund and 1998 Ordinance Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. *The 1998 Ordinance Sinking Fund Reserve is established solely for the benefit and security of the Holders of 1998 Ordinance Bonds, including the Tenth Series Bonds. Neither Holders of 1975 Ordinance Bonds, including the Twentieth Series Bonds, nor Qualified Swap Providers shall have any claim on amounts in the 1998 Ordinance Sinking Fund Reserve.*

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES B CREDIT FACILITY AND THE EIGHTH SERIES B REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series B Credit Facility includes the extension of the Eighth Series B Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series B Credit Facility.

The Eighth Series B Credit Facility will continue outstanding in the stated amount of $51,119,239.45 of which $50,260,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series B Bonds and $859,239.45 is available to pay interest or the portion of purchase price representing interest on the Eighth Series B Bonds. The Eighth Series B Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series B Bonds or the principal portion of the purchase price of the Eighth Series B Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series B Bonds or the interest portion of the purchase price of Eighth Series B Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series B Credit Facility shall not exceed 52 days' interest on the Eighth Series B Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series B Credit Facility will terminate on August 30, 2013 or such later date to which the applicable Eighth Series B Credit Facility may be extended by the Eighth Series B Credit Provider in its sole discretion (the "Eighth Series B Expiration Date") unless sooner terminated as provided therein. The Eighth Series B Expiration Date of the Eighth Series B Credit Facility may be extended beyond the Eighth Series B Expiration Date then in effect only at the sole discretion of the Eighth Series B Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series B Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series B Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series B Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series B Bond interest, the interest component shall be reinstated automatically as of the Eighth Series B Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series B Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series B Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series B Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series B Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series B Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series B Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series B Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series B Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and Wells Fargo Bank, National Association, as issuer of the Eighth Series B Credit Facility. The full text of the Eighth Series B Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series B Reimbursement Agreement.

Certain provisions of the Eighth Series B Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirely by reference to the full terms of the Eighth Series B Reimbursement Agreement.

The City and the Eighth Series B Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series B Credit Provider issued the Eighth Series B Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series B Credit Facility must be reimbursed by the City to the Eighth Series B Credit Provider in accordance with the terms of the Eighth Series B Reimbursement Agreement. The Eighth Series B Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series B Bonds.

The Eighth Series B Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series B Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series B Credit Provider any reimbursement or other sum due under the Eighth Series B Reimbursement Agreement, the failure to comply with covenants in the Eighth Series B Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series B Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series B Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series B Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series B Bonds then outstanding and to draw on the Eighth Series B Credit Facility whereupon the Eighth Series B Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series B Reimbursement Agreement, the Eighth Series B Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES B CREDIT PROVIDER

The information under this heading has been provided solely by the Eight Series B Credit Provider and is believed to be reliable. This information has not been verified independently by the City. The City makes no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. Wells Fargo Bank, National Association is an indirect, wholly owned subsidiary of Wells Fargo & Company, a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California ("Wells Fargo").

Effective at 11:59 p.m. on December 31, 2008, Wells Fargo acquired Wachovia Corporation and its subsidiaries in a stock-for-stock merger transaction. Information about this merger has been included in filings

made by Wells Fargo with the Securities and Exchange Commission ("SEC"). Copies of these filings are available free of charge on the SEC's website at www.sec.gov. or by writing to Wells Fargo's Corporate Secretary at the address given below.

Each quarter, the Wells Fargo Bank, National Association files with the FDIC financial reports entitled "Consolidated Reports of Condition and Income for Insured Commercial Banks with Domestic and Foreign Offices," commonly referred to as the "Call Reports." The Bank's Call Reports are prepared in accordance with regulatory accounting principles, which may differ from generally accepted accounting principles. The publicly available portions of the Call Reports contain the most recently filed quarterly reports of the Bank, which include the Bank's total consolidated assets, total domestic and foreign deposits, and total equity capital. These Call Reports, as well as the Call Reports filed by the Bank with the FDIC after the date of this Offering Memorandum, may be obtained from the FDIC, Disclosure Group, Room F518, 550 17th Street, N.W., Washington, D.C. 20429 at prescribed rates, or from the FDIC on its Internet site at http://www.fdic.gov, or by writing to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, Sixth and Marquette, MAC N9305-173, Minneapolis, MN 55479.

THE EIGHTH SERIES B CREDIT FACILITY IS AN OBLIGATION OF THE EIGHTH SERIES B CREDIT PROVIDER AND IS NOT AN OBLIGATION OF WELLS FARGO & COMPANY, AND NO ASSETS OF WELLS FARGO & COMPANY WILL BE PLEDGED TO THE PAYMENT THEREOF. PAYMENT OF THE CREDIT FACILITY WILL NOT BE INSURED BY THE FDIC.

The information contained in this section, including financial information, relates to and has been obtained from the Eighth Series B Credit Provider, and is furnished solely to provide limited introductory information regarding the Eighth Series B Credit Provider and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the Eighth Series B Credit Provider since the date hereof.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES C CREDIT FACILITY AND THE EIGHTH SERIES C REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series C Credit Facility includes the extension of the Eighth Series C Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series C Credit Facility.

The Eighth Series C Credit Facility will continue outstanding in the stated amount of $50,854,794.52 of which $50,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series C Bonds and $854,794.52 is available to pay interest or the portion of purchase price representing interest on the Eighth Series C Bonds. The Eighth Series C Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series C Bonds or the principal portion of the purchase price of the Eighth Series C Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series C Bonds or the interest portion of the purchase price of Eighth Series C Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series C Credit Facility shall not exceed 52 days' interest on the Eighth Series C Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series C Credit Facility will terminate on August 30, 2013 or such later date to which the applicable Eighth Series C Credit Facility may be extended by the Eighth Series C Credit Provider in its sole discretion (the "Eighth Series C Expiration Date") unless sooner terminated as provided therein. The Eighth Series C Expiration Date of the Eighth Series C Credit Facility may be extended beyond the Eighth Series C Expiration Date then in effect only at the sole discretion of the Eighth Series C Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series C Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series C Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series C Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series C Bond interest, the interest component shall be reinstated automatically as of the Eighth Series C

Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series C Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series C Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series C Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series C Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series C Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series C Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series C Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series C Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and The Bank of Nova Scotia, acting through its New York Agency, as issuer of the Eighth Series C Credit Facility. The full text of the Eighth Series C Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series C Reimbursement Agreement.

Certain provisions of the Eighth Series C Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirely by reference to the full terms of the Eighth Series C Reimbursement Agreement.

The City and the Eighth Series C Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series C Credit Provider issued the Eighth Series C Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series C Credit Facility must be reimbursed by the City to the Eighth Series C Credit Provider in accordance with the terms of the Eighth Series C Reimbursement Agreement. The Eighth Series C Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series C Bonds.

The Eighth Series C Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series C Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series C Credit Provider any reimbursement or other sum due under the Eighth Series C Reimbursement Agreement, the failure to comply with covenants in the Eighth Series C Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series C Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series C Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series C Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series C Bonds then outstanding and to draw on the Eighth Series C Credit Facility whereupon the Eighth Series C Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series C Reimbursement Agreement, the Eighth Series C Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES C CREDIT PROVIDER

The Bank of Nova Scotia ("Scotiabank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and

Canada's most international bank. With over 73,000 employees, Scotiabank and its affiliates serve over 18.6 million customers in more than 50 countries around the world.

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

For the fiscal year ended October 31, 2010, Scotiabank recorded total assets of CDN$526.7 billion (US$517.0 billion) and total deposits of CDN$361.7 billion (US$355.0 billion). Net income for the fiscal year ended October 31, 2010 equaled CDN$4.239 billion (US$4.161 billion), compared to CDN$3.547 billion (US$3.482 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 29, 2010 (1.0000 United States dollar equals 1.0188 Canadian dollars).

For the quarter ended April 30, 2011, Scotiabank recorded total assets of CDN$571.5 billion (US$602.5 billion) and total deposits of CDN$396.1 billion (US$417.6 billion). Net income for the quarter ended April 30, 2011 equaled CDN$1.543 billion (US$1.626 billion), compared to CDN$1.097 billion (US$1.156 billion) for the same period of the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of April 29, 2011 (1.0000 United States dollar equals 0.9486 Canadian dollars).

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES D CREDIT FACILITY AND THE EIGHTH SERIES D REIMBURSEMENT AGREEMENT

For the purpose of the discussion under this heading, the Eighth Series D Credit Facility includes the extension of the Eighth Series D Credit Facility, but does not include any Alternate Credit Facility or Alternate Liquidity Facility issued in lieu of the Eighth Series D Credit Facility.

The Eighth Series D Credit Facility will continue outstanding in the stated amount of $76,282,191.78 of which $75,000,000 is available to pay principal or the portion of purchase price corresponding to principal of the Eighth Series D Bonds and $1,282,191.78 is available to pay interest or the portion of purchase price representing interest on the Eighth Series D Bonds. The Eighth Series D Credit Facility will be in the amount sufficient to enable the Fiscal Agent to draw up to the amount required to pay (a) the principal of the Eighth Series D Bonds or the principal portion of the purchase price of the Eighth Series D Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization, and (b) the interest on the Eighth Series D Bonds or the interest portion of the purchase price of Eighth Series D Bonds tendered for purchase in accordance with the terms thereof and of the Bond Authorization (provided that the amount available to pay interest under the Eighth Series D Credit Facility shall not exceed 52 days' interest on the Eighth Series D Bonds calculated at 12% per annum), when due, whether on an interest payment date, at maturity, or upon redemption or tender.

The Eighth Series D Credit Facility will terminate on August 30, 2013, or such later date to which the applicable Eighth Series D Credit Facility may be extended by the Eighth Series D Credit Provider in its sole discretion (the "Eighth Series D Expiration Date") unless sooner terminated as provided therein. The Eighth Series D Expiration Date of the Eighth Series D Credit Facility may be extended beyond the Eighth Series D Expiration Date then in effect only at the sole discretion of the Eighth Series D Credit Provider.

Each drawing honored by the Fiscal Agent under the Eighth Series D Credit Facility shall immediately reduce the principal component, and/or the interest component (as the case may be) of the amount available under the Eighth Series D Credit Facility by the amount of such drawing, and the aggregate amount available under the Eighth Series D Credit Facility shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Eighth Series D Bond interest, the interest component shall be reinstated automatically as of the Eighth Series D Credit Provider's opening of business, on the fifth Business Day following the date of such payment by an amount equal to the amount of such drawing for interest, unless the Fiscal Agent shall have received notice from the Eighth Series D Credit Provider not later than the close of business on the fifth Business Day following the date of such payment to the effect that an event of default has occurred under the Eighth Series D Reimbursement Agreement and directing the Fiscal Agent to cause a mandatory purchase of the Eighth Series D Bonds, in which case such reinstatement shall not occur. The interest component may otherwise be reinstated as the Eighth Series D Credit Provider may from time to time notify the Fiscal Agent in writing.

The amount available under the Eighth Series D Credit Facility and the respective principal and interest components thereof shall also be reduced automatically upon receipt by the Eighth Series D Credit Provider from the Fiscal Agent of a certificate in the form prescribed by the Eighth Series D Credit Facility, each such reduction to be in the amount necessary to reduce the amount available under the Eighth Series D Credit Facility and the principal and interest components thereof to the respective amounts specified by the Fiscal Agent in such certificate.

The following is a summary of certain provisions of the Reimbursement, Credit and Security Agreement between the City and Bank of America, N.A. as issuer of the Eighth Series D Credit Facility. The full text of the Eighth Series D Reimbursement Agreement may be obtained from the Fiscal Agent. Capitalized terms used under this section but not defined herein have the meanings set forth in the Eighth Series D Reimbursement Agreement.

Certain provisions of the Eighth Series D Reimbursement Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirely by reference to the full terms of the Eighth Series D Reimbursement Agreement.

The City and the Eighth Series D Credit Provider have entered into the Reimbursement, Credit and Security Agreement pursuant to which the Eighth Series D Credit Provider issued the Eighth Series D Credit Facility for the account of the City.

All amounts drawn by the Fiscal Agent under the Eighth Series D Credit Facility must be reimbursed by the City to the Eighth Series D Credit Provider in accordance with the terms of the Eighth Series D Reimbursement Agreement. The Eighth Series D Reimbursement Agreement can be amended at any time without the consent of the Fiscal Agent or the beneficial owners of the Eighth Series D Bonds.

The Eighth Series D Reimbursement Agreement sets forth various representations, warranties and covenants of the City, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with contracts, maintenance of properties and reporting requirements.

The Eighth Series D Reimbursement Agreement also defines certain events of default thereunder, including generally, without limitation, the failure to pay to the Eighth Series D Credit Provider any reimbursement or other sum due under the Eighth Series D Reimbursement Agreement, the failure to comply with covenants in the Eighth Series D Reimbursement Agreement, a default under certain indebtedness of the City, the breach of a representation or warranty, the occurrence of an event of default as defined in the bond documents, and an event of bankruptcy.

The Eighth Series D Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured thereunder, the Eighth Series D Credit Provider may, in its sole discretion:

(a) notify the Fiscal Agent and the City of such event of default and give notice of termination of the Eighth Series D Credit Facility; direct the Fiscal Agent to declare an event of default and cause a mandatory tender of all of the Eighth Series D Bonds then outstanding and to draw on the Eighth Series D Credit Facility whereupon the Eighth Series D Credit Facility shall terminate in accordance with its terms; and

(b) exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series D Reimbursement Agreement, the Eighth Series D Bonds, the Bond Authorization, the 1998 General Ordinance, the Act, the Fiscal Agent Agreement or any other document, or at law or in equity.

THE EIGHTH SERIES D CREDIT PROVIDER

Certain Information Concerning Bank of America, N.A.

Bank of America, N.A. (the "Eighth Series D Credit Provider") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Eighth Series D Credit Provider is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2011, the Eighth Series D Credit Provider had consolidated assets of $1.454 trillion, consolidated deposits of $1.060 trillion and stockholder's equity of $176 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Eighth Series D Credit Provider is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Eight Series D Credit Provider will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications

100 North Tryon Street, 18th Floor

Charlotte, North Carolina 28255

Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE EIGHTH SERIES D CREDIT PROVIDER, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Eighth Series D Credit Provider since the date of the most recent filings referenced herein,

or that the information contained or referred to in this Appendix C is correct as of any time subsequent to the referenced date.

SUMMARY OF CERTAIN PROVISIONS OF THE EIGHTH SERIES E CREDIT FACILITY AND THE EIGHTH SERIES E REIMBURSEMENT AGREEMENT

General

The Eighth Series E Credit Provider has agreed to issue, in favor of the Fiscal Agent on behalf of the owners of the Eighth Series E Bonds, and pursuant to the Reimbursement Agreement, dated as of September 1, 2011 (the "Eighth Series E Reimbursement Agreement"), by and between the City and the Eighth Series E Credit Provider, an irrevocable direct pay letter of credit in support of the Eighth Series E Bonds (the "Eighth Series E Letter of Credit").

Under the Eighth Series E Reimbursement Agreement, the City has agreed to pay to the Eighth Series E Credit Provider an amount equal to all amounts drawn under the Eighth Series E Letter of Credit, together with interest on any such amounts from the date of the drawing to the day of repayment. The City has also agreed to pay certain fees and expenses of the Eighth Series E Credit Provider in connection with the issuance of the Eighth Series E Letter of Credit.

The Eighth Series E Letter of Credit and the Eighth Series E Reimbursement Agreement each contain various provisions, covenants and conditions, certain of which are summarized below and each of which is qualified in its entirety by reference to the Eighth Series E Letter of Credit and the Eighth Series E Reimbursement Agreement. Various words or terms used in the following summary are defined elsewhere in this Reoffering Circular, the Eighth Series E Letter of Credit or the Eighth Series E Reimbursement Agreement, and reference is made thereto for a full understanding of their import.

The Eighth Series E Letter of Credit

The Eighth Series E Letter of Credit will be issued in an amount equal to $51,119,240 (the "Stated Amount"), of which up to $50,260,000 is available for the payment of the unpaid principal of the Eighth Series E Bonds, and up to $859,240 is available for the payment of unpaid interest accrued on the Eighth Series E Bonds. The Eighth Series E Letter of Credit will permit the Fiscal Agent to draw an amount sufficient to pay (i) the maturing principal of the Eighth Series E Bonds, and (ii) the interest coming due on the Eighth Series E Bonds up to 52 days' interest at a maximum rate of 12% per annum calculated on the basis of a 365-day year, all as described and subject to certain limitations and other terms as described in the Eighth Series E Letter of Credit. The Eighth Series E Letter of Credit is an irrevocable transferable direct pay obligation of the Eighth Series E Credit Provider to pay to the Fiscal Agent, upon timely demand and in accordance with the terms thereof, the Stated Amount of the Eighth Series E Letter of Credit, as said Stated Amount may be reduced and reinstated as provided therein.

The Eighth Series E Letter of Credit will be effective upon remarketing of the Eighth Series E Bonds. The Eighth Series E Letter of Credit will terminate on the earliest of (a) the date the Eighth Series E Credit Provider honors the final drawing available to be made under the Eighth Series E Letter of Credit; or (b) the Business Day following the date of the receipt by the Eighth Series E Credit Provider of a certificate signed by the Fiscal Agent stating: "(i) The conditions precedent for the acceptance of an Alternate Credit Facility and/or Alternate Liquidity Facility have been satisfied, (ii) the Fiscal Agent has accepted the Alternate Credit Facility and/or Alternate Liquidity Facility, and (iii) on the effective date of the Alternate Credit Facility and/or Alternate Liquidity Facility, and after all draws have been honored, and after receipt by the Eighth Series E Credit Provider of this certificate, the Eighth Series E Letter of Credit shall terminate"; (c) receipt by the Eighth Series E Credit Provider of a certificate signed by an Authorized Officer stating that no Eighth Series E Bonds remain Outstanding; or (d) the date the Eighth Series E Credit Provider honors a Drawing or Drawings made pursuant to the Bond Authorization following receipt by the Fiscal Agent of the Notice of Termination Due to Event of Default relating to the occurrence of an "Event of Default" under the Eighth Series E Reimbursement Agreement. The Eighth Series E Letter of Credit shall also automatically terminate in whole prior to its expiration date on the date the Eighth Series E Credit Provider honors a Drawing or Drawings made pursuant to the Bond Authorization upon the conversion of all of the Eighth Series E Bonds from the Weekly Mode to any other Rate Mode. Prior to the Eighth Series E Letter of Credit

Termination Date, the Eighth Series E Credit Provider may extend the Stated Expiration Date from time to time at the request of the City as provided in the Eighth Series E Reimbursement Agreement.

The Eighth Series E Letter of Credit may only be drawn on by the Fiscal Agent or by a transferee that has succeeded to the duties of the Fiscal Agent and to whom the Eighth Series E Letter of Credit has been properly transferred in accordance with its terms.

Events of Default Under the Eighth Series E Reimbursement Agreement

The occurrence of any of the following events is an "Event of Default" under the Eighth Series E Reimbursement Agreement:

(a) The City fails to pay on the date on which the same is due and payable (1) any payment representing a payment or reimbursement for payments made by the Eighth Series E Credit Provider under the Eighth Series E Letter of Credit, plus interest thereon, to the extent any interest is due thereon, or (2) any payment representing a payment of a Term Loan, plus interest thereon, to the extent any interest is due thereon;

(b) The City fails to pay on the date on which the same is due and payable, any fees, costs, expenses or other payments required by the Eighth Series E Reimbursement Agreement or by any other Related Documents to be paid by the City, and such failure to pay is not fully cured within ten (10) days of the earlier of (i) the date such payment is due under the Eighth Series E Reimbursement Agreement, or (ii) the date of delivery to the City of an invoice from the Eighth Series E Credit Provider with respect to fees, costs, expenses or other payments not having a specific due date hereunder;

(c) The City (i) fails to perform or observe certain terms, covenants, agreements or conditions in the Eighth Series E Reimbursement Agreement; or (ii) fails to perform or observe any other term, covenant, agreement or condition in the Eighth Series E Reimbursement Agreement or is in violation of or non-compliance with any provision of the Eighth Series E Reimbursement Agreement not specifically referred to the other Events of Default, and has not remedied and fully cured such non-performance, non-observance, violation of or non-compliance within thirty (30) Business Days after the earlier of (a) the date the Eighth Series E Credit Provider has given written notice thereof to the City; or (b) the date the Senior Management of the Gas Works, the City Solicitor, the City Controller and/or the Director of Finance has knowledge that such failure has occurred; provided that such cure period shall not apply to violations referred to in clause (i) above;

(d) (i) The City shall default in the payment when due (subject to any applicable notice or grace period), whether at stated maturity, required prepayment, demand or otherwise, of any principal of or interest on (howsoever designated) any Indebtedness in excess of $500,000, whether such Indebtedness now exists or shall hereafter be created; (ii) an event of default as defined in any mortgage, indenture, instrument or resolutions under which there may be issued, or by which there may be secured or evidenced, any Indebtedness for money borrowed of, or guaranteed by, the City in excess of $500,000, whether such Indebtedness now exists or shall hereafter be created, shall occur and shall result in the Indebtedness becoming due and payable prior to the stated maturity or due date thereof; or (iii) any event shall occur which shall permit such Indebtedness described in (i) or (ii) above in excess of $500,000 to be so declared due and payable prior to its stated maturity or due date and such event shall continue unremedied past any period of grace provided for in any mortgage, indenture, instrument or Bond Authorization under which such Indebtedness is issued;

(e) The validity, binding nature of, or enforceability of any term or provision of the Eighth Series E Reimbursement Agreement or any other Related Document is disputed by, on behalf of, or in the right or name of the City or by any Governmental Authority of competent jurisdiction or any term or provision of the Eighth Series E Reimbursement Agreement or any such other Related Document is found or declared to be invalid, avoidable, or non-enforceable by any court or any other Governmental Authority of competent jurisdiction or any law is enacted which declares the contractual obligations of the City under the Eighth Series E Reimbursement Agreement invalid, unavailable or unenforceable;

(f) Any financial statement of the City or any warranty or representation made by the City in the Eighth Series E Reimbursement Agreement or any other Related Document or in any certificate, letter, or other writing or instrument furnished or delivered under or pursuant to the Eighth Series E Reimbursement Agreement or any other Related Document, or in connection with any provision of the Eighth Series E Reimbursement Agreement or any other Related Document related to the transactions contemplated by the Eighth Series E Reimbursement Agreement shall prove to have been false or incorrect or breached in any material respect on the date as of which made or when reaffirmed, as the case may be;

(g) (i) The City or the Gas Works shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, moratorium, restructuring or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the City or the Gas Works shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the City or the Gas Works, any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of thirty (30) days; or (iii) there shall be commenced against the City or the Gas Works, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distrait or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within thirty (30) days from the entry thereof; or (iv) the City or the Gas Works shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the City or the Gas Works shall generally not, or shall be unable to, or so admit in writing its inability to, pay its debts as they become due;

(h) Any judgment arising out of the operation of the City or the Gas Works in an aggregate amount in excess of $5,000,000 shall be entered against the City or the Gas Works as the case may be and which is not (a) appealed, (b) stayed, or (c) paid within ninety (90) days of becoming final;

(i) The Sinking Fund or the Sinking Fund Reserve or any funds on deposit in, or otherwise to the credit of such accounts shall become subject to any writ, order, judgment, warrant of attachment, execution or similar process and such writ, order, judgment, warrant of attachment, execution or similar process prevents payment into or out of such Account for the purposes and at the times contemplated by the Related Documents, unless such writ, order, judgment, warrant of attachment, execution or similar process shall be fully bonded or stayed;

(j) Any change shall be made in any provision of the Act if such change would, in the reasonable judgment of the Eighth Series E Credit Provider, materially and adversely affect the ability of the City to pay any amount coming due hereunder;

(k) There shall occur any “default” or “event of default” in any Related Document, subject to applicable notice and cure periods;

(l) The City shall default in the payment when due of any obligation (subject to any applicable notice or grace period) owed to the issuer of any Swap; (ii) if the City is permitted to post collateral for a Swap under applicable law, the City shall fail to post collateral as required by the terms of any Swap; or (iii) any event shall occur under any Swap which shall permit any obligation under any Swap in excess of $500,000 to be terminated or otherwise declared due and payable prior to its stated maturity and such event shall continue unremedied past any period of grace provided for in any agreement under which such Swap is issued; or

(m) A Governmental Authority with appropriate jurisdiction shall impose a debt moratorium, debt restructuring or debt adjustment on any Indebtedness of the City or the Gas Works.

Remedies

(a) If an Event of Default has occurred and is continuing uncured the Eighth Series E Credit Provider may, in its sole discretion,

(i) Notify the Fiscal Agent and the City of such Event of Default and give notice of termination of the Eighth Series E Letter of Credit; direct the Fiscal Agent to declare an Event of Default and cause a mandatory tender of all of the Eighth Series E Bonds; direct the Fiscal Agent to draw under the Eighth Series E Letter of Credit by a Liquidity Drawing, whereupon all amounts drawn under the Eighth Series E Letter of Credit, all interest thereon and all other amounts payable under the Eighth Series E Reimbursement Agreement or in respect of the Eighth Series E Reimbursement Agreement shall automatically be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the City; and direct the Fiscal Agent to exercise remedies available to it under the Related Documents;

(ii) Declare any outstanding Term Loans to be immediately due and payable in full, whereupon all such Term Loans (together with all interest accrued but unpaid thereon to the date of payment) will be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the City;

(iii) By written notice to the City, declare the City's Obligations under the Eighth Series E Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable, and provided however upon an Event of Default under paragraph (g) above under "Events of Default under the Eighth Series E Reimbursement Agreement," all Obligations under the Eighth Series E Reimbursement Agreement shall automatically become immediately due and payable;

(iv) Increase the interest rate on all Obligations under the Eighth Series E Reimbursement Agreement to the Default Rate; or

(v) Exercise, or cause to be exercised, any and all rights and remedies available to it under the Eighth Series E Reimbursement Agreement and the other Related Documents, the Act or at law or in equity.

(b) No remedy conferred in the Eighth Series E Reimbursement Agreement or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Eighth Series E Reimbursement Agreement or any other Related Document or now or hereafter existing at law or in equity or by statute.

THE EIGHTH SERIES E CREDIT PROVIDER

PNC BANK, NATIONAL ASSOCIATION

This summary incorporates by reference certain Call Reports of PNC Bank, National Association ("PNC Bank"), filed with the Office of the Comptroller of the Currency ("OCC"), and certain reports of its parent, The PNC Financial Services Group, Inc. ("PNC Financial"), filed with the Securities and Exchange Commission ("SEC"), as set forth below under the heading "Incorporation of Certain Documents by Reference." You should read those reports and the information set forth below under the headings "PNC Bank and PNC Financial" and "Supervision and Regulation."

You should also understand that, except to the limited extent described herein, this summary does not describe the business or analyze the condition, financial or otherwise, of PNC Bank or otherwise describe any risks associated with PNC Bank or the Letter of Credit. You must rely on your own knowledge, investigation and examination of PNC Bank and PNC Bank's creditworthiness.

Neither PNC Bank nor PNC Financial makes any representation regarding the Bonds or the advisability of investing in the Bonds, nor do they make any representation regarding, nor has PNC Bank or PNC Financial

participated in the preparation of, any document of which this summary is a part other than the information supplied by PNC Bank or PNC Financial and presented in this summary headed "PNC Bank, National Association."

THE LETTER OF CREDIT IS SOLELY AN OBLIGATION OF PNC BANK AND IS NEITHER AN OBLIGATION OF NOR GUARANTEED BY PNC FINANCIAL OR ANY OF ITS OTHER AFFILIATES.

PNC Bank and PNC Financial

PNC Bank is a national banking association with its headquarters in Pittsburgh, Pennsylvania and its main office in Wilmington, Delaware. PNC Bank is a wholly-owned indirect subsidiary of PNC Financial. PNC Bank's origins as a national bank date to 1865. PNC Bank and its subsidiaries offer a wide range of commercial banking, retail banking, and trust and wealth management services to their customers. PNC Bank's business is subject to examination and regulation by federal banking authorities. Its primary federal bank regulator is the OCC and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

PNC Financial, the parent company of PNC Bank, is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania. PNC Financial was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, PNC Financial has diversified its geographic presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

PNC Financial has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking. PNC Financial provides many of its products and services nationally and others in PNC Financial's primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. PNC Financial also provides certain products and services internationally.

On June 19, 2011, PNC Financial entered into a definitive agreement for PNC Financial to acquire RBC Bank (USA), the U.S. retail banking subsidiary of Royal Bank of Canada. Raleigh, N.C.-based RBC Bank (USA) has approximately $25 billion of assets and 424 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. Based on RBC Bank (USA) balances as of April 30, 2011, the acquisition would add approximately $19 billion of deposits and $16 billion of loans, net of agreed upon loan and deposit transfers. PNC Financial has also agreed to acquire certain credit card accounts of RBC Bank (USA) customers issued by RBC Bank (Georgia), National Association, a wholly-owned subsidiary of Royal Bank of Canada. The transaction is expected to close in March 2012, subject to customary closing conditions including regulatory approvals. Upon closing, PNC Financial intends to merge RBC Bank (USA) into PNC Bank, with PNC Bank continuing as the surviving entity.

On July 26, 2011, PNC Financial entered into a definitive agreement for the acquisition of 27 branches in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc., and the assumption of approximately $240 million of deposits associated with those branches, based on balances as of June 30, 2011. No loans will be acquired in the transaction. This transaction is expected to close in December 2011, subject to customary closing conditions including regulatory approvals.

PNC Financial

in billions

	June 30, 2011	December 31, 2010
Total assets	$263.1	$264.3
Total deposits	$181.9	$183.4
Shareholders' equity	$32.2	$30.2

PNC Bank

in billions

	June 30, 2011	December 31, 2010
Total assets	$254.8	$256.6
Total loans (net of unearned income) and loans held for sale	$153.2	$154.2
Total deposits	$188.1	$191.9
Total equity capital	$35.2	$33.8

Supervision and Regulation

PNC Financial, the parent company of PNC Bank, is a bank and financial holding company and is subject to numerous governmental regulations involving both its business and organization. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect shareholders and non-customer creditors, but rather to protect customers and the financial markets in general.

Applicable laws and regulations restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, among other things. They also restrict PNC Financial's ability to repurchase its stock or to receive dividends from its subsidiaries that operate in the banking and securities businesses and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, PNC Financial and PNC Bank are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework could materially impact the conduct, growth, and profitability of the company's operations.

There have been numerous legislative and regulatory developments and dramatic changes in the competitive landscape of the financial services industry over the last several years. The United States and other governments have undertaken major reform of the regulatory oversight structure of the financial services industry,

including engaging in new efforts to impose requirements designed to protect consumers and investors from financial abuse. PNC Financial expects to face further increased regulation of the financial services industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability, and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. PNC Financial and PNC Bank also expect in many cases more intense scrutiny from bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with regulations and other supervisory initiatives will likely increase the company's costs and reduce its revenue, and may limit its ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010. Although Dodd-Frank and other reforms will affect a number of the areas in which PNC Financial does business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which PNC Financial will be able to adjust its businesses in response to the requirements. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, a process that, while well underway, is proceeding somewhat slower than originally anticipated, thus extending the uncertainty surrounding the ultimate impact of Dodd-Frank on PNC Financial and its subsidiaries.

A number of reform provisions are likely to significantly impact the ways in which bank holding companies and banks, including PNC Financial and PNC Bank, do business. Additional information regarding a number of these provisions (including new consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC Financial is provided in Item 1A Risk Factors included in Part II of PNC Financial's second quarter 2011 Quarterly Report on Form 10-Q.

You will find a general discussion of some of the elements of the regulatory framework affecting PNC Financial and its subsidiaries, additional information discussing the regulatory environment for the financial services industry, and discussion of certain business and regulatory risks that affect PNC Financial in the following sections of PNC Financial's 2010 Annual Report on Form 10-K and its 2011 Quarterly Reports on Form 10-Q, as applicable: for the 2010 Form 10-K, the Supervision And Regulation section included in Item 1 – Business, Item 1A – Risk Factors, and Note 21 Regulatory Matters, Note 22 Legal Proceedings, and Note 23 Commitments and Guarantees of the Notes To Consolidated Financial Statements included in Item 8 of that report; and for the 2011 Form 10-Qs, Item 1A – Risk Factors included in Part II, and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in Part I, of those respective reports as applicable.

Incorporation of Certain Documents by Reference

PNC Bank submits certain unaudited reports called "Consolidated Reports of Condition and Income" ("Call Reports") to the OCC, its primary federal bank regulator, quarterly. Each Call Report consists of a balance sheet, income statement, changes in bank equity capital, and other supporting schedules as of the end of or for the period to which the report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by the Call Reports, those regulatory instructions do not in all cases follow accounting principles generally accepted in the United States, including the opinions and statements of the Accounting Principles Board or the Financial Accounting Standards Board ("U.S. GAAP"). While the Call Reports are supervisory and regulatory documents, not primarily financial accounting documents, and do not provide a complete range of financial disclosure about PNC Bank, the reports nevertheless provide important information concerning the financial condition and results of operations of PNC Bank.

The publicly available portions of the Call Reports are on file with, and publicly available on written request to, the FDIC, Public Information Center, 3501 North Fairfax Drive, Arlington, VA 22226, or by calling the FDIC Public Information Center at 877-275-3342 or 703-562-2200. The Call Reports are also available by accessing the FDIC's website at http://www.fdic.gov.

PNC Financial, the parent company of PNC Bank, is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). In accordance with the Exchange Act, PNC Financial files annual, quarterly and current reports, proxy statements, and other information with the SEC. PNC Financial's SEC File Number is 001-09718. You may read and copy this information at the SEC's Public Reference Room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or 202-551-8090. You can also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers, like PNC Financial, who file electronically with the SEC. The address of that website is http://www.sec.gov. You can also inspect reports, proxy statements and other information about PNC Financial at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have included the web addresses of the FDIC and the SEC as inactive textual references only. Except as specifically incorporated by reference into this summary, information on those websites is not part hereof.

The publicly-available portions of PNC Bank's Call Reports for the years ended December 31, 2010, 2009, and 2008 and for the quarters ended March 31, 2011 and June 30, 2011, and of any amendments or supplements thereto, as filed by PNC Bank with the OCC, are incorporated herein by reference. The publicly-available portions of each other PNC Bank Call Report, and of any amendments or supplements thereto or to any of the PNC Bank Call Reports listed above, filed with the OCC after December 31, 2010 and prior to the expiration of the Letter of Credit are also incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information.

In addition to the Call Reports referred to above, PNC Bank incorporates herein by reference the following documents: PNC Financial's Annual Report on Form 10-K for the year ended December 31, 2010; PNC Financial's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011; PNC Financial's Current Reports on Form 8-K filed with the SEC on February 15, 2011, March 1, 2011, March 7, 2011, April 14, 2011, May 2, 2011, June 20, 2011 (with respect to Item 1.01 and Exhibit 2.1 thereof), and July 27, 2011; and any amendments or supplements to those reports. Each other annual, quarterly and current report, and any amendments or supplements thereto or to any of the PNC Financial reports listed above, filed by PNC Financial with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act after December 31, 2010 and prior to the expiration of the Letter of Credit is also incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information. The information incorporated by reference herein does not include any report, document or portion thereof that PNC Financial furnishes to, but does not file with, the SEC unless otherwise specifically provided above.

Neither the delivery of this document nor the sale of any Bonds will imply that the information herein or in any document incorporated by reference is correct as of any time after its date. Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes hereof to the extent that a statement contained therein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part hereof.

Any of the above documents incorporated herein by reference (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents) are available upon request by holders of the Bonds or by prospective investors in the Bonds without charge: (1) in the case of PNC Bank documents, by written request addressed to Ronald Lewis, Manager of Regulatory Reporting, at The PNC Financial Services Group, Inc., One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707; or (2) in the case of PNC Financial documents, (a) for copies without exhibits, by contacting Shareholder Services at 800-982-7652 or via the online contact form at wwww.computershare.com/contactus, and (b) for exhibits, by contacting Shareholder

Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com. The interactive data file ("XBRL") exhibit is only available electronically.

ADDITIONAL BONDS

Additional 1975 Ordinance Bonds

The 1975 General Ordinance permits the issuance of additional 1975 Ordinance Bonds on a parity with other currently outstanding 1975 Ordinance Bonds. The 1998 General Ordinance limits the issuance of additional 1975 Ordinance Bonds, providing that additional 1975 Ordinance Bonds may only be issued to refund prior 1975 Ordinance Bonds. In order to issue 1975 Ordinance Bonds to refund prior 1975 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1975 Ordinance Bonds, estimated Project Revenues will be sufficient to meet the 1975 Ordinance Rate Covenant.

Additional 1998 Ordinance Bonds

The 1998 General Ordinance permits the issuance of additional 1998 Ordinance Bonds which may be either Senior 1998 Ordinance Bonds, on a parity with outstanding Senior 1998 Ordinance Bonds, including the Tenth Series Bonds, or Subordinate 1998 Ordinance Bonds. All 1998 Ordinance Bonds issued under the 1998 General Ordinance are subordinated to the 1975 Ordinance Bonds. In order to issue additional 1998 Ordinance Bonds, among other requirements, it is necessary that a financial report of the chief fiscal officer of the City be provided which determines that, over the amortization period of the additional 1998 Ordinance Bonds, estimated Gas Works Revenues will be sufficient to meet the 1998 Ordinance Rate Covenant.

Bond Anticipation Notes

The Act authorizes the City to issue revenue bond anticipation notes as well as Gas Works Revenue Bonds. Section 16 of the Act provides that the City may issue its revenue bond anticipation notes which shall be payable by exchange for, or out of the proceeds of the sale of, a designated series of revenue bonds referred to in the bond anticipation notes. The reference to the revenue bonds shall specify a maximum rate of interest to be borne by said bonds and may provide that said bonds shall be offered for sale, but if no proposals shall be received, the sole remedy of the Holders of the revenue bond anticipation notes shall be either to accept the bonds at the specified maximum interest rate, or to extend the maturity of the revenue bond anticipation notes for one or more specified additional periods of not less than six months during which additional offers of the bonds may be made. At the present time, there are no bond anticipation notes outstanding and the City has no present intention to issue revenue bond anticipation notes.

OTHER OUTSTANDING DEBT OBLIGATIONS

Short-Term Borrowings

Gas Works Notes. The City is authorized to issue, from time to time, bonds or notes (collectively, the "Gas Works Notes") pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth of Pennsylvania (the "Inventory and Receivables Financing Act") and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2010 (Bill No. 100006, approved on March 17, 2010) (the "Note Ordinance") in amounts, as approved by the a majority of the Bond Committee, in a principal amount not to exceed, in the aggregate, $150,000,000 at any one time outstanding. On June 1, 2010, the City issued $45,000,000 of Gas Works Revenue Notes, CP Series F ("Series F Notes") consisting of $15,000,000 CP Series F-1 Notes ("Series F-1 Notes"), $15,000,000 CP Series F-2 Notes ("Series F-2 Notes") and $15,000,000 CP Series F-3 Notes (the "Series F-3 Notes" and together with the Series F-1 Notes and the Series F-2 Notes, the "Series F Notes"). The proceeds of the Gas Works Notes may be used to finance or refund the costs of acquisition or funding of Inventory or Receivables (as such terms are defined in the Note Ordinance) of PGW or to refund Gas Works Notes. The Gas Works Notes are junior in priority of payment to the 1975 Ordinance Bonds and the Senior 1998 Ordinance Bonds and are on a parity with Subordinate 1998 Ordinance Bonds and payments due in respect of obligations on a parity

with Subordinate 1998 Ordinance Bonds. The Note Ordinance provides that the final maturity date of Gas Works Notes shall be no later than the earlier of 270 days after their respective dates of issuance, 13 months from the date of initial issuance of any installment of any Gas Works Note under the Note Ordinance or March 17, 2015. Under the terms of a Resolution adopted by the Bond Committee on May 13, 2010, the City may issue notes from time to time in an aggregate principal amount which will not exceed $150,000,000 outstanding at any time. Although the Series F Notes were initially issued in an aggregate principal amount, together with interest thereon, not to exceed $45,000,000, the City may, in the future, if the City deems it necessary, issue notes in an aggregate principal amount together with interest thereon, in excess of $45,000,000, not to exceed $150,000,000. At present, no Gas Works Notes are outstanding.

Payment of principal of and interest on Gas Works Notes are secured on a several basis by letters of credit issued by JPMorgan Chase Bank, National Association, Bank of Nova Scotia, acting through its New York Agency, and Wells Fargo Bank, National Association, which expire on June 1, 2012. On October 29, 2010, PGW requested that each of the three banks reduce the maximum stated amounts of their respective letters of credit from $40,000,000 to $30,000,000. Although the authorization to issue Gas Works Notes pursuant to the Note Ordinance is up to $150,000,000, under no circumstances will the City issue notes, together with interest thereon, in excess of $90,000,000, unless the stated amounts of the respective letters of credit are increased by the applicable bank.

The Note Ordinance requires establishment of a sinking fund for the benefit and security of the Holders of each series of the Gas Works Notes. The City covenants to deposit to the credit of the sinking fund for the Gas Works Notes from Gas Works Revenues such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Gas Works Notes, the amount required, after taking into account amounts paid from refunding Gas Works Notes and credit support instruments, to pay the Gas Works Notes then becoming due and payable.

Interfund Borrowing. PGW is authorized to make interfund loans from various consolidated accounts of PGW for payment, as necessary, of PGW obligations, including debt service on bonds issued under the General Ordinances. PGW's practice is to reimburse such accounts as revenues are received by the end of each Fiscal Year during which such withdrawals were made. As of July 1, 2011, no such interfund loans are outstanding.

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DEBT SERVICE SCHEDULE FOR ALL OBLIGATIONS
(as of August 31, 2011)

Fiscal Year Ending August 31	1975 Ordinance	1998 Ordinance Bonds										Combined Total Debt Service (75 & 98 Ord.)
	Existing Debt Service	Existing Debt Service[1]	Eighth Series B		Eighth Series C		Eighth Series D		Eighth Series E		1998 Ordinance Total	
			Principal	Interest[2]	Principal	Interest[2]	Principal	Interest [2]	Principal	Interest [2]		
2012	$32,109,844	$62,381,835		$1,846,804		$1,837,250		$2,755,875		$1,846,804	$70,668,568	$102,778,412
2013	30,520,781	61,382,163		1,846,804		1,837,250		2,755,875		1,846,804	69,668,896	100,189,677
2014	28,952,588	62,635,369		1,846,804		1,837,250		2,755,875		1,846,804	70,922,102	99,874,690
2015	27,261,263	63,053,981		1,846,804		1,837,250		2,755,875		1,846,804	71,340,714	98,601,977
2016	22,653,038	62,820,663		1,846,804		1,837,250		2,755,875		1,846,804	71,107,396	93,760,434
2017	21,125,125	61,009,863	$380,000	1,846,804	$380,000	1,837,250	$570,000	2,755,875	$380,000	1,846,804	71,006,596	92,131,721
2018	19,598,438	47,801,481	3,005,000	1,832,841	2,990,000	1,823,287	4,485,000	2,734,930	3,005,000	1,832,841	69,510,380	89,108,818
2019	18,069,869	47,058,869	3,290,000	1,722,422	3,270,000	1,713,419	4,905,000	2,570,129	3,290,000	1,722,422	69,542,261	87,612,130
2020	16,531,588	46,322,069	3,580,000	1,601,531	3,565,000	1,593,263	5,345,000	2,389,895	3,580,000	1,601,531	69,578,289	86,109,877
2021	15,006,281	45,574,975	3,890,000	1,469,984	3,870,000	1,462,267	5,800,000	2,193,493	3,890,000	1,469,984	69,620,703	84,626,984
2022	13,518,963	44,833,413	4,210,000	1,327,046	4,185,000	1,320,064	6,280,000	1,980,372	4,210,000	1,327,046	69,672,941	83,191,904
2023	12,733,125	44,092,913	4,535,000	1,172,349	4,515,000	1,166,286	6,770,000	1,749,613	4,535,000	1,172,349	69,708,510	82,441,635
2024	11,171,750	44,339,488	4,720,000	1,005,711	4,695,000	1,000,383	7,045,000	1,500,850	4,720,000	1,005,711	70,032,143	81,203,893
2025	4,159,000	43,650,238	5,085,000	832,274	5,060,000	827,865	7,590,000	1,241,981	5,085,000	832,274	70,204,632	74,363,632
2026	3,769,500	43,506,613	5,340,000	645,426	5,310,000	641,935	7,970,000	963,086	5,340,000	645,426	70,362,486	74,131,986
2027		41,604,488	5,985,000	449,208	5,955,000	446,819	8,935,000	670,229	5,985,000	449,208	70,479,952	70,479,952
2028		41,687,488	6,240,000	229,289	6,205,000	228,003	9,305,000	341,912	6,240,000	229,289	70,705,981	70,705,981
2029		41,765,113									41,765,113	41,765,113
2030		40,137,613									40,137,613	40,137,613
2031		40,135,488									40,135,488	40,135,488
2032		40,134,938									40,134,938	40,134,938
2033		31,736,313									31,736,313	31,736,313
2034		31,740,325									31,740,325	31,740,325
2035		45,142,925									45,142,925	45,142,925
2036		22,795,050									22,795,050	22,795,050
2037		22,789,063									22,789,063	22,789,063
2038		22,787,325									22,787,325	22,787,325
2039		9,936,525									9,936,525	9,936,525
2040		9,935,600									9,935,600	9,935,600
Total	**$277,181,153**	**$1,222,792,179**	**$50,260,000**	**$23,368,905**	**$50,000,000**	**$23,247,091**	**$75,000,000**	**$34,871,740**	**$50,260,000**	**$23,368,905**	**$1,553,168,820**	**$1,830,349,973**

[1] Does not include debt service on Eighth Series B-E Bonds
[2] Interest is calculated at the fixed swap rate of 3.6745%

REMEDIES OF BONDHOLDERS

Remedies under the Act and the 1975 General Ordinance available to Holders of the 1975 Ordinance Bonds, including Holders of the Twentieth Series Bonds, and remedies under the Act and the 1998 General Ordinance available to Holders of 1998 Ordinance Bonds, including Holders of the Tenth Series Bonds, and to any trustee for Bondholders appointed by the Holders of 25% in principal amount of any series of bonds in default, are described in the summaries contained in APPENDIX D hereto. In addition to the remedies described therein, Bondholders or a trustee therefor are entitled under the Pennsylvania Uniform Commercial Code to all remedies of secured parties in respect of the Project Revenues or Gas Works Revenues (as the case may be) and the funds on deposit in the applicable 1975 Ordinance Sinking Fund or 1998 Ordinance Sinking Fund, including the applicable 1975 Ordinance Sinking Fund Reserve or the 1998 Ordinance Sinking Fund Reserve. The remedies of the Holders of 1998 Ordinance Bonds are subject to the prior lien of the Holders of 1975 Ordinance Bonds on Project Revenues. So long as DTC or its nominee is the Registered Owner, the remedies of Beneficial Owners are exercisable by means of written instructions given by them, as transmitted through the respective Participants, to DTC.

Limitation on Remedies of Bondholders

The ultimate enforcement of Bondholders' rights upon any default by the City in the performance of its obligations under the Act, the 1975 General Ordinance, the 1998 General Ordinance, the Supplemental Ordinances, the Bond Authorizations and the Bonds will depend upon the application of remedies provided in the Act, the 1975 General Ordinance, the 1998 General Ordinance, the Supplemental Ordinances, the Bond Authorizations, the Bonds and other applicable laws. Litigation may be necessary to obtain relief in accordance with these remedies. Such litigation may be protracted and costly. Remedies such as mandamus, specific performance or injunctive relief are equitable remedies that are subject to the discretion of the courts.

The following references to the United States Bankruptcy Code (the "Bankruptcy Code") and certain provisions of the Intergovernmental Cooperation Act (hereinafter defined) should not be construed as implying that the City has any expectation or plan to seek to invoke the provisions of such statutes or that if the City were to seek to invoke such provisions, that the consent of the Governor of the Commonwealth of Pennsylvania (the "Governor") would be obtained. Further, such references are not intended to imply that even if the City were to file for protection under the Bankruptcy Code, any proposed restructuring would include a dilution of the sources of payment of and security for the Bonds. The statutory provisions of the Bankruptcy Code pertaining to the City have not been subject to extensive interpretation by the courts and there can be no assurance that the following discussion accurately reflects the interpretation that a court might make.

Enforcement of Bondholders' rights may be limited by, and is subject to, the provisions of the Bankruptcy Code, as now or hereafter enacted, or to other laws or legal or equitable principles which may affect the enforcement of creditors' rights. The Intergovernmental Cooperation Authority Act for Cities of the First Class (53 P.S. § 12720.101, et seq.) (the "Intergovernmental Cooperation Act"), enacted in 1991, prohibits the City from filing a petition for relief under the Bankruptcy Code, 11 U.S.C. 901, et seq. ("Chapter 9"), as long as the authority created thereunder has outstanding any bonds issued pursuant to the Intergovernmental Cooperation Act. If no such bonds are outstanding, the Intergovernmental Cooperation Act requires written approval by the Governor of the City's petition and plan following a hearing, prior to a filing under Chapter 9 by the City. There are currently bonds outstanding that were issued under the Intergovernmental Cooperation Act, which bonds are scheduled to mature at various dates to and including the year 2023, subject to redemption prior to maturity. See "Background — The Pennsylvania Intergovernmental Cooperation Authority" in APPENDIX C. If the City were to obtain authorization from the Governor, upon payment in full of the bonds issued under the Intergovernmental Cooperation Act, to file a petition under Chapter 9 of the Bankruptcy Code and in fact filed such a petition, the enforcement of Bondholders' rights and remedies might be limited.

The filing of a petition under Chapter 9 operates as an automatic stay of the commencement or continuation of any judicial or other proceeding against the debtor or its property. However, a petition filed under Chapter 9 does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues. Special revenues include receipts derived from the ownership or operation of systems that are used to provide utility services and the proceeds of borrowings to finance such systems and would include the pledged Project Revenues or Gas Works Revenues (as the case may be). The Bankruptcy Code further provides that special

revenues acquired by the debtor after commencement of a Chapter 9 case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement. However, the lien on special revenues derived from a system will be subject to the payment of the necessary operating expenses of that system. Therefore, Gas Works Revenues acquired by the City before and after the filing of a Chapter 9 petition will remain subject to the lien of the 1975 General Ordinance and the Twentieth Supplemental Ordinance in favor of Holders of the 1975 Ordinance Bonds and the 1998 General Ordinance and the Eleventh Supplemental Ordinance in favor of Holders of the 1998 Ordinance Bonds, but will be subject to the payment of PGW's necessary operating expenses as determined by the City (and subject and subordinate to the pledge of Project Revenues under the 1975 General Ordinance for the security and payment of the 1975 Ordinance Bonds). These operating expense payments could be inconsistent with the requirement in the 1975 General Ordinance with respect to the 1975 Ordinance Bonds, that, under certain circumstances, at least 50% of the Project Revenues be deposited in the 1975 Ordinance Sinking Fund on a daily basis. If the pledged Project Revenues or Gas Works Revenues cannot support both the applicable debt service requirements and operating expenses of PGW, it is possible that payments to Holders of the Bonds may be reduced. The Bankruptcy Code also provides that a transfer of property of a debtor to or for the benefit of a bondholder, on account of such bond, may not be avoided as a preferential transfer.

Unless a debtor consents or the plan proposed under Chapter 9 provides, the bankruptcy court may not interfere with any of the property or revenues of a Chapter 9 debtor or with such debtor's use or enjoyment of any income producing property. Accordingly, if the City should decide to use the proceeds of the Bonds or the Project Revenues or the Gas Works Revenues (as the case may be) pledged for the benefit of the Bondholders other than to benefit the Gas Works, it is unclear whether a bankruptcy court would have the power to interfere with that decision. Even if a bankruptcy court had such power, the court, in the exercise of its equitable powers, could refuse to require the City to use the proceeds of the Bonds and the Project Revenues or the Gas Works Revenues (as the case may be) to pay Holders of the Bonds, could permit a subordination of the liens to new bonds if the former were found more than "adequately protected" or could avail itself of a broad range of equitable remedies.

Under the Bankruptcy Code, a debtor may file a plan for the adjustment of its debts which may include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the case and discharges all claims against the debtor provided for in the plan, unless excepted from discharge by the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if the votes of at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted are cast in favor of the plan. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable and certain other tests are met. Thus, under the provisions of the Bankruptcy Code, a plan of adjustment could be imposed on the Bondholders that would give them less than their anticipated rate of interest on the Bonds or possibly even less than a full return of their principal and/or extend the time for payment of principal of or interest on the Bonds.

PHILADELPHIA GAS WORKS

General

PGW consists of real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of natural gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration of PGW. Included among such assets, in addition to an extensive distribution system, are facilities for the liquefaction, storage and vaporization of natural gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include two liquefied natural gas ("LNG") plants.

Of total billed gas revenues for the twelve month period ended August 31, 2010, approximately 72.4% were derived from residential customers, approximately 24.9% were derived from commercial and industrial customers and approximately 2.7% were derived from municipal and housing authority customers.

For an explanation of revenues and expenses, see "PGW BUDGET, RATES AND FINANCES," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL

CONDITION FOR THE TEN MONTHS ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)" and APPENDIX B. See also the table titled "Historical Revenues and Debt Service Coverage" below.

PGW Service Area, Gas Sales, and Accounts Receivable

PGW, the nation's largest municipally-owned gas utility, purchases, sells and distributes gas within the limits of the City. The City's boundaries enclose an urbanized area of 129 square miles in southeastern Pennsylvania along the Delaware River. Within these boundaries, PGW maintains a distribution system with approximately 3,029 miles of gas mains and approximately 464,440 service lines serving approximately 502,000 customers as of August 31, 2010. The mix of sales to PGW's customers, net of transportation sales, during each of the five Fiscal Years ended August 31, is shown in the following table:

	PERCENT OF GAS SALES FOR THE YEARS ENDED AUGUST 31*				
	2006	**2007**	**2008**	**2009**	**2010**
Residential	70.9	71.7	74.3	76.6	77.0
Commercial and Industrial	25.7	25.0	22.9	20.5	20.3
Municipal and Housing Authority	3.4	3.3	2.8	2.9	2.7
TOTAL	100.0	100.0	100.0	100.0	100.0

*This information was obtained from PGW's historical records.

Five Year Summary of Gas Sales

Total gas sales for PGW are comprised of sales to firm and interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in the delivery of natural gas. Firm service is sold to residential, commercial and industrial customers, the Philadelphia Housing Authority and the City. Firm sales represented 97.7% of total gas sales by volume in Fiscal Year 2010. Interruptible sales service is offered to customers under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak load periods. Interruptible gas service is sold to high volume commercial and industrial customers and represented 2.3% of total gas sales in Fiscal Year 2010.

Gas Sales in Fiscal Year 2010 totaled 45.8 Billion cubic feet ("Bcf"), a decrease of 3.4 Bcf from the 2009 period. Temperatures during the 2010 heating season were warmer than normal and warmer than the prior year resulting in 3,730 degree days, a decrease of 451 degree days, or 10.8% less than experienced during the previous fiscal year. Sales to firm customers of 44.8 Bcf in Fiscal Year 2010 were 3.2 Bcf lower than in Fiscal Year 2009. Associated interruptible revenues decreased by 24.2% to $12,503,000 reflecting lower natural gas costs and a decrease of 0.1 Bcf in sales.

Gas Sales in Fiscal Year 2009 totaled 49.2 Bcf an increase of 1.9 Bcf from the 2008 period. Temperatures during the 2009 heating season were warmer than normal but cooler than the prior year resulting in 4,181 degree days, an increase of 435 degree days, or 11.6% more than experienced during the previous fiscal year. Sales to firm customers of 48.0 Bcf in Fiscal Year 2009 were 2.5 Bcf higher than in Fiscal Year 2008. Associated interruptible revenues decreased by 38.2% to $16,493,000 reflecting a decrease of 0.6 Bcf in sales.

Gas Sales in Fiscal Year 2008 totaled 47.3 Bcf a reduction of 3.3 Bcf from the 2007 period. Temperatures during the 2008 heating season were warmer than normal and consistent with the prior year resulting in 3,746 degree days, a decrease of 27 degree days, or 0.7% less than experienced during the previous fiscal year. Sales to firm customers of 45.5 Bcf in Fiscal Year 2008 were 2.4 Bcf lower than in Fiscal Year 2007. Associated interruptible revenues decreased by 15.1% to $26,679,000 reflecting a decrease of 0.9 Bcf in sales.

Gas Sales in Fiscal Year 2007 totaled 50.6 Bcf an increase of 1.9 Bcf from the 2006 period. Temperatures during the 2007 heating season were warmer than normal and slightly warmer than the prior year resulting in 3,773 degree days, a decrease of 46 degree days, or 1.2 % less than experienced the previous fiscal year. Sales to firm

customers of 47.9 Bcf in Fiscal Year 2007 were 1.7 Bcf higher than in Fiscal Year 2006. Associated interruptible revenues decreased by 6.2% to $31,439,000 reflecting a slight increase of 0.3 Bcf in sales.

Gas Sales in Fiscal Year 2006 totaled 48.7 Bcf, a reduction of 9.6 Bcf from the 2005 period. Temperatures during the 2006 heating season were warmer than normal and significantly warmer than the prior year resulting in 3,819 degree days, a decrease of 508 degree days, or 11.7% less than experienced the previous fiscal year. Sales to firm customers of 46.2 Bcf in Fiscal Year 2006 were 7.6 Bcf less than in Fiscal Year 2005. Associated interruptible revenues decreased by 25.0% to $33,509,000 reflecting a 2.1 Bcf or 46.2% decrease in sales.

Natural Gas

In Fiscal Year 2010 natural gas costs decreased by $191,861,000 or 35.1% from the prior year to $353,998,000. Natural gas utilization requirements decreased by 3.7 Bcf. The decreased volume of natural gas utilized reflected the warmer winter temperatures experienced in Fiscal Year 2010 compared to the prior year. Natural gas prices decreased, resulting in a decrease of $160,340,000 or 36.2%. Pipeline demand charges decreased $263,000 compared to Fiscal Year 2009. Pipeline refunds increased $51,000 in Fiscal Year 2010.

In Fiscal Year 2009 natural gas costs increased by $33,922,000 or 6.6% from the prior year to $545,859,000. Natural gas utilization requirements increased by 2.0 Bcf. The increased volume of natural gas utilized reflected the colder winter temperatures experienced in Fiscal Year 2009 compared to the prior year. Natural gas prices increased slightly, resulting in an increase of $3,484,000 or 0.7%. Pipeline demand charges increased $3,365,000 compared to Fiscal Year 2008. Pipeline refunds decreased $10,486,000 in Fiscal Year 2009 as a result of a large pipeline settlement in Fiscal Year 2008.

In Fiscal Year 2008 natural gas costs decreased by $27,358,000 or 5.1% from the prior year to $511,938,000. Natural gas utilization requirements declined by 4.6 Bcf reflecting a migration of gas sales customers towards transportation gas. The reduced volume of natural gas utilized resulted in a $37,641,000 decrease compared to the 2007 Fiscal Year. Natural gas prices increased slightly, resulting in an increase of $13,502,000, 2.7% or 25 cents per Thousand cubic feet ("Mcf"). Pipeline demand charges increased $6,793,000 compared to Fiscal Year 2007. Pipeline refunds increased $10,012,000 in Fiscal Year 2008 compared to Fiscal Year 2007 as a result of a large one time pipeline settlement.

In Fiscal Year 2007 natural gas costs decreased by $85,781,000 or 13.7% from the prior year to $539,296,000. Natural gas utilization requirements rose by 3.0 Bcf despite a heating season very similar to the prior fiscal year. The additional utilized volume resulted in a $30,573,000 increase compared to the 2006 Fiscal Year. Natural gas prices fell resulting in decrease of $117,227,000, 19.7% or $2.02 per Mcf. Pipeline demand charges increased $700,000 while natural gas refunds received from pipeline supplier settlements decreased $200,000.

In Fiscal Year 2006 natural gas costs increased dramatically by $115,375,000 or 22.6% from the prior year to $625,076,000. Gas utilization requirements declined by 9.9 Bcf reflecting a significantly warmer 2006 heating season, resulting in a $66,072,000 decrease compared to the 2005 Fiscal Year. A significant rise in the cost of natural gas totaling $195,578,000, 53.0% or $3.55 per Mcf more than offset the reduced volume of gas utilized. Pipeline demand charges decreased by $13,866,000. Pipeline refunds increased by $200,000 from Fiscal Year 2005.

Accounts Receivable

At the end of Fiscal Year 2010, accounts receivable (net) were $92,173,000, a decrease of $13,323,000 or 12.6% from Fiscal Year 2009 due to lower gas billings during Fiscal Year 2010 and an increase in the collection rate experienced during Fiscal Year 2010 (98.7%) as compared to Fiscal Year 2009 (93.8%). The accumulated provision for uncollectible accounts, totaling $103,600,000 decreased by $19,409,000 at the end of Fiscal Year 2010.

At the end of Fiscal Year 2009, accounts receivable (net) were $105,496,000, an increase of $6,192,000 or 6.2% from Fiscal Year 2008 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program ("CRP"). The accumulated provision for uncollectible accounts totaling $123,000,000 decreased by $17,400,000 at the end of Fiscal Year 2009.

Accounts receivable (net) were $99,304,000, an increase of $10,686,000 or nearly 12.1% from August 31, 2007 to August 31, 2008, mainly due to firm transportation suppliers' billings and an increase in participation in the CRP. The accumulated provision for uncollectible accounts totaling $140,435,000 decreased by $9,796,000 and was satisfactory to cover uncollectible amounts in the estimated accounts receivable balance at August 31, 2008.

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 2006	**Actual 2007**	**Actual 2008**	**Actual 2009**	**Actual 2010**
Billed Gas Revenues During the Year	$899,174	$868,586	$842,287	$902,729	$721,235
Accounts Receivable	243,249	238,849	239,739	228,505	195,773
Reserve for Bad Debt	(168,889)	(150,231)	(140,435)	(123,009)	(103,600)
Net Accounts Receivable at 8/31	$74,360	$88,618	$99,304	$105,496	$92,173
Reserve for Bad Debt as a Percentage of Accounts Receivable	69.4%	62.9%	58.6%	53.8%	52.9%
Net Write-Offs	$78,732	$58,658	$46,796	$59,425	$54,990
Receivable as a Percentage of Billed Gas Revenues	27.1%	27.5%	28.5%	25.3%	27.1%
Bad Debt Expense:	$40,132	$40,000	$37,000	$42,000	$35,000
As a Percentage of Billed Gas Revenues	4.5%	4.6%	4.4%	4.7%	4.9%
As a Percentage of Accounts Receivable	16.5%	16.7%	15.4%	18.4%	17.9%
Delinquent Customers at 8/31	162,202	149,721	147,010	144,919	136,835

PGW's most volatile and problematic expense item, outside of natural gas costs is bad debt expense and associated customer accounts receivable balances. Over the past five years, PGW has collected approximately 96.0% of annual customer billings.

The substantial decreases over the five year period in bad debt expense were primarily due to the increased collection rate and timely write-off of accounts receivable balances. Enhancements and implementation of Act 201 (hereinafter defined) changes to the billing system have given PGW full functionality to effectively manage its delinquent customer base.

PGW implemented a Collection Renewal Initiative ("CRI") in early Fiscal Year 2004. The CRI effort covers Customer Service operations involved in the collection of delinquent accounts receivable. The renewal effort is in response to increasing accounts receivable caused by higher natural gas prices during the winter heating seasons. Over the past three fiscal periods, PGW has maintained substantial collection rates of 98.7% in Fiscal Year 2010, 93.8% in Fiscal Year 2009 and 95.5% in Fiscal Year 2008. As of June 30, 2011, the twelve month rolling average for collection rates was 95.1%.

Management Agreement

PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance and/or the Gas Commission. The Gas Commission has various responsibilities for the oversight of the

operations of PGW; the City's Director of Finance oversees certain financial practices of PGW; and the City's Law Department is the designated legal advisor to the Gas Commission and PGW. The Law Department has assigned the representation of PGW to the Office of General Counsel of PGW. See "CITY GOVERNMENTAL OVERSIGHT — Gas Commission" and "PGW BUDGET, RATES AND FINANCES" for discussions of the Gas Commission.

The term of the Management Agreement commenced on January 1, 1973 for a period of two years. In the absence of notice of cancellation, the term is automatically extended for additional two year periods. The term is subject to cancellation by the City at any time, or upon the expiration of the two-year period, upon ninety days notice. No cancellation will be effective unless and until approved by resolution or ordinance of City Council.

Under the Management Agreement, PFMC is responsible for providing executive management of PGW. The Management Agreement states that PFMC shall provide a chief executive officer, chief operating officer, chief financial officer and other personnel as deemed appropriate by PFMC. Certain PFMC personnel provided to PGW, including the chief executive officer, chief operating officer and the chief financial officer, are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

Management

The following are brief biographical descriptions of the current PFMC Board of Directors:

David W. Seltzer. Mr. Seltzer serves as Chairman of the Board of Directors of PFMC. Mr. Seltzer is a principal in Mercator Advisors LLC, a Philadelphia-based consulting firm providing financial advisory services in the infrastructure sector. Mr. Seltzer was appointed to PFMC by Mayor Michael A. Nutter in February 2008.

Seth Shapiro. Mr. Shapiro is the founder and principal of The Nauset Group, a real estate investment and advisory firm located in Philadelphia, PA. Mr. Shapiro has served as the Vice Chairman of the Board of Directors of PFMC since September 2003, and was reappointed to PFMC by Mayor Michael A. Nutter in February 2008. He is also Chair of the PFMC Finance and Audit Committee.

Gerald T. Davis. Mr. Davis retired March 1, 2008 as Director of Media and Public Relations for Sunoco, Inc., principally a petroleum refiner and marketer and chemicals manufacturer in the eastern half of the United States. Mr. Davis has been a member of the Board of Directors of PFMC since July 2003, and was reappointed to PFMC by Mayor Michael A. Nutter in February 2008.

Maryam Mahdavi, Esq. Ms. Mahdavi is Assistant General Counsel at Arkema Inc. Ms. Mahdavi was previously a Commercial Attorney in Sunoco, Inc.'s Legal Department and a Senior Attorney in PGW's Legal Department. Ms. Mahdavi was appointed to the Board of Directors of PFMC by Mayor Michael A. Nutter in February 2008.

Sharmain Matlock-Turner. Ms. Matlock-Turner is President and CEO of the Greater Philadelphia Urban Affairs Coalition, an organization that unites government, business, neighborhood and individual initiative to improve the quality of life in the region, build wealth in urban communities, and solve emerging issues. Ms. Matlock-Turner was appointed to the Board of Directors of PFMC by Mayor Michael A. Nutter in February 2008.

Pedro Rivera. Mr. Rivera is the Superintendent of the School District of Lancaster, an urban school district established in 1836 serving almost 12,000 students from diverse ethnic, linguistic and socio-economic communities. Mr. Rivera was appointed to the Board of Directors of PFMC by Mayor Michael A. Nutter in February 2008.

Harold A. Sorgenti. Mr. Sorgenti is founder and General Partner of Sorgenti Investment Partners (SIP). SIP deals in mergers and acquisitions of specialty chemical companies. He serves as a consultant to numerous investment banking companies in acquisitions. Mr. Sorgenti has been a member of the Board of Directors of PFMC since June 2000, and was reappointed to PFMC by Mayor Michael A. Nutter in February 2008.

The following are brief biographical descriptions of the current PFMC/PGW Senior Officers:

Craig E. White, President and Chief Executive Officer. Mr. White started with PGW in 1980. During his 31 years of service he has progressed through the ranks and in 2011 he assumed his present position as President and Chief Executive Officer. Mr. White is a 1978 graduate of Kutztown University and a 1986 graduate of Drexel University. Mr. White serves on the Board of Directors of the American Gas Association, is Chairman of the Energy Association of Pennsylvania and was recently appointed by US Secretary of Energy Chu to serve on the National Petroleum Council. He also serves on the Executive Board of the Philadelphia Citizens Crime Commission. Mr. White is a former Executive Member of the American Public Gas Association and the Widener Business School Advisory Board.

Joseph R. Bogdonavage, Interim Executive Vice President and Chief Financial Officer. Mr. Bogdonavage was appointed Interim Executive Vice President and Chief Financial Officer on January 1, 2011. He previously held the position of Senior Vice President - Finance since November 2000. His responsibilities include the oversight of PGW's Operating and Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 37 years of diverse experience in the finance area of PGW. He previously held the positions of Director, Budget & Financial Forecasting; Manager, Budget & Financial Forecasting; Supervisor, Budget & Financial Forecasting; Accounting Assistant Supervisor; and Budget Analyst. Mr. Bogdonavage is a member of the American Gas Association's Financial and Administrative Committee and the Energy Association of Pennsylvania's Finance Committee. Mr. Bogdonavage received his Bachelor of Business Administration in Accounting in 1972 from Temple University.

Randall J. Gyory, Interim Executive Vice President and Chief Operating Officer. Mr. Gyory was appointed Interim Executive Vice President and Chief Operating Officer in March 2011. He previously held the position of Senior Vice President Operations & Customer Affairs since 2007. In his position as the Interim EVP & COO, Mr. Gyory is responsible for Field Operations, Supply Chain, Customer Affairs, Gas Management, Marketing, Corporate Communications and Corporate Preparedness. Previous held positions include Vice President of Customer Affairs since 2001 and Manager of the Program Management Office. During Mr. Gyory's tenure as manager he led a team of functional and business analysts in correcting and improving billing system software issues associated with the transition from their legacy billing system to a client server system. Mr. Gyory's call center management team turned around a call center operation that was under-achieving, effectively reversing an order by the PUC to outsource operations to obtain minimum acceptable standards. PGW's collection rate improved to average over 96 percent the last five years (98 percent in 2010) as compared to the historic collection rate of 92 percent for the previous ten years. In his 31 years of experience at PGW, Mr. Gyory has spent the majority of his career in the Distribution Department where he held several positions in Maintenance, Construction and Engineering. Mr. Gyory received a BS degree in Civil Engineering from the University of Pittsburgh.

Charles J. Grant – Chief of Staff. Mr. Grant was appointed Chief of Staff in the Office of the President and Chief Executive Officer in March 2011. He previously held the same position in the Office of the Executive Vice President and Chief Operating Officer when he joined PGW in June 2010. His responsibilities include oversight and enforcement of PGW's labor contracts, working with senior management on regulatory and stakeholder issues, developing initiatives to enhance PGW's regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Grant was the owner and managing partner in the law firm of Grant & Lebowitz, LLC of Philadelphia, Pennsylvania. He represented clients in labor and employment matters, litigation defense, commercial litigation and other general civil matters. Prior to becoming a partner at Grant & Lebowitz, LLC, Mr. Grant was a Senior Trial Attorney for Ronald A. White, PC performing insurance defense litigation, eminent domain and civil rights defense litigation. Mr. Grant also served as the Chief of the Homicide Unit for the Philadelphia District Attorney's Office. He collaborated with the Philadelphia Medical Examiner's Office and Philadelphia Police Department to solve homicides committed within the City; authorized search and seizure and homicide arrest warrants; and supervised and assigned 22 homicide prosecutors to handle homicide prosecutions, including death penalty litigation. He has been admitted to practice in the State of California, the Commonwealth of Pennsylvania and the District of Columbia. Mr. Grant earned his Bachelor of Arts degree from the Honors College of Ohio University and his Juris Doctor degree from Georgetown University Law Center.

Thomas L. Kuczynski, Senior Vice President – Enterprise Strategic Services. Mr. Kuczynski was appointed Senior Vice President of Business Transformation and Information Services in August 2007. Mr. Kuczynski rejoined PGW in February 2004 as Vice President Information Services & CIO. He has over 31 years of experience in Information Technology including 18 years of prior experience at PGW. In his present position, Mr. Kuczynski is responsible for all aspects of the Office of Business Transformation and Information Services. He previously held the position of Director of Technology Strategic Planning for PG&E's National Energy Group ("NEG"). In this role, he was responsible for new technology research and development, strategy and architecture, business continuity planning, disaster recovery and security. Prior to joining NEG, Mr. Kuczynski spent one year at Delmarva Power where he provided IT Strategic Planning Services to the Energy Supply Group. Before Delmarva, Mr. Kuczynski spent 18 years at PGW where he led development efforts for PGW's customer information system, credit and collection, automated meter reading and distribution leak tracking. In 1993 Mr. Kuczynski was recognized by the American Gas Association with the Distribution Achievement Award for his efforts in designing and building PGW's first mobile field service system. Mr. Kuczynski is a graduate of La Salle College in Philadelphia, and the Executive MBA program at University of Maryland University College.

Douglas A. Moser, Senior Vice President – Gas Management. Mr. Moser was appointed Senior Vice President, Gas Management in January 2010. He is responsible for PGW's Gas Processing, Gas Supply, Transportation & Control, Gas Planning, Rates & Federal Regulatory, and Engineering, and Facilities Departments. Since commencing employment at PGW in September 1979, he has held the following positions: Vice President, Gas Management; Senior Project Manager in the Strategic Planning Department; Manager, Gas Control and Manager, Gas Acquisition in the Gas Supply Department and Engineering Assistant; Production Engineer, Supervisor, Gas Conditioning, and Operations Engineer in the Gas Processing Department. Mr. Moser received his Bachelor of Science degree in Chemical Engineering from Pennsylvania State University and his Master in Business Administration degree from Widener University.

Douglas I. Oliver, Senior Vice President – Marketing and Communications. Mr. Oliver joined PGW as Senior Vice President – Marketing and Corporate Communications in October 2010. He is responsible for Strategic Marketing with the ultimate goal of increasing gas load. He is also responsible for communication planning and for establishing the direction of PGW's external messaging, including but not limited to media relations, crisis communications, community partnerships, government affairs, internal communication, digital communication / social media and advertising campaign development. Prior to joining PGW, Mr. Oliver served as press secretary for the City of Philadelphia and a spokesman for Mayor Michael A. Nutter. In the Mayor's Office, he led the Mayor's Press Office and was the primary point of contact for local regional and national media. He was responsible for message development and for coordinating media strategies across dozens of City agencies, boards and commissions. Mr. Oliver also served as press secretary and director of communications for the Pennsylvania Department of Public Welfare, Harrisburg PA. He is currently an adjunct professor at LaSalle University where he teaches a graduate course in public relations writing and media management techniques. Mr. Oliver earned a B.A. in journalism and mass communication from Lock Haven University, an M.A. in professional communication from LaSalle University, and an M.B.A. from St. Joseph's University.

Abby L. Pozefsky, Esq., Senior Vice President – Administration and General Counsel. Ms. Pozefsky was appointed Senior Vice President, Administration and General Counsel in 2005. She manages the departments of Human Resources, Organizational Development, Risk Management, Technical Compliance, Ethics and Legal. Ms. Pozefsky previously held the position of Chief Deputy City Solicitor of Regulatory Affairs for the City of Philadelphia's Law Department. She was also General Counsel for the Philadelphia Water Department and the Philadelphia International Airport. Having been licensed in four states, she has practiced law with private law firms, community legal services and Pennsylvania's Office of Attorney General. In addition to teaching at the university level, she is a member of the American Gas Association's Legal Committee and the Society for Human Resource Management (SHRM). Ms. Pozefsky received her Juris Doctor from New York University Law School, and her Bachelor of Arts, where she graduated Cum Laude in Sociology, from the University of Pennsylvania.

Raquel N. Guzman, Esq., Vice President – Legal and Associate General Counsel. Ms. Guzman was appointed Vice President Legal in August 2005 and Associate General Counsel in 2003. She, together with the General Counsel and Assistant General Counsel, is responsible for PGW's Legal Department. Prior to joining PGW's legal staff, Ms. Guzman was a Deputy City Solicitor for Regulatory Affairs for the City of Philadelphia and

also practiced at a major Philadelphia law firm in its real estate department. She holds a Juris Doctor degree from the University of Pennsylvania Law School and an undergraduate degree from Harvard College.

Steven P. Hershey, Vice President – Regulatory and External Affairs. Mr. Hershey joined PGW as Vice President of Community Initiatives in January 2004 and was appointed Vice President – Regulatory & External Affairs in January 2006. In his current position, Mr. Hershey's primary responsibility is working with the President and CEO and senior management regarding certain regulatory and stakeholder matters and developing initiatives to enhance PGW's ability to achieve its regulatory and legislative goals as well as improving PGW's relationship with various stakeholders, including customers. Prior to joining PGW, Mr. Hershey was a partner in the law firm of Eckert, Seamans, Cherin & Mellott, LLC of Philadelphia, Pennsylvania. He represented clients in matters involving energy, telecommunications, and utility policy, implementation of competition, rate setting, conservation, customer service and economics. Prior to becoming a partner at Eckert, Seamans, Cherin & Mellott, LLC, Mr. Hershey was a Supervising Attorney for Community Legal Services of Philadelphia, Pennsylvania. While at CLS, Mr. Hershey served as Lead Attorney for the Public Advocate, representing the interests of residential customers of Philadelphia utilities from 1985 to 1998. Mr. Hershey's involvement with PGW dates back to approximately 1977 when he began representing PGW's residential customers. Mr. Hershey has more than 32 years of experience in the utility and energy field, including the practice of law. Mr. Hershey holds a B.A. degree from Hamilton College and a Juris Doctor degree from Georgetown University Law Center.

Michael H. Jones, Vice President – Technical Compliance. Mr. Jones was appointed Vice President of Technical Compliance in January 2010. In this capacity, he is responsible for services to operations involving gas safety regulatory compliance, chemical laboratory analyses and environmental services. Mr. Jones' previous position was Director, Technical Compliance and before that Director, Engineering Design and Construction Planning. Mr. Jones has been with PGW since 1981. Mr. Jones is a member of the American Gas Association's Operations Safety Regulatory Action Committee, Environmental Regulatory Action Committee, and the Distribution and Transmission Engineering Committee. Mr. Jones is also a member of the Energy Association of Pennsylvania's Gas Transmission and Distribution Committee, and the National Society of Black Engineers. Mr. Jones has a B.S. degree in General Sciences from Lincoln University in Pennsylvania, and B.S. and M.S. degrees in Civil Engineering from Drexel University. Mr. Jones is a registered professional engineer in Pennsylvania.

Paul A. Mondimore, Vice President – Field Operations. Mr. Mondimore was appointed Vice President, Field Operations in October 2002. He is responsible for PGW's Distribution and Field Services Departments. He previously held many positions at PGW in the Distribution Department since commencing employment in June 1981 including: Director, Distribution Department; Project Manager, Mobile Dispatch Project; General Supervisor; and Supervisor. Mr. Mondimore received his Bachelor of Science degree in Civil Engineering from Drexel University. He has been a member of the American Gas Association, AGA Best Practices Group and the Energy Association of Pennsylvania.

Jo Ann Muniz, Vice President – Supply Chain. Ms. Muniz was appointed Vice President of Supply Chain in September 2005. She is responsible for PGW's Fleet Operations, Procurement, Supplier Diversity and Communications, and Materials Management. Since commencing employment in July 1980 as an Engineering Assistant in Gas Supply, she has held many positions at PGW including: Fleet Engineer in Fleet Operations; Staff Engineer in the Engineering Department; Internships in Field Services and Customer Affairs; Co-Project Manager of the Work Management and Mobile Project Team; Project Manager of Customer Service Training and Process Development; Director, Procurement and Contract Services and Director, Fleet Operations and Materials Management. She most recently held the position of Director, Support Services. Ms. Muniz holds a B.S. in Mechanical Engineering from Temple University and a M.S. in Electrical Engineering from Pennsylvania State University.

William C. Muntzer, Vice President – Human Resources. Mr. Muntzer was appointed Vice President, Human Resources in August 2008. Mr. Muntzer oversees the administration function of Human Resources and Labor Relations. He has approximately 29 years experience of utility management in Philadelphia, Pennsylvania. Mr. Muntzer previously held the positions of Chief of Staff, Vice President Strategic Development, Director – Rates, Gas Planning and Federal Regulatory Affairs and Director - Marketing. Areas of responsibility have included project management, local, state and federal regulatory work, advocacy, information technology, network administration, planning, rate design, marketing and utility operations. Mr. Muntzer also has experience in the

manufacturing sector: responsibilities included inventory control, planning, production scheduling and shipping. Accomplishments include several major utility initiatives including the implementation of the Pennsylvania Gas Choice Initiative, replacement of a city wide dispatching system for over 400 field employees and the refurbishment of a large meter testing facility, and oversight of a Management Audit conducted on behalf of the Pennsylvania Public Utility Commission. Mr. Muntzer earned his undergraduate and graduate degrees at LaSalle University's Business School.

Joseph A. Smith, Vice President – Marketing and Corporate Communications. Mr. Smith was appointed to his present position in May 2005. During his 33 years of service at PGW, Mr. Smith rose through the ranks after starting his career as a meter reader. As Vice President, he is responsible for the direction of all the sales and marketing efforts. A few of his accomplishments include, but are not limited to: garnering a significant annual budget for new sales and marketing campaigns; developing and implementing a public funding process for PGW and its customers; increasing contract compliance to 100%; and developing and acquiring approval for critical tariff changes. Beginning in 2000, Mr. Smith served as the Director of Sales and Marketing, where he was responsible for residential, small commercial and major account sales and marketing efforts. At this time Mr. Smith restructured the department and implemented new sales techniques resulting in a steady increase in sales over the last four years. He has served on the Board of Directors of the American Public Gas Association Research Foundation since 2005 and on the Marketing and Communication Board of the American Gas Association since 2004. As a board member of the Greater Philadelphia Association of Energy Engineers since 2003, Mr. Smith held the position of President from 2002 through 2003. He holds a B.A. in Business Administration from Wesley College in Dover, DE. He also received his Certified Energy Manager (CEM) certification from the Association of Energy Engineers (AEE) in 1998.

John P. Straub, Vice President – Corporate Preparedness. Mr. Straub was appointed Vice President of Corporate Preparedness (formerly known as Labor, Safety and Preparedness) in April 2003. He is responsible for matters including Safety, Security, Policies & Procedures, Business Continuity & Disaster Planning, and Occupational Health & Safety. Mr. Straub previously held the position of Vice President – Human Resources Department. Before coming to PGW in January 1999, Mr. Straub headed the Special Litigation Group for the City of Philadelphia's Law Department where he was responsible for the management and supervision of all employment law related matters and litigation involving the City of Philadelphia. Mr. Straub also previously worked as an Assistant District Attorney for the Philadelphia District Attorney's office. He holds a Juris Doctor degree from Temple University School of Law and is a graduate of Villanova University.

Lorraine S. Webb, Vice President – Organizational Development. Ms. Webb was appointed Vice President of Organizational Development in May 2005. She is responsible for Staffing, Performance Management, Succession Planning, EEO, Affirmative Action, Training and Development and the Leadership Development program. Ms. Webb previously held the position of Director of Strategic Planning and prior to that Director of Human Resources for PGW. Before joining PGW, Ms. Webb held various positions in the field of human resources. Previous positions included Manager of Human Resources, Affirmative Action Officer for Ciba Geigy (now Novartis), as well as Senior Career Transition Counselor for the Ayers Group of New York. Ms. Webb holds a B.A. degree from State University of New York Binghamton. She is a member of the Society for Human Resource Management (SHRM).

Eloise N. Young, Vice President and Chief Information Officer. Ms. Young was appointed Chief Information Officer of the Philadelphia Gas Works in August 2007. As CIO, she is responsible for delivering IT capabilities to PGW. Ms. Young received a Bachelor of Science degree in Information Technology from the University of Phoenix in 2003. Prior to her appointment, she served in a number of positions in PGW's Information Services Department including Director of Technical Strategy and Support, Manager of Systems Services, System Administrator in both the Unix and CICS environments, DBA, and applications developer.

Joseph F. Golden, Jr., Controller. Mr. Golden was appointed Controller in March 2001. He is responsible for the treasury and accounting functions at PGW. Prior titles held by Mr. Golden at PGW include: Treasurer; Manager Treasury Department; Senior Staff Accountant; and Staff Accountant. Mr. Golden started his career with PGW in August of 1986. Mr. Golden has prior work experience in public accounting, treasury accounting and cash management, and manufacturing. Mr. Golden holds a Bachelor of Science degree in Accounting from Villanova University, a Master of Business Administration degree from Drexel University, and a Juris Doctor degree, cum laude, from Temple University School of Law.

Management and Governance of the Gas Works

Craig E. White was appointed as President and Chief Executive Officer in 2011. PGW's management organization is outlined in the Independent Consultant's Engineering Report attached hereto as APPENDIX B. Governance includes (i) ownership of PGW property and establishment of legislation for the functioning of PGW by the City; (ii) approval by City Council of capital budgets and certain gas supply contracts for PGW; (iii) review and approval by the Gas Commission of personnel provided by PFMC and operating budgets, and recommendation by the Gas Commission to City Council of certain gas supply contracts, real estate matters and capital budgets; and (iv) provisions of executive management functions and directions for operation of PGW facilities by PFMC. PGW personnel are responsible for the day to day management of the construction, operation and maintenance of the gas system. Any changes in governance of PGW must be made pursuant to ordinances adopted by City Council.

Proposals for Strategic Alternative Advisor

On April 9, 2010, the City released a Request For Proposals (the "RFP") for a strategic alternatives advisor with respect to the Gas Works to provide valuation, financial, analytical and technical services for an independent assessment of the feasibility and consequences of transferring ownership and/or operation of the Gas Works to a private entity through a sale or long-term lease (the "Assessment"). The RFP provided that nothing in the RFP shall be construed as an indication that the City has any intent to transfer ownership and/or operation of the Gas Works.

In July 2010, the City entered into a contract with Lazard Freres as strategic alternatives advisor (the "Advisor"), pursuant to which the Advisor will prepare the Assessment. To date, the Advisor has not delivered a final Assessment to the City. It is expected that the Assessment will provide both options and suggestions with respect to the possibility of transferring ownership and/or operation of the Gas Works to a private entity through a sale or long-term lease. City officials will review the options and suggestions contained in the final Assessment and determine a course of action, if any, to be taken, including whether to pursue the next steps necessary for a sale or long-term lease of the Gas Works. Any sale or long term lease of the Gas Works will require approval of City Council.

The Bond Authorizations provide, among other things, that the City will comply with provisions of the Internal Revenue Code of 1986, as amended and the Treasury regulations promulgated thereunder to the extent such compliance is required to maintain the exclusion from gross income of interest on the Bonds for purposes of federal income taxation.

The City has covenanted in the 1975 General Ordinance and the 1998 General Ordinance to continuously operate and maintain the Gas Works as long as any bonds or notes are outstanding under the 1975 General Ordinance and the 1998 General Ordinance.

Labor Relations

As of June 24, 2011, PGW employed 1,668 people. Presently, approximately 70% of PGW's employees are represented by the Gas Works Employees' Union of Philadelphia Local 686, Utility Workers' Union of America, AFL-CIO ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers' Union of America ("UWUA") in 2003. On June 7, 2011, a new four year Collective Bargaining Agreement was signed by Local 686 and PGW. The Collective Bargaining Agreement expires May 15, 2015. Salary increases under the Agreement are 3%, 2.5%, 2.5% and 2% effective May 15, 2011, 2012, 2013 and 2014, respectively.

Facilities

Gas Facilities. The principal PGW gas facilities include plants for the liquefaction, storage and/or vaporization of natural gas in the Richmond and Passyunk sections of the City. Located at these plants are two LNG facilities, a deactivated propane/air facility and two gas holders, one of which has been removed from service.

Gate Stations. Natural gas is received through nine City gate stations from two pipeline transmission companies, Spectra Energy and Transcontinental Gas Pipe Line Corporation. The facilities at each of the city gate stations perform two basic functions, metering the flow of gas and controlling the pressure delivered to PGW's distribution system. Dispatchers at the gas control center, located at PGW's operating offices at 1800 N. 9th Street, Philadelphia, monitor and control gas flow and pressure from the nine city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

Propane/Air Facility. The propane/air facility exists at the Passyunk location only. This facility has been idle since 1994 due to PGW removing this capacity from service. Its use is not anticipated in the current six-year gas supply projection.

Gas Holder Storage Facilities. The Richmond Plant has a low pressure gas holder. The Passyunk Plant holder has been removed from service. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the Richmond LNG Plant.

LNG Facilities. There are two LNG facilities, the Richmond Plant and the Passyunk Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 Mcf of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified liquefaction facility which was subsequently moth balled. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high transmission delivery pressure of the interstate pipeline system throughput to run the expander/compressors, significantly reducing fuel requirements. In addition, these facilities have the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and should result in lower operation and maintenance costs. The maximum capacity of the liquefaction facilities of 18,000 Mcf per day will not be available at all times during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facilities. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Distribution Facilities. The principal gas distribution facilities consist of approximately 3,029 miles of main, 463,369 service lines, 208 regulator stations, approximately 563,276 meters (of which approximately 515,146 are active) and miscellaneous valves, instruments and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the others by control regulators. The high-pressure systems operate at approximately 110, 60 and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 52% (by length) of the gas mains are cast iron, 33% are steel, 4% are ductile iron, and 11% are plastic. Of the steel mains, approximately 49% are wrapped, coated, and cathodically protected. Approximately 34% of the service lines are steel (of which 14% are protected) and 66% are plastic.

Other Facilities. PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, houses administrative operations in addition to distribution and field service dispatch centers, gas control dispatching, a customer information center, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunication and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for Distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 694 vehicles, 100 portable compressors, and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Environmental Matters

PGW's operations and facilities are subject to federal, state and local environmental requirements, including the need to obtain certain permits and approvals. Because these requirements are subject to change, additional or different requirements may be imposed upon PGW in the future. No assurances can be given that PGW would be able to fully comply with any such change or requirement, or that compliance with such requirements would not materially increase PGW's capital or operating costs, or have a material adverse effect on Gas Works Revenues.

Like many providers of utility services throughout the northeastern United States, PGW has been in operation for more than 168 years, and many of its facilities were built decades ago. As a result of preliminary internal environmental evaluations of its facilities, PGW believes that several PGW facilities, which had been used in gas manufacturing, contain contaminants from those operations or from other sources. Additionally, certain equipment and fixtures that PGW removed from service years ago may no longer comply with current environmental requirements. In order to address these issues, PGW and the City voluntarily approached the Pennsylvania Department of Environmental Protection ("PADEP") and proposed to resolve these issues under PADEP's Land Recycling and Environmental Remediation Standards (Act 2).

PGW has determined the extent to which it is necessary to remediate environmental conditions impacting its facilities through environmental site assessment studies that were conducted by an environmental consulting firm (the "Firm") on relevant properties in 2002, 2003 and 2004. In 2004, PGW received a set of five remedial investigation reports by the Firm that were based upon the findings of the environmental site assessment studies. Based on the reports developed by the Firm, PGW submitted Notice of Intent to Remediation ("NIR") Forms with copies of the five Firm reports to the PADEP for review at the end of 2004. Beginning in 2005, PGW conducted a series of public meetings to inform the public of PGW's upcoming remediation projects, and also to address any specific concerns raised by local residents regarding PGW's future remediation plans.

As a result of the public meetings, PGW has developed a project schedule and budget to address and conduct any necessary remedial work for impacted PGW properties over the next five years. PGW expects that this will provide PGW with allocated resources in a manner calculated to avoid any material adverse effect on PGW or on PGW's revenues. Nevertheless, until the project schedule work plans are finalized with the PADEP, it is not possible to determine with quantifiable certainty what the costs of several remediation projects will be. Preliminary indications are that PGW expenditures are estimated to be $9,006,000 over the next five years. These estimates, which were calculated in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, may be subject to substantial revision. PGW has recorded a total environmental remediation liability of $24,614,000 at the end of Fiscal Year 2010 for these and all known estimated future environmental costs in accordance with GASB 49. The majority of these expenses are expected to be covered by amounts generated from settlements of PGW's environmental insurance policies.

Gas Supply and Federal Regulation

In 1992, the Federal Energy Regulatory Commission ("FERC") issued Order 636 which restructured the interstate pipeline industry to provide non-discriminatory, open-access to all transporters. All interstate pipelines regulated by the FERC were required to exit the gas supply business as a result of Order 636. The interstate

pipelines were historically permitted by the FERC to pass through, on a dollar-for-dollar basis, all of their gas supply costs to the pipelines' customers. Therefore, the revenues of the pipelines pledged to their bonds remained unchanged by Order 636 simply because of the historical pass-through nature of the pipelines' gas supply costs.

In the restructured, unbundled marketplace resulting from Order 636, PGW had to contract individually for its gas supply, storage and transportation requirements on the pipelines. PGW now has in place firm year round and seasonal contracts for natural gas supply for its firm requirements. Further, PGW has contracted for natural gas storage services with four different pipelines operating storage facilities. This permits, among other things, the injection of summer supply and its storage and subsequent withdrawal to meet higher winter demands of its firm heating customers. Finally, PGW has contracted for firm transportation service with the two directly connected pipelines, as well as with the necessary upstream pipelines feeding these pipelines, to deliver all volumes purchased, together with those volumes withdrawn from storage.

The two interstate pipelines delivering natural gas to PGW have limited delivery capacity and cannot meet PGW's peak-day or winter season requirements. Therefore, PGW owns and operates supplemental LNG facilities to meet incremental demand in excess of flowing natural gas and underground storage supplies. PGW's supplies of natural gas and LNG are adequate to meet its projected demand under either normal or design (colder than normal) conditions in the future.

Competition

PGW is subject to the Natural Gas Choice and Competition Act No. 1999-21, PL. 122, 66 Pa. C.S. Section 2201 et seq. (the "Gas Choice Act"). Pursuant to the Gas Choice Act, customers have the option of choice among natural gas suppliers on and after September 1, 2003. See the section below titled "Effects of Natural Gas Choice and Competition Act" for a full discussion of the Gas Choice Act's impact on competition. PGW competes to supply natural gas to interruptible customers who are capable of switching to alternative fuels, including fuel oil, steam, propane and electricity. PGW has negotiated contracts with such customers. PGW has Boiler and Power Plant Services ("BPS") and Load Balancing Service ("LBS") interruptible sales rates that permit discounts to compete with alternative fuels, provided that the rate per Mcf is not less than 110% of the monthly weighted average gas costs for gas sold under these rates schedules. In addition, PGW offers gas transportation service, on both a firm and interruptible basis, to customers. PGW's transportation rates reflect the cost of providing the transportation service.

Insurance

PGW is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. While self-insured for many risks, PGW purchases insurance coverage where appropriate. PGW's real and personal property is insured against the risk of loss or damage in the amount of $250,000,000, subject to a $500,000 per accident deductible at the Richmond and Passyunk Plants and a $100,000 deductible per accident at all other locations. There is a $1,000,000 deductible for flood for the Richmond Plant. PGW's property insurance includes coverage for damages incurred from a terrorist attack. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance.

PGW maintains $210,000,000 in Excess Liability (including terrorism) coverage insuring against the risk of property damage or injury to the public with a $1,000,000 self insured retention deductible per occurrence. While PGW self insures its Automobile Liability with the Commonwealth of Pennsylvania, the Excess Liability coverage would cover any losses after the exhaustion of the $1,000,000 retention.

PGW is a qualified self insured employer in the Commonwealth of Pennsylvania for Workers' Compensation. In addition, PGW maintains Excess Workers' Compensation Liability coverage up to $35,000,000 with a $500,000 per occurrence retention. Above that is another layer increasing coverage to statutory limits.

PGW maintains Public Officials (Directors and Officers) Liability coverage with a $10,000,000 annual aggregate limit and a $500,000 retention. PGW also maintains Fiduciary Liability coverage in the amount of $60,000,000 with a $200,000 retention.

In 2010, PGW purchased a $5,000,000 Environmental Liability policy, specifically Non-Owned Disposal Sites coverage, insuring against claims for environmental damage as the result of PGW's historic and current waste disposal activities. The policy is subject to a $50,000 per occurrence deductible.

The above coverage descriptions are subject to the terms, conditions, and exclusions of the individual policies.

Pension Plan and Other Postemployment Benefits

Pension Plan. PGW maintains a noncontributory pension plan (the "Pension Plan") covering all eligible employees, which provides certain retirement benefits at age 65, or earlier in certain situations, and certain death and disability benefits. PGW's contributions to the Pension Plan have been equal to or in excess of its annual required contribution, therefore there is no net pension obligation, which is calculated as the accumulated difference between annual required contributions and PGW's contributions to the Pension Plan. The annual required contribution is determined using the most recent actuarial update of the Pension Plan. The Pension Plan had an estimated unfunded actuarial accrued liability of $164,274,000 on September 1, 2009. The unfunded actuarial accrued liability is presently being amortized over 10 years. In Fiscal Year 2010, PGW's annual required contribution to the Pension Plan was $24,600,000. The actuarial valuation utilized a rate on return of assets assumption of 8.25%. See APPENDIX A – "Notes to Financial Statements (10) Pension Costs" for further information.

Based on the updated actuarial valuation completed in October, 2009, the Pension Plan had an estimated unfunded actuarial accrued liability of $152,600,000 on September 1, 2010. PGW's annual required contribution for Fiscal Year 2011 is projected to be and budgeted at $22,700,000. The actuarial assumptions were consistent with those of the prior year.

Pursuant to the Collective Bargaining Agreement, union covered employees hired after May 15, 2011 will have the option of participating in PGW's existing defined benefits pension plan by contributing 6% of gross earnings. Alternatively, these employees may participate in a defined contribution plan whereby PGW will make an annual contribution of 5.5% of the employee's gross earnings. These modifications to the pension plan are subject to City Council approval.

Other Postemployment Benefits. PGW provided certain postemployment health care and life insurance benefits ("OPEB") to approximately 1,963 and 1,936 participating retirees and their beneficiaries and dependents for Fiscal Years 2010 and 2009, respectively. For all employees hired prior to May 15, 2011, PGW pays up to 100% of premiums for medical, hospital and prescription drug coverage for retirees and their participating dependents. PGW also pays a portion of the premiums for life insurance for each eligible retiree. Currently, PGW provides for the cost of health care and life insurance benefits for retirees and their beneficiaries and dependents on a pay as you go basis. In Fiscal Year 2010, expenditures for such purposes were approximately $21,706,000 and are projected to be approximately $20,651,000 in Fiscal Year 2011. In Fiscal Year 2010, PGW's annual required contribution to the OPEB plan was approximately $50,200,000. The unfunded actuarial accrued liability as of August 31, 2010 was approximately $654,100,000, which is presently being amortized over 20 years. The actuarial valuation utilized a discount rate of 5.00% for Fiscal Year 2010 because the plan was not funded. See APPENDIX A – "Notes to Financial Statements (11) Other Postemployment Benefits" for further information.

PGW's annual required contribution to the OPEB for Fiscal Year 2011 is projected to be and budgeted at $46,739,000. PGW's net OPEB obligation, representing the accumulated differences between annual required contributions and contributions made, is projected to be $104,800,000 and the unfunded accrued actuarial liability is projected to be approximately $473,000,000 at August 31, 2011. The actuarial valuation utilized a discount rate of 8.25% for Fiscal Year 2011 on the basis that PGW established an OPEB Trust Fund and began funding the trust in Fiscal Year 2011.

Union covered employees hired after May 15, 2011 will be eligible for five years of healthcare upon retirement as part of the Collective Bargaining Agreement.

Total expense incurred for healthcare amounted to $42,083,000 and $37,064,000 in Fiscal Year 2010 and Fiscal Year 2009, respectively, of which approximately 48.9% and 50.7%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed $1,029,100 and $1,329,000 in Fiscal Year 2010 and Fiscal Year 2009, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by PGW. Total premiums for group life insurance were $1,874,000 and $1,832,000 in Fiscal Year 2010 and Fiscal Year 2009, respectively. The amount attributed to retirees was approximately 76.5% and 76.0% in Fiscal Year 2010 and Fiscal Year 2009, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

Litigation

In the ordinary course of their business operations, PGW and/or PFMC are from time to time sued or threatened with litigation. Most frequently such litigation alleges property damage or personal injury to third parties. However, other forms of litigation also arise from time to time. PGW is aware of no litigation pending or threatened in which a final adverse determination, singly or in the aggregate, would have a material adverse effect on PGW's operations or financial condition. PGW believes it has set aside sufficient reserves to meet liabilities arising out of litigation to the extent not covered by insurance.

Effects of the Natural Gas Choice and Competition Act

In June 1999, the Pennsylvania Legislature enacted and the Governor signed the Gas Choice Act, which amended the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for all retail customers of gas distribution companies. The Gas Choice Act requires each natural gas utility under Pennsylvania Public Utility Commission ("PUC") jurisdiction (including PGW) to "unbundle" and establish separate charges for natural gas supply services and natural gas distribution services. Since September 1, 2003, PGW customers have had the option of choice among natural gas suppliers, as explained above in the section titled "PHILADELPHIA GAS WORKS — Competition." PGW will continue to be the supplier of last resort for retail customers who do not choose another gas supplier in most instances, unless, upon petition of PGW, or an independent party, the PUC approves an alternative supplier of last resort for all or certain groups of customers. As of August 1, 2011, no party has petitioned the PUC to serve as an alternative supplier of last resort.

Notwithstanding the initiation of customer choice in gas suppliers, PGW's gas distribution business remains a regulated monopoly. After the initiation of gas choice, customers may purchase gas from other natural gas suppliers or choose to continue to buy natural gas from PGW. Whomever consumers choose as their supplier, all customers continue to receive their gas through PGW's distribution system of mains and pipes to homes and businesses, and continue to pay a distribution charge to PGW for that service. PGW continues to provide gas to its customers that elect PGW as their supplier and to those who cannot obtain natural gas from an alternate supplier.

The structure of the unbundled services and the rates for each service are set forth in PGW's restructured tariff, which went into effect on September 1, 2003 (the "Restructuring Filing"). These unbundled rates are designed to realize the same level of margin revenues experienced by PGW prior to restructuring.

The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of bonds or other obligations issued by the City for PGW, including the Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges, to the Holders of such bonds and other obligations, including the Bonds, and (iii) require rates be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. Under the Gas Choice Act, among other things:

- As of July 1, 2000, PGW is regulated by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW and the PUC sets rates for PGW's customers.

- Notwithstanding customer choice in gas supplies, PGW's gas distribution business will be regulated as a monopoly.

- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit PGW to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the Holders of any Approved Bonds, as defined in the Gas Choice Act. All bonds issued by the City on behalf of PGW under the Act, including the Bonds, are Approved Bonds.

- The PUC is obligated to use the same rate-making methodology and requirements used by PGW until all Approved Bonds are repaid or defeased. The methodology employed by PGW is a "cash flow" method, not a "rate of return" method.

- The PUC is barred from requiring the City or PGW to take any action (or to omit taking any action) under the Public Utility Code if such action or omission would have the effect of causing the interest on any tax-exempt bonds issued by the City, including the Bonds, to be includable in the gross income of the Holders of such bonds for federal income tax purposes.

- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants.

- Effective June 30, 2000, Gas Commission powers and duties were abrogated to the extent inconsistent with the Gas Choice Act.

- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variance in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.

- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW'' are not abrogated or limited.

Senior Citizen Discount Program

The Senior Citizen Discount Program is a closed program. PGW currently has approximately 30,300 participants in its Senior Citizen Discount Program. All participants currently in the program were "grandfathered" in when the PUC discontinued it in September 2003. In 2004, there were approximately 70,000 "grandfathered" participants in the program. The senior citizen discount amounts to a 20% reduction on the participant's total gas bill each month.

Act 201 — "Responsible Utility Customer Protection Act"

In November 2004, the Pennsylvania Legislature enacted and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act" ("Act 201"). Act 201 modified rules applicable to initiating, paying for and terminating natural gas service by natural gas and electric distribution utilities, including PGW. For example, under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to first obtain PUC permission. PGW may now require customers whose service has been shut off to pay past due bills, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before it restores service. Act 201 also permits PGW to hold any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

Act 201 provides a number of other tools to help PGW collect payment. Under Act 201:

1. The time allowed to terminate service following shut-off notification was extended to 60 days.

2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.

3. Shut-off without notice is permitted for theft of service, obtaining service through fraud, tampering with a gas meter or unsafe service conditions.

4. Winter (December 1- March 31) termination is now permitted under specified conditions without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

CITY GOVERNMENTAL OVERSIGHT

Gas Commission

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation by PFMC of PGW. The City Controller holds office during his incumbency. The members appointed by the City Council and the Mayor each serve for terms of four years and hold office until their successors are appointed and qualified. The current members of the Gas Commission are listed below:

Marian B. Tasco, Chairwoman. Ms. Tasco represents the Ninth District in City Council where she also serves as Majority Leader. Councilwoman Tasco was appointed to the Gas Commission by City Council on August 2, 1992 and has served as Chairwoman since that time. She was reappointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

Alan L. Butkovitz. Mr. Butkovitz is the City Controller of the City. Mr. Butkovitz has served as Controller and a member of the Gas Commission since January 2, 2006. Mr. Butkovitz's current term expires on January 6, 2014. He has duly appointed Harvey M. Rice, First Deputy City Controller, and Robert Jaffe, Director of Legal Policy for the City Controller's Office, to serve as an Alternate Commissioner in his absence.

Carmen E. Adames. Ms. Adames is the President of Adames Professional Services, an accounting and business consulting firm primarily serving Hispanic-owned businesses. She is the past Treasurer and past President of the Philadelphia Hispanic Chamber of Commerce. She was appointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Royal E. Brown. Mr. Brown is the Vice President, Treasury Services for Independence Blue Cross. Mr. Brown was appointed to the Gas Commission by then Mayor Edward G. Rendell on August 8, 1996 and has served continuously since that time. He was reappointed to the Gas Commission by Mayor Michael A. Nutter on March 26, 2008.

Curtis Jones, Jr. Mr. Jones represents the Fourth District in City Council where he also serves as Chairman of the Committee on Transportation & Public Utilities. He was appointed to the Gas Commission by City Council on January 24, 2008 for a term ending January 7, 2012.

The Management Agreement grants the Gas Commission certain specified powers and duties and other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include the fixing of PGW rates and charges (now the jurisdiction of the PUC), approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not issuance of bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions, sales and leases for further approval of City Council.

PGW BUDGET, RATES AND FINANCES

The revenues which PGW uses to pay debt service on its indebtedness and to fund its operations are derived primarily from the sale of gas distribution and related services to its customers. Rate and tariff charges for the sale of gas services are proposed by PGW based on, among other factors, anticipated revenues and expenses, required working capital, required debt service coverage and need for funds for capital expenditures.

Budget Approval

The Management Agreement requires PGW to prepare an annual operating budget and an operating forecast for the three years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for the five years following the budget year. The Gas Commission and the Director of Finance of the City review the capital budget and forecast and forward it, together with their recommendations, to City Council for its approval by ordinance.

The Gas Commission holds public hearings on the budgets at which PGW and other interested parties are permitted to present evidence to support their positions. Community Legal Services, Inc. was appointed by the Gas Commission in 1988 to serve as Public Advocate and continues to represent residential customers in budget proceedings. The Gas Commission considers a number of factors before determining whether to accept, modify or reject the budgets proposed by PGW. Based on its findings, the Gas Commission issues an order regarding the operating budget. The capital budget and forecast are reviewed by the Director of Finance of the City and by the Gas Commission, and their recommendation is forwarded to City Council for approval. The Gas Commission order regarding the operating budget and the City Council ordinance regarding the capital budget may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. This process remains unchanged after passage of the Gas Choice Act which provides that the City continues to determine PGW's budget function.

Rates and Charges

The rates charged by PGW for providing gas service are subject to various statutory provisions. The 1975 General Ordinance, the 1998 General Ordinance, the Note Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contain a rate covenant. See APPENDIX D for further descriptions of the 1975 General Ordinance and the 1998 General Ordinance. PGW's rates are also subject to regulation under the Public Utility Code by virtue of the Gas Choice Act.

Section 2212(b) of the Public Utility Code transferred rate setting authority for PGW from the Gas Commission to the PUC, effective July 1, 2000. Section 2212(e) of the Public Utility Code requires the PUC, notwithstanding any other Public Utility Code provision, to follow the "same ratemaking methodology and requirements" that were applied by the Gas Commission, when determining PGW's revenue requirements and overall rates and charges. The Gas Choice Act requires the PUC to follow that ratemaking methodology until all "approved bonds have been retired, redeemed, advance refunded or otherwise defeased." Approved Bonds are those obligations issued in accordance with the Act or the Inventory and Receivables Financing Act and which were outstanding as of July 1, 2000, or which are issued on or after July 1, 2000, unless City Council declares such bonds not to be "approved." All 1975 Ordinance Bonds and 1998 Ordinance Bonds, including the Bonds, are Approved Bonds. As discussed below, the PUC, in its October 4, 2001 Order confirmed PGW's ratemaking methodology by stating: "That, in accordance with Section 2212(e) of the Gas Choice Act, we herein set rates for Philadelphia Gas Works in accordance with its previous ratemaking methodology and requirements. In this instance, Philadelphia Gas Works' previous ratemaking methodology, as contained in its Management Agreement and affirmed by the Pennsylvania courts, is the cash flow method."

As acknowledged by the PUC in its October 4, 2001 Order, the specific elements of PGW's "prior ratemaking methodology and requirements" are set forth in the Management Agreement. In 2010, the PUC issued a "Policy Statement" which interpreted the Management Agreement and explained the ratemaking methodology it intended to utilize in setting rates for PGW.

The PUC is obligated under the law to use the cash flow methodology to determine PGW's just and reasonable rates. Included in that requirement is the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally generated funds over and above its bond coverage requirements, as the PUC deems appropriate and in the public interest for purposes such as capital improvements, retirement of debt and working capital. In determining just and reasonable rate levels of PGW, the PUC will consider, among other relevant factors:

(a) PGW's test year end and (as a check) projected future levels of non-borrowed year end cash;

(b) available short term borrowing capacity and internal generation of funds to fund construction;

(c) debt to equity ratios and financial performance of similarly situated utility enterprises;

(d) level of operating and other expenses in comparison to similarly situated utility enterprises;

(e) level of financial performance needed to maintain or improve PGW's bond rating thereby permitting PGW to access the capital markets at the lowest reasonable costs to customers over time;

(f) PGW's management quality, efficiency and effectiveness;

(g) service quality and reliability; and

(h) effect on universal service.

Section 2212(e) of the Public Utility Code also states that, notwithstanding any other provision of the Public Utility Code, the PUC is required to set PGW's rates to permit the City to comply with its covenants to the Holders of any Approved Bonds. There are three bond covenants that are relevant with respect to establishing PGW's revenue requirement: a) a covenant that requires PGW to produce net revenues at least equal to 150% of the annual debt service obligation; b) a covenant that requires PGW and its owner, the City of Philadelphia, to charge rates that permit PGW to have sufficient cash to pay all of its third party obligations, including its debt service obligations, during each Fiscal Year in full when they are due; and c) a covenant that requires PGW and the City to continuously maintain and operate PGW's gas works system.

The PUC Policy Statement also acknowledged that the PUC is obligated to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants, consistent with the requirements of Section 2212(e) of the Act, 66 Pa. C.S. § 2212(e) (relating to securities of city natural gas distribution operations).

In regulating PGW, the PUC is further required by Section 2212(f) of the Public Utility Code to permit PGW to impose, charge and collect rates and charges as necessary to make its annual payment to the City as PGW's owner. Additionally, the PUC has stated in its September 21, 2001 Order, "Thus, we conclude that PGW's payment of $18,000,000 to the City of Philadelphia should be included in its rates requested in this proceeding."

PGW recovers its costs through various mechanisms (discussed below) reflected in its tariff. Changes in the cost of raw materials, primarily natural gas costs, are reflected in rates embodied in a Gas Cost Rate ("GCR"). Discounts provided to low income customers and senior citizens are recovered in a separate Universal Service Charge. The remainder of PGW's costs, including debt service payments, operating expenses (other than costs covered in the GCR) and the annual payment to its owner, the City of Philadelphia, are recovered in PGW's base rates, either through monthly customer charges or volumetric charges.

PGW's base rates are set, in accordance with the Cash Flow method, as explained below in the section titled "Base Rate Filings".

Gas Cost Rate

PGW's largest expense item is the cost of the natural gas delivered into its distribution system. Prior to industry restructuring mandated under FERC Order No. 636, the cost of bundled pipeline sales service was reviewed and approved by FERC.

Currently, changes in these costs are recovered on a dollar-for-dollar basis through the operation of the GCR as authorized by the PUC. PGW's tariff permits PGW to charge annual projected changes in natural gas costs in its GCR factor, after review and approval by the PUC. The GCR is designed to permit PGW, on a quarterly basis, to adjust its gas cost charge to firm sales customers to approximate its actual cost of natural gas. PGW calculates its anticipated annual cost for natural gas and allocates that cost to its customers on a level basis for payment during the Fiscal Year. GCR collections are then matched against actual costs for the year to date, and the GCR is adjusted quarterly if necessary, to credit or charge customers in the upcoming period for overpayment or underpayment of natural gas costs to date.

Base Rate Filings

Permanent Base Rates. Base rates for PGW are established, using the Cash Flow method, to produce a targeted amount of revenue for PGW based on various assumptions, such as normal weather conditions and a projected and normalized level of revenues, expenses, capital expenditures and required working capital and liquidity. Base rates in effect at any time cannot be modified by PGW except pursuant to a proposed rate filing by PGW for new base rates, and only to the extent such proposed modification is approved by the PUC for implementation on a going forward basis.

Prior to passage of the Gas Choice Act transferring rate setting authority for PGW from the Gas Commission to the PUC, PGW's last base rate increase was approved by the Gas Commission in December 1991 to generate an additional $15,000,000 of annual revenue.

On January 5, 2001, PGW filed a proposal with the PUC to permanently increase its base rates by $65,000,000 annually. By a PUC order entered on December 6, 2001, PGW was awarded total permanent rate relief of $33,558,000, including $11,000,000 of rate relief that the PUC had granted on an interim basis in November 2000.

On February 25, 2002, PGW filed a proposal with the PUC to permanently increase its base rates by an additional $60,000,000 annually. Additional permanent base rate relief of $36,000,000 was approved by the PUC on August 8, 2002. This $36,000,000 of base rate relief had initially been approved by the PUC on an interim basis by order entered April 12, 2002, as part of PGW's request for extraordinary rate relief. As a result, the $36,000,000 was effective on April 16, 2002.

On December 22, 2006, PGW filed for a $100,000,000 increase in base rates. PGW sought the rate increase primarily to cover the increase in non-gas operating expenses and interest expense since its 2002 rate case, provide sufficient funds available for debt service to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance, to provide for sufficient cash working capital and ensure, that in the long term, PGW has adequate liquidity when needed through internally generated funds without having to continually resort to borrowing funds externally for capital improvements. On September 13, 2007, the PUC granted PGW a $25,000,000 increase in base rates, effective September 20, 2007. PGW appealed the PUC's order to the Commonwealth Court where it was affirmed by an opinion and order issued February 4, 2009. PGW filed a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme Court and, by order dated December 2, 2009, the Pennsylvania Supreme Court denied PGW's petition.

On November 14, 2008, PGW filed for extraordinary base rate relief of $60,000,000, effective January 1, 2009. The request was granted December 19, 2008. PGW filed the request primarily to cover the additional financing costs that PGW incurred to improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating and to provide liquidity and financial flexibility in the tight credit markets. In granting the extraordinary relief, the PUC required PGW to file a permanent base rate case no later than

December 31, 2009. The PUC imposed several conditions on PGW's receipt of extraordinary rate relief, all of which PGW has complied with, PGW was required to: (1) file its Business Transformation Initiative -Full Plan with the PUC for review, followed up by annual reports on its implementation and savings; (2) provide monthly reports of financial and operational performance, and the results of cost containment efforts; (3) submit a performance-based incentive compensation plan for all management employees for comment by the PUC; (4) submit, in advance of its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; (5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; (6) take appropriate steps to seek repeal of the City of Philadelphia ordinance mandating the annual $18,000,000 payment to the City.

On December 18, 2009 PGW submitted a base rate case filing with the PUC to: (1) maintain the $60,000,000 base rate increase that the PUC granted in 2008; and (2) provide PGW with a rider that will fund PGW's OPEBs in the amount of $42,500,000 in the first recovery year. PGW also moved to consolidate PGW's Demand Side Management Plan into the base rate filing. On May 19, 2010 PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the "Settlement"). On June 18, 2010 the administrative law judge assigned to the proceeding issued a decision recommending approval of the Settlement. The PUC approved the Settlement on July 29, 2010. Under the Settlement PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16,000,000 annually and will be required to fund $18,500,000 of the OPEB liability in each of the years 2011 through 2015. The Settlement increase represents about 74% of the rate increase as originally requested by PGW including the $60,000,000 extraordinary rate increase. In addition, PGW agreed, among other things, that it will not issue any new money bonds for at least three years and that it will not file another base rate case with the PUC during the twenty-four month period following approval of the Settlement; however, PGW is not precluded from seeking extraordinary or emergency rate relief. The Settlement is expected to result in an improvement in PGW's financial performance.

The PUC conducted a management audit of PGW's operations, via a third party consultant, from October 2007 through September 2008. A final report regarding audit findings was submitted to the PUC in December 2008. The audit included a total of 93 recommendations for improvement. PGW submitted its implementation plan regarding audit recommendations to the PUC on January 22, 2009. PGW accepted 88, partially accepted three, and rejected two of the PUC's follow-up recommendations. On February 5, 2009, the PUC released PGW's Implementation Plan and the PUC's Management Efficiency Investigation of PGW to the public. The PUC directed PGW to proceed with the January 22, 2009 Implementation Plan. PGW's implementation actions may be reviewed by the PUC at a later date to determine if PGW has effectively implemented the recommendations.

Weather Normalization. The Weather Normalization Adjustment Clause ("WNA") was approved by the PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on PGW's revenues. This allows PGW to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued.

Restructuring's Effect on PGW Rates

Consistent with the requirements of the Gas Choice Act, as of September 1, 2003, PGW has provided service pursuant to unbundled tariff terms and conditions of service. The principal changes that occurred were: (1) the rates of all PGW customers are separated into a distribution component and a natural gas commodity component; (2) as of September 1, 2003, all customers have the right to purchase natural gas from an alternative natural gas supplier, but are required to utilize PGW's distribution system to deliver the commodity to the customer's meter; (3) PGW will provide certain services to suppliers, for a tariffed charge, to facilitate the supplier's sale of natural gas to customers and the delivery of gas supply to PGW's city gate; and (4) PGW is the Supplier of Last Resort for all residential, small commercial, industrial and human needs customers who do not take service from an alternative natural gas supplier.

The rate unbundling and choice options available as of September 1, 2003 were designed by PGW to be revenue neutral such that PGW's earnings levels will not change as a result of restructuring.

PGW was also required as part of its restructuring filing, and has so filed with the PUC, a plan to come into compliance with all applicable PUC rules and regulations (i.e., PGW's Compliance Filing on September 1, 2003). The Gas Choice Act also establishes that any incremental costs that PGW incurs in complying with new regulatory requirements may be recovered in a non-bypassable surcharge to be embedded in PGW's base rates. As of September 1, 2003, PGW charged incremental restructuring costs in a Restructuring Surcharge which were charged to all firm customers on a non-bypassable basis and was reconcilable so as to result in dollar-for-dollar recovery. In 2007, the Restructuring Surcharge was removed from the tariff by PGW because the related costs were recovered or are being recovered elsewhere. Additionally, on September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003 applicants and its appeal to the Commonwealth Court of Pennsylvania was denied. There are currently approximately 30,300 "grandfathered senior citizen discount participants" as of March 2011. All current participants are "grandfathered" into the existing program and will continue to receive the 20% discount unless the program is modified or ended by the enactment of an ordinance by the City.

Capital Improvement Program

Net proceeds of revenue bond sales (other than sales of refunding bonds) are placed into restricted segregated accounts for the Capital Improvement Program and are requisitioned for expenditures as required for the Capital Improvement Program or to reimburse PGW for expenditures made in advance of issuance of bonds. PGW determines its capital improvement requirements from projected customer additions, pipeline gas availability, peak day gas requirements, enforced relocation due to highway and bridge construction and the need to maintain its plant and equipment in a safe, adequate and reliable manner. For-further discussion of the Capital Improvement Program, see "FISCAL YEAR 2010 AND 2011 CAPITAL BUDGET AND FORECASTS" below and APPENDIX B — "Independent Consultant's Engineering Report."

The following table represents information regarding actual net capital expenditures for each of the five Fiscal Years 2006-2010 as well as unaudited information for the periods September 1 through June 30 for Fiscal Years 2010 and 2011, respectively:

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PHILADELPHIA GAS WORKS CAPITAL EXPENDITURES*
(DOLLAR AMOUNTS IN THOUSANDS)

	FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH JUNE 30 (UNAUDITED)	
	2006	2007	2008	2009	2010	2010	2011
Gas Processing	3,615	3,332	2,515	1,048	7,905	4,920	2,050
Distribution	44,583	48,549	47,748	42,104	41,554	31,246	37,246
Field Services	5,221	6,621	5,813	5,673	3,696	2,671	1,962
Information Services	1,819	1,228	1,139	626	724	545	655
Other Departments	6,075	10,288	4,527	5,412	5,080	3,003	3,381
Total[(1)]	61,313	70,018	61,742	54,863	58,959	42,385	45,294
Capital Fund Drawdowns	(60,295)	(65,000)	(70,000)	(45,000)	(70,943)	(31,000)	(28,537)
Other Funding Sources (Uses) for Capital Expenditures	1,018	5,018	(8,258)	9,863	(11,984)	11,385	16,757

* This information was obtained from PGW's historical records.
(1) Net of reimbursements, contributions and salvage.

Other Funding Sources

PGW provides for a portion of capital costs to be funded through the use of internally generated funds. Internally generated funds consist of net revenues after payment of City Charges. See "PGW BUDGET, RATES AND FINANCES — Debt Service Coverage Ratio." A decline in net revenues reduces internally generated funds and requires that the shortfall be funded from the issuance of bonds or other indebtedness or the incurrence of capital leases. In Fiscal Year 2009, PGW provided $9,863,000 of other funding sources of actual capital expenditures.

Fiscal Year 2011 and 2012 Operating Budgets

On June 15, 2011, PGW filed its Fiscal Year 2012 Operating Budget. The PGC conducted informal discovery concerning the budget in June and July 2011 and public hearings in August 2011. A Recommended Decision by the Gas Commission is expected by August 25, 2011. An Order approving interim spending is expected in September 2011, and final budget approval is expected by October 2011.

On June 23, 2010, PGW filed its Fiscal Year 2011 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2010 and public hearings in September 2010. Briefs were filed concerning the overall budget on September 10, 2010, a motion reflecting Total Non-Fuel Operating Expenses of $279,374,000 was approved by the PGC on November 16, 2010, and an Order to this effect was signed on November 24, 2010.

On June 16, 2009, PGW filed its Fiscal Year 2010 Operating Budget. The PGC conducted hearings concerning this budget in September 2009. Briefs were filed on September 22, 2009, a Recommended Decision was rendered on October 1, 2009, a motion reflecting Total Non-Fuel Operating Expenses of $258,412,000 was approved by the PGC on November 17, 2009, and final budget approval was granted by the PGC on December 8, 2009.

Fiscal Year 2011 and 2012 Capital Budgets and Forecasts

On January 3, 2011, PGW filed a proposed Fiscal Year 2012 Capital Budget in the amount of $80,915,000. On April 27, 2011, the PGC, after review and evaluation, endorsed a recommendation to City Council for a budget

amount of $80,837,000. City Council Committee on Finance approved the budget on May 23, 2011, with full City Council approval on June 2, 2011. The Mayor signed the ordinance on June 15, 2011.

On January 4, 2010, PGW filed a proposed Fiscal Year 2011 Capital Budget in the amount of $67,723,000. After review and evaluation, the PGC approved a recommendation to City Council for a budget amount of $67,689,000 on April 26, 2010. City Council Committee on Finance approved the budget on June 9, 2010, with full City Council approval on June 17, 2010. The Mayor signed the ordinance on June 23, 2010.

On October 12, 2010, PGW filed a request with the PGC to amend the Fiscal Year 2011 Capital Budget, seeking to increase budget authorization by $1,926,000. This additional funding would be used to support a specific load addition initiative for the Philadelphia Water Department. After review by the PGC and a change in scope of the proposed initiative, a recommended decision was rendered on December 30, 2010 to increase funding by $1,168,000. The PGC adopted the recommendation on January 18, 2011. City Council approved an amended budget for Fiscal Year 2011 of $68,857,000 by ordinance on March 17, 2011. The Mayor signed the ordinance on March 23, 2011.

Over the six year forecast period, approximately 90.0% of PGW's capital expenditures are in Gas Processing, Distribution and Field Services. These expenditures will support new and replacement main and services and meter and regulator facilities, as well as projects to maintain PGW's gas processing facilities in proper condition.

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Selected Operating Data

The following data is based upon PGW's historical records.

	SELECTED OPERATING DATA FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH JUNE 30 (UNAUDITED)	
	2006	2007	2008	2009	2010	2010	2011
Summary of Customers at End of Period							
Residential	459,842	479,553	478,716	478,179	476,575	479,601	479,438
Industrial and Commercial:							
Firm	25,718	25,970	25,919	25,642	25,683	25,958	25,510
Interruptible	312	105	68	140	120	120	118
Municipal and PHA	2	2	2	2	2	2	2
Total Customers	485,874	505,630	504,705	503,963	502,380	505,681	505,068
Gas Sales By Classification (Mmcf)							
Residential:							
Heating	32,980	35,245	34,357	36,927	34,646	33,255	35,980
Non-Heating	1,521	1,040	802	755	663	600	571
Industrial and Commercial:							
Firm	10,104	10,491	10,202	10,579	10,136	9,448	10,184
Interruptible	2,426	2,704	1,791	1,170	1,049	1,017	982
Other	1,755	1,580	1,833	1,845	1,927	1,747	1,636
Total Gas Sales & Transport	48,786	51,060	48,985	51,276	48,421	46,067	49,353
Supply & Disposition of Gas (Mmcf)							
Natural Gas Purchased	53,886	55,905	53,380	53,029	49,883	43,612	46,591
Liquefied Natural Gas	1,084	1,948	1,280	1,545	1,118	994	1,305
Total Gas Supply	54,970	57,853	54,660	54,574	51,001	44,606	47,896
Deduct:							
Additions to (Withdrawals) from Gas Storage	(166)	(261)	1,088	(897)	(820)	(4,129)	(4,868)
PGW's Use and Other	6,350	7,054	4,587	4,195	3,400	2,668	3,411
Total Gas Sales	48,786	51,060	48,985	51,276	48,421	46,067	49,353
Average Monthly Usage of Residential Customers (Mcf):							
Heating	6.6	7.0	6.6	7.2	6.8	7.8	8.0
Non-Heating	2.7	1.9	1.7	1.6	1.7	1.9	1.9
Average Monthly Bill Of Residential Customers:							
Heating	$139.66	$136.70	$131.01	$149.24	$118.77	$134.90	$136.35
Non-Heating	$61.55	$44.22	$41.48	$40.34	$38.61	$40.91	$41.15
Degree Days	3,819	3,773	3,746	4,181	3,730	3,730	4,005
Normal Degree Days	4,555	4,525	4,510	4,464	4,412	4,412	4,392
Percentage of Normal Degree Days	84%	83%	83%	94%	85%	85%	91%
Maximum 24-Hour Sendout (Mcf)	490,923	589,588	533,349	574,126	543,834	543,834	549,808
Peak-day Average Temperature (Degrees)	21	14	23	15	20	20	22

Summary of Statements of Income and Expenses

Information for each of the Fiscal Years ended August 31 should be read in conjunction with and was derived from the audited financial statements and notes thereto.

(Dollar Amounts in Thousands)

	FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH JUNE 30 (UNAUDITED)	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
Operating Revenues							
Residential:							
Heating	$593,797	$587,648	$588,536	$649,967	$522,135	$484,237	$503,613
Non-Heating	34,182	24,439	20,040	19,072	14,956	13,186	12,361
Industrial and Commercial:							
Firm	200,313	187,076	173,080	179,830	141,625	132,043	131,812
Interruptible	33,509	31,439	26,679	16,493	12,503	12,079	14,086
Gas Transportation	6,459	8,850	8,575	9,731	9,845	8,673	8,209
Other Gas Revenues (Municipal, Philadelphia Housing Authority ("PHA"), Unbilled Revenues and GCR Adjustment)	61,701	653	14,518	35,364	41,278	27,975	7,351
Appliance & Other	10,482	9,398	8,607	9,311	8,959	7,490	6,950
Total Gas Revenues	940,443	849,503	840,035	919,768	751,301	685,683	684,382
Other Operating Revenues	13,525	9,848	9,592	9,673	7,931	6,813	7,537
Total Operating Revenues	953,968	859,351	849,627	929,441	759,232	692,496	691,919
Operating Expenses							
Natural Gas & Raw Material	625,093	539,300	511,976	545,846	354,004	337,592	316,287
Gas Processing	15,234	16,240	14,436	16,779	14,952	11,581	12,275
Field Services	35,667	36,100	37,126	37,727	34,026	28,212	28,315
Distribution	15,179	17,119	17,319	21,059	23,426	19,021	23,131
Customer Activities	70,971	69,422	67,380	74,581	67,196	61,013	51,799
Administrative & General	59,484	83,240[2]	86,550[2]	89,772[2]	98,889[2]	79,002[2]	81,361[2]
Pensions	17,563	15,217	14,258	15,425	24,633	18,875	18,947
Taxes, other than income	6,124	6,730	5,677	6,588	6,990	5,912	6,040
Depreciation	34,725	36,380	39,524	37,781	38,478	31,254	31,696
Total Operating Expenses	880,040	819,748	794,246	845,558	662,594	592,462	569,851
Operating Income	73,928	39,603	55,381	83,883	96,638	100,034	122,068
Interest and Other Income	8,518	13,073	15,732	12,240	5,301	4,991	4,159
Income before Interest Expense	82,446	52,676	71,113	96,123	101,939	105,025	126,227
Interest Expense	65,687	68,780	68,006	78,912	71,123	60,685	63,274
Net Income (Loss) [1]	$16,759	($16,104)	$3,107	$17,211	$30,816	$44,340	$62,953

[1] Net Income (Loss) is before payment of the $18,000,000 Base Payment portion of City Charges.
[2] Includes Postemployment Benefits.

Debt Service Coverage Ratio

The annual operating budget approved by the Gas Commission estimates the level of revenues required to reach at least the minimum debt service coverage ratio mandated by the 1975 General Ordinance and the 1998 General Ordinance. The following table presents historical revenue and debt service coverage calculated under the 1975 General Ordinance and the 1998 General Ordinance.

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE
(DOLLAR AMOUNTS IN THOUSANDS)

	2006	2007	2008	2009	2010
Operating Revenues	$953,968	$859,351	$849,627	$929,441	$759,232
Interest and Other Income	25,866	30,448	33,107	29,615	22,676
AFUDC (Interest)	981	408	338	248	390
Total Funds	980,815	890,207	883,072	959,304	782,298
Adjustments	3,451	(6,650)	(11,851)	194	(1,641)
Project Revenues	984,266	883,557	871,221	959,498	780,657
Operating Expenses	880,040	819,748	794,246	845,558	662,594
Less:					
Depreciation	37,955	39,708	42,868	42,200	43,168
Other Adjustments	894	27,163[2]	26,655[2]	26,322[2]	27,861[2]
Net Operating Expenses	841,191	752,877	724,723	777,036	591,565
Funds Available To Cover Debt Service	143,075	130,680	146,498	182,462	189,092
Debt Service Requirements:					
Revenue Bonds 1975	41,949	35,359	34,225	32,313	30,101
Revenue Bonds 1998	32,838[1]	47,611	59,695	70,569	65,095
Subordinate Revenue Bonds 1998	1,986	1,987	1,986	1,990	1,986
Commercial Paper Notes	5,968	8,098	4,099	3,007	1,256
Total Debt Service	82,741	93,055	100,005	107,879	98,438
Net Funds Available for Other Purposes:	60,334	37,625	46,493	74,583	90,654
Debt Service Coverage:					
Senior Revenue Bonds 1975	3.41	3.70	4.28	5.65	6.28
Senior Revenue Bonds 1998	3.08	2.00	1.88	2.13	2.44
Subordinate Revenue Bonds 1998	34.38	24.01	26.47	39.99	47.28
Coverage of Debt Service & City Payment	1.41	1.17	1.23	1.45	1.62

(1) Capitalized Interest of $6,000,000 excluded from the 1998 General Ordinance Coverage Calculation in Fiscal Year 2006.
(2) Other adjustments include non-cash Postemployment Benefits for Fiscal Year 2007, 2008, 2009 and 2010 totaling $26,421,000, $25,834,000, $25,952,000 and $27,269,000, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE TEN MONTHS ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works for the ten months ended June 30, 2011 and 2010 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's audited financial statements as of and for the years ended August 31, 2010 and 2009 attached hereto in APPENDIX A.

Financial Highlights

The ten month period ended June 30, 2011 reflected an 8.8% warmer than normal winter. The ten month period ending June 30, 2011 was 7.4% cooler than the prior comparative period and firm gas sales increased by 3.2 Bcf. In addition, the Weather Normalization Adjustment ("WNA"), which was in effect from October 2010 through May 2011, resulted in heating customers receiving charges totaling $1,880,000 as a result of the temperatures experienced during the period. The period ended June 30, 2010 reflected a 15.5% warmer than normal winter. The ten month period ended June 30, 2010 was 10.8% warmer than the same period the prior year and firm gas sales decreased by 3.2 Bcf. In addition, the WNA, which was in effect from October 2009 through May 2010, resulted in heating customers receiving charges totaling $13,461 as a result of the temperatures experienced during the period.

PGW achieved a collection rate of 95.1% during the rolling twelve months ended June 30, 2011, as compared to 98.8% for the comparable period ended June 30, 2010. The collection rate of 95.1% is calculated by dividing the total gas receipts collected in a rolling 12 month period by the total gas billings that were applied to PGW customers' accounts during the same period. The same methodology was utilized for the comparative period ended June 30, 2010.

Condensed Statements of Revenues and Expenses
(Thousands of Dollars)

	Ten Months Ended June 30	
	2011	**2010**
Total gas revenues	$684,382	$685,683
Other revenues	7,537	6,813
Total operating revenues	691,919	692,496
Total operating expenses	569,851	592,462
Operating income	122,068	100,034
Interest and other income	4,159	4,991
Total interest expense	63,274	60,685
Excess (deficiency) of revenues over (under) expenses	62,953	44,340

Operating Revenues

Operating revenues for the period ended June 30, 2011 were $691,900,000, a decrease of $600,000 or 0.1% from same period ended June 30, 2010. The decrease for the period ended June 30, 2011 was due to lower commodity gas costs. Operating revenues for the period ended June 30, 2010 were $692,500,000, a decrease of $184,800,000 or 21.1% from the same period ended June 30, 2009.

Total sales volumes, including gas transportation deliveries, for the period ended June 30, 2011 increased by 5.7 Bcf to 71.7 Bcf or 8.6% from the same period ended June 30, 2010. For the period ended June 30, 2010 total sales volumes, including gas transportation deliveries, decreased by 2.8 Bcf to 66.0 Bcf or 4.1% from the same period ended June 30, 2010.

The number of customers served by PGW as of June 30, 2011 and June 30, 2010 were approximately 505,000 and 506,000, respectively. Commercial accounts were approximately 25,000, a slight decrease from June 30, 2010. Industrial accounts decreased by 5.8% from the prior period's level to 700. The number of residential customers remains unchanged at 479,000 from the prior year.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, for the ten month period ended June 30, 2011 were $569,900,000 (net of depreciation), a decrease of $22,600,000 or 3.8% from the same period ended June 30, 2011. The decrease for the June 30, 2011 period is a result of lower natural gas commodity prices of natural gas as compared to the same period ended June 30, 2010. Total expenses decreased by $199,000,000 or 25.1% for the period ended June 30, 2010 compared to the same period ended June 30, 2009. The decrease for the June 30, 2010 period reflects a decrease in the commodity price of natural gas.

Cost of Fuel – The cost of natural gas utilized decreased by $21,300,000 or 6.3% to $316,300,000 for the ten month period ended June 30, 2011 compared with $337,600,000 in the same period ended June 30, 2010. The average commodity price per Mcf decreased by $0.83 or $43,800,000, while the volume of gas utilized increased by 4.0 Bcf, 14.6% or $22,900,000. Demand charges decreased by $500,000, as compared to the period ended June 30, 2010.

The cost of natural gas utilized decreased by $197,200,000 or 36.9% to $337,600,000 for the ten month period ended June 30, 2010 compared with $534,800,000 for the same period ended June 30, 2009. The average commodity price per Mcf decreased by $3.28 or $159,800,000, while the volume of gas utilized decreased by 4.1 Bcf, or $36,900,000. Demand charges decreased by $300,000 compared to the same period ended June 30, 2009. Variations in the cost of purchased gas are passed through to customers under the GCR provision of PGW's rate schedules. Over recoveries or under recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in current assets or current liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized gas for the ten month periods ended June 30, 2011 and 2010 were $4.86 and $5.69 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations for the ten month period ended June 30, 2011 totaled $63,700,000 compared to $58,800,000 for the comparative period ended June 30, 2010. This is a result of higher labor costs. In addition, the cost for customer services, collections, account management, marketing and the administrative area increased by $3,000,000 or 3.1% in the ten month period ended June 30, 2011 primarily due to costs related to health care.

Provision for Uncollectible Accounts – The provision for uncollectible accounts for the ten month period ended June 30, 2011 totaled $28,700,000, a decrease of $6,700,000 or 18.9% over the comparative period ended June 30, 2010, which totaled $35,400,000, based on the most recent accounts receivable collectability evaluation. The accumulated provision for uncollectible accounts at June 30, 2011 reflects a balance of $101,300,000, compared to the $117,100,000 balance as of June 30, 2010. PGW is committed to continuing its collection efforts in an attempt to reduce outstanding delinquent account balances and to provide assistance to those customers who qualify for low income grants and payment programs to help those customers maintain their gas service.

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Condensed Balance Sheets
(Thousands of Dollars)

	June 30	
Assets	**2011**	**2010**
Utility plant, net	$1,105,033	1,084,689
Restricted investment funds	259,332	148,529
Current assets:		
Accounts receivable (net of accumulated provision for uncollectible accounts of $101,334 and $117,071 for 2011 and 2010, respectively)	125,536	113,926
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials and supplies	227,698	234,741
Total current assets	353,234	348,667
Other assets and deferred debits	136,660	121,262
Total assets	$1,854,259	$1,703,147
Fund Equity and Liabilities		
Fund equity	324,089	290,959
Total long-term debt	1,195,977	1,108,243
Current liabilities:		
Current portion of long-term debt	42,614	45,342
Other current liabilities and deferred credits	102,792	98,336
Total current liabilities	145,406	143,678
Other liabilities and deferred credits	188,787	160,267
Total fund equity and liabilities	$1,854,259	$1,703,147

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,105,000,000 as of June 30, 2011, an increase of $20,300,000 or 1.9% compared with the June 30, 2010 balance of $1,084,700,000. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $28,500,000 for the ten month period ended June 30, 2011 compared to $31,000,000 for the period ended June 30, 2010. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $28,500,000 and $31,000,000 at June 30, 2011 and June 30, 2010, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains and customer service lines.

Restricted Investment Funds – Restricted investment funds increased by $110,800,000 as of June 30, 2011 from June 30, 2010 primarily due to proceeds deposited into the Capital Improvement Fund from a new bond sale in August 2010. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $1,100,000 in for the period ended June 30, 2011 and $1,500,000 for the period ended June 30, 2010.

Accounts Receivable – At June 30, 2011 accounts receivable (net) totaled $125,500,000, an increase of $11,600,000 or 10.2% from the June 30, 2010 total of (net) $113,900,000. The accumulated provision for

uncollectible accounts totaling $101,300,000 decreased by $15,700,000 for June 30, 2011 as compared to June 30, 2010. The accumulated provision for uncollectible accounts totaled $117,100,000 on June 30, 2010.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – As of June 30, 2011 cash and cash equivalents were $147,900,000, an increase of $14,000,000 from June 30, 2010. As of June 30, 2011, gas storage decreased by $21,600,000 or 27.4% as compared to June 30, 2010. The decrease in gas inventory reflects a 15.2% decrease in the volume of natural gas in storage as well as a $0.95 drop in commodity cost per Mcf of natural gas. Materials and supplies of $64,700,000, which principally include gas inventory, maintenance spare parts, and material decreased by $21,300,000 as compared to June 30, 2010. Other current assets and deferred debits totaled $15,200,000 at June 30, 2011 up $300,000 from the same period the prior year.

Other Assets and Deferred Debits – At June 30, 2011 other assets and deferred debits including unamortized bond issuance costs, the deferred outflow of resources offsetting PGW's interest rate swap liability related to certain of its variable rate debt, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $136,700,000. This represents an increase of $15,400,000 from June 30, 2010, mainly due to an increase in the deferred outflow of resources offsetting PGW's interest rate swap liability.

Liabilities

Long Term Debt – Long term debt, including the current portion and unamortized discount and premium, totaled $1,249,900,000 for the period ended June 30, 2011, $93,400,000 more than the previous period ended June 30, 2010. The increase is primarily the result of the issuance of the 1998 Ordinance Ninth Series Bonds. This represents 79.4% of total capitalization for the period ended June 30, 2011.

Accounts Payable – In the period ended June 30, 2011 accounts payable decreased $2,700,000 or 6.0% compared with the period ended June 30, 2010.

Other Liabilities and Deferred Credits – At June 30, 2011 other liabilities and deferred credits totaling $188,800,000 increased $28,500,000 compared to June 30, 2010. The increase in the period ended June 30, 2011 is mainly due to an increase of $24,700,000 in PGW's liability for its interest rate swaps related to certain variable rate debt. The change is based on a swap valuation as of August 31, 2010.

Other Financial Information

Liquidity/Cash Flow – PGW had no commercial paper outstanding at June 30, 2011, resulting in the full availability of all $90,000,000 of the Commercial Paper Program. Additionally, PGW had $142,900,000 available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized to provide liquidity in accordance with PGW's interfund borrowing policies. The Operating Fund cash balance at June 30, 2011 was $149,700,000.

In January, 2006, the City entered into a Swap to create a synthetic fixed rate for the PGW Sixth Series Bonds (the "Swap"). The Swap structure was used as a means to increase the City's savings, when compared with fixed-rate bonds at the time of issuance. The Swap was originally executed with the counterparty, on January 26, 2006, and is scheduled to mature on August 1, 2031. Under the Swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011, on which date the variable interest rate received will switch to 70% of one month LIBOR until maturity. In August 2009, the City terminated approximately $55,000,000 of the notional amount of the Swap, issued fixed rate refunding bonds related to that portion of the Swap and kept the remaining portion of the Swap to hedge variable rate refunding bonds backed with letters of credit.

As of August 31, 2010, the Swap had a notional amount of $255,000,000 and the associated variable rate debt was outstanding in the principal amount of $255,000,000, broken down by series as follows: the Series B Swap had a notional amount of $105,000,000 and the associated variable rate bonds had a $105,000,000 principal amount; the Series C Swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000

principal amount; the Series D Swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000 principal amount; and the Series E Swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000 principal amount. As of June 30, 2011, the Swap had a combined negative fair value for all series of $36,100,000. See "REMARKETING OF EIGHTH SERIES BONDS" for a discussion of the City's intention to remarket the Eighth Series Bonds.

Fiscal Year 2011 PGW Payment to City - PGW made a payment of $18,000,000 to the City in the City's Fiscal Year 2011. The City and PGW agreed that such payment will be made prior to June 30, 2011. The City has the right to obtain such payment from PGW in any lawful manner, including set off against payments the City would have otherwise made to PGW. The obligation of PGW to make the payment to the City is subject and subordinate to the pledge and application of Gas Works Revenues and Project Revenues, as such terms are defined in the 1998 Ordinance and the 1975 Ordinance, respectively, see "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Priority in Application of Revenues" herein.

Short Term Debt – Due to the highly seasonal nature of PGW's business, short term debt is utilized to meet working capital requirements. The City, pursuant to the provisions of the Note Ordinance, may sell short term notes in a principal amount, which together with interest, may not exceed $150,000,000 outstanding at any one time. No short-term notes are presently outstanding. Payment of principal of and interest on short-term notes are secured by letters of credit, issued on a several basis, by JPMorgan Chase Bank, National Association, the Bank of Nova Scotia, acting through its New York Agency, and Wells Fargo Bank, National Association, which expire on June 1, 2012. On October 29, 2010, PGW requested that each of the three banks reduce the stated amounts of their respective letters of credit from $40,000,000 to $30,000,000. Each of the letters of credit are currently in the stated amount of $30,000,000 in order to provide liquidity for the applicable sub-series of short-term and liquidity in the event the City determines to issue notes. Under no circumstances will the City issue notes, together with interest thereon, in excess of $90,000,000, unless the stated amounts of the respective letter of Credit is increased by the applicable bank.

REMARKETING

Eighth Series B Bonds and Eighth Series C Bonds—Remarketing Agent

Wells Fargo Bank, National Association (the "Eighth Series B and Eighth Series C Remarketing Agent") has been appointed initially as exclusive remarketing agent for the Eighth Series B Bonds and Eighth Series C Bonds. Subject to certain conditions, upon the delivery or deemed delivery of Eighth Series B Bonds and Eighth Series C Bonds tendered for purchase by any owners thereof, the Eighth Series B and Eight Series C Remarketing Agent will offer for sale and use its best efforts to remarket such tendered Bonds, any such remarketing to be made on the date such tendered Bonds are to be purchased, at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Eighth Series B Remarketing and Eighth Series C Remarketing Agent may be removed or replaced by the City and may also resign in accordance with the provisions of the Bond Authorization and a Remarketing Agreement entered into between the City and the Eighth Series B Remarketing Agent (the "Eighth Series B Remarketing Agreement") or the Remarketing Agreement entered into between the City and the Eighth Series C Remarketing Agent (the "Eighth Series C Remarketing Agreement").

Special Consideration Relating to the Bonds

The Remarketing Agent is Paid By the City. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the 1998 General Ordinance and the Remarketing Agreement, all as further described in this Remarketing Circular. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of the Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Bonds in order to achieve

a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the 1998 General Ordinance and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the interest rate determination date, at a discount to par to some investors.

The Ability to Sell the Bonds Other Than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Wells Fargo Bank, National Association is serving as both Remarketing Agent and Credit Facility Provider for the Eighth Series B Bonds and the Remarketing Agent for the Eighth Series C Bonds.

Eighth Series D Bonds—Remarketing Agent

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed to serve as remarketing agent (the "Eighth Series D Remarketing Agent") for the Eighth Series D Bonds. The Eighth Series D Remarketing Agent may resign or be removed and a successor remarketing agent may be appointed in accordance with the terms of the Bond Authorization and a Remarketing Agreement between the Eighth Series D Remarketing Agent and the City (the "Eighth Series D Remarketing Agreement").

The Eighth Series D Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Eighth Series D Bonds that are optionally or mandatorily tendered by the owners thereof, all as further described in this Remarketing Circular. The Eighth Series D Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Eighth Series D Remarketing Agent may differ from those of existing holders and potential purchasers of Eighth Series D Bonds.

The Eighth Series D Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series D Bonds for its own account. The Eighth Series D Remarketing Agent, in its sole discretion, routinely acquires tendered Eighth Series D Bonds for its own inventory in order to achieve a successful remarketing of the Eighth Series D Bonds (i.e., because there otherwise are not enough buyers to purchase the Eighth Series D Bonds) or for other reasons. However, the Eighth Series D Remarketing Agent is not obligated to purchase Eighth Series D Bonds, and may cease doing so at any time without notice. The Eighth Series D Remarketing Agent may also make a market in the Eighth Series D Bonds by routinely purchasing and selling Eighth Series D Bonds other than in

connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Eighth Series D Remarketing Agent is not required to make a market in the Eighth Series D Bonds. The Eighth Series D Remarketing Agent may also sell any Eighth Series D Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series D Bonds. The purchase of Eighth Series D Bonds by the Eighth Series D Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series D Bonds in the market than is actually the case. The practices described above also may reduce the supply of Eighth Series D Bonds that may be tendered in a remarketing.

The Eighth Series D Remarketing Agent is required to determine on the Weekly Rate Calculation Date the minimum rate of interest which, in the judgment of the Eighth Series D Remarketing Agent under then existing market conditions, would result in the sale of such Eighth Series D Bonds on the Weekly Rate Calculation Date at a price equal to the Purchase Price. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series D Bonds (including whether the Eighth Series D Remarketing Agent is willing to purchase Eighth Series D Bonds for its own account). The Eighth Series D Remarketing Agreement requires that the Eighth Series D Remarketing Agent use its best efforts to sell tendered bonds at a price equal to the Purchase Price. There may or may not be Eighth Series D Bonds tendered and remarketed on a Weekly Rate Calculation Date, the Eighth Series D Remarketing Agent may or may not be able to remarket any Eighth Series D Bonds tendered for purchase on such date at a price equal to the Purchase Price and the Eighth Series D Remarketing Agent may sell Eighth Series D Bonds at varying prices to different investors on such date or any other date. The Eighth Series D Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series D Bonds at the remarketing price. In the event the Eighth Series D Remarketing Agent owns any Eighth Series D Bonds for its own account, the Eighth Series D Remarketing Agent may, in its sole discretion in a secondary market transaction outside the tender process, offer the Eighth Series D Bonds on any date, including the Weekly Rate Calculation Date, at a discount to par to some investors.

While the Eighth Series D Remarketing Agent may buy and sell Eighth Series D Bonds, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Eighth Series D Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series D Bonds other than by tendering the Eighth Series D Bonds in accordance with the tender process.

Eighth Series E Bonds—Remarketing Agent

PNC Bank, National Association (the "Eighth Series E Remarketing Agent") has been appointed initially as exclusive remarketing agent for the Eighth Series E Bonds. The Eighth Series E Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Eighth Series E Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement entered into between the City and The Eighth Series E Remarketing Agent (the "Eighth Series E Remarketing Agreement")), all as further described in this Remarketing Circular. The Eighth Series E Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Eighth Series E Remarketing Agent may differ from those of existing holders and potential purchasers of Eighth Series E Bonds.

The Eighth Series E Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Eighth Series E Remarketing Agent is permitted, but not obligated, to purchase tendered Eighth Series E Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Eighth Series E Remarketing Agent may also make a market in the Eighth Series E Bonds by routinely purchasing and selling Eighth Series E Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Eighth Series E Bonds. The Remarketing Agent may also sell any Eighth Series E Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Eighth Series E Bonds. The purchase of Eighth Series E Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Eighth Series E Bonds in the market than is actually the case. The practices described above also may result in fewer Eighth Series E Bonds being tendered in a remarketing.

Pursuant to the Eighth Series E Remarketing Agreement, the Eighth Series E Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Eighth Series E Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Weekly Rate Calculation Date. The interest rate will reflect, among other factors, the level of market demand for the Eighth Series E Bonds (including whether the Eighth Series E Remarketing Agent is willing to purchase Eighth Series E Bonds for its own account). There may or may not be Eighth Series E Bonds tendered and remarketed on a Weekly Rate Calculation Date, the Remarketing Agent may or may not be able to remarket any Eighth Series E Bonds tendered for purchase on such date at par and the Eighth Series E Remarketing Agent may sell Eighth Series E Bonds at varying prices to different investors on such date or any other date. The Eighth Series E Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Eighth Series E Bonds at the remarketing price. In the event a Eighth Series E Remarketing Agent owns any Eighth Series E Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Eighth Series E Bonds on any date, including the Weekly Rate Calculation Date, at a discount to par to some investors.

The Eighth Series E Remarketing Agent may buy and sell Eighth Series E Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Eighth Series E Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Eighth Series E Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Eighth Series E Bonds other than by tendering the Eighth Series E Bonds in accordance with the tender process.

RATINGS

Moody's Investors Service ("Moody's") has assigned and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") is expected to assign to the Eighth Series B Bonds the ratings of "Aa1/VMIG 1" and "AAA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series B Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series B Credit Provider and PGW. The Eighth Series B Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Remarketing Circular are "Aa2/P-1" and "AA/A-1+", respectively. The underlying ratings assigned to the Eighth Series B Bonds by Moody's and S&P are "Baa2" and "BBB+," respectively.

Moody's has assigned and S&P is expected to assign to the Eighth Series C Bonds the ratings of "Aa1/VMIG 1" and "AA/A-1+", respectively. The ratings are based upon (i) the ratings of the Eighth Series C Credit Provider, (ii) the long-term ratings the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series C Credit Provider and PGW. The Eighth Series C Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Remarketing Circular are "Aa1/P-1" and "AA-/A-1+", respectively. The underlying ratings assigned to the Eighth Series C Bonds by Moody's and S&P Ratings, Inc. are "Baa2" and "BBB+", respectively.

Moody's has assigned and S&P is expected to assign to the Eighth Series D Bonds the rating of "Aa2/VMIG 1" and "AAA/A-1", respectively. The ratings are based upon (i) the ratings of the Eighth Series D Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series D Credit Provider and PGW. The Eighth Series D Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Remarketing Circular are "Aa3/P-1" and "A/A-1", respectively. The underlying ratings assigned to the Eighth Series D Bonds by Moody's and S&P are "Baa2" and "BBB+", respectively.

Moody's has assigned and S&P is expected to assign to the Eighth Series E Bonds the ratings of "A1/VMIG 1"and "AA+/A-1", respectively. The ratings are based upon (i) the ratings of the Eighth Series E Credit Provider, (ii) the long-term ratings of the City's Gas Works Revenue Bonds (1998 Ordinance), and (iii) Moody's and S&P's credit correlation of the ratings of the Eighth Series E Credit Provider and PGW. The Eighth Series E Credit Provider's long-term and short-term ratings for Moody's and S&P as of the date of this Remarketing Circular are "A2/P-1" "A+/A-1", respectively. The underlying ratings assigned to the Eighth Series D Bonds by Moody's and S&P are "Baa2" and "BBB+", respectively.

Any explanation of these ratings may only be obtained from the rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. No assurance is given that such ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

The Eighth Series B Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series C Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series D Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The Eighth Series E Credit Provider is not obligated to maintain its present or any other credit rating and shall have no liability if any such credit rating is lowered, withdrawn or suspended.

The City is not required to maintain any particular rating on the Bonds and shall have no liability if a rating is lowered, withdrawn or suspended.

TAX MATTERS

On August 20, 2009, Co-Bond Counsel delivered its opinions (the "Opinions") with respect to the issuance of the Bonds. Copies of the Opinions are attached hereto as Exhibit "F" hereto. The Opinions speak only as of the date thereof. In connection with the remarketing of the Bonds on September 1, 2011, Co-Bond Counsel will each deliver their opinion ("No Adverse Opinions") to the effect that the remarketing of the Bonds as a result of the extensions of the Eighth Series B Letter of Credit, Eighth Series C Letter of Credit and Eighth Series D Letter of Credit and the substitution of the Eighth Series E Letter of Credit, will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. The forms of the No Adverse Opinions are attached hereto as Exhibit "G" hereto.

CERTAIN LEGAL MATTERS

All legal matters incident to the remarketing of the Bonds are subject to approval of the legality of the remarketing of the Bonds by Blank Rome LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. Certain legal matters will be passed upon for Philadelphia Gas Works by the Office of General Counsel of the Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania. Certain legal matters will be passed upon for the Remarketing Agents by Greenberg Traurig, LLP and The Smyler Firm, Co-Counsel to the Remarketing Agents. Certain legal matters will be passed upon for the Eighth Series B Credit Provider and the Eight Series D Credit Provider by Duane Morris LLP, Philadelphia, Pennsylvania, counsel to the Eighth Series B Credit Provider and Eighth Series D Credit Provider. Certain legal matters will be passed upon for the Eighth Series C Credit Provider by Chapman and Cutler LLP, Chicago, Illinois, counsel to the Eighth Series C Credit Provider. Certain legal matters will be passed upon for the Eighth Series E Credit Provider by Nixon Peabody LLP, New York, New York, counsel to the Eighth Series E Credit Provider.

CO-FINANCIAL ADVISORS

Public Financial Management, Inc. and Phoenix Capital Partners, LLP both of Philadelphia, Pennsylvania, have served as financial advisors (the "Financial Advisors") to the City in respect of the remarketing of the Bonds. The Financial Advisors assisted in the preparation of this Remarketing Circular, structuring of the Bonds and have provided other advice. Public Financial Management, Inc. and Phoenix Capital Partners, LLP are financial advisory and consulting organizations and are not engaged in the business of the remarketing or marketing of municipal securities or any other negotiable instruments.

INDEPENDENT AUDITORS

The basic financial statements and supplementary information of the Philadelphia Gas Works as of and for the years ended August 31, 2010 and August 31, 2009 included in APPENDIX A to this Remarketing Circular have been audited by KPMG LLP, as stated in their report appearing therein.

Any financial information other than in APPENDIX A to this Remarketing Circular has not been audited by any firm of independent auditors and no opinion on such information is expressed in this Remarketing Circular.

INDEPENDENT CONSULTANT'S REPORT

The report prepared by Black & Veatch Corporation, and contained herein as APPENDIX B, has been included in reliance upon the expertise of that company as an independent consulting firm having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of PGW and having skill in assessing assumptions used in the preparation of forecast financial statements of gas works systems.

CERTAIN RELATIONSHIPS

Public Financial Management, Inc., financial advisor to the City, acts as a consultant to PGW on certain management and labor relations issues and has provided testimony before the PUC on several of PGW's rate cases. Blank Rome LLP and Andre C. Dasent, P.C. provide certain legal services to the City and to PGW. Greenberg Traurig, LLP provides certain legal services to the City. The Smyler Firm provides certain legal services to the City. Black & Veatch Corporation provides certain professional services (unrelated to the Independent Consultant's Report) to PGW.

NO LITIGATION

To the knowledge of the City of Philadelphia Law Department and, solely with respect to (E) below, based upon certain representations from PGW's General Counsel, after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain or enjoin the remarketing of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the remarketing thereof, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

On September 1, 2011, the City Solicitor shall furnish a written confirmation, to the effect, among other things, that except for litigation which is disclosed in this Remarketing Circular, to the knowledge of the Law Department after customary inquiry, no litigation is pending against the City before any court, public board or agency, or threatened in writing against the City (A) to restrain the remarketing of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the remarketing of the Bonds, (C) which contests the pledge or application of any monies or security provided for the payment of the Bonds, (D) challenges the existence or powers of the City or (E) in which a final adverse determination, singly or in the aggregate, would have a material and adverse effect on PGW's operations or financial condition.

NEGOTIABLE INSTRUMENTS

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

CERTAIN REFERENCES

All summaries of the provisions of the Bonds and the security therefor, the Act, the General Ordinances and the Supplemental Ordinances set forth herein and in APPENDIX D hereof, and all summaries and references to

other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as statements are made in this Remarketing Circular involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

CONTINUING DISCLOSURE

In connection with the original issuance of the Bonds, the City entered into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C., which constitutes a written undertaking for the benefit of the owners and beneficial owners of the Bonds. A copy of the Continuing Disclosure Agreement is attached hereto as APPENDIX E.

ADDITIONAL INFORMATION

Upon written request to the office of the Director of Finance and payment of the costs of duplication and mailing, the Annual Report of the City for the Fiscal Year ended June 30, 2010, and the audited combined financial statements of the City for the Fiscal Year ended June 30, 2010, will be made available, as well as other pertinent information. Such a request should be addressed to: Office of the Director of Finance, Accounting Bureau, 1330 Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The City will provide copies of the foregoing documents to one or more nationally recognized municipal securities information depositories. The City will provide financial and other information regarding PGW from time to time to Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc. and Moody's Investors Service in connection with securities ratings assigned by those rating agencies to obligations payable from Project Revenues or Gas Works Revenues. The City intends to continue these practices in future years on an annual basis on behalf of PGW as well as all obligations issued for PGW.

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This Remarketing Circular has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA, PENNSYLVANIA

By: /s/ Michael A. Nutter
Honorable Michael A. Nutter, Mayor

By: /s/ Alan L. Butkovitz
Honorable Alan L. Butkovitz, City Controller

By: /s/ Shelley R. Smith
Shelley R. Smith, City Solicitor

Approved:

By: /s/ Rob Dubow
Rob Dubow, Director of Finance

APPENDIX A

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION OF PGW FOR FISCAL YEARS ENDED AUGUST 31, 2010 AND 2009

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PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Basic Financial Statements

August 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Controller of the City of Philadelphia and
Chairman and Members of the
Philadelphia Facilities Management Corporation
Philadelphia, Pennsylvania:

We have audited the accompanying balance sheets of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of August 31, 2010 and 2009, and the related statements of revenues and expenses, cash flows, and changes in fund equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Gas Works as of August 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The required supplementary information of management's discussion and analysis on pages 2 to 12 and the schedules of pension funding progress and other postemployment benefits funding progress on pages 57 and 58 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Company's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

KPMG LLP

December 28, 2010

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Management's Discussion and Analysis

August 31, 2010 and 2009

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2010 and 2009 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's financial statements.

Financial Highlights

- The fiscal year (FY) 2010 reflected a 15.5% warmer than normal winter. The FY 2010 period was 10.8% warmer than the prior year and firm gas sales decreased by 3.2 billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2009 through May 2010, resulted in heating customers receiving charges totaling $13.4 million as a result of the temperatures experienced during the period. The FY 2009 reflected a 6.1% warmer than normal winter. The FY 2009 period was 11.9% colder than the prior year and firm gas sales increased by 2.5 Bcf. In addition, the WNA, which was in effect from October 2008 through May 2009, resulted in heating customers receiving charges totaling $0.5 million as a result of the temperatures experienced during the period.
- PGW achieved a collection rate of 98.7% in the current period, 93.8% in FY 2009 and 95.5% in FY 2008. The collection rate is calculated by dividing the total gas receipts collected in FY 2010 by the total gas billings that were applied to PGW customers' accounts from September 1 through August 31. The same methodology was utilized in FY 2009 and FY 2008, respectively.
- On July 29, 2010, the Pennsylvania Public Utility Commission (PUC) approved the settlement of the base rate filing filed by the Company in December 2009, under which PGW will be permitted to maintain virtually all of the $60.0 million extraordinary rate increase granted by the PUC in 2008 that was effective as of January 1, 2009, as well as receiving an incremental rate increase of $16.0 million annually to fund Other Postemployment Benefits (OPEB). PGW is required under the settlement to fund annually, $15.0 million of its Unfunded Actuarial Accrued Liability (UAAL) in each of the fiscal years 2011 through 2015. Additionally, PGW must fund $3.5 million a year which represents a 30 year amortization of the Net OPEB obligation of $105.5 million as of August 31, 2010. The settlement also permitted the implementation of the Demand Side Management Program, which is an energy efficiency and conservation plan.
- In addition to the rate increases noted above, various business initiatives were implemented to improve collections, productivity, and operational efficiencies throughout the Company, and achieved positive results. PGW, at the end of FY 2010 and FY 2009, had no tax exempt commercial paper outstanding and a cash balance of $79.1 million and $13.8 million, respectively. This reflects an overall improvement of $65.3 million in PGW's liquidity.
- On August 26, 2010, the City of Philadelphia (the City) issued Gas Works Revenue Bonds, Ninth Series in the amount of $150.0 million for the purpose of financing capital projects, and paying the costs of issuing the bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance. The Ninth Series Bonds consist of $53.0 million of serial bonds with interest rates that range from 2.0% to 5.0% and have maturity dates through 2025. The Bonds also included $97.0 million of term bonds with interest rates of 5.0% and 5.25% and have maturities through 2040.

- On August 20, 2009, the City of Philadelphia issued Gas Works Revenue Refunding Bonds, Eighth Series in the amount of $313.3 million for the purpose of refunding the outstanding Sixth Series Bonds previously issued under the 1998 Ordinance, paying the costs of terminating a portion of the related interest rate swap agreement, and issuing the bonds and any required deposits to the Sinking Fund Reserve. The Eighth Series A consist of $58.3 million of serial bonds with interest rates ranging from 4.0% to 5.25% and have maturity dates through 2017. The Eighth Series B, in the amount of $105.0 million and the Eighth Series C, Eighth Series D, and Eighth Series E Bonds in the amount of $50.0 million, respectively, were issued as variable rate term bonds. The variable rate term bonds totaled $255.0 million and have variable rates set through a weekly reset mode. Interest is paid monthly and the bonds are secured with letters of credit that expire August 19, 2011. These bonds mature at various dates from 2017 to 2031. The refunding of the Sixth Series Bonds triggered a termination of the hedging relationship between the interest rate swap and the Sixth Series Bonds. The difference between the carrying value of the Eighth Series Bonds and the net carrying value of the Sixth Series Bonds of $55.3 million, which included the elimination of the cumulative $26.3 million deferred outflow of resources representing the cumulative changes in fair value of the interest rate swap that was a hedging derivative instrument associated with the Sixth Series Bonds, was deferred and will be amortized over the life of the Eighth Series Bonds.

- The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), for the fiscal year ended August 31, 2009, a year earlier than required by GASB, because the Company is a component unit of the City for financial reporting requirements and the Company's FY 2009 financial statements are included in the City's financial statements for the year ended June 30, 2010.

  GASB 53 establishes a framework for accounting and reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements.

  The Company's only derivative instruments within the scope of GASB 53 are four interest rate swaps entered into to hedge the interest payments on its variable rate debt. These swaps originate from an interest rate swap used as a hedge of the Sixth Series Bonds. Because the hedges were effective at August 31 2010, the change in fair value of the swaps of $24.7 million for FY 2010 has been recorded as an increase in the interest rate swap liability and the related deferred outflow of resources. The balance of the interest rate swap liability at August 31, 2010 is $52.2 million, and the related deferred outflow of resources balance is $25.9 million. The difference between the balances is due to the impact of refunding the Sixth Series bonds, which the original swap previously hedged, during FY 2009, and establishing a hedging relationship between the portion of the original swap remaining after the refunding (divided into four swaps) and the refunding Eighth Series bonds. Because the hedges were determined effective for both periods presented, there was no impact on the Statements of Revenues and Expenses for either year other than swap settlement payments.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements are comprised of:

Financial statements provide both long-term and short-term information about PGW's overall financial condition, results of operations, and cash flows.

The notes to financial statements provide additional information that is essential to a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The four statements presented are:

The statement of revenues and expenses presents revenue and expenses and their effects on the change in equity during the fiscal year. These changes in equity are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The balance sheet includes all of PGW's assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in fund equity are indicators of whether PGW's financial position is improving or deteriorating.

The statement of cash flows provides relevant information about the cash receipts and cash payments of an enterprise during a period and the impact on PGW's financial position.

The *statement of changes in fund equity* provides a rollforward of the fund equity balance of PGW based upon the results from the statement of revenues and expenses.

Condensed Statements of Revenues and Expenses

(Thousands of dollars)

		Years ended August 31		
		2010	**2009**	**2008**
Total gas revenues	$	742,342	910,457	831,428
Other revenues		16,890	18,984	18,199
Total operating revenues		759,232	929,441	849,627
Total operating expenses		662,594	845,558	794,246
Operating income		96,638	83,883	55,381
Interest and other income		5,301	12,240	15,732
Total interest expense		(71,123)	(78,912)	(68,006)
Excess of revenues over expenses	$	30,816	17,211	3,107

Operating Revenues

Operating revenues in FY 2010 were $759.2 million, a decrease of $170.2 million or 18.3% from the FY 2009 level. The decrease in FY 2010 was due to significantly lower natural gas costs. Operating revenues in FY 2009 were $929.4 million, an increase of $79.8 million or 9.4% from the FY 2008 level. The increase in FY 2009 was due to a colder winter. Please see the discussion of the cost of fuel in the Operating Expenses section below.

Total sales volumes, including gas transportation deliveries, in FY 2010 decreased by 2.5 Bcf to 69.3 Bcf or 3.5% from FY 2009 sales volumes of 71.8 Bcf. In FY 2009 total sales volumes, including gas transportation deliveries, increased by 5.5 Bcf to 71.8 Bcf or 8.3% from FY 2008 sales volumes of 66.3 Bcf. Firm gas sales of 44.8 Bcf were 3.2 Bcf or 6.7% lower than FY 2009 firm gas sales of 48.0 Bcf which were 2.5 Bcf or 5.5% higher than FY 2008. Interruptible customer sales decreased by 0.1 Bcf compared to FY 2009 which decreased by 0.6 Bcf compared to FY 2008. Gas transportation sales in FY 2010 increased by 0.5 Bcf to 23.1 Bcf from the 22.6 Bcf level experienced in FY 2009. In FY 2009, the volume increased by 3.6 Bcf to 22.6 Bcf from the 19.0 Bcf level experienced in FY 2008.

In FY 2010, customers served by PGW decreased by 0.4% from the previous year to approximately 502,000 customers. The number of customers served by PGW at the end of FY 2009 and FY 2008 were approximately 504,000 and 505,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts reflected no change from the prior two fiscal year's level of 800. Residential customers decreased to 476,000 customers, a decrease of 2,000 from the prior year. The number of residential customers in FY 2009 decreased to approximately 478,000 customers, a decrease of 1,000 from the FY 2008 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2010 were $662.6 million, a decrease of $183.0 million or 21.6% from FY 2009. The decrease for FY 2010 reflects substantially lower natural gas utilization and a decrease in natural gas volumes. Total operating expenses, including fuel costs, in FY 2009 were $845.6 million, an increase of $51.3 million or 6.5% from FY 2008. The increase for FY 2009 reflects substantially higher natural gas utilization and a decrease in refunds received from pipeline suppliers.

Cost of Fuel – The cost of natural gas utilized decreased by $191.9 million or 35.1% to $354.0 million in FY 2010 compared with $545.9 million in FY 2009. The average commodity price per Thousand cubic feet (Mcf) decreased by $3.09 or $160.3 million, while the volume of gas utilized decreased by 3.7 Bcf, 6.6% or $31.2 million. In addition, pipeline supplier refunds in FY 2010 increased by $0.1 million while demand charges decreased by $0.3 million, compared to FY 2009.

The cost of natural gas utilized increased by $33.9 million or 6.6% to $545.9 million in FY 2009 compared with $512.0 million in FY 2008. The average commodity price per Mcf increased by $0.06 or $3.5 million, while the volume of gas utilized increased by 2.0 Bcf, 3.7% or $16.6 million. In addition, pipeline supplier refunds in FY 2009 decreased by $10.5 million while demand charges increased by $3.4 million, compared to FY 2008.

Variations in the cost of purchased gas are passed through to customers under the gas cost rate (GCR) provision of PGW's rate schedules. Over-recoveries or under-recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in current assets or current liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized gas for FY 2010, FY 2009, and FY 2008 were $5.45, $8.55, and $8.48 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2010 were $72.4 million, a decrease from the FY 2009 total of $75.6 million as a result of lower costs associated with the soft-off program under which the Company manages its costs associated with customer-requested shut-offs by determining whether it is cost-beneficial to the Company to final bill the account as a result of the customer's request without physically shutting off the gas. This decision is based on seasonality, the likelihood of being granted access to the premises, and other factors. The FY 2009 total of $75.6 million was $6.7 million higher than the FY 2008 total of $68.9 million.

Additionally, expenses related to customer services, collection and account management, marketing, and the administrative area increased by $7.4 million or 7.7% in FY 2010 primarily due to costs related to the higher cost of healthcare. This category increased by $5.3 million or 5.8% in FY 2009 primarily due to costs related to the business transformation initiative and offset by a decrease in the gas used by the utility.

Pension costs increased by $9.2 million to $24.6 million in FY 2010 as compared to FY 2009. Pension costs increased by $1.2 million to $15.4 million in FY 2009 as compared to FY 2008. Costs increased primarily due to an increase in underfunding of the plan due to the economic downturn, resulting in additional amortization of the underfunded balance into the Annual Required Contribution (ARC).

OPEB costs increased by $1.3 million to $27.3 million in FY 2010 as compared to FY 2009, and by $.2 million in FY 2009 as compared to FY 2008. The net OPEB obligation was $105.5 million for the fiscal year ended August 31, 2010. The net OPEB obligation was $78.2 million for the fiscal year ended August 31, 2009.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2010 totaled $35.0 million, a decrease of $7.0 million or 16.7% lower than FY 2009. The provision for uncollectible accounts in FY 2009 totaled $42.0 million, an increase of $5.0 million or 13.5% higher than FY 2008. The accumulated provision for uncollectible accounts at August 31, 2010 reflects a balance of $103.6 million, compared to the $123.0 million balance in FY 2009 and $140.4 million in FY 2008. PGW is committed to continuing its collection efforts in an attempt to reduce outstanding delinquent account balances and to provide assistance to those customers who qualify for low-income grants and payment programs to help those customers maintain their gas service.

Depreciation Expense – Depreciation expense increased by $0.7 million in FY 2010 compared with FY 2009. Depreciation expense decreased by $1.7 million in FY 2009 compared with FY 2008. The effective composite depreciation rates for FY 2010, FY 2009, and FY 2008 were 2.3%, 2.3%, and 2.4%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2010 was $6.9 million lower than FY 2009. Interest and other income in FY 2009 was $3.5 million lower than FY 2008. The year to year decrease is the result of a continual decline in interest rates coupled with lower restricted fund balances for most of the fiscal year.

Interest Expense – Total interest expense decreased by $7.8 million or 9.9% in FY 2010 compared with FY 2009 and increased by $10.9 million or 16.0% in FY 2009 compared with FY 2008. Interest on long-term debt was $11.1 million lower in FY 2010 due to both the reduction in long-term debt for the majority of the fiscal year and declining interest costs associated with PGW's variable rate demand notes. Interest on long-term debt increased $7.5 million in FY 2009 as a result of the full year effect of the issuance of the Seventh Series Bonds in May 2007. Other interest costs increased by $3.4 million or 22.0% due to a $7.0 million increase in the cost associated with the letters of credit that support PGW's variable rate demand notes and commercial paper program in FY 2010. This increase was partially offset by a $3.6 million decrease in interest expense associated with both PGW's variable rate demand notes and commercial paper program. Other interest costs increased by $3.3 million or 26.8% in FY 2009 and was offset by a $1.0 million decrease in interest expense associated with PGW's commercial paper program as a result of lower borrowing costs coupled with decreased outstanding balances.

Excess of Revenues Over Expenses – In FY 2010, the Company's excess of revenues over expenses was $30.8 million, an increase of $13.6 million from FY 2009. The Company's had an excess of revenues over expenses of $17.2 million in FY 2009, an increase of $14.1 million from FY 2008.

Condensed Balance Sheets

(Thousands of dollars)

		Years ended August 31		
Assets		**2010**	**2009**	**2008**
Utility plant, net	$	1,094,009	1,076,467	1,062,095
Restricted investment funds		284,813	175,534	219,788
Current assets:				
Accounts receivable (net of accumulated provision for uncollectible accounts of $103,600, $123,009, and $140,435 for 2010, 2009, and 2008, respectively)		92,173	105,496	99,304
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies		209,397	143,668	242,503
Total current assets		301,570	249,164	341,807
Other assets, deferred debits, and deferred outflows of resources		146,770	130,926	119,765
Total assets	$	1,827,162	1,632,091	1,743,455
Fund Equity and Liabilities				
Fund equity	$	274,435	243,619	226,408
Total long-term debt		1,224,987	1,114,488	1,127,163
Current liabilities:				
Note payable		—	—	90,000
Current portion of long-term debt		42,537	48,175	76,030
Other current liabilities and deferred credits		95,229	85,580	126,235
Total current liabilities		137,766	133,755	292,265
Other liabilities and deferred credits		189,974	140,229	97,619
Total fund equity and liabilities	$	1,827,162	1,632,091	1,743,455

(Continued)

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,094.0 million in FY 2010, an increase of $17.5 million or 1.6% compared with the FY 2009 balance of $1,076.5 million. The FY 2009 balance increased by $14.4 million or 1.4% compared with the FY 2008 balance of $1,062.1 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $59.1 million in FY 2010 compared to $52.2 million in FY 2009 and $61.2 million in FY 2008. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $41.0 million, $48.5 million, and $60.9 million in FY 2010, FY 2009, and FY 2008, respectively. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains, and customer service lines.

Restricted Investment Funds – Restricted investment funds increased by $109.3 million in FY 2010 primarily due to proceeds deposited into the Capital Improvement Fund from a new money bond sale in August 2010. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $1.7 million in FY 2010, $4.8 million in FY 2009, and $11.7 million in FY 2008. A drawdown from the accrued interest in the Capital Improvement Fund in the amount of $5.0 million was utilized for working capital purposes in FY 2009. There was no drawdown of interest from the Capital Improvement Fund in FY 2010 and FY 2008.

Accounts Receivable – In FY 2010, accounts receivable (net) of $92.2 million decreased by $13.3 million, or 12.6% from FY 2009 due to lower gas billings during FY 2010 and an increase in the collection rate experienced during FY 2010 as compared to FY 2009. In FY 2009, accounts receivable (net) of $105.5 million increased by $6.2 million, or 6.2% from FY 2008 due to firm transportation suppliers' billings and an increase in participation in the Customer Responsibility Program (CRP). The accumulated provision for uncollectible accounts, totaling $103.6 million decreased by $19.4 million in FY 2010 and totaled $123.0 million in FY 2009 and $140.4 million in FY 2008.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2010, cash and cash equivalents were $79.1 million, an increase of $65.3 million from $13.8 million in FY 2009, and totaled $49.4 million in FY 2008. In FY 2010, gas storage decreased by $21.8 million or 18.5% compared to FY 2009. The decrease in gas inventory reflects a decrease in the gas cost per Mcf plus a decrease in the amount of storage at year end. In FY 2009, gas storage decreased by $61.9 million or 34.4% compared to FY 2008. The decrease in gas inventory reflects a decrease in the gas prices and volumes stored. Materials and supplies of $103.1 million, which principally include gas inventory, maintenance spare parts, and material, decreased by $21.9 million and were $125.0 million in FY 2009 and $187.5 million in FY 2008. Other current assets and deferred debits totaled $27.2 million in FY 2010, an increase of $22.3 million from FY 2009 primarily as a result of an increase in the deferred GCR of $11.8 million and an increase in the pension fund receivable of $11.1 million. Other current assets and deferred debits totaled $4.9 million in FY 2009, down $0.7 million from FY 2008.

Other Assets, Deferred Debits, and Deferred Outflows of Resources – In FY 2010, other assets, deferred debits, and deferred outflows of resources including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $146.8 million, an increase of $15.8 million from FY 2009, mainly due to the increase in the interest rate swap liability. In FY 2009, the total was $130.9 million and reflected an increase of $11.1 million from FY 2008.

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled $1,267.5 million in FY 2010, $104.9 million more than the previous year primarily as a result of the issuance of the Ninth Series bonds. This represents 82.2% of total capitalization in FY 2010. Long-term debt, including the current portion and unamortized discount and premium, totaled $1,162.7 million in FY 2009, $40.5 million less than the previous year primarily as a result of normal debt principal payments. This represented 82.7% of total capitalization in FY 2009 and 84.2% of total capitalization in FY 2008.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on both the 1975 and 1998 Ordinance Bonds. In FY 2010, the debt service coverage was at 6.28 times debt service on the outstanding 1975 Ordinance Bonds and 2.44 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 5.65 and 2.13 times, respectively, in FY 2009 and 4.28 and 1.88 times, respectively, in FY 2008. PGW's current bond ratings are "Baa2" from Moody's Investors Service (Moody's), "BBB+" from Standard and Poor's Ratings Service (S&P), and "BBB" from Fitch Ratings (Fitch).

Short-Term Debt – Due to the highly seasonal nature of PGW's business, short-term debt is utilized to meet working capital requirements. PGW, pursuant to the provisions of the City of Philadelphia Note Ordinance, may sell short-term notes in a principal amount, which together with interest, may not exceed $150.0 million outstanding at any one time. These notes are supported by irrevocable letters of credit and a security interest in PGW's revenues. The letters of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at $120.0 million in FY 2010 and $150.0 million FY 2009. In June 2010, PGW renewed the letters of credit supporting the commercial paper program at $120.0 million.

There were no notes outstanding at August 31, 2010 and 2009. The company has not utilized commercial paper for working capital since May 2009.

Liquidity/Cash Flow – At December 15, 2010, $90.0 million was available from the commercial paper program. Additionally, PGW had $170.0 million available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized during the fall and early winter period to provide liquidity until billings from the winter heating season are collected. The cash balance at December 15, 2010 was $40.7 million.

Accounts Payable – In FY 2010, accounts payable totaled $59.3 million, an increase of $13.1 million or 28.3% compared with FY 2009 primarily due to an increase in credit balances in accounts receivable which have been reclassified to accounts payable. Credit balances of $22.8 million and $14.1 million for FY 2010 and FY 2009, respectively, have been reclassified to accounts payable. Natural Gas payables were $3.1 million higher at the

end of FY 2010 than FY 2009. In FY 2009 accounts payable totaled $46.2 million, a decrease of $21.3 million or 31.6% compared with FY 2008 primarily due to a decrease in natural gas payables.

Other Liabilities and Deferred Credits – In FY 2010, other liabilities and deferred credits totaling $190.0 million increased $49.7 million compared to FY 2009. The increase in FY 2010 is primarily due to the effect of recording the liability for OPEB in the amount of $27.3 million and the net increase in the interest rate swap liability in the amount of $24.7 million. In FY 2009, other liabilities and deferred credits totaling $140.2 million increased $42.6 million compared to FY 2008. The increase in FY 2009 is primarily due to the effect of recording the liability for OPEB in the amount of $25.9 million and the net increase in the interest rate swap liability in the amount of $14.5 million.

Other Financial Factors

The City has granted back its annual $18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. The City has indicated that it will not grant back the $18.0 million payment in FY 2011. The Company intends to fund the majority of the FY 2011 payment to the City through sale of assets. Future year grantbacks are currently under consideration by the City and PGW.

Recent Rate Filings

In November 2008, the Company filed for an extraordinary base rate increase of approximately $60.0 million or 5.2% and simultaneously requested an $85.0 million or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately $25.0 million. The proposed base rate increase served several purposes. First, the increase covered the additional financing costs that the Company incurred. Second, the increase improved the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase provided additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued its decision approving a base rate increase of $60.0 million or 5.2% and a decrease in the GCR of $107.0 million for a net decrease in rates of $47.0 million or 4.2%. These rates were effective as of January 1, 2009.

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the $60.0 million base rate increase that the PUC granted in 2008; and (2) to fund PGW's OPEB liability in the amount of $42.5 million. PGW also moved to consolidate the Company's Demand Side Management Plan (i.e. an Energy Efficiency and Conservation Plan) into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16.0 million annually and will be required to fund $18.5 million of the OPEB liability in each of the years 2011 through 2015. The Settlement also permitted the implementation of the Demand Side Management Program.

Establishment of OPEB Trust Fund

As part of the July 29, 2010 rate case settlement, which provided for the establishment of an irrevocable trust for the deposit of funds derived through a Rider from all customer classes to fund OPEB liabilities, PGW established the trust in July 2010 and began funding the trust in accordance with the settlement agreement in September 2010. The settlement provides that PGW shall deposit $15.0 million annually towards the ARC and an additional $3.5 million annually, which represents a 30 year amortization of the OPEB liability of $105.5 million at August 31, 2010. These deposits will be funded primarily through increased rates of $16.0 million granted in the settlement.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period of 30 years.

Because the OPEB trust fund was not established until subsequent to year-end, the actuarial accrued liability as of August 31, 2010 of $654.1 million assumes that the Company will continue to fund its OPEB obligations on a pay-as-you-go basis. If the Company had adopted a policy of funding its ARC prior to year-end, the actuarial accrued liability would have been reduced to $465.7 million.

Contacting the Company's Financial Management

This financial report is designed to provide the citizens of Philadelphia, customers, investors, and creditors with a general overview of PGW's finances and to demonstrate PGW's accountability for the money it receives. If you have questions pertaining to this report or need additional financial information, please contact Philadelphia Gas Works, 800 W. Montgomery Avenue, Philadelphia, PA 19122 or on the Web at www.pgworks.com.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2010 and 2009

(Thousands of dollars)

Assets		2010	2009
Utility plant, at original cost:			
In service	$	1,794,277	1,754,297
Under construction		46,339	30,953
Total		1,840,616	1,785,250
Less accumulated depreciation		746,607	708,783
Utility plant, net		1,094,009	1,076,467
Restricted investment funds:			
Sinking fund, revenue bonds		111,409	110,227
Capital improvement fund		170,809	62,714
Workers' compensation escrow fund		2,595	2,593
Total restricted investment funds		284,813	175,534
Current assets:			
Cash and cash equivalents		79,052	13,750
Accounts receivable (net of provision for uncollectible accounts of $103,600 and $123,009 for 2010 and 2009, respectively)		92,173	105,496
Gas inventories, materials, and supplies		103,133	125,023
Other current assets and deferred debits		27,212	4,895
Total current assets		301,570	249,164
Unamortized bond issuance costs		27,066	27,516
Unamortized losses on reacquired debt		70,873	79,945
Other assets, deferred debits, and deferred outflows of resources		48,831	23,465
Total assets	$	1,827,162	1,632,091

See accompanying notes to financial statements.

(Continued)

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2010 and 2009

(Thousands of dollars)

Fund Equity and Liabilities		2010	2009
Fund equity:			
Excess (deficiency) of capital assets, net of related debt	$	(2,706)	1,019
Restricted		114,004	112,820
Unrestricted		163,137	129,780
Total fund equity		274,435	243,619
Long-term debt:			
Revenue bonds		1,224,987	1,114,488
Current liabilities:			
Current portion of revenue bonds		42,537	48,175
Accounts payable		59,303	46,205
Customer deposits		3,998	4,224
Other current liabilities and deferred credits		12,185	16,203
Accrued accounts:			
Interest, taxes, and wages		16,743	15,948
Distribution to the City		3,000	3,000
Total current liabilities		137,766	133,755
Other liabilities and deferred credits		189,974	140,229
Total fund equity and liabilities	$	1,827,162	1,632,091

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses

Years ended August 31, 2010 and 2009

(Thousands of dollars)

		2010	2009
Operating revenues:			
Gas revenues:			
Nonheating	$	51,343	67,295
Gas transport service		26,860	24,913
Heating		664,139	818,249
Total gas revenues		742,342	910,457
Appliance and other revenues		8,959	9,311
Other operating revenues		7,931	9,673
Total operating revenues		759,232	929,441
Operating expenses:			
Natural gas		354,004	545,846
Gas processing		14,952	16,779
Field services		34,026	37,727
Distribution		23,426	21,059
Collection and account management		15,266	16,248
Provision for uncollectible accounts		35,000	42,000
Customer services		13,030	12,897
Marketing		3,900	3,436
Administrative and general		71,620	63,820
Pensions		24,633	15,425
Other postemployment benefits		27,269	25,952
Taxes		6,990	6,588
Total operating expenses before depreciation		624,116	807,777
Depreciation		43,168	42,200
Less depreciation expense included in operating expenses above		4,690	4,419
Total depreciation		38,478	37,781
Total operating expenses		662,594	845,558
Operating income		96,638	83,883
Interest and other income		5,301	12,240
Income before interest expense		101,939	96,123
Interest expense:			
Long-term debt		52,527	63,602
Other		18,986	15,558
Allowance for funds used during construction		(390)	(248)
Total interest expense		71,123	78,912
Excess of revenues over expenses	$	30,816	17,211

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Cash Flows

Years ended August 31, 2010 and 2009

(Thousands of dollars)

		2010	2009
Cash flows from operating activities:			
Receipts from customers	$	741,000	878,000
Payments to suppliers		(457,406)	(608,180)
Payments to employees		(106,003)	(107,918)
Claims paid		(3,252)	(3,591)
Other receipts		10,944	8,900
Net cash provided by operating activities		185,283	167,211
Cash flows from noncapital financing activities:			
Interest and fees		(5,787)	(847)
Net repayments of notes payable		—	(90,000)
Distribution to the City of Philadelphia		(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia		18,000	18,000
Net cash used in noncapital financing activities		(5,787)	(90,847)
Cash flows from capital and related financing activities:			
Proceeds from long-term debt issued		150,000	313,285
Redemption of long-term debt		—	(311,615)
Premium from long-term debt issues		1,420	—
Long-term debt issuance costs		(2,167)	(2,312)
Swap termination payment		—	(3,791)
Purchases of capital assets		(59,063)	(52,154)
Principal paid on long-term debt		(46,045)	(42,780)
Interest paid on long-term debt		(51,136)	(62,092)
Capital improvement fund deposits		(149,058)	—
Drawdowns on capital improvement fund		40,963	48,493
Interest income on capital improvement fund		322	1,499
Interest income on sinking fund		1,362	3,296
Sinking fund withdrawals (deposits)		(1,182)	(4,029)
Other investment income		390	248
Net cash used in capital and related financing activities		(114,194)	(111,952)
Net (decrease) increase in cash and cash equivalents		65,302	(35,588)
Cash and cash equivalents at the beginning of the year		13,750	49,338
Cash and cash equivalents at the end of the year	$	79,052	13,750
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	96,638	83,883
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense		41,521	37,781
Provision for uncollectible accounts		35,000	42,000
Change in assets and liabilities:			
Accounts receivable		(21,677)	(48,192)
Gas inventories, materials and supplies		21,890	62,516
Other current assets and deferred debits		(22,317)	731
Other assets, deferred debits, and deferred outflows of resources		(25,366)	9,660
Accounts payable		13,098	(21,303)
Customer deposits		(226)	(3,101)
Other current liabilities and deferred credits		(3,818)	(15,901)
Accrued accounts		795	127
Other liabilities and deferred credits		49,745	19,010
Net cash provided by operating activities	$	185,283	167,211

See accompanying notes to financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Changes in Fund Equity

Years ended August 31, 2010 and 2009

(Thousands of dollars)

		2010	2009
Fund equity balance, beginning of the year	$	243,619	226,408
Excess of revenues over expenses		30,816	17,211
Distribution to the City of Philadelphia		(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia		18,000	18,000
Fund equity balance, end of the year	$	274,435	243,619

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accounting methods employed by the Philadelphia Gas Works (the Company or PGW) are in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and are in accordance with City of Philadelphia (the City) reporting requirements.

As described in note 2, the Company is a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to proprietary fund-type activities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company does not apply accounting standards promulgated by the Financial Accounting Standards Board (FASB) issued after November 30, 1989. FASB Accounting Standards Codification (ASC) 980, *Regulated Operations*, is applicable to the Company. Under FASB ASC 980, certain assets or liabilities may be created by actions of regulatory bodies.

The principal accounting policies within this framework are described as follows:

(a) Regulation

Prior to July 1, 2000, the Company was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set the Company's rates and tariffs. The PGC also approved the Company's annual Operating Budget and reviewed the Company's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), the Company came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, the Company filed a restructuring plan on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining the Company's revenue requirements and approving overall rates and charges. The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must be approved by City Council.

The Company, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

(b) Operating Budget

On June 23, 2010, PGW filed a proposed fiscal year (FY) 2011 Operating Budget. The PGC conducted informal discovery concerning the budget in July and August, with a formal hearing held on August 12, 2010. At the PGC meeting on September 21, 2010, PGW was granted interim spending authority for operating and maintenance expenses for the first three months of FY 2011. On September 29, 2010, the PGC staff filed a recommended decision on PGW's proposed FY 2011 Operating Budget. Exceptions to the decision were filed on October 8, 2010. The PGC approved the FY 2011 Operating Budget on November 16, 2010.

On December 2, 2009 PGW filed its FY 2010 Compliance Budget reflecting the adjustment incorporated into the PGC's Motion dated November 17, 2009. These adjustments reduced total operating expenses by $1,970,000 from PGW's original budget request.

(c) Capital Budget

On January 4, 2010, PGW filed a proposed FY 2011 Capital Budget in the amount of $67,723,000. On January 26, 2010, the PGC, after review and evaluation, approved a recommendation to City Council for a budget of $67,689,000. City Council approved the FY 2011 Capital Budget on June 17, 2010.

On January 6, 2010, PGW submitted a request to the PGC to amend the FY 2010 Capital Budget to "Install 200kW Microturbine and 40 Ton Chiller at 800 W. Montgomery." On March 16, 2010, the PGC issued a Resolution and Order approving this project in the amount of $1,240,000 with a reimbursement grant of up to $465,000 from the Pennsylvania Department of Environmental Protection for Green Energy Works program. City Council approved the amendment of the FY 2010 Capital Budget on April 22, 2010, with the Mayor signing the ordinance on April 29, 2010.

On June 10, 2009, PGW requested that the PGC endorse a proposal to amend the FY 2010 Capital Budget in the amount of $2,552,000 for a project "Consolidate Fire Protection System – Richmond Plant." On September 9, 2009, the PGC staff issued a recommended decision approving PGW's request. The PGC approved the staff recommendation on September 22, 2009. City Council approved an ordinance amending the FY 2010 Capital Budget on October 29, 2009, with the Mayor signing the ordinance on November 6, 2009.

(d) Base Rates

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the $60,000,000 base rate increase that the PUC granted in 2008; and (2) to fund PGW's Other Postemployment Benefits (OPEB) liability in the amount of $42,500,000. PGW also moved to consolidate the Company's Demand Side Management Plan (i.e. an Energy Efficiency and Conservation Plan) into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16,000,000 annually and will be required to fund $18,500,000 of the OPEB liability in each of the years 2011 through 2015. The new rates were effective September 1, 2010. The Settlement also permitted the implementation of the Demand Side Management Program.

On November 14, 2008, the Company filed for an extraordinary base rate increase of approximately $60,000,000 or 5.2% and simultaneously requested an $85,000,000 or 7.4% decrease in the gas cost rate (GCR) for a net 2.2% overall rate decrease of approximately $25,000,000. The base rate increase served several purposes. First, the increase covered the additional financing costs that the Company incurred. Second, the increase improved the Company's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase provided additional liquidity and financial flexibility in this tight credit market. On December 18, 2008, the PUC issued

its decision approving a base rate increase of $60,000,000 or 5.2% and a decrease in the GCR of $107,000,000 for a net decrease in rates of $47,000,000, or 4.2%. These rates were effective as of January 1, 2009.

The previous increase in base rates of $25,000,000 was approved by the PUC on September 28, 2007.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment Clause (WNA) was approved by PUC Order dated August 8, 2002. The purpose of the WNA is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA will continue in place unless the PUC issues an order directing that it be discontinued. The Company cannot predict when the PUC will complete its review of the WNA, and the review was not completed as of August 31, 2010. The adjustments for the years ended August 31, 2010 and 2009 were an increase in billings of $13,425,000 and $505,000, respectively.

(f) Gas Cost Rate

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the GCR factor. The GCR reflects the increases or decreases in natural gas costs and the cost of other raw materials. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers.

At the end of the fiscal year, costs recovered through the GCR are compared to the actual cost of fuel and other specific costs. Customers are then credited or charged for over-recovery or under-recovery of costs. The GCR may be adjusted quarterly or in the subsequent fiscal year to reflect the under-recovery or over-recovery. Changes in the GCR impact the reported amounts of gas revenues and operating expenses, but do not affect operating income or net income. The Company at August 31, 2010 deferred approximately $11,778,000 for GCR under-recovery. At August 31, 2009, the Company was $5,873,000 over-recovered for GCR costs.

GCR effective dates and rates

Effective date	GCR rate per Mcf*	Change
June 1, 2010	6.5139	(0.8316)
March 1, 2010	7.3455	0.0958
December 1, 2009	7.2497	0.1597
September 1, 2009	7.0900	(0.0915)
June 1, 2009	7.1815	(1.2377)
March 1, 2009	8.4192	(2.2815)
January 1, 2009	10.7007	(1.9520)
September 1, 2008	12.6527	(0.3709)

* Mcf – thousand cubic feet

(g) Utility Plant

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property are capitalized and included in the utility plant accounts. The cost of property sold or retired is removed from the utility plant accounts and charged to accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of $1,647,000 and $1,710,000, was charged to expense as incurred in FY 2010 and FY 2009, respectively, and is included in depreciation expense in the statements of revenues and expenses. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for both FY 2010 and FY 2009 was 2.3%. The composite rates are supported by a depreciation study of utility plant as of August 31, 2009. The effective composite depreciation rates, as a percentage of cost, for FY 2010 were as follows:

Production plant	0.00% – 4.39%
Transmission, distribution, and storage	0.00% – 4.07%
General plant	0.00% – 9.74%

The next depreciation study is scheduled to be completed in FY 2014.

Allowance for funds used during construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC, as calculated on borrowed funds, reduces interest expense. The AFUDC rate applied to construction work in progress was 5.69% and 4.72% in FY 2010 and FY 2009, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2010 and 2009, respectively (thousands of dollars):

		August 31, 2010			
		Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$	5,595	—	—	5,595
Distribution and collection Systems		1,322,205	36,911	(3,132)	1,355,984
Buildings and equipment		426,497	6,802	(601)	432,698
Total utility plant, at historical cost		1,754,297	43,713	(3,733)	1,794,277
Under construction		30,953	58,994	(43,608)	46,339
Less accumulated depreciation for:					
Distribution and collection systems		(609,376)	(29,025)*	3,132	(635,269)
Buildings and equipment		(99,407)	(12,495)*	564	(111,338)
Utility plant, net	$	1,076,467	61,187	(43,645)	1,094,009

* Cost of removal in the amount of $1,647 was charged to expense as incurred in FY 2010 and is not included in accumulated depreciation.

	August 31, 2009			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$ 5,595	—	—	5,595
Distribution and collection systems	1,271,396	52,121	(1,312)	1,322,205
Buildings and equipment	408,602	19,099	(1,204)	426,497
Total utility plant, at historical cost	1,685,593	71,220	(2,516)	1,754,297
Under construction	46,969	54,961	(70,977)	30,953
Less accumulated depreciation for:				
Distribution and collection systems	(582,461)	(28,160)*	1,245	(609,376)
Buildings and equipment	(88,006)	(12,331)*	930	(99,407)
Utility plant, net	$ 1,062,095	85,690	(71,318)	1,076,467

* Cost of removal in the amount of $1,710 was charged to expense as incurred in FY 2009 and is not included in accumulated depreciation.

(h) Revenue Recognition

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and nonheating customers. The Company also provides natural gas transportation service. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees and reconnection charges. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

The Company bills customers for the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and nonheating customers.

Revenue includes amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts, are accrued and included in operating revenues.

(i) Customers (Unaudited)

The Company's service territory encompasses the City. Of the Company's approximately 502,000 customers at August 31, 2010 and 504,000 at August 31, 2009, nearly 95.0% were residential.

The Company offers a discounted payment plan for current receivables with a possible forgiveness of arrearages in three years. The total number of customers with discounted payment plans as of both August 31, 2010 and 2009 was approximately 82,000.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2010 and 2009 was approximately 33,000 and 36,000, respectively.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed at the fiscal year end. The methodology used in performing the collectibility study has been reviewed with the PGC. For FY 2010 and FY 2009, management has provided an accumulated provision for uncollectible accounts in excess of the collectibility study results based on its analysis of historical aging data. The actual results of the Company's collection efforts could differ significantly from the Company's estimate.

Due to the seasonal nature of the business, the Company carries credit balances in accounts receivable primarily as a result of prepayment by budget customers. Credit balances of $22,760,000 and $14,143,000 for FY 2010 and FY 2009, respectively, have been reclassified to accounts payable.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2010 and 2009, as follows (thousands of dollars):

		2010	2009
Gas inventory	$	96,097	117,889
Material and supplies		7,036	7,134
Total	$	103,133	125,023

(l) Bond Issuance Costs, Debt Discount, and Premium

Discounts or premiums and bond issuance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue.

(m) Losses on Reacquired Debt

Losses on reacquired debt are deferred and amortized, using the interest method, to interest expense over the shorter of the life of the refunding bond issue or the remaining original amortization period.

(n) Pensions and Postemployment Benefits

The Company sponsors a public employee retirement system (PERS), Philadelphia Gas Works Pension Plan (the Pension Plan), a single-employer defined-benefit plan, to provide pension benefits for all of its employees. The Pension Plan is noncontributory, covering all employees and providing for retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after 30 years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. Management believes that the Pension Plan is in compliance with all applicable laws.

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,963 and 1,936 participating retirees and their beneficiaries and dependents for FY 2010 and FY 2009, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,669 and 1,702 active employees and their dependents for FY 2010 and FY 2009, respectively, by charging the annual insurance premiums to expense.

The difference between the annual OPEB expense and the amounts paid by the Company results in an increase in the liability which is recorded in other liabilities and deferred credits.

(o) Cash Equivalents

For the purpose of reporting cash equivalents, all highly liquid investments with original maturities of three months or less are considered cash equivalents, except those held for long-term purposes in the Sinking Fund, Capital Improvement Fund, and Workers' Compensation Escrow Fund as described in Note 3.

(p) Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued and deferred. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Charges against the reserve are made as claims are settled.

(q) Segment Information

All of the Company's assets and operations are employed in only one segment, local transportation and distribution of natural gas in the City.

(r) Estimates

In preparing the financial statements in conformity with U.S. GAAP, management uses estimates. The Company has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

(s) Pollution Remediation

Under Pennsylvania Act 2, *Land Recycling and Environmental Remediation Standards Act of 1995* (Act 2), the Notice of Intent to Remediate (NIR) process was conducted by the Company in October 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March 2005. In March 2005 (after the public meetings were conducted), the Company submitted a series of five Remedial Investigation Reports (RIRs) to the Act 2 for review. In July 2005, the Act 2 program approved all five RIRs submitted in March 2005.

The Company estimates its pollution remediation obligations to the effective cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability-weighted amounts in a range of possible estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Act 2 and Pennsylvania Act 32, *Storage Tank and Spill Prevention Act of 1989* (Act 32), remediation efforts, adjusted as additional information becomes available.

Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies, or by extrapolating experience with environmental issues at comparable sites. Estimates may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use or applicable regulations.

The Company recorded an additional liability for pollution remediation obligations of $1,624,000 and $1,390,000 for FY 2010 and FY 2009, respectively. The pollution remediation liability is reflected in other liabilities and deferred credits and in other current liabilities and deferred credits. In accordance with U.S. GAAP for regulated entities, the Company has also recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates.

(t) New Accounting Pronouncements

The Company adopted the provisions of GASB Statement No. 53, Accounting and Reporting for Derivative Instruments (GASB 53), for the year ended August 31, 2009. This was a year earlier than the required implementation, because the Company's FY 2009 financial statements are included in the City's financial statements of the year ended June 30, 2010.

GASB 53 establishes a framework for accounting and reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements.

The Company's only derivative instruments within the scope of GASB 53 are four interest rate swaps entered into to hedge the interest payments on its variable rate debt. These swaps originate from an interest rate swap used as a hedge of the Sixth Series Bonds. Because the hedges were effective at August 31 2010, the change in fair value of the swaps of $24,662,000 for FY 2010 has been recorded as an increase in the interest rate swap liability and the offsetting deferred outflow of resources. The balance of the interest rate swap liability at August 31, 2010 is $52,217,000, and the deferred outflow of resources balance is $25,906,000. The difference between the balances is due to the impact of refunding the Sixth Series bonds, which the original swap previously hedged, during FY 2009, and establishing a hedging relationship between a portion of the existing swap (divided into four swaps) and the refunding Eighth Series bonds. Because the hedges were determined effective for both periods presented, there was no impact on the Statements of Revenues and Expenses for either year, other than swap settlement payments.

The required disclosures under GASB 53 are presented in note 8(c).

(u) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Ownership and Management and Related-Party Transactions and Balances

The Company is a component unit of the City. As of January 1, 1973, under the terms of a two-year agreement automatically extended for successive two-year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the Public Financial Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed a total of the prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance of the City on March 1 of each such fiscal year. In FY 2010, the applicable maximum amount was calculated to be $1,066,000. In FY 2009, the applicable maximum amount was calculated to be $1,009,000. The agreement requires the Company to make annual payments of $18,000,000 to the City. In FY 2010 and FY 2009, the Company made the annual payment of $18,000,000 to the City. The City then granted the $18,000,000 back to the Company in both years.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $14,240,000 and $13,739,000 in FY 2010 and FY 2009, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled $402,000 and $395,000 in FY 2010 and FY 2009, respectively. Net amounts receivable from the City were $145,000 and $139,000 at August 31, 2010 and 2009, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $750,000 and $711,000 in FY 2010 and FY 2009, respectively.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and investments purchased through various brokerage relationships. Bank balances of such deposits, accounts, and investments at August 31, 2010 and 2009 were $83,281,000 and $16,732,000, respectively. Book balances of such deposits and accounts at August 31, 2010 and 2009 were $79,052,000 and $13,750,000, respectively. Federal depository insurance on these balances at August 31, 2010 and 2009 was $528,000 and $534,000, respectively. The remaining balances are not insured. Excess cash balances are invested in money market accounts, U.S. Treasury bills, U.S. government agencies and instrumentalities, and Corporate obligations (short term investments).

The highest balance of short term investments during the fiscal years ended August 31, 2010 and 2009 were $148,000,000 and $143,800,000, respectively. Short term investments with a carrying amount (at fair value) of $75,900,000 and $13,700,000 at August 31, 2010 and 2009, respectively, are included in the balances presented above.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, and Workers' Compensation Escrow Fund consist primarily of a Guaranteed Investment Contract (GIC), U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent. The balance of the Capital Improvement Fund at August 31, 2010 and 2009 was $170,809,000 and $62,714,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2010 and FY 2009, the Company utilized the Capital Improvement Fund to provide liquidity for the additions to utility plant.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost and guaranteed investment contracts recorded at contract value. The adjustment to market value for the Capital Improvement Fund resulted in a loss of $275,000 at August 31, 2010 and a gain of $5,000 at August 31, 2009. The adjustment to market value for the Sinking Fund resulted in a loss of $292,000 at August 31, 2010 and a gain of $734,000 at August 31, 2009.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has to establish and maintain a restricted trust account. As of August 31, 2010 and 2009, the trust account balances were $2,595,000 and $2,593,000, respectively.

The following is a schedule that details the Company's investments in the Capital Improvement Fund (thousands of dollars):

	August 31, 2010			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	$ 2,230	0.2917	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	2,230			
Corporate obligations:				
General Electric Capital Corporation	1,009	0.2528	Aa2/AA+	Moody's/S&P
Total corporate obligations	1,009			
Total fair value of investments	3,239			

	August 31, 2010			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
UBS Finance (Delaware) commercial paper	$ 999	0.2278	FDIC Insured	
Total cash and Cash equivalents	999			
Money market:				
Fidelity Governmental Fund	149,057		N/A	N/A
First American Government Obligations Class II	6,653		N/A	N/A
Morgan Stanley Governmental Institutional Class	10,861		N/A	N/A
Total money market	166,571			
Total fair value of investments, including cash deposits	$ 170,809			
Portfolio weighted modified duration		0.2673		

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	$ 3,133	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate	201	1.6694	N/A	
Federal National Mortgage Association Debenture	3,139		Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	6,473			
Corporate obligations:				
First Suburban National Bank certificate of deposit	101		Aa-/AA3	Moody's/S&P
Ravenswood Bank certificate of deposit	100		Aa/AA3	Moody's/S&P
Total corporate Obligations	201			
Total fair value of investments	6,674			
Cash and cash equivalents:				
American Express commercial paper	1,000		P1/A-1+	Moody's/S&P
General Electric Capital Service commercial paper	999		FDIC Insured	
Ironstone Bank certificate of deposit	99		FDIC Insured	
Total cash and cash equivalents	2,098			

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Dreyfus Cash Management Institutional Shares	$ 8,428		N/A	N/A
First American Government Obligations Fund Class II	2,020		N/A	N/A
Morgan Stanley Governmental Institutional Class	35,000		N/A	N/A
Morgan Stanley Prime Portfolio Institutional Class	8,431		N/A	N/A
Total money market	53,879			
Accrued interest	63			
Total fair value of investments, including cash deposits	$ 62,714			
Portfolio weighted modified duration		0.2918		

The following is a schedule that details the Company's investments in the Sinking Fund (thousands of dollars):

	August 31, 2010			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts (at contract value)	$ 45,734	10.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	18,413	1.0441	Aaa/AAA	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal National Mortgage Association medium term notes	4,470	1.8725	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association discount notes	4,594	0.6722	Aaa/AAA	Moody's/S&P
Federal Home Loan Bank discount notes	7,679	0.6833	Aaa/AAA	Moody's/S&P
Federal Home Loan Bank bonds	8,480	0.7882	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage Corporation medium term notes	12,558	1.2439	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	37,781			

	August 31, 2010			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Corporate obligations:				
General Electric Capital Corp (Floating) Global corporate note	$ 1,500	1.6111	Aa2/AA+	Moody's/S&P
General Electric Capital Corp (FDIC) Global corporate note	2,219	0.5306	Aaa/AAA FDIC Insured	Moody's/S&P
Total corporate obligations	3,719			
Total fair value of investments	105,647			
Cash and cash equivalents:				
Credit Agicole N.A. Commercial Paper	230	0.0095	P-1/A-1+	Moody's/S&P
Credit Agicole N.A. Commercial Paper	2,782	0.1257	P-1/A-1+	Moody's/S&P
Total cash and cash equivalents	3,012			
Fidelity Institutional Government Portfolio Class I	2,750		N/A	N/A
Total fair value of investments, including cash deposits	$ 111,409			
Portfolio weighted modified duration**		0.9891		

* The credit rating of this investment is unrated.
** The portfolio weighted modified duration excludes the fair value of the guaranteed investment contracts.

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts (at contract value)	$ 46,351	11.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	22,994	2.0891	Aaa/AAA	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	5,391	1.5251	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes	4,948	2.1322	Aaa/AAA	Moody's/S&P
Federal Farm Credit Banks	5,931	1.9145	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks	17,201	2.0518	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities	33,471			
Corporate obligations:				
JP Morgan Chase corporate note	955	1.4806	Aa1/AA+	Moody's/S&P
General Electric Capital Corp Global corporate note	2,230	1.5306	Aa3/AA-	Moody's/S&P
General Electric Capital Corp Global corporate note	1,480	1.4056	Aa3/AA-	Moody's/S&P
Total corporate obligations	4,665			
Total fair value of investments	107,481			

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Corporate obligations:				
JP Morgan Chase corporate note	$ 955	1.4806	Aa1/AA+	Moody's/S&P
General Electric Capital Corp Global corporate note	2,230	1.5306	Aa3/AA-	Moody's/S&P
General Electric Capital Corp Global corporate note	1,480	1.4056	Aa3/AA-	Moody's/S&P
Total corporate obligations	4,665			
Total fair value of investments	107,481			
Cash and cash equivalents:				
U.S. Treasury bills	239	0.7778	Aaa/AAA	Moody's/S&P
Money market:				
Fidelity Institutional Government Portfolio Class I	2,507		N/A	N/A
Total fair value of investments, including cash deposits	$ 110,227			
Portfolio weighted modified duration		1.9628		

* The credit rating of this investment is unrated.

The following is a schedule that details the Company's investments in the Workers' Compensation Escrow Fund (thousands of dollars):

	August 31, 2010			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 2,595	N/A	N/A	N/A
Total fair value of investments, including cash deposits	$ 2,595			

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Fidelity Governmental Fund	$ 2,593	N/A	N/A	N/A
Total fair value of investments, including cash deposits	$ 2,593			

(c) Interest Rate Risk

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control interest rate risk. Investments shall be diversified as to maturities, and as to kind of investment to eliminate the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of a security, or from a specific issuer.

(d) Credit Risk

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are: (1) bonds or notes of the U.S. government; (2) U.S. Treasury obligations, including STRIPs; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book-entry with the New York Federal Reserve Bank; (3) U.S. agency obligations rated Aaa/AAA by Moody's or S&P; (4) collateralized certificates of deposit; (5) bankers acceptances, Eurodollars deposits, and Euro

certificates of deposit that are collateralized; (6) commercial paper rated M1G1 or A1+ by Moody's and S&P, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's or S&P, with a maturity of two years or less (except the Sinking Fund); (8) collateralized mortgage obligations and pass-through securities rated AA or better by Moody's or S&P or collateralized with securities that meet the Company's own investment criteria, with a maturity of two years or less (except the Sinking Fund); (9) money market mutual funds, as defined by the Securities and Exchange Commission; (10) repurchase agreements collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository that is holding the counterparty's securities, provided such collateral meets the Company's own investment criteria; and (11) obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two years or less (except the Sinking Fund).

Authorized investments for Sinking Fund Portfolios are dictated by The First Class City Revenue Bond Act of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972. This also includes any investment vehicle permitted for any Commonwealth of Pennsylvania state agency.

(e) Custodial Credit Risk

The Company has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g., contracts, securities, and safekeeping receipts) to the Company's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures.

(f) Concentration of Credit Risk

The Company's investment policy provides for the following percentage limitations of authorized investments, valued at market:

	Percent of total portfolio allowed	Percent of total portfolio allowed in any one issuer	Maximum percent of any issuer's total outstanding securities
U.S. government	No Restrictions	No Restrictions	No Restrictions
U.S. Treasury	No Restrictions	No Restrictions	No Restrictions
U.S. Agencies	No Restrictions	33%	No Restrictions
Certificates of Deposit	25%	10	10%
Banker's Acceptances, Eurodollar Deposits, and Euro Certificates of Deposit	25	10	10
Commercial Paper	25	10	10
Corporate Bonds	25	10	10
Collateralized Mortgage Obligation and Passthroughs	25	10	10
Money Market Mutual Funds	25	10	10
Repurchase Agreements	25	10	10

More than 5.0% of the Company's investments are in U.S. Treasury notes, U.S. Treasury bills, a GIC with FSA Capital Management Services, LLC and Fidelity Governmental Fund. These investments represent 5.01%, 10.35%, 12.45%, and 42.04%, respectively, of the Company's total investments, which is in accordance with the City's investment policy. In addition, the GIC with Assured is collateralized in amounts that meet the City's investment policy.

(4) Deferred Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is deferred. Such costs are being amortized to expense over a period matching their useful lives, which range from two to ten years. There is no return on the asset being charged to the customers. During FY 2010, there were costs of $703,000 incurred for rate case expenses that will be amortized over a five-year period. The unamortized costs included in other assets, deferred debits, and deferred outflows of resources were $704,000 and $538,000 as of August 31, 2010 and 2009, respectively. The unamortized costs included in other current assets and deferred debits were $398,000 and $257,000 as of August 31, 2010 and 2009, respectively.

In accordance with U.S. GAAP for regulated entities, the Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates. The Company received $13,000 as a result of settlements during FY 2010 by the Company's insurance carriers associated with

environmental remediation costs. Environmental remediation costs of approximately $588,000 in FY 2010 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately $24,614,000.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Company employees with six months of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution up to $500 that immediately vests to the employee. The Company contributed $322,000 and $337,000 for the years ended August 31, 2010 and 2009, respectively.

(6) Notes Payable

Pursuant to the provisions of certain ordinances and resolutions of the City, the Company may sell short-term notes in a principal amount that, together with interest, may not exceed $150,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and a subordinated security interest in the Company's revenues.

The commitment amount is $120,000,000 under the current credit agreement. The expiration of the credit agreement is June 1, 2012.

There were no notes outstanding at August 31, 2010 and 2009, respectively.

Commercial paper activity for the years ended August 31, 2010 and 2009 was as follows (thousands of dollars):

	Year ended August 31, 2010			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ —	300	300	—

	Year ended August 31, 2009			
	Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$ 90,000	58,000	148,000	—

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2010, 2009, and 2008, the Company's actual gas costs were below its billed gas costs by approximately $8,939,000, $24,638,000, and $30,503,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2010 in the amount of $264,000 related to Federal Energy Regulatory Commission (FERC)/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2010.

The Company received refunds including interest in FY 2009 in the amount of $174,000 related to FERC/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the GCR for FY 2009.

(8) Long-Term Debt and Other Liabilities

The following summary of long-term debt consists primarily of bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances for the fiscal years ended August 31, 2010 and 2009 (thousands of dollars):

	August 31, 2010			August 31, 2009		
	Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$ 40,459	1,203,274	1,243,733	46,045	1,092,117	1,138,162
Unamortized discount	(364)	(2,961)	(3,325)	(396)	(3,324)	(3,720)
Unamortized premium	2,442	24,674	27,116	2,526	25,695	28,221
Total revenue bonds	$ 42,537	1,224,987	1,267,524	48,175	1,114,488	1,162,663

The following is a summary of activity related to revenue bonds and other liabilities and deferred credits and the respective balances for the fiscal years ended August 31, 2010 and 2009 (thousands of dollars):

	Year ended August 31, 2010			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$ 1,138,162	150,000	(44,429)	1,243,733
Other liabilities and deferred credits:				
Guaranteed Investment Contract in Sinking Fund	$ 7,183	—	(625)	6,558
Claims and judgments	6,645	—	(2,159)	4,486
Environmental clean-up	20,639	598	—	21,237
Other postemployment benefits	78,207	27,269	—	105,476
Interest rate swap liability	27,555	24,662	—	52,217
Total other liabilities and deferred credits	$ 140,229	52,529	(2,784)	189,974

	Year ended August 31, 2009			
	Beginning balance	Additions	Reductions	Ending balance
Revenue bonds	$ 1,177,769	313,285	(352,892)	1,138,162
Other liabilities and deferred credits:				
Guaranteed Investment Contract in Sinking Fund	$ 7,807	—	(624)	7,183
Claims and judgments	6,077	568	—	6,645
Environmental clean-up	17,690	2,949	—	20,639
Other postemployment benefits	52,255	25,952	—	78,207
Interest rate swap liability	13,790	18,015	(4,250)	27,555
Total other liabilities and deferred credits	$ 97,619	47,484	(4,874)	140,229

Liability amounts due within one year are reflected in the other current liabilities and deferred credits line of the balance sheet, and are not included in the tables above.

Principal maturities and scheduled interest payments for revenue bonds and estimated payments on the interest rate swaps are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2011	$ 49,157	56,225	8,671	114,053
2012*	47,316	55,022	8,910	111,248
2013	47,990	53,283	8,910	110,183
2014	50,035	50,923	8,910	109,868
2015	51,340	48,345	8,910	108,595
2016 – 2020	250,740	203,399	42,912	497,051
2021 – 2025	268,445	142,800	29,928	441,173
2026 – 2030	239,955	83,651	10,317	333,923
2031 – 2035	160,215	37,195	280	197,690
2036 – 2040	78,540	9,703	—	88,243
Total	$ 1,243,733	740,546	127,748	2,112,027

* Tax Exempt Capital Accumulator (TECA) accretions for the 11 “C” Series in the amount of $1,524,000 are not included in the principal amount in FY 2012.

Future debt service is calculated using rates in effect at August 31, 2010 for variable rate bonds. As described in note 8(c), the variable rate received under the swaps is the lesser of the actual bond rate and the SIFMA Municipal Swap Index until September 1, 2011, when the variable rate received changes to 70% of LIBOR until maturity. Therefore, through August 31, 2011, the net swap amounts were calculated by subtracting swap receipts payments based on the lesser of the bond rate or SIFMA rate from the payments related to the fixed rate of the swaps. Subsequent to August 31, 2011, swap receipts payments were based on 70% of LIBOR.

(a) Bond Issuances

1998 Ordinance Ninth Series Bonds

On August 26, 2010, the City of Philadelphia issued Gas Works Revenue Bonds, Ninth Series in the amount of $150,000,000 for the purpose of financing capital projects, and paying the costs of issuing the bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance. The Ninth Series Bonds consist of $53,000,000 of serial bonds with interest rates that range from 2.0% to 5.0% and have maturity dates through 2025. The Bonds also included $96,985,000 of term bonds with interest rates of 5.0% and 5.25% and have maturities through 2040.

1998 Ordinance Eighth Series Bonds

On August 20, 2009, the City of Philadelphia issued Gas Works Revenue Refunding Bonds, Eighth Series in the amount of $313,285,000 for the purpose of refunding the outstanding Sixth Series Bonds previously issued under the 1998 Ordinance, paying the costs of terminating a portion of the interest rate swap agreement, and issuing the bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance. The Eighth Series Bonds consist of $58,285,000 of serial bonds with interest rates ranging from 4.0% to 5.25% and have maturity dates through 2017. The Eighth Series Bonds also consist of four serial bonds totaling $255,000,000 that have variable rates set through a weekly reset mode. Interest is paid monthly and the bonds are secured with letters of credit that expire August 19, 2011. These bonds mature at various dates from 2017 to 2031. The loss on refunding the Sixth Series Bonds and issuing the Eighth Series Bonds of $55,344,000, including $26,311,000 related to the elimination of the deferred outflow of resources upon termination of the Sixth Series hedging relationship, was deferred and will be amortized over the life of the Eighth Series Bonds.

Interest rates and maturities of the outstanding Revenue Bonds are detailed as follows (thousands of dollars):

	Interest rates	Maturity date (fiscal year)	Balance outstanding August 31, 2010	Balance outstanding August 31, 2009
Series 11C	6.80%	2012	$ 23,498	21,882
1st Series A	4.50% – 5.50%	2026	74,315	84,995
1st Series C	3.85% – 5.00%	2014	7,050	8,615
16th Series	4.00% – 5.50%	2015	16,915	16,915
2nd Series	4.63% – 5.38%	2012	5,715	8,370
3rd Series	4.25% – 5.50%	2012	5,815	8,515
4th Series	4.00% – 5.25%	2032	89,915	92,585
17th Series	4.00% – 5.38%	2026	132,675	140,225
5th Series	4.00% – 5.25%	2034	117,520	120,000
5th Series A-2	Variable	2035	30,000	30,000
18th Series	5.00% – 5.25%	2021	39,490	50,470
19th Series	5.00%	2024	14,450	14,450
7th Series	4.00% – 5.00%	2038	193,785	196,955
7th Series Refunding	5.00%	2029	30,900	30,900
8th Series A	4.00% – 5.25%	2017	56,690	58,285
8th Series B	Variable	2031	105,000	105,000
8th Series C	Variable	2031	50,000	50,000
8th Series D	Variable	2031	50,000	50,000
8th Series E	Variable	2031	50,000	50,000
9th Series	2.00% – 5.25%	2040	150,000	—
			$ 1,243,733	1,138,162

(b) Debt Coverage and Sinking Fund Requirements

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements.

Also provided by both general ordinances is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. Both general ordinances also provide that sinking fund reserves be maintained as part of the Sinking Fund Reserve, which have previously been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the bonds of each respective general ordinance in any fiscal year.

Funds in the Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund should be insufficient.

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

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The accrued interest is reported as long-term debt.

(c) Interest Rate Swap Agreements

Objective – In January 2006, the City entered into a fixed rate payer, floating rate receiver swap to create a synthetic fixed rate for the Sixth Series Bonds. The variable rate/swap structure was used as a means to increase the City's savings, when compared with fixed-rate refunding bonds at the time of issuance. The swaps are hedging interest rate risk.

Terms – The swap was originally executed with the counterparty on January 26, 2006 and will mature on August 1, 2031. Under the swap, the City pays a fixed rate of 3.6745% and receives a variable rate computed as the lesser of (i) the actual bond rate and (ii) the SIFMA Municipal Swap Index until September 1, 2011 on which date the variable interest rate received will switch to 70.0% of one month LIBOR until maturity.

In August 2009, the City terminated approximately $54,800,000 of the notional amount of the swap, issued fixed rate refunding bonds related to that portion and kept the remaining portion of the swap to hedge the Eight Series variable rate refunding bonds backed with letters of credit. The Company paid a swap termination payment of $3,791,000 to the counterparty to partially terminate the swap.

The original swap confirmation was amended and restated on August 12, 2009 to reflect the principal amount of the Eighth Series B Bonds, with all other terms remaining the same. The remainder of the notional amount was divided among separate trade confirmations with the same terms as the original swap that was executed with the counterparty for the Eighth Series C through E.

As of August 31, 2010, the swaps had a notional amount of $255,000,000 and the associated variable rate debt had a $255,000,000 principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $105,000,000 and the associated variable rate bonds had a $105,000,000 principal amount.
- The Series C swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000 principal amount.
- The Series D swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000 principal amount.
- The Series E swap had a notional amount of $50,000,000 and the associated variable rate bonds had a $50,000,000 principal amount.

The final maturity date for all swaps is on August 1, 2031.

Fair value – As of August 31, 2010, the swaps had a combined negative fair value for all series of $52,217,000. The fair values of the interest rate swaps were estimated using the zero coupon method. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2010, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A- (Moody's/S&P), unless the counterparty has: (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the Company's bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at Aa3/AA+ (Moody's/S&P).

The City is subject to traditional basis risk should the relationship between SIFMA and the bonds change; if SIFMA resets at a rate below the variable rate bond coupon payments, the synthetic interest rate on the bonds will increase. In addition, after September 1, 2011, the City will be exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or in marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the year ended August 31, 2010 and 2009 is as follows (thousands of dollars):

		Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2009	$	27,555	1,244
Change in fair value through August 31, 2010		24,662	24,662
Balance August 31, 2010	$	52,217	25,906

(Continued)

		Interest rate swap liability	Deferred outflow of resources
Balance August 31, 2008	$	13,790	13,790
Change in fair value through August 20, 2009 (refunding of Sixth Series Bonds)		16,771	16,771
Termination of a portion of swap		(4,250)	(4,250)
Termination of hedge upon refunding Sixth Series Bonds		—	(26,311)
Change in fair value from initiation of hedge related to Eighth Series Bonds to year end		1,244	1,244
Balance August 31, 2009	$	27,555	1,244

The interest rate swap liability is included in other liabilities and deferred credits, and the deferred outflow of resources is included in other assets, deferred debits, and deferred outflows of resources on the balance sheet.

There are no collateral posting requirements associated with the swap agreements.

(d) Guaranteed Investment Contracts in Sinking Fund

On August 23, 2002, the City entered into GICs in connection with a portion of its 1975 and 1998 Ordinance Sinking Fund Reserves for the Company. At settlement, approximately 65.0% of the Sinking Fund Reserves, from the two ordinances, totaling $61,396,000 were invested in the GICs. In exchange for this investment, the Company received an up-front payment of $21,800,000 in lieu of receiving interest payments over the life of the GICs. The life of the GIC is 18½ years, with 10½ years remaining at August 31, 2010.

The GICs are recorded at contract value in the Sinking Fund and had contract values of $45,734,000 and $46,351,000 at August 31, 2010 and 2009, respectively.

The Company also paid $1,650,000 to terminate an existing agreement as part of this transaction. Of the remaining net proceeds of $20,150,000, $8,596,000 was allocated to the 1975 Sinking Fund Reserve and $11,554,000 was allocated to the 1998 Sinking Fund Reserve. For debt service coverage purposes, the $20,150,000 was considered “project revenues” in FY 2002. For financial statement purposes, the $8,596,000 was recorded as revenue in FY 2002 in the category of interest and other income. This amount is nonrefundable and was granted to the Company by the City.

Under the 1998 General Ordinance, the Company is entitled to the earnings on the portion of the Sinking Fund allocated to bonds issued under the 1998 General Ordinance. Therefore, the $11,554,000 received under the 1998 ordinance was deferred and is being amortized on a straight-line basis over the life of the agreement. The unamortized balance of the proceeds was $6,558,000 and $7,183,000 at August 31, 2010 and 2009, respectively.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2010 was as follows (thousands of dollars):

	Latest date maturing to	Interest rate	Bonds outstanding
7th Series	3/15/13	6.00%	$ 10,675,000
12th Series B	5/15/20	7.00	42,365,000
3rd Series	8/1/31	5.125 – 5.50	99,445,000
4th Series	8/1/20	5.25	20,005,000

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

The assets pledged, primarily noncallable U.S. government securities, had a market value of $182,284,000 at August 31, 2010, bearing interest on face value from 0.0% to 7.7%.

(10) Pension Costs

(a) Plan Description

The Pension Plan sponsored by the Company provides pension benefits for all of the Company's employees, whose annual covered payroll (which was substantially equal to total payroll) was $106,003,000 and $107,918,000 at August 31, 2010 and 2009, respectively.

At September 1, 2009, the beginning of the plan year of the last actuarial valuation, the Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,232
Current employees:	
Vested	1,347
Nonvested	306
Total current employees	1,653
Total membership	3,885

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

- 1.25% of the first $6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over $6,600, times years of credited service, with a maximum of 60.0% of the highest annual earnings during the last 10 years of credited service, or
- 2.0% of total earnings received during the period of credited service plus 22.5% of the first $1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final Average Earnings are the employee's average pay, over the highest five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

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

The City issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The report may be obtained by writing to the Director of Finance of the City.

(b) Annual Pension Cost, Contributions Required, and Contributions Made

The normal cost, amortization of the unfunded balance, and annual required and actual contributions for FY 2010 and the two preceding fiscal years were as follows (thousands of dollars):

	Normal cost	Amortization of the underfunded balance	Annual required and actual contributions
Fiscal year ended August 31:			
2010	$ 8,292	16,341	24,633
2009	8,125	7,300	15,425
2008	8,085	6,173	14,258

Beneficiary payments in FY 2010 were made from operating funds. Instead, the Company set up a receivable to draw the FY 2010 funds of $11,139,000 in FY 2011, which is recorded in other current assets and deferred debits on the balance sheet. The withdrawals from the pension assets in FY 2009 of $18,528,000 were utilized to meet beneficiary payment obligations.

The Company's annual pension cost is equal to its annual required contribution (ARC). The ARCs were determined based on an actuarial study, or updates thereto, using the projected unit credit method. Significant actuarial assumptions used for the above valuation include a rate of return on the investment of present and future assets of 8.25% per year compounded annually; projected salary increases of 3.0% of the salary at the beginning of the next three years, then 4.25% of the salary at the beginning of the fourth and subsequent year; and retirements that are assumed to occur prior to age 62, at a rate of 10.0% at ages 55 to 61 and 100.0% at age 62. The assumptions did not include postretirement benefit increases. These actuarial assumptions are consistent with the prior fiscal year.

The actuarial asset value is equal to the value of the fund assets as reported by the City with no adjustments. The unfunded actuarial accrued liability is being amortized over 10 years.

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method. The actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability, funded ratio, covered payroll and the unfunded actuarial accrued liability of covered payroll for FY 2010 and the two preceding fiscal years were as follows (thousands of dollars):

Actuarial valuation date	(a) Actuarial value of assets	Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2009	$ 355,499	519,773	164,274	68.40%	$ 106,003	154.97%
September 1, 2008	430,390	495,155	64,765	86.92	107,918	60.01
September 1, 2007	416,183	482,380	66,197	86.28	105,596	62.69

The annual required contributions, contributions made and net pension obligation for FY 2010 and the two preceding fiscal years were as follows (thousands of dollars):

		2010	2009	2008
Annual required contribution	$	24,633	15,425	14,258
Contributions made		(24,633)	(15,425)	(14,258)
Net pension obligation	$	—	—	—

(c) Historical Trend Information (Unaudited)

Historical trend information reflecting funding progress and contributions made by the Company is presented in the supplemental schedule of pension funding progress (unaudited).

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single employer defined benefit healthcare plan and provides postemployment healthcare and life insurance benefits to approximately 1,963 and 1,936 participating retirees and their beneficiaries and dependents for FY 2010 and FY 2009, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,669 and 1,702 active employees and their dependents for FY 2010 and FY 2009, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was $106,003,000 and $107,918,000 at August 31, 2010 and 2009, respectively.

The Company pays 100.0% of premiums for basic medical, hospitalization, and prescription drugs incurred by retirees and their dependents. The Company also pays a portion of the premium for life insurance for each eligible retiree. Currently, the Company provides for the cost of healthcare and life insurance benefits for retirees and their beneficiaries on a pay-as-you-go basis.

Total expense incurred for healthcare amounted to $42,083,000 and $37,064,000 in FY 2010 and FY 2009, respectively, of which approximately 48.9% and 50.7%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed $1,029,100 and $1,329,000 in FY 2010 and FY 2009, respectively, towards their healthcare. These contributions represent the additional cost of healthcare plans chosen by employees and retirees above the basic plan offered by the Company. Total premiums for group life insurance were $1,874,000 and $1,832,000 in FY 2010 and FY 2009, respectively. The amount attributed to retirees was approximately 76.5% and 76.0% in FY 2010 and FY 2009, respectively. The contribution requirements of nonunion plan members are established by management and may be amended. The contribution requirements for union plan members are subject to collective bargaining.

The Plan does not issue a stand-alone report.

(b) Actuarial Valuation and Assumptions

The Company engaged an actuarial consulting firm to provide an actuarial valuation of the Company's OPEB obligations as of August 31, 2010. The actuarial valuations involve estimates of the value of reported amounts and the assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future. The calculations were based on the types of benefits provided under the terms of the substantive plan at the time of the valuation.

The projected unit cost method was utilized in the valuation to develop the actuarial accrued liability and normal cost. Under the projected unit cost method, the present value of benefits is allocated uniformly over the employee's expected working lifetime. The actuarial accrued liability is that portion of the present value of projected benefits, which has been accrued during the employee's working lifetime from hire to valuation date. The normal cost represents the amount charged for services earned during the current reporting period. The normal cost is calculated by dividing the present value of projected benefits for an employee by the total service.

The valuation was prepared utilizing certain assumptions, including the following:

- Economic assumptions – the discount rate and healthcare cost trend rates

The report utilized a 5.0% discount rate for purposes of developing the liabilities and ARC on the basis that the Plan would not be funded. This rate is based on the investment return expected on the Company's general investments, because the Company has not funded the Plan for FY 2010.

	Healthcare cost trend rates		
	Medical	**Prescription**	**Dental**
Year:			
1	9.0%	9.0%	4.5%
2	8.0	8.0	4.5
3	7.0	7.0	4.5
4	6.0	6.0	4.5
5	5.0	5.0	4.5
6	4.5	4.5	4.5
7	4.5	4.5	4.5
8	4.5	4.5	4.5
9	4.5	4.5	4.5
10 and beyond	4.5	4.5	4.5

- Benefit assumptions – the initial per capita cost rates for medical coverage, and the face amount of Company-paid life insurance
- Demographic assumptions – including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates), and coverage levels

(c) Annual Postemployment Benefit Cost, Contributions Required, and Contributions Made

The amount paid by the Company for retiree benefits in FY 2010 was $21,706,000, consisting of $20,576,000 of healthcare expenses and $1,130,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of $27,269,000 and $25,952,000 recorded in other liabilities and deferred credits and expensed in FY 2010 and FY 2009, respectively. As of August 31, 2010, the actuarial accrued liability for benefits was $654,126,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to

the covered payroll was 617.1%. Historical trend information reflecting funding progress and contributions made by the Company is presented in the Schedule of Other Postemployment Benefits Funding Progress (unaudited).

The following table shows the components of the Company's annual OPEB cost for FY 2010, the amount actually contributed to the plan, and the Company's net OPEB obligation (thousands of dollars):

		2010	2009
Annual required contribution	$	50,152	46,795
Interest on net OPEB obligation		3,910	2,613
Adjustment to the annual required contribution		(5,087)	(3,399)
Annual OPEB cost		48,975	46,009
Contributions made		(21,706)	(20,057)
Net OPEB obligation as prior year		78,207	52,255
Net OPEB obligation as of August 31,	$	105,476	78,207

The difference between the annual OPEB cost and contributions made is recorded as other postemployment benefits expense on the statement of revenues and expenses. Contributions made are allocated to operating expense line items along with salaries and other employee benefit costs.

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2010 and the two preceding fiscal years were as follows (thousands of dollars):

		Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
Fiscal year ended August 31:				
2010	$	48,975	44.32	105,476
2009		46,009	43.59	78,207
2008		44,114	41.44	52,255

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As described in note 15, subsequent to year-end, the Company began to fund the plan through an OPEB trust.

(d) Other Coverage Information

The Company has entered into several one-year contracts to provide healthcare for both active and retired employees that are experience rated, and premiums are adjusted annually. In addition, the Company has in place approximately $161,320,000 of group life insurance coverage for both active and retired employees, which is retrospectively rated on a monthly basis. The Company also has in place approximately $120,807,000 of accidental death and dismemberment insurance coverage for active employees.

(12) Pollution Remediation

The pollution remediation obligations at August 31, 2010 and 2009 are $24,614,000 and $22,990,000, respectively, which reflect the impact of GASB 49.

(13) Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of $250,000,000, subject to a $500,000 per accident deductible at the Richmond and Passyunk Plants and a $100,000 deductible per accident at all other locations. There are separate sublimits for flood and earth movement at select locations. The Company's Property Insurance includes coverage for damage incurred from a terrorist attack. In addition, the Company maintains Blanket Crime, which is a form of Property Insurance.

The Company maintained $210,000,000 in liability (including terrorism) coverage, insuring against the risk of damage or injury to the public with a per occurrence self insured retention of $500,000; however, effective September 1, 2007, the self insured retention was increased to $1,000,000.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a $500,000 per occurrence self insured retention.

The Company maintains a $10,000,000 Public Officials Liability (Directors and Officers Liability) policy with a $500,000 retention as well as a $60,000,000 Fiduciary Liability policy with a $500,000 self insured retention.

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of dollars):

	Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:					
2010	$ 11,881	1,237	(3,252)	9,866	5,380
2009	13,534	1,938	(3,591)	11,881	5,236
2008	8,468	7,757	(2,691)	13,534	7,457

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately $9,004,000 as of August 31, 2010.

The Company is committed under various noncancelable operating lease agreements to pay minimum annual rentals as follows (thousands of dollars):

Fiscal year ending August 31:	
2011	$ 559
2012	233
2013	233
2014	62
2015	4

Rent expense for the fiscal years ended August 31, 2010 and 2009 amounted to $1,225,000 and $1,520,000, respectively.

The Company, in the normal course of conducting business, has entered into long-term contracts for the supply of natural gas, firm transportation, and long-term firm gas storage service. The Company's cumulative obligations for demand charges for all of these services are approximately $6,356,000 per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the period from November 1, 2008 through March 31, 2009.

The Company's FY 2011 Capital Budget was approved by City Council in the amount of $67,689,000. Within this approval, funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2011 is expected to be $17,982,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately $113,044,000.

The FY 2011 Capital Budget also includes $1,862,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately $4,006,000.

(15) Subsequent Events

OPEB Trust Fund

On July 29, 2010, the PUC approved a settlement with PGW, which provided for the establishment of an irrevocable trust for the deposit of funds derived through a Rider from all customer classes to fund OPEBs. The funding contained in the Rider is $16,000,000 annually. PGW is required under the settlement to fund annually $15,000,000 of the UAAL in each of the fiscal years 2011 through 2015. Additionally, PGW must fund $3,503,000 a year representing a 30 year amortization of the Net OPEB obligation of $105,500,000 at August 31, 2010. PGW established the Trust in July 2010 and began funding the Trust in accordance with the settlement agreement in September 2010.

Commercial Paper Program

Effective October 29, 2010, PGW requested that each of the three banks reduce the stated amounts of their respective letters of credit for the commercial paper Series F-1, F-2, and F-3 from $40,000,000 to $30,000,000. As a result of the reduction of each of the letters of credit, PGW's commercial paper program was reduced from $120,000,000 to $90,000,000.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Pension Funding Progress

(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
September 1, 2009*	$ 355,499	519,773	164,274	68.40%	$ 106,003	154.97%
September 1, 2008**	430,390	495,155	64,765	86.92	107,918	60.01
September 1, 2007***	416,183	482,380	66,197	86.28	105,596	62.69
September 1, 2006+	411,886	474,250	62,364	86.85	106,018	58.82
September 1, 2005++	383,517	450,866	67,349	85.06	102,544	65.68
September 1, 2004+++	366,783	436,255	69,472	84.08	102,500	67.78

* The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2008 through August 31, 2009.

** The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008, updated for contributions and additional accrued benefits in the subsequent fiscal year.

*** The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2007 through August 31, 2008.

\+ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006, updated for contributions and additional accrued benefits in the subsequent fiscal year.

++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2005 through August 31, 2006.

+++ The required supplementary information is based on a biennial actuarial valuation of the pension fund for the plan year September 1, 2003 through August 31, 2004, updated for contributions and additional accrued benefits in the subsequent fiscal year.

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Other Postemployment Benefits Funding Progress

(Thousands of dollars)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a/b) Funded ratio	Covered payroll	UAAL as a percent of covered payroll
August 31, 2010*	$ —	654,126	654,126	—%	$ 106,003	617.08%
August 31, 2009**	—	635,792	635,792	—	107,918	589.14
August 31, 2008***	—	591,599	591,599	—	105,596	560.25

* The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2008 through August 31, 2009 updated for contributions and additional accrued benefits in the subsequent fiscal year.

** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2008 through August 31, 2009.

*** The required supplementary information is based on a biennial actuarial valuation of the OPEB fund for the plan year September 1, 2007 through August 31, 2008.

See accompanying independent auditors' report.

APPENDIX B

INDEPENDENT CONSULTANT'S ENGINEERING REPORT DATED JUNE 15, 2011

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Independent Consultant's
Engineering Report

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds
Consisting of:

Gas Works Revenue Bonds
Twentieth Series Bonds (1975 General Ordinance) and
Tenth Series Bonds (1998 General Ordinance)

Philadelphia Gas Works
Philadelphia, Pennsylvania

BLACK & VEATCH
Building a world of difference.

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BLACK & VEATCH
Building a world of difference.

BLACK & VEATCH CORPORATION
11401 LAMAR, OVERLAND PARK, KS 66211 USA

June 15, 2011

Mr. Rob Dubow
Director of Finance
City of Philadelphia
13th Floor, Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Sir:

In accordance with our agreement with the Philadelphia Gas Works (PGW) through the Philadelphia Facilities Management Corporation, the management entity for PGW, we submit herewith our independent consulting engineer's report (the "Report") to be included as an appendix to the official statement or official statements ("Official Statements") prepared by PGW in connection with the City of Philadelphia's (the "City") issuance of up to $19,000,000 in Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) (the "Twentieth Series Bonds") and up to $145,000,000 in Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) (the "Tenth Series Bonds") . The Twentieth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's outstanding Sixteenth Series Bonds. The Tenth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of all or a portion of PGW's outstanding First Series A Bonds, First Series C Bonds, Second Series A Bonds, Third Series Bonds, Fourth Series Bonds, Fifth Series A-1 Bonds, Seventh Series Bonds and Eighth Series B, C, D and E Bonds.

The purpose of this Report is to present the findings of our evaluation of PGW's gas works system (the "System") and to set forth information concerning financial factors relating to the Twentieth Series Bonds and Tenth Series Bonds. This Report is based on our analysis of the records and capital improvement programs of PGW, discussions with key PGW personnel in March 2009 and May 2011, physical inspections of predominately above-ground facilities conducted in March 2009 and May 2011, and such other investigations as we have deemed necessary.

The evaluation of the System, which includes a discussion of organization, management, and staffing; system service area; supply facilities; distribution facilities; and the Capital Improvement Program (the "CIP") for fiscal years 2011 through 2016, is presented in the first part of the Report. The second part of the Report contains (a) financial feasibility information, including analyses of gas rates and rate methodology; (b) projection of future operation and maintenance expenses; (c) CIP financing plans; (d) projection of revenue requirements as a determinant of future revenues; and (e) an assessment of PGW's ability to satisfy the covenants in the General Gas Works Revenue Bond Ordinance of 1975, as amended and supplemented (the "1975 General Ordinance") and the General Gas works Revenue Bond Ordinance of 1998, as amended and supplemented (the "1998 General Ordinance") authorizing the issuance of the Prior Bonds and the Twentieth Series Bonds and the Tenth Series Bonds. "Prior Bonds" are defined as the outstanding bonds issued under the 1975 General Ordinance and the 1998 General Ordinance. Together, the Prior Bonds, Twentieth Series Bonds, and Tenth Series Bonds

are collectively referred to as the "Bonds". A listing of our principal assumptions and opinions developed as a result of our studies is presented at the end of the Report.

Subject to the limitations set forth herein, this Report was prepared for the City and PGW by Black & Veatch Corporation ("Black & Veatch") and is based on information not within the control of Black & Veatch. In conducting our studies, we reviewed the books, records, agreements, capital improvement programs, and customers, sales and financial projections of PGW and investigated such physical properties of PGW as we deemed necessary to express our opinion of PGW's operating results and projections. While we consider such books, records, documents, and projections to be reliable, Black & Veatch has not verified the accuracy of these documents or the validity of the information provided by others.

Black & Veatch is one of the oldest, largest and most diversified engineering, procurement, and construction companies in the United States. Black & Veatch operates and maintains a global network of regional, marketing, and project offices. Founded in 1915, Black & Veatch employs approximately 8,100 people performing financial, economic, and engineering studies and design and construction of facilities for clients in government and industry in the fields of energy, water, wastewater, and telecommunications. Black & Veatch has extensive experience in the design and analysis of the operation and financing of electric, natural gas, water, and wastewater systems serving communities ranging in size from small cities to large metropolitan systems of the magnitude of the System.

In this Report, where standards or requirements are indicated as being applicable, being fulfilled, or to be attained, such standards or requirements are those promulgated by the Pennsylvania Public Utilities Commission (the "PUC") and other Federal, State, and local agencies, in accordance with the provisions of Federal laws and the laws of the Commonwealth of Pennsylvania governing the storage, delivery, and sale of natural gas. Capitalized terms not otherwise defined herein have the same meanings as ascribed to them in the Official Statements, the 1975 General Ordinance, or the 1998 General Ordinance. References made herein to specific years are for the fiscal years of PGW ending August 31, unless otherwise noted.

The Report includes our assessment of the condition of PGW's physical plant, including PGW's existing storage and distribution facilities, based upon site inspections of certain PGW facilities as deemed appropriate during March 2009 and May 2011. We also reviewed and evaluated existing and planned natural gas transportation and supply contracts with respect to volumes of natural gas to be delivered. The general physical condition of the System's facilities has been evaluated using three rating categories - good, adequate, and poor - as described below.

- **Good:** The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- **Adequate:** The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed for continued reliable operation. Significant expenditures for these improvements may be required.
- **Poor:** The facility cannot be operated within design parameters. Major renovations are required to restore the facility to reliable operating condition. Major expenditures for these improvements may be required.

The ratings assigned in this Report are the result of physical inspections of individual above-ground facilities at existing sites conducted in March 2009 and May 2011.

An evaluation of a gas storage and distribution system of the magnitude and complexity of PGW's requires an assessment of each of the System's various components. The evaluation described in this Report is based on estimates of the degree of improvement that has been or will be provided by the projects in the current CIP and their impact in meeting service requirements.

The projections set forth in this Report are "forward-looking statements." In formulating these projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and appropriate and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Twentieth Series Bonds and Tenth Series Bonds as provided in the 1975 and 1998 General Ordinances:

1. 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.

2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System , the System should yield Project Revenues and Gas Works Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) respectively, over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Twentieth Series Bonds and Tenth Series Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues and Gas Works Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the First Class City Revenue Bond Act (the "Act").

3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.

4. The capital improvements proposed during the projection period, September 1, 2011, through August 31, 2016, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.

5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are some significant changes or events that have occurred over the last few years, and are addressed more fully in the text of this Report:

1. Projected gas supply costs have dropped significantly, over 20 percent over the 2012 through 2015 period.
2. PGW's System throughput is projected to increase primarily due to increases in transportation service.
3. PGW's project capital improvements for 2011 and 2012 have decreased by approximately $5 million and by approximately $15 million over the 2013 through 2015 period.
4. Operation and maintenance expenses (excluding gas supply expenses) are about $35 million higher over the 2011 through 2015 period than projected in previous reports.
5. Bad debt expenses are about $25 million lower over the 2011 through 2015 period than projected in previous reports. This is primarily due to the significantly lower cost of gas.
6. PGW is projected to make the $18 million annual payment to the City with the City granting $1.7 million back in 2011 and ceasing the grant back beginning in 2012.
7. PGW's debt service payments over the 2011 through 2015 period are approximately $10 million lower than projected in previous reports.

Very truly yours,

BLACK & VEATCH CORPORATION

Thomas J. Sullivan, P.E.
Managing Director
B&V Management Consulting Division

Enclosure

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Acronym List

AFUDC	Allowance for Funds Used During Construction
AIMS	Advanced Intelligence Mobile Solution
AMR	Automatic Meter Reading Program
BCCS	Billing Collections and Customer Service
Bcf	Billion cubic feet
BMA	Bond Market Association
CDS	Comprehensive Delivery Service
CIP	Capital Improvement Program
CNG	Compressed Natural Gas
CRI	Collections Renewal Initiative
CRP	Customer Responsibility Program
CWP	Conservation Works Program
dt or Dth	Dekatherms
FERC	Federal Energy Regulatory Commission
FOI	Field Operations Initiative
FPL	Federal Poverty Level
FT	Firm Transportation
FY	Fiscal year beginning September 1 through August 31
GCR	Gas Cost Rate
GSS	General Storage Service
GTS	Gas Transportation Service
HDD	Heating Degree-Day
IRC	Interruptible Revenue Credit
LIHEAP	Low Income Home Energy Assistance Program

Mcf	Thousand Cubic Feet
MEI	Management Efficiency Investigation
NGS	Natural Gas Supplier
PFMC	Philadelphia Facilities Management Corporation
PGC	Philadelphia Gas Commission
PGW	Philadelphia Gas Works
PHA	Philadelphia Housing Authority
PSFT	Peaking Service Firm Transportation
Psig	Pounds per Square Inch Gauge
PUC	Pennsylvania Public Utilities Commission
SS	Storage Service
UESF	Utility Emergency Services Fund
UWUA	Utility Workers Union of America
WNA	Weather Normalization Adjustment
WSS	Washington Storage Service

Appendix B. Independent Consultant's Engineering Report

Introduction

The Philadelphia Gas Works ("PGW") is a gas distribution utility owned by the City of Philadelphia, Pennsylvania (the "City"). The utility acquires, stores, distributes, and sells gas to residents and other customers within the City.

Under the terms of certain of the current revenue bond covenants, PGW is obligated to charge and collect rents, rates and charges to maintain net revenues at or above certain specified levels in excess of annual debt service requirements. In addition, prior to the issuance of bonds under the General Gas Works Revenue Bond Ordinance of 1975 ("1975 Ordinance") or the General Gas Works Revenue Bond Ordinance of 1998 ("1998 Ordinance"), a financial report from the City's Chief Fiscal Officer, which may be given in reliance on an engineering report, is required.

Purpose

The purpose of this Independent Consultant's Engineering Report ("Report") is to summarize findings of engineering studies performed by Black & Veatch Corporation ("Black & Veatch") related to the gas system of the Philadelphia Gas Works and to set forth information concerning the financial factors relating to the issuance of up to $19,000,000 in Gas Works Revenue Bonds, Twentieth Series (1975 General Ordinance) (the "Twentieth Series Bonds") and up to $145,000,000 in Gas Works Revenue Bonds, Tenth Series (1998 General Ordinance) (the "Tenth Series Bonds").

The Twentieth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's outstanding Sixteenth Series Bonds. The Tenth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of all or a portion of PGW's outstanding First Series A Bonds, First Series C Bonds, Second Series A Bonds, Third Series Bonds, Fourth Series Bonds, Fifth Series A-1 Bonds, Seventh Series Bonds and Eighth Series B, C, D and E Bonds.

"Prior Bonds" are defined as the outstanding bonds issued under the 1975 General Ordinance and the 1998 General Ordinance. Together, the Prior Bonds, Twentieth Series Bonds and, Tenth Series Bonds are collectively referred to as the "Bonds".

Scope

This Report addresses the organization and management, regulation, physical condition, adequacy of system capacity, operation and maintenance practices, and staffing levels of PGW's facilities. Black & Veatch performed inspections of PGW's facilities in March 2009 and May 2011. Based on discussions with PGW management, no major capital projects or significant events have occurred that would materially change the physical condition of the facilities over this short period of time. Therefore, this Report is relying upon the inspections conducted in March 2009 and May 2011. This Report provides a review of the proposed capital improvement program ("CIP") for fiscal years 2011 through 2016 and includes the results of engineering studies regarding the financial requirements of the System. Evaluation of the projected financing of future capital improvement needs is based upon a review of historical operating and financial data and projected capital

program and operating budget information provided by PGW. Projections of revenues and revenue requirements are presented for the fiscal years 2011 through 2016. The financial feasibility of the issuance of the Twentieth Series Bonds and Tenth Series Bonds should be evaluated taking into account the results of these analyses and PGW's projected compliance with applicable revenue bond covenants.

PGW representatives and others have provided certain historical data and other information presented in this Report. Black & Veatch has not conducted verification tests of this information. In conducting our analysis and preparing our opinions and the projections, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies utilized by Black & Veatch in performing these analyses follow generally accepted practices for such projections. Such assumptions and methodologies are summarized in this Report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by conditions, events, and circumstances that may actually occur. Such factors may include PGW's ability to execute the CIP as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Black & Veatch Qualifications

Black & Veatch is one of the largest and most experienced engineering companies in the United States specializing in utility engineering. Our experience includes the planning, design, operation analysis, and construction of gas, electric, water, and wastewater systems. In addition, the firm has extensive experience in assisting utilities with management and financial aspects of their operations. The company has been engaged in several thousand projects with a range of clients that include utilities owned by municipalities ranging in size from small communities to large metropolitan regions, investor-owned utilities, industrial and commercial businesses, local and state agencies, and the United States and various foreign governments. Over the past five years, Black & Veatch has been involved in assisting clients with the issuance of over $10 billion in utility revenue bonds. Black & Veatch performed the Independent Consultant's Engineering Report ("2001 Report") for PGW's (1998 General Ordinance) Third Series Bonds issued in 2001, the Independent Consultant's Engineering Report ("2002 Report") for PGW's (1998 General Ordinance) Fourth Series Bonds issued in 2002, the Independent Consultant's Engineering Report ("2003 Report") for the Gas Works Revenue Refunding Bonds, Seventeenth Series issued in 2003, the Independent Consultant's Engineering Report ("2004 Report") for PGW's (1998 General Ordinance) Fifth Series A-1 and A-2 issued in 2004, the Independent Consultant's Engineering Report ("2006 Report") for PGW's (1998 General Ordinance) Sixth Series Bonds issued in 2006, the Independent Consultant's Engineering Report ("2007 Report") for PGW's (1998 General Ordinance) Seventh Series Bonds issued in 2007, the Independent Consultant's Engineering Report ("2009 Report") for PGW's (1998 General Ordinance) Eighth Series Bonds issued in 2009, and the Independent Consultant's Engineering Report ("2010 Report") for PGW's (1998 General Ordinance) Ninth Series Bonds issued in 2010. Since 1972, the City of Philadelphia's Water Department also has engaged Black & Veatch for various consulting services. These consulting services have included engineering evaluation reports for all Water and Wastewater System Revenue Bonds sold by the City since 1974 and various projects involving the development of water and wastewater rates.

Experienced personnel from Black & Veatch have performed the physical evaluation of PGW's gas supply and distribution systems. In performing our engineering assessment of PGW, Black & Veatch reviewed the current condition, operation and maintenance of the gas supply and distribution systems. We conducted inspections of PGW's major facilities in March 2009 and May 2011, including PGW's city gate stations and liquefied natural gas facilities. We also interviewed key members of PGW's management team in May 2011 regarding operations and maintenance issues and practices.

The financial feasibility review has been performed by personnel assigned to Black & Veatch Management Consulting, which provides services in such areas as utility rates, utility property valuation, depreciation rate studies, financial analysis and planning, non-audit accounting, management and operations analysis, and the preparation of independent engineering reports for official statements.

Organization and Management

The Philadelphia Gas Works ("PGW") is owned by the City of Philadelphia and is responsible for the acquisition, storage, and distribution of gas within the limits of the City. PGW is accounted for as a component unit of the City. As described in greater detail herein (*See The PGW Gas System*), PGW is the largest municipally-owned gas utility in the nation.

PGW's operations are managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation whose Board is appointed by the Mayor. PFMC's responsibilities are set forth in a Management Agreement between the City and PFMC, which delegates responsibility for PGW's operation to an executive management team provided by PFMC. Under the Management Agreement, those responsibilities that are not specifically granted to PFMC fall under the domain of the Philadelphia Gas Commission ("PGC"), except to the extent preempted by the Pennsylvania Public Utility Commission ("PUC").

Prior to the passage of the Pennsylvania Natural Gas Choice and Competition Act ("Gas Choice Act")[1], rates charged by PGW were regulated exclusively by the PGC because PGW was not a "public utility" within the meaning of the Pennsylvania Public Utility Code, as it was defined prior to the passage of the Gas Choice Act. On June 22, 1999, the Pennsylvania General Assembly passed the Gas Choice Act which amends the Public Utility Code by providing for the implementation of choice of suppliers of natural gas for retail customers of gas distribution companies. In addition, the Gas Choice Act provides that PGW is subject to regulation by the PUC, effective July 1, 2000, and that choice among natural gas suppliers will be provided to PGW's customers.

On March 31, 2003, the PUC approved PGW's restructuring plan, which among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier. On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff. PGW's Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code.

City of Philadelphia

The City of Philadelphia was founded in 1682 and merged with the County of Philadelphia in 1854. There are two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education. The court system in Philadelphia, consisting of Common Pleas, Municipal, and Traffic Courts, is part of the Commonwealth of Pennsylvania (the "Commonwealth") Judicial System. Although the Commonwealth pays judges and top level administrators, the City pays all other court costs, with partial reimbursement from the Commonwealth.

[1] Act of June 22, 1999, P.L. 122, No. 21, §3 (66 Pa. C.S.A. §2201 et seq.).

The City is governed primarily under the Home Rule Charter[2], which provides for the election, organization, powers, and duties of the legislative branch (the "City Council"); the powers and duties of the executive and administrative branches; and the City's fiscal and budgetary matters, contracts, procurement, property, and records.

Philadelphia Gas Works

In March 1835, a City ordinance was passed authorizing private ownership and operation of a public gas utility under trustee management. This ordinance also contained an option clause permitting the City to take ownership of the gas utility properties by issuing City bonds to the private stockholders. This option initiating City ownership of gas utility properties to ultimately form PGW was exercised March 1, 1841. The City has owned the gas system continuously since that date. Manufactured gas production commenced February 8, 1836, and service was inaugurated February 10, 1836, to 46 gas lamps along Second Street.

During its more than 175 years of existence, the operation and management of PGW has evolved to its present configuration through a variety of arrangements. Initially the private owners managed it. In 1841, a Board of Trustees assumed management of PGW in accordance with an enabling City ordinance. This arrangement continued through April 1887, when the City, under the Director of Public Works, assumed direct management and operation of PGW. Serious financial and operating problems led to a change in this arrangement on November 12, 1897. At that time, the City, unable to sell PGW, contracted with the United Gas Improvement Company ("UGI"), now UGI Corporation, for the operation and management of PGW under authority granted by the Home Rule Charter. Operation and management by UGI continued through December 31, 1972.

On December 5, 1972, the City caused the incorporation of the Philadelphia Facilities Management Corporation as a not-for-profit Pennsylvania corporation for the specific purpose of operating PGW. PFMC currently manages PGW in accordance with the original agreement with the City dated December 29, 1972, effective January 1, 1973, as subsequently amended (the "Management Agreement"). The relationship between the City, PGC, PFMC, and PGW as originally detailed in the Management Agreement and as revised by the Gas Choice Act *(See Pennsylvania Public Utility Commission and Regulation)* is summarized below:

Organization	Function
City of Philadelphia	Owns PGW property and establishes legislation for the functioning of PGW. City Council approves the capital budget.
Philadelphia Gas Commission	Responsibilities include: approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of PGW's operating budget, review of PGW's capital budgets, and regulation of rates[3].

[2] Philadelphia Home Rule Charter, 351 Pa. Code §1.1-100 et seq., adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P.L. 665, §1 et seq. (53 P.S. §13101 et seq.).
[3] As of July 1, 2000, the PUC became responsible for regulating rates pursuant to the Gas Choice Act.

Organization	Function
PFMC	Provides executive management and directs operation of PGW facilities.
PGW	Manages construction, operation and maintenance of the gas system on a day-to-day basis.
PUC	Regulates rates and services.

The Management Agreement states that for the operation of PGW, PFMC shall provide:

- A Chief Executive Officer,
- A Chief Operating Officer,
- A Chief Financial Officer, and
- Other personnel as deemed appropriate by PFMC.

All PFMC personnel are subject to the approval of the PGC. The PGC consists of five members: the City Controller, two Mayoral appointees, and two City Council appointees. The PGC has the general responsibility to oversee operation of PGW by PFMC and retains all powers not specifically granted to PFMC. In addition, the Management Agreement specifies certain functions of the PGC, mainly:

- Approval of PFMC personnel,
- Review and make recommendations regarding gas supply contracts for City Council approval,
- Approval of PGW's annual operating budget,
- Review and make recommendations regarding PGW capital budgets for City Council approval,
- Approval of short-term loans, and
- Review and approval of all PGW real estate acquisitions, sales, or leases for submittal to City Council for approval by ordinance, and power to establish procurement standards and to fix and regulate rates and charges[4] for supplying gas to customers other than the City and the Board of Education, which will annually produce revenues sufficient to:
  - Pay all operating and maintenance expenses of PGW and the interest and amortization expense of its debt
  - Maintain debt coverage ratios
  - Pay $18,000,000 to the City each year
  - Provide such other funds as may be approved by the PGC and City Council for debt reduction or capital additions.

[4] Ibid.

In the 1990s, PGW experienced a number of changes in its management organization. PFMC set up an interim management structure for PGW in December 1994 through January 1996 and again in October 1998 through March 2000. In February 2001, the PUC issued an order adopting a settlement with PGW in Docket No. R-00005654 whereby the PUC and the City agreed on a timetable and process to replace its interim management with permanent management. Permanent management was set in place with the appointment of Thomas Knudsen as President and CEO in June 2002. Mr. Knudsen's appointment was formally approved by the PGC in December 2002. PGW's permanent management organization is shown in Figure 1. *(See also Rates and Tariffs, Regulation).* Mr. Knudsen retired in March, 2011 and was succeeded as President and CEO by Mr. Craig White.

In preparing this Report, Black & Veatch interviewed key PGW officers[5] and a number of its managers. The interviews were supplemented with reviews of PGW's policies, practices, procedures, and field observations of employees at various facilities performing their daily activities. Based on these interviews, reviews, and observations, it is our opinion that PGW is suitably organized, managed, and operated by qualified personnel.

As of May 27, 2011, PGW employed 1,657 people. Presently, approximately 70 percent of PGW's employees are represented by the Gas Works Employees' Union Local 686 ("Local 686"). Local 686 transferred affiliation from the Service Employees International Union ("SEIU") to the Utility Workers Union of America ("UWUA") in 2003. On October 17, 2006, a new two-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686, Utility Workers' Union of America. A two-year extension went into effect on May 15, 2008 and expired May 15, 2010. In December 2009 a further one-year extension of the contract was signed effective May 16, 2010 to May 15, 2011, with no wage increases during the term of the extension, and medical benefits remaining unchanged. On June 7, 2011, a new four-year Collective Bargaining Agreement, effective May 15, 2011, was ratified by the Gas Works Employees' Union, Local 686, Utility Workers' Union of America. The Agreement has provisions for wage increases of 3.0%, 2.5%, 2.5%, and 2.0% effective on May 15, 2011, 2012, 2013, and 2014, respectively.

Philadelphia Gas Commission

The Philadelphia Home Rule Charter contains provisions for the establishment of the PGC with powers and duties as set forth in ordinances and contracts. The Management Agreement grants PGC certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to PGC include approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of PGW's operating budget, review of PGW's capital budgets and recommendations thereon to City Council, approval of certain loans (but not the issuance of Bonds), access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services and approval of all real property acquisitions for further approval of City Council.

[5] For the purpose of this report, PGW officers and management include individuals provided by PFMC.

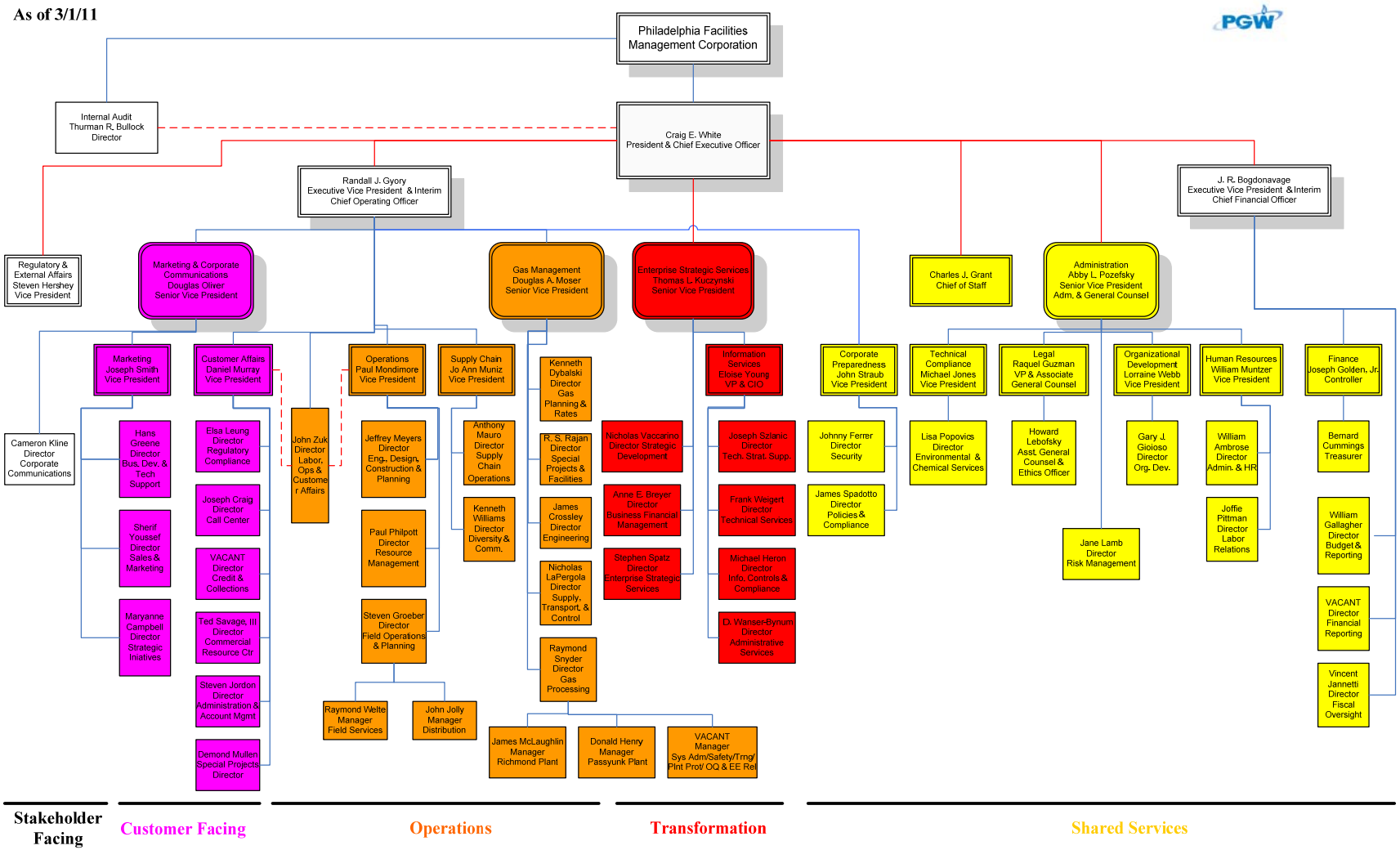

Figure 1. Philadelphia Gas Works Organization Chart

Pennsylvania Public Utility Commission

The PUC regulates the rates and service of Pennsylvania's public utilities, including electricity, water, natural gas, and telephone. Under current law, all rate regulation authority for PGW is held by the PUC, pursuant to the Gas Choice Act. The Gas Choice Act contains provisions which are designed to (i) preserve the tax-exempt status of Approved Bonds, defined in the Gas Choice Act as bonds or other obligations issued by the City for PGW, including the Twentieth Series Bonds and Tenth Series Bonds, (ii) preserve the ability of the City to comply with its covenants, including the City's covenants with respect to the imposition and collection of rates and charges to the holders of Approved Bonds, including the Twentieth Series Bonds and Tenth Series Bonds, and (iii) require rates to be set for PGW utilizing the ratemaking methodology and requirements that were applicable to PGW's natural gas distribution operation prior to the assumption of jurisdiction by the PUC. The Gas Choice Act provides, among other things:

- Commencing July 1, 2000, PGW is subject to regulation by the PUC and, except as otherwise provided in the Gas Choice Act, the provisions of the Public Utility Code apply to PGW as if it were a public utility. The PUC, instead of the PGC, sets rates for PGW's customers.
- Notwithstanding customer choice in gas suppliers, PGW's gas distribution business will remain a regulated monopoly.
- In setting rates and notwithstanding any other provision of the Public Utility Code, the PUC must permit the City to impose, charge and collect rates or charges as necessary to permit the City to comply with its covenants to the holders of any Approved Bonds, as defined in the Gas Choice Act. All Bonds issued by the City on behalf of PGW under the Act, including the Twentieth Series Bonds and Tenth Series Bonds, are Approved Bonds.
- The PUC is obligated to use PGW's ratemaking methodology and requirements until all Approved Bonds are refunded or defeased.
- The PUC is barred from requiring the City or PGW to take any action (or omit taking any actions) under the Public Utility Code if such action or omission would have the effect of causing the interest on any bonds issued by the City on behalf of PGW, including the Twentieth Series Bonds and Tenth Series Bonds, to be includable in the gross income of the holders of such bonds for Federal income tax purposes.
- On March 31, 2003, the PUC approved PGW's restructuring plan (Docket No. M-00021612), which implements customer choice and permits licensed natural gas suppliers to deliver gas to customers in Philadelphia using PGW's distribution system.
- On September 1, 2003, PGW began operating under its Restructuring Compliance Tariff.
- The Gas Choice Act permits, but does not require, the PUC to approve a senior citizen discount. On September 30, 2004, the PUC denied PGW's request to continue the senior discount program for post-September 1, 2003, applicants. Since September 1, 2003, the program is not available to new participants. *(See Senior Citizen Discount Program).*
- The PUC is required to provide for a management audit of all employees, records, equipment, contracts, assets, liabilities, appropriations, and obligations of PGW prior to the commencement of the restructuring proceeding. *(See Rates and Tariffs, Regulation).*

- Effective June 30, 2000, the provisions of the Home Rule Charter with respect to the powers and duties of the PGC are abrogated to the extent inconsistent with the Gas Choice Act.
- The City cannot be required to take any action under the Public Utility Code if the effect of the action is to cause a variation in the City's financial plan approved by the Pennsylvania Intergovernmental Cooperation Authority.
- The City's executive or legislative powers to "legislate or otherwise determine the powers, functions, budgets, activities and mission of PGW" are not abrogated or limited.

By Order entered April 19, 2010, the PUC issued a Policy Statement which reaffirmed its use of PGW's prior ratemaking methodology, the cash flow method, to determine PGW's allowable revenue requirement. The Policy Statement also reaffirmed the PUC's obligation to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants. The PUC further set forth a series of factors it would consider in determining just and reasonable rates for PGW, including, test year end and projected future levels of non-borrowed year end cash, available short-term borrowing capacity, internal generation of funds for construction, debt-to-equity ratios and the financial performance and level of operating and other expenses of similarly situated utility enterprises, and level of financial performance needed to maintain or improve PGW's bond rating; PGW's management quality, efficiency and effectiveness; service quality and reliability; and effect on universal service.

This Report assumes rate regulation will be administered by the PUC to comply with PGW's prior ratemaking methodology (as interpreted by the Policy Statement) and the City's bond covenants, as required by the Gas Choice Act.

The PGW Gas System

Philadelphia Gas Works began gas production in February 1836 and has since continuously provided the City of Philadelphia with service. Today, PGW is the largest municipally owned gas utility in the nation, maintaining a distribution system of approximately 3,029 miles of gas mains and 464,440 service lines. In addition to this extensive distribution system, PGW operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement gas supply taken directly from interstate pipeline and storage companies.

Population and Service Area

PGW Gas System presently serves the limits of the City of Philadelphia with a customer base of approximately 500,000 accounts. This service area is shown in Figure 2. The service area consists of an urban area of 129 square miles located in southeast Pennsylvania along the Delaware River. Philadelphia is the largest incorporated area within the Delaware Valley region. According to the 2010 United States Census, Philadelphia has a population of approximately 1,526,000 inhabitants, an increase of about 0.6 percent since 2000.[6]

Supply Facilities

The principal PGW natural gas supply facilities include nine city gate stations owned in large part by the interstate pipeline companies serving PGW and two liquefied natural gas ("LNG") plants, Richmond and Passyunk, owned by the City. The supply facilities also include a gas control center, a deactivated propane/air plant, and two gas holders, one of which has been removed from service.

City Gate Stations

Natural gas is received through nine city gate stations from two pipeline transmission companies – Spectra Energy ("Spectra") and Transcontinental Gas Pipe Line Corporation ("Transco-Williams"). The two pipeline companies own most of the facilities and land at eight of the nine city gate stations. The pressure delivered to PGW's distribution system is controlled at each of the city gate stations. Eight city gate stations are equipped with gas heaters.

Gas Control Center

The gas control center is located at 800 W. Montgomery Avenue, with a backup at the Richmond Plant. The center monitors and controls gas flow and pressure from the nine city gate stations to the high-pressure distribution system. The gas control dispatchers also provide direction to the LNG production plant operators concerning startup, shutdown and gas flow output from the LNG facilities. Operations are facilitated through the use of a computer system that includes a backup unit and an auxiliary power supply.

[6] The City of Philadelphia and Philadelphia County are coextensive. *United States Census Bureau, Census 2010 and 2000*

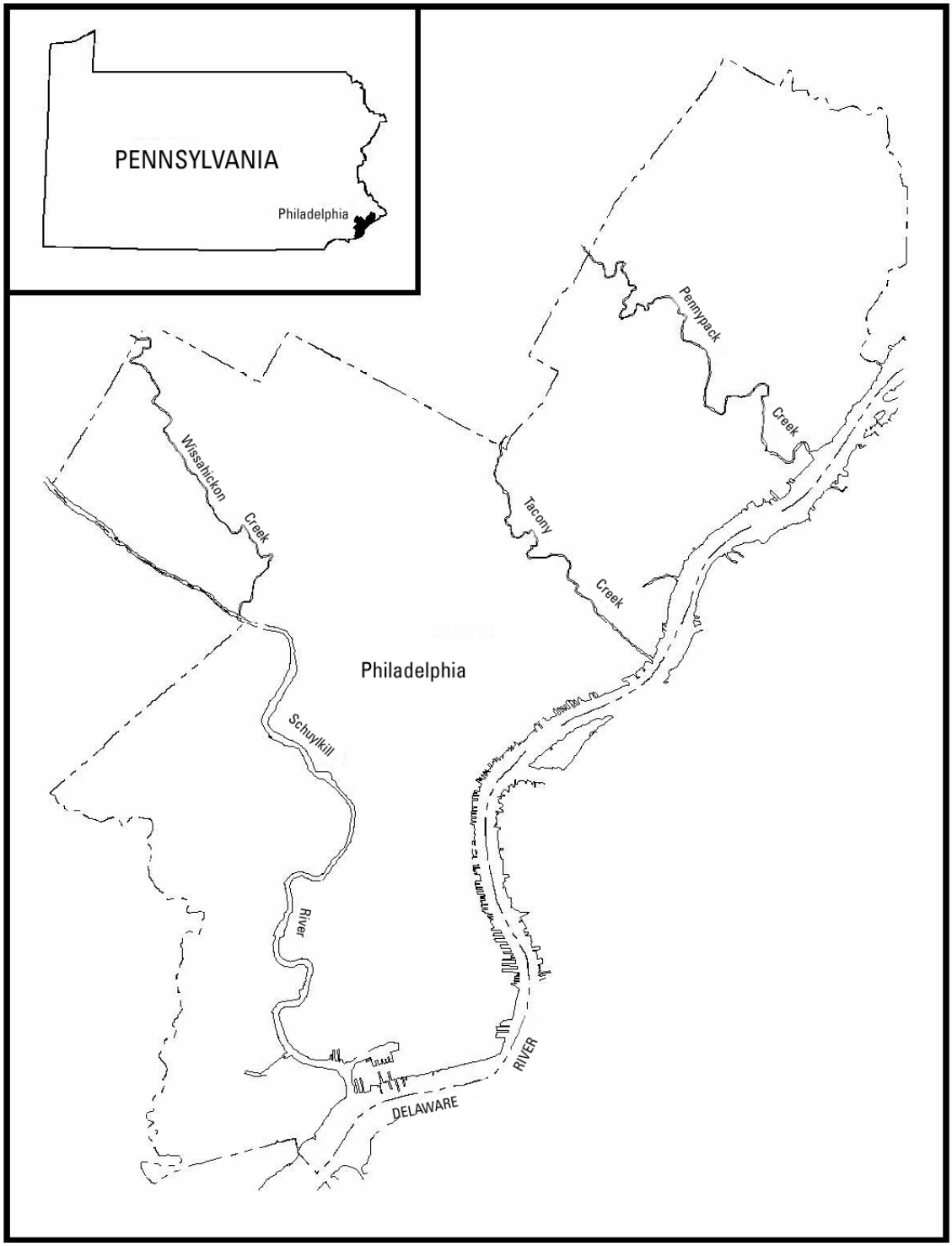

Figure 2. Philadelphia Gas Works Service Area

LNG Facilities

There are two LNG facilities – the Passyunk Plant and the Richmond Plant. The smaller LNG storage and vaporization facility at the Passyunk Plant receives its liquefied gas supply from the larger Richmond Plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,066,000 gallons gross capacity (i.e., the equivalent of 253,300 thousand cubic feet ["Mcf"] of natural gas) and two LNG vaporizers, each having a capacity of 45,000 Mcf per day resulting in 45,000 Mcf per day planned capacity and 45,000 Mcf per day reserve.

The Richmond LNG plant is one of the largest liquefaction facilities in the United States and also includes storage and vaporization facilities. A new liquefaction facility was completed and tested in March 2005, which replaced the original modified cascade liquefaction facility which was subsequently mothballed. The new facility utilizes an open expander loop technology. It has a daily liquefaction capacity of 16,000 to 18,000 Mcf per day. This technology utilizes energy from the high pressure interstate pipeline system to run the expander/compressors, significantly reducing fuel requirements. In addition, this facility has the capability to liquefy natural gas year round providing greater operational flexibility. Further, this technology utilizes significantly fewer components than the older modified cascade facility and has resulted in lower operation and maintenance costs. The maximum capacity of the open expander liquefaction facility of 18,000 Mcf per day is not available during the summer months because the demand on the PGW system is not sufficient to create the throughput necessary to run at this capacity.

The vaporization and storage facilities at the Richmond Plant are not affected by the new liquefaction facility. The two storage tanks at the Richmond Plant have a combined gross capacity of 48,970,000 gallons of LNG (4,045,800 Mcf). Regasification of the liquid natural gas is accomplished with six vaporizers having a total output of 411,000 Mcf per day plus 100,000 Mcf per day in reserve. The Richmond Plant also has facilities to receive LNG from and deliver LNG to cryogenic trailer trucks.

Gas Holder Storage Facilities

The Richmond Plant has a low pressure gas holder. The Richmond holder has an operating capacity of 1,000 Mcf. It was installed in the manufactured gas era and is in working order. It is used to enhance operational flexibility of the LNG Plant. The Passyunk holder has been removed from service.

Distribution Facilities

The principal gas distribution facilities consist of approximately 3,029 miles of main, 464,440 service lines, 208 regulator stations, approximately 563,201 meters (of which approximately 512,121 are active) and miscellaneous valves, instruments, and other appurtenances. PGW operates five different operating pressure systems; each system is connected to the other by control regulators. The high-pressure systems operate at approximately 110, 60, and 35 pounds per square inch gauge (psig); the intermediate pressure system operates at 5 psig; and the low-pressure system operates between 6 and 9 inches of water column (approximately 0.25 pounds per square inch). The majority of customers are served from the low-pressure system.

Approximately 52 percent (by length) of the gas mains are cast iron, 33 percent are steel, 4 percent are ductile iron, and 11 percent are plastic. Of the steel mains, approximately 49 percent are wrapped, coated, and cathodically protected. Approximately 34 percent of the service lines are steel (of which 14 percent are cathodically protected) and 66 percent are plastic.

Other Facilities

PGW has its executive and operating offices located at 800 West Montgomery Avenue, which is a 150,000 square foot office building constructed in 1988. The former general office building, located at 1800 N. 9th Street, still houses administrative operations, in addition to distribution and field service dispatch centers, gas control dispatching, operating stations, a post office, duplicating center, radio repair shop, training facilities, parking facilities, telecommunications, and warehousing, as well as information systems center and a metal fabrication shop. Additional facilities include six district offices, the Tioga station for distribution crews, two LNG plants, and three operating stations for field service crews. There are also five other warehousing facilities, a meter shop, and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 676 vehicles, 100 portable compressors, and 42 trailers. PGW also maintains three minor automobile repair facilities, and materials and supplies.

Condition of Facilities

In March 2009 and May 2011, Black & Veatch conducted site inspections of certain PGW facilities as deemed appropriate. During the inspections, Black & Veatch used three evaluation criteria based on observation to evaluate the condition of each facility. These criteria are described below:

- *Good*: The facility is in condition to provide reliable operation in accordance with design parameters and requires only routine maintenance.
- *Adequate*: The facility is operating at or near design levels, however, non-routine renovation, upgrading, and repairs are needed to ensure continued reliable operation. Significant expenditures for these improvements may be required.
- *Poor*: The facility cannot be operated within design parameters. Major renovations are required to restore the facility and assure reliable operation. Major expenditures for these improvements may be required.

Construction Sites

Inspections at construction sites included the observation of crews, vehicles, power-operated equipment, tools, safety procedures for the crew and public, construction standards, and general quality of work performed.

System maps were also examined and compared to existing facilities. This comparison showed the maps to have adequate detail to describe the system at the site. The maps contain the year the natural gas main was placed in service, size and material used, operating pressure, location of valves and bends, and where repairs have been performed.

Meter Settings

Meter setting observations include materials and equipment. Observed meter settings conformed to accepted industry standards, accessibility, and safety and security measures.

Field and District Offices

Field and district office sites, including related facilities, such as vehicle and equipment fueling stations, garage and vehicle maintenance supply, structures, driveways, parking, material and equipment storage areas and security features, were observed. Three of the six district offices are leased to PGW. Inspections of these leased sites were focused primarily on materials and equipment typically provided by PGW.

Personnel

During the inspection period, Black & Veatch conducted interviews and was assisted by PGW staff who are experienced, qualified, well trained, and knowledgeable in their assigned tasks. In addition to details of the operations, they were knowledgeable in details of routine and preventative maintenance procedures PGW has in place.

The following is a list of key areas discussed in conducting inspections and in the collection of system data:

Construction	System Losses & Meter Maintenance Programs
Corrosion Engineering	Leak Surveys
Field Offices	Operations
District Offices	SCADA System
Treasury	Meter Settings
District Regulators	City Gates and LNG Plants
Field Services	Accounts Receivable
Gas Supply	

Facility Inspections

The following facilities were inspected in March 2009:

Supply Facilities

Liquefied Natural Gas Facilities
- Richmond & Passyunk Plants

City Gate Stations
- 034
- Ashmead
- Penrose
- Richmond
- Somerton
- 060

Distribution Facilities

Meter Setting
- Commercial
  - 5230 Chestnut (in West District Office)
  - 1337 West Erie Ave. (in North District Office)
- Industrial/Commercial
  - University Village (Temple), intersection of 10th and Montgomery

Construction Sites
- 150 Gay St. - Replace cast iron main with 4" PE and renew services
- Baldwin St., Wilde to Silverwood - Block renewal of cast iron with 4" PE and transfer service

Other Facilities

Field Offices/On-Site Facilities
- Montgomery
- Porter
- Tioga
- Castor
- Belfield

SCADA Control Room
- PGW - 1800 N. 9th St.

District Offices
- Center City - Leased
- Frankford - Leased
- Germantown - Leased
- North - Owned
- South - Owned
- West - Owned

In May 2011, the following facilities were inspected:

Supply Facilities

Liquefied Natural Gas Facilities
- Richmond Plants

City Gate Stations
- Ivy Hill
- Whitman
- 030

Distribution Facilities

Meter Setting
- Commercial
  - 3584 Aramingo Street
- Industrial/Commercial
  - 3586 Aramingo Street
  - 2400 Butler Street
  - 2300 Butler Street
  - 3501Salmon Street

Construction Sites

1800 Block of Lippencott Street - Observed the replacement of steel service lines that were connected to low pressure cast iron main with polyethylene service lines inserted into the steel services and tied over to new low pressure 4-inch polyethylene main.

Other Facilities

District Offices
- North - Owned

Conclusions

All observed facilities, vehicles, equipment and warehouse stock appeared to be reasonably maintained and in good operating condition. During the inspections, Black & Veatch identified only minor items not in good operating condition as would be expected during the normal course of operation. These items were either in the process of being repaired or were essentially retired in place. Employees appeared to be knowledgeable of their job requirements and well trained.

PGW's highest operating priority is response to emergencies and the maintenance of a safe gas distribution system. PGW maintains maps and other records of the distribution system in good order and has comprehensive written construction, operating and maintenance standards and procedures. Its personnel appeared well trained in the operation and maintenance of the gas distribution system. PGW is routinely actively involved in entering its facility records (Corrosion, Service and Leak Records) into computer databases, thus facilitating and improving the accuracy of accessing information. PGW has continued to monitor its security measures at its major facilities, including the two LNG facilities, the city gate stations, and the headquarters building complex, as a result of September 11, 2001 terrorist attacks. PGW has added concrete barriers around critical facilities at Richmond and perimeter fencing around both Passyunk and Richmond Plants.

Based on the physical inspections and interviews conducted in March 2009 and May 2011, and the level of maintenance expense and capital improvements reflected in this Report, it is our opinion that PGW operates and maintains its system in accordance with current regulatory standards and generally accepted industry practices.

PGW Gas Supply

PGW manages its gas supply through a mix of flowing supplies, off-system underground storage, and City-owned and PGW-operated LNG facilities. PGW utilizes this mix to meet its obligation to serve customers' demand on the coldest day (peak day) as well as customers' annual requirements. PGW's gas distribution facilities are directly connected to Spectra through four city gate stations and to Transco-Williams through five city gate stations. All gas delivered to customers by PGW is transported to the city gates through either one of these pipelines. During predominantly off-peak periods, a portion of the purchased gas supply is stored in off-system underground storage facilities connected to these two pipelines or in PGW's LNG facilities. Through the effective use of off-system storage and LNG, PGW is able to more efficiently utilize its transportation contracts with Spectra and Transco-Williams.

Supply Services

PGW purchases gas through a combination of term contracts and spot market purchases. Natural gas supplies are purchased under a portfolio approach intended to secure the lowest price consistent with reliability of supply. Consideration is given to maintaining a diversity of sources and types of supply. During the 2011 fiscal year, purchased gas costs are estimated to account for approximately 85 percent of the total gas supply expenses of $358 million and approximately 38 percent of total revenues of $781 million. The cost of gas supply is a function of the prices paid and the quantity purchased, both of which are variable. While this price component can be managed by PGW to some extent through the timing of purchases, the prices paid are largely determined in a very competitive and a sometimes volatile marketplace. While the total annual volumes purchased are highly dependent on temperatures during the heating season and are beyond the utility's direct control, PGW can manage the timing of purchases and hence prices to a limited degree, by utilizing off-system and LNG storage.

Transportation and Storage Services

All of PGW's gas purchases are ultimately transported from the sources of supply to the city gates through either Spectra or Transco-Williams facilities. Injections and withdrawals of gas from off-system storage also rely on these two pipelines. Table 1 summarizes the existing transportation agreements between PGW and the two pipelines. As shown in this table, PGW's currently available pipeline capacity is almost equally divided between the two pipelines. Of PGW's total contract pipeline capacity of 446,929 Mcf per day, Spectra accounts for 227,277 Mcf per day, or 51 percent, and Transco-Williams accounts for 219,652 Mcf per day, or 49 percent. The initial terms of the major contracts for the Spectra transportation service (CDS and FT) expire prior to the 2011-12 winter period and the initial term of the major contract for the Transco-Williams transportation service (FT) expires after the 2011-12 winter period. These contracts will then renew on an automatic year-to-year basis. PGW's current long-term plan assumes that the material contracts may also be renewed as longer term contracts.

Table 1. Gas Supply, Transportation, and Storage Contracts

Contract	Contract Expiration[b]	2011 - 2016 Transportation[c] dt/day	Transportation[c] Mcf/day	Storage[d] dt/day	Storage[d] Mcf/day
Transco-Williams					
FT	03/31/12	165,212	160,400		
PSFT	07/31/11	1,967	1,910		
S-2	04/15/13	5,191	5,040	5,191	5,040
GSS	03/31/13	53,871	52,302	53,871	52,302
WSS[a][e]	03/31/12			39,246	38,103
Subtotal		226,241	219,652	98,308	95,445
Spectra					
CDS	10/31/11	75,000	72,816		
FT1 - 800233R	10/31/11	23,822	23,128		
FT1 - 800514R	10/31/11	18,000	17,476		
FT1 - 800515R	10/31/11	18,000	17,476		
Dominion/GSS/FTS7[e]	03/31/13	6,815	6,616	6,815	6,616
Dominion/GSS/FTS8[e]	03/31/13	22,495	21,840	22,495	21,840
Equitable/FTS2	03/31/13	4,998	4,852	4,998	4,852
SS1A		44,118	42,833	44,118	42,833
SS1B		20,847	20,240	20,847	20,240
Subtotal		234,095	227,277	99,273	96,381
Total		460,336	446,929	197,581	191,826

(a) Transportation included in FT.

(b) Contracts are assumed renewed based on evergreen clauses beyond their expiration date.

(c) Reference: SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.

(d) Reference: SDS 6, Pages 1-2 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.

(e) Volumes reflect 87.5% contract limitation on maximum monthly storage withdrawal.

Due to the highly seasonal nature of PGW's load (demand), the efficiency of pipeline transportation service can be increased significantly through the use of storage services. During periods when PGW's load is less than the contracted transportation service, PGW may utilize the available capacity to deliver gas to off-system storage facilities or liquefy gas and store it in its LNG facilities. The ability to store gas off-system and in LNG facilities provides three significant benefits. First, less capacity needs to be reserved on interstate pipelines to serve higher seasonal loads to the extent that gas can be stored in off-system storage and local LNG facilities. Second, less volumes need to be actually purchased during the generally higher cost winter period to the extent that gas be can purchased during the lower cost non-winter period, stored and then redelivered from storage during the winter. Third, market area storage provides increased security of supply.

As shown in Table 1, PGW's currently available off-system storage capacity is almost equally divided between facilities connected to Spectra and Transco-Williams. Of PGW's total contract storage deliverability of 191,826 Mcf per day, services provided on Spectra account for 96,381 Mcf per day, or 50.2 percent, and Transco-Williams accounts for 95,445 Mcf per day, or 49.8 percent. All of this deliverability requires transportation to PGW via the respective transportation services obtained from Spectra and Transco-Williams. This storage deliverability is used primarily to reduce contract demand for long haul transportation services and to reduce the quantity of gas that needs to be purchased during the typically higher cost winter period to meet winter peak demand.

During the 2011 fiscal year, transportation and storage capacity costs are estimated to account for approximately 15 percent of the total gas supply expenses of $358 million. The prices paid for these services are determined by long-term contracts and tariff rates regulated by the Federal Energy Regulatory Commission ("FERC"). Generally, these components of gas supply cost represent the purchase of capacity, are relatively fixed, and do not vary directly with the volumes of gas purchased.

LNG Facilities

The City owns and PGW operates two LNG facilities: the Richmond Plant and the Passyunk Plant. The LNG facilities are primarily used to ensure availability of supply needed to serve peak day demand. The LNG facilities provide capacity that would otherwise be needed from flowing gas and off-system storage (i.e., pipeline and storage capacity) to meet peak day demands. The LNG facilities also allow for a nominal reduction in purchases during the higher cost winter period. Based upon current pipeline and storage charges, which have remained relatively constant over the past five years, PGW estimates that utilizing the existing LNG facilities in lieu of additional pipeline and storage capacity saves approximately $75 million per year.

Gas is liquefied, stored, and vaporized at the Richmond Plant, and stored and vaporized at the Passyunk Plant. Total liquefaction (converting natural gas to liquid state for storage) capacity at the Richmond Plant existing facilities is approximately 29,000 Mcf per day[7]. The Richmond Plant can store approximately 49 million gallons of LNG (4.05 million Mcf natural gas equivalent) and the Passyunk Plant can store approximately 3 million gallons of LNG (250,000 Mcf natural gas equivalent). The LNG stored at the Passyunk Plant is liquefied at the Richmond Plant and then

[7] This will decrease to approximately 16,000 Mcf per day in 2012 when the Title V Operating Permit expires for the cascade liquefaction.

transported by cryogenic trailer trucks to the Passyunk Plant. Total vaporization (converting the liquid LNG to gas) capacity at the Richmond Plant with two vaporizers, is 411,000 Mcf per day and 100,000 Mcf per day in reserve, and the capacity at the Passyunk Plant with two vaporizers, is 45,000 Mcf per day and 45,000 Mcf per day in reserve. The highest daily vaporization rate from the LNG facilities of approximately 360,000 Mcf occurred in January 1994 when PGW recorded its maximum system sendout.

Supply and Demand Balance

Table 2 summarizes the supply mix that was used to meet historical peak day demand from fiscal years 2005 through 2010, and the supply mix that would enable PGW to meet future demand assuming design conditions over the 2011 through 2016 fiscal years. A design day on PGW's System is based on the highest actual historical peak day experienced by PGW. This occurred on January 19, 1994, with a peak day total demand (sendout) of 752,707 Mcf. The average temperature on that day was 2°F. For design purposes, PGW projects total demand based on a 65 heating degree-day ("HDD") which translates to an average temperature of 0°F. During the past seven years, pipeline deliveries (flowing gas plus underground storage) have met between 74 and 92 percent of actual peak day demand. These figures are relatively high due to significantly warmer than normal winters. During the projection period, approximately 65 percent of peak day demand under design conditions would be met from pipeline supply with the remaining 35 percent met from LNG. PGW must maintain these capacity levels because it is considered the supplier of last resort if the customer's supplier is unable to deliver natural gas. PGW assigns proportionate shares of pipeline and LNG capacity and cost to transportation customers. Table 2 shows that PGW has sufficient capacity to meet demand requirements.

Table 3 summarizes the supply mix that is projected to meet annual requirements during normal and design years from 2011 through 2016. PGW defines a normal year as one containing 4,360 HDD. This normal year is based on a 30-year average. PGW defines a design year as one containing 5,280 HDD. A design year is based on the temperatures experienced during the 1977-1978 winter, which was the coldest recorded winter in the last 60 years.

Even though 100 percent of PGW's supply is originally transported through one of the two interstate pipelines, the supply components shown in Table 3 are based on the source of gas when ultimately delivered to the end user. As shown, approximately 65 percent of PGW's total gas pipeline supply during a normal year flows through the Transco-Williams pipeline system. On a projected normal annual basis, approximately 98 percent of volume is delivered to end users through the interstate pipeline systems (85 percent flowing gas[8] and 15 percent off-system storage), and 2 percent is delivered from the LNG facilities.

[8] Flowing gas represents gas that is purchased at the same time as delivered to customers.

Table 2. Peak Day Supply and Demand

	Fiscal Year Ending August 31,											
	Actual						Budget	Projected - Design [a]				
Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actual[b]												
Heating Degree-Days	50	44	51	42	50	45	43					
Demand - Mcf	591,133	490,923	589,588	533,349	574,126	543,835	549,808					
Supply - Mcf												
Pipeline/Storage	455,735	450,912	438,350	423,165	448,737	463,509	468,210					
LNG	135,398	40,011	151,238	110,184	125,389	80,326	81,598					
Total	591,133	490,923	589,588	533,349	574,126	543,835	549,808					
Projected - Design												
Heating Degree-Days[c]								65	65	65	65	65
Demand - Mcf[c]								690,960	690,833	690,706	690,579	690,461
Supply - Mcf												
Pipeline/Storage [d]								446,928	446,928	446,928	446,928	446,928
LNG (net)								244,032	243,905	243,778	243,651	243,533
Total								690,960	690,833	690,706	690,579	690,461

(a) Assumes no unbundling of services.
(b) For 2005-2010, SDS 7, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.
(c) SDS 6, Page 3 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.
(d) SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.

Table 3. Annual Supply and Demand

Line No.	Description	2011	2012	2013	2014	2015	2016
		dt	dt	dt	dt	dt	dt
	Normal Year - 4,360 Heating Degree-days						
	Requirements - Sales						
1	Firm Service	53,838,257	53,537,811	53,178,440	52,935,803	52,686,419	52,587,612
2	Boiler and Power Plant Service	719,799	677,731	639,571	605,291	570,441	547,857
3	Load Balancing Service	240,433	139,877	138,877	138,076	137,276	136,872
4	Cogeneration Service	13,113	11,659	10,300	9,111	9,192	9,432
5	Gas Transportation Service	3,076,700	3,322,066	3,501,334	3,667,213	3,846,778	3,925,335
6	Natural Gas Vehicle Service	0	0	0	0	0	0
7	Trigen	0	0	0	0	0	0
8	Grays Ferry	0	0	0	0	0	0
9	Subtotal Sales	57,888,302	57,689,144	57,468,522	57,355,494	57,250,106	57,207,109
10	Plant Use	159,529	153,675	69,653	65,977	66,430	147,699
11	Transport Fuel	3,316,671	3,376,178	3,365,658	3,225,170	3,275,532	3,297,747
12	Storage Fuel	332,720	588,964	456,111	546,006	566,152	465,258
13	Storage Return	9,397,786	16,392,466	13,693,287	14,656,892	15,382,477	13,204,710
14	Liquefaction	2,198,333	1,721,909	1,532,393	1,298,827	1,357,890	1,400,005
15	Total Demand	73,293,341	79,922,336	76,585,623	77,148,365	77,898,587	75,722,528
	Supply						
16	Spectra	21,253,791	20,196,318	21,557,503	18,867,293	19,476,011	19,869,208
17	Transco-Williams	39,654,953	42,467,221	40,524,952	41,176,921	41,792,764	41,426,946
18	Pipeline Subtotal	60,908,744	62,663,539	62,082,454	60,044,214	61,268,776	61,296,154
19	Spectra	5,573,901	9,176,069	8,044,778	9,147,543	9,075,319	6,881,021
20	Transco-Williams	5,373,283	6,522,552	4,997,413	6,613,909	6,194,450	6,202,596
21	Storage Subtotal	10,947,184	15,698,621	13,042,190	15,761,452	15,269,769	13,083,617
22	LNG	1,437,414	1,560,175	1,460,979	1,342,699	1,360,043	1,342,757
23	Total Supply	73,293,341	79,922,336	76,585,623	77,148,365	77,898,587	75,722,528
	Design Year - 5,280 Heating Degree-days						
	Requirements - Sales						
24	Firm Service	61,968,462	61,620,534	61,214,453	60,937,512	60,654,795	60,537,756
25	Boiler and Power Plant Service	840,953	791,788	747,272	707,219	666,446	640,102
26	Load Balancing Service	154,644	153,944	152,859	151,972	151,088	150,610
27	Cogeneration Service	13,113	11,659	10,300	9,111	9,192	9,432
28	Gas Transportation Service	3,459,413	3,743,832	3,954,650	4,142,683	4,348,382	4,435,247
29	Natural Gas Vehicle Service	0	0	0	0	0	0
30	Trigen	0	0	0	0	0	0
31	Grays Ferry	0	0	0	0	0	0
32	Subtotal Sales	66,436,585	66,321,758	66,079,534	65,948,497	65,829,903	65,773,147
33	Plant Use	167,549	162,359	77,736	76,389	76,972	155,059
34	Transport Fuel	3,888,177	3,963,411	3,906,165	3,857,065	3,876,272	3,851,740
35	Storage Fuel	441,449	475,381	446,881	430,680	450,481	434,029
36	Storage Return	12,359,220	13,867,661	13,108,367	12,531,967	12,818,860	12,564,703
37	Liquefaction	2,290,940	1,832,074	1,600,578	1,496,988	1,570,732	1,400,005
38	Total Demand	85,583,920	86,622,643	85,219,261	84,341,586	84,623,220	84,178,683
	Supply						
39	Spectra	26,565,456	26,802,449	26,765,719	26,292,470	25,843,268	26,370,603
40	Transco-Williams	43,747,340	44,882,675	43,985,972	43,709,871	44,898,775	43,641,727
41	Pipeline Subtotal	70,312,796	71,685,124	70,751,691	70,002,341	70,742,043	70,012,330
42	Spectra	6,613,045	6,596,387	6,364,127	6,305,901	5,937,226	6,270,813
43	Transco-Williams	6,106,722	5,793,727	5,655,257	5,638,242	5,542,571	5,530,554
44	Storage Subtotal	12,719,767	12,390,114	12,019,384	11,944,143	11,479,797	11,801,367
45	LNG	2,551,358	2,547,405	2,448,186	2,395,102	2,401,381	2,364,986
46	Total Supply	85,583,920	86,622,643	85,219,261	84,341,586	84,623,220	84,178,683

Reference: SDS 4A and SDS 4B, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2010.

Capital Improvement Program

PGW uses a formal process of evaluating capital needs and funding programs to meet those needs. This annual capital planning process is used to identify potential needs at the departmental level based upon certain operating and economic assumptions, evaluate these needs, and establish priorities considering available financial resources. Based upon this process, a Capital Improvement Program ("CIP") was formulated for the 2011 budget and for a five-year forecast period (2012-2016). For the large operating departments whose needs comprise the vast majority of PGW's capital requirements, the design forecast is one of the key elements in determining their capital requirements. In addition to ensuring the continued safety of PGW's operations, reliability of service is a major concern when considering the need for capital resources. The Gas Processing Department addresses these concerns by providing and maintaining the necessary facilities to take delivery of pipeline supplies and provides supplemental gas and peak load requirements. The Distribution Department, in its capital budget process, is concerned with continuing to provide and properly maintain a distribution network and to safely deliver natural gas at adequate pressure to satisfy the requirements of the appliances and equipment of PGW's customers.

Also of major importance is to ensure funding is available to provide facilities to support new load opportunities as identified in the Marketing Department's forecast of customer attachments. This forecast drives budget requirements for the Distribution Department for main and service additions, and in Field Services to identify new meter installations that must be provided for in their Capital Budget. Additional systems and technology initiatives are also considered to improve both efficiency and customer service. Under the terms of the Management Agreement, PGW submits the annual CIP to the Director of Finance and the PGC for their review and recommendation to City Council for the budget's approval.

In keeping with PGW's philosophy of maintaining a safe and reliable infrastructure, all capital projects are assigned a priority. The highest priority projects (Priority 1 and Priority 2) relate to expenditures required for maintaining the safety and reliability of PGW's infrastructure. Priority 3 expenditures relate to main enforced relocations that are based on City, State, and Federal mandated projects. Priority 4 expenditures relate to projects that will result in additional revenues from load growth, and the lowest priority projects (Priority 5) are those expenditures associated with improving operational efficiencies and/or discretionary items.

Table 4 presents a summary of PGW's historical and forecasted capital improvement program expenditures. Capital expenditures for the major departments are shown in the Table. Capital expenditures for all departments other than Gas Processing, Distribution, Field Services, and Fleet Operations, are grouped together under the miscellaneous category "Other Departments".

Proposed capital expenditures over the five-year projection period, 2012 through 2016, total $336.3 million. For fiscal year 2011, PGW's estimated capital expenditure of $64.8 million (net of salvage, contributions, and reimbursement) represents a 9.9 percent increase from the 2010 capital expenditures. The majority of the 2011 capital expenditures, $46.3 million or 71.4 percent, is committed to Distribution Department projects. Field Services and Other Departments have planned expenditures of about $4.6 million and $5.3 million, respectively, in fiscal year 2011. Gas Processing and Fleet Operations have planned expenditures of about $5.9 million and $2.8 million, respectively, in fiscal 2011. Over the five-year forecasted period, Distribution Department projects have planned expenditures of $262 million, which represents 78.0 percent of the total capital spending. The majority of the Distribution Department capital projects involve the replacement of

gas services and ongoing and required main replacements for high pressure, intermediate and low-pressure mains. Based on our inspections of existing facilities in March 2009 and May 2011 and under normal operating conditions, the proposed capital expenditures should be sufficient to maintain the system in good condition.

A listing of projects approved for the fiscal year 2011, by major department, is shown in Table 5. This table also shows the priority assigned to each project. In addition to the budgeted $53.5 million as shown in Table 5 for 2011, PGW anticipated completing $11.3 million of capital improvements carried over from prior fiscal years.

Gas Processing

As shown in Table 4, the estimated capital spending for the Gas Processing Department is $5.9 million in fiscal year 2011. These capital expenditures are for normal additions and replacements necessary to maintain the safety and reliability of natural gas measurement and control facilities and PGW's LNG supplemental gas capabilities.

Distribution

The ongoing cast iron main replacement capital program involves the removal of 18 miles of cast iron mains annually. The scope of this program is consistent with the recommendations made by Navigant Consulting Inc. ("Navigant") in a February 2000 report entitled "Philadelphia Gas Works Mains Replacement Study" and the more recent recommendations of Advantica in its 2008 report. Cast iron pipe was generally used by natural gas utilities many decades ago and was quite common for low-pressure gas mains such as PGW's. While this pipe has performed well, as it ages the pipe is prone to cracking and the joints to separating, thereby resulting in leaks. Over the last 20 years or so, natural gas utilities have been systematically replacing cast iron mains generally with plastic for low-pressure systems and sometimes wrapped and catholically protected steel for higher pressure systems. A one percent annual replacement program is typical for gas distribution utilities like PGW with greater than 500 miles of cast iron mains. The Distribution Department has also coordinated its main replacement with the Customer Accounting Department to ensure that as the mains are replaced, shutoff valves for the associated services are added in areas with significant risk of non-payment.

The estimated capital spending for fiscal year 2011 for the Distribution Department is $46.3 million, which is about $4.7 million higher than 2010 capital expenditures.

The largest department expenditure relates to the replacement of small diameter (1.25 inches or less) services, which are necessary as a result of the distribution mains replacements as well as leaking services and collection activities. This on-going multi-year project is budgeted at $18.9 million for fiscal year 2011.

Table 4. Historical and Proposed Capital Improvement Program Expenditures (Thousands of Dollars)

	Actual				Budget[b]	Projected					Total
Category	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012 - 2016
	$	$	$	$	$	$	$	$	$	$	$
Gas Processing	3,332	2,515	1,048	7,905	5,858	3,634	4,323	3,141	1,150	1,171	13,419
Distribution	48,549	47,748	42,104	41,554	46,263	56,938	49,728	50,799	51,893	53,009	262,367
Field Services	6,621	5,813	5,673	3,695	4,610	5,499	5,689	5,739	5,971	5,565	28,463
Fleet Operations	3,080	2,128	2,455	2,290	2,804	2,087	3,008	3,607	3,020	2,845	14,567
Other Departments [c]	8,436	3,538	3,582	3,515	5,263	5,297	4,287	3,788	2,553	1,603	17,528
Subtotal	70,018	61,742	54,862	58,959	64,798	73,455	67,035	67,074	64,587	64,193	336,344

(a) All figures are net of Salvage, Reimbursements, and Contributions.

(b) Includes carryover of $11.3 million in capital improvements from prior years.

(c) Includes Approved and Budgeted Program for Field Operations, Facilities Services, Customer Affairs, and Information Services.

Table 5. New Capital Projects for Fiscal Year 2011 (Thousands of Dollars)

Category	Priority 1 Safety	Priority 2 Reliability	Priority 3 Enforced	Priority 4 New Rev	Priority 5 Efficiency	Total
	$	$	$	$	$	$
Gas Processing						
NG Overhead Piping	452	0	0	0	0	452
Heater Penrose M&R	0	0	0	732	0	732
Backup Power Supply for LNG Pumps	0	203	0	0	0	203
Over Pressure Protection - Allegheny Main	0	317	0	0	0	317
Modifications To Oil Tank Reservoir - Richmond	0	0	0	0	0	0
Replace H1 Heater	0	1,359	0	0	0	1,359
Replace Air Piping On LNG Tanks - Richmond	0	104	0	0	0	104
Plant Security Phase I-Richmond	0	336	0	0	0	336
Water Back Flow Preventer	0	127	0	0	0	127
Miscellaneous Additions	25	0	0	0	0	25
Miscellaneous Replacements	82	0	0	0	0	82
Total Gas Processing	559	2,446	0	732	0	3,737
Distribution						
Prudent Main Replacements	11,755	0	0	0	0	11,755
High Pressure Main Valves Replacements	363	0	0	0	0	363
Small Service Replacements	18,943	0	0	0	0	18,943
Large Service Replacements	783	0	0	0	0	783
Small Service Installations	0	0	0	4,011	0	4,011
Large Service Installations	0	0	0	1,952	0	1,952
Customer Metering & Regulator Installation	0	0	0	156	0	156
Replace Pressure Regulating/Corrosion Control Facilities	0	139	0	0	0	139
Purchase Tools, Equipment	0	0	0	0	45	45
Replace Tools, Equipment	0	45	0	0	0	45
Enforced Relocations For System Pressure	0	0	1,949	0	0	1,949
Local Mains to Supply New Houses/Increased Capacity	0	0	0	1,248	0	1,248
Total Distribution	31,844	184	1,949	7,367	45	41,389
Field Services						
Regulator Purchases	17	0	0	0	0	17
Regulator Installations	0	0	0	24	0	24
Meter Installations	0	0	0	2,381	0	2,381
Shop Equipment	0	0	0	0	271	271
Training Equipment Replacements	0	0	0	0	0	0
Meters Purchases for Automatic Meter Reading	600	0	0	0	0	600
AMR Installations	0	0	0	50	0	50
AMR Replacements	0	0	0	0	1,137	1,137
BPS Metscan & LBS Metretek	90	0	0	0	0	90
Instrumentation Purchases and Installations	0	0	0	0	40	40
Total Field Services	707	0	0	2,455	1,448	4,610
Fleet Operations						
Conditional Funding for Vehicle Replacements	0	749	0	0	0	749
Shop Equipment Replacements	0	0	0	0	0	0
Mobile Equipment Replacements	0	165	0	0	0	165
Total Transportation	0	914	0	0	0	914
Other Departments	871	1,697	0	0	287	2,855
Total FY 2011 Projects	33,981	5,241	1,949	10,554	1,780	53,505
Carryover from Years Prior to FY 2011[(a)]	3,949	4,617	575	2,152	0	11,293
Total FY 2011 Expenditures (Net)	37,930	9,858	2,524	12,706	1,780	64,798

(a) The projects listed in the Table 5 are planned fiscal year 2011 capital improvements. In addition to the budgeted $53.5 million, PGW will also be completing $11.3 million of capital improvements carried over from prior years.

Field Services

The estimated capital spending for fiscal year 2011 for the Field Services Department is $4.6 million. PGW embarked on an aggressive program to retrofit customer meters with electronic devices to maximize the effectiveness of its automated meter reading system ("AMR"). This program is 100 percent complete. PGW continues to realize benefits from the implementation of the automated meter reading system, including fewer estimated readings, increased reading accuracy, reduction in meter reading personnel and reduced customer complaints. While replacing meters and AMR devices, PGW is testing its meters to comply with PUC requirements.

Fleet Operations

The Fleet Operations Department estimated capital expenditures are $2.8 million for fiscal year 2011. The majority of the estimated capital expenditures for this department not carried over from prior years are associated with vehicle replacements. The majority of the vehicle replacements are targeted to support critical field operations activities.

Other Departments

The "Other Departments" category includes estimated capital expenditures for Facilities Services, Information Services, and Customer Affairs. For fiscal year 2011, the combined spending of these departments is $5.3 million.

PGW continues to invest in its Business Transformation (BT) initiative. Included in this effort is the Field Operations Initiative ("FOI"), which is the cornerstone of how PGW will comply with PUC requirements, as well as achieve the benefits of integrating PGW's Distribution and Field Services Departments. Future improvements to support mobile and work management functions will be implemented under the AIMS Business Transformation Initiative. Additional BT funds are expended to support transformation efforts in the Customer Affairs area.

Funding is also requested to maintain PGW's information systems infrastructure in proper condition to support the business in providing service to the customer in an efficient manner.

Rates and Tariffs

Regulation

Prior to July 1, 2000, PGW's rates were regulated by the PGC. PGW's last base rate increase under PGC regulation was in December 1991. Commencing on July 1, 2000, PGW became regulated by the PUC. Although the PGC continues to approve PGW's operating budget, the PUC has the authority to approve the rates charged by PGW.[9] Since PGW became regulated under the PUC in 2000, the PUC has granted PGW base rate increases totaling $170.6 million. PGW has also filed with the PUC on several occasions regarding revisions to its gas cost rate ("GCR"). The PUC has approved all of the GCRs filed by PGW. In our opinion, PGW has requested and received timely changes in its GCR

On November 14, 2008, PGW filed for extraordinary base rate relief of $60 million, effective January 1, 2009. The request was granted December 18, 2008. PGW filed the request primarily to cover the additional financing costs that PGW incurred, to improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating and to provide liquidity and financial flexibility in the tight credit markets. The Office of Small Business Advocate (OSBA) filed a petition for reconsideration of the PUC's extraordinary rate order, challenging the allocation of the rate increase. The Commission dismissed the petition on March 26, 2009. The Commission imposed several conditions on PGW's receipt of extraordinary rate relief, all of which PGW has accepted: PGW was required to: 1) file its Business Transformation Initiative-Full Plan with the Commission for review, followed up by annual reports on its implementation and savings; 2) provide monthly reports of financial and operational performance and the results of cost containment efforts; 3) submit a performance-based incentive compensation plan for all management employees for comment by the Commission; 4) submit, ninety (90) days in advance of negotiating its next employee collective bargaining agreement, a plan for improving performance and implementing efficiencies for hourly employees; 5) convene a collaborative process to explore options for transitioning default service supply customers to alternative suppliers; 6) take appropriate steps to seek repeal of the City of Philadelphia's ordinance mandating the annual $18 million payment to the City. In granting the extraordinary relief, the PUC required PGW to file a base rate case no later than December 31, 2009.

On December 18, 2009, PGW submitted a base rate case filing with the PUC requesting 1) to maintain the $60 million base rate increase that the PUC granted in 2008; and 2) to provide PGW with a rider above the base rates that will fund PGW's previously booked other post-employment benefits (OPEB) liability in the amount of $105 million over the 2011 through 2015 period and to fully fund over 30 years, its unfunded actuarial accrued OPEB. PGW also moved to consolidate the Company's Demand Side Management Plan into the base rate filing. PGW filed the request to 1) comply with the PUC's December 2008 order directing the Company to file a general rate case by the end of 2009; 2) maintain the Company's financial position; 3) maintain the Company's bond rating 4) provide liquidity and financial flexibility in the current tight credit markets 5) better enable the Company to sell bonds to finance its capital program; 6) and enable the Company to provide funding for its OPEB liability.

[9] Generally, the PUC is required to rule on an application for base rate relief within nine months of the utility's application.

On May 19, 2010 PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the "Settlement"). The PUC approved this Settlement in its Order dated July 29, 2010 ("Order").

Under the Order, PGW is permitted to maintain virtually all of the extraordinary base rate relief, received an incremental rate increase of $16 million annually and is required to fund $18.5 million of the OPEB liability in each of the years 2011 through 2015. The increase granted by the Order represented about 37.6% of the $42.5 million incremental rate increase as originally requested by PGW.

The Order resulted in an improvement in PGW's projected test year financial performance compared to its projected financial performance without the Order, or the financial results that PGW would have projected to experience if the positions of other parties were to have been adopted. It is expected that the projected financial improvement will reduce PGW's reliance on borrowing and increase its cash flow.

Under the Order, PGW is authorized to make a uniform annual contribution of $15 million for Unfunded Actuarial Accrued Liability ("UAAL") in the first five years, for a total of $75 million. After this five year period, OPEB funding would be made at the amount required for full funding as determined by an actuarial study. The use of the Order's uniform funding approach results in more uniform rates and creates a reasonable transition period from "pay-as-you-go" funding to the full funding of OPEBs. Under the Order's uniform funding approach, ratepayers would save approximately $188 million, compared to savings of $200 million if PGW's original, full funding proposal had been approved.

The Order also changes the amortization period for the Net OPEB Obligation compared to PGW's original proposal. Under the Order, the Net OPEB Obligation is amortized over a thirty year period. With the thirty year amortization, $3.503 million will be required annually.

The Order authorizes PGW to implement its proposed five year Demand Side Management ("DSM") program generally as proposed, although PGW agreed to modifications to the program to address concerns raised by the active parties. PGW will be permitted to establish an automatic adjustment clause mechanism to recover its costs of implementing its DSM program, but agreed, for the first two years of the program, not to request recovery of any lost revenues that it might experience as a result. However, PGW is free to make a claim for lost revenues on a going forward basis in future base rate cases.

The PUC conducted a management audit of PGW's operations, via a third party consultant, from October 2007 through September 2008. A final report regarding audit findings was submitted to the PUC in December 2008. The audit included a total of 93 recommendations for improvement. PGW submitted its implementation plan regarding audit recommendations to the PUC on January 22, 2009. PGW accepted 88, partially accepted three, and rejected two of the PUC's follow-up recommendations. On February 5, 2009, the PUC released PGW's Implementation Plan and the PUC's Management Efficiency Investigation ("MEI") of PGW to the public. The PUC directed PGW to proceed with the January 22, 2009 Implementation Plan. PGW's implementation actions may be reviewed by the PUC at a later date to determine if PGW has effectively implemented the recommendations.

Existing Rates

The current tariff sets forth the rules and regulations for gas service and the rates PGW is allowed to charge for various types of service. Changes to this tariff must be approved by the PUC. Currently, PGW primarily provides service under three broad classifications: firm, interruptible, and transportation service. Table 6 summarizes PGW's existing rates and applicable surcharges. PGW's rates are presented as unbundled and include a customer charge, distribution charge, and gas cost rate (GCR). The distribution charge includes a delivery charge, as well as any applicable surcharges. The GCR is not applicable to certain firm service customers who transport gas through a qualified natural gas supplier ("NGS").

Firm Service

PGW provides firm service under three rate schedules: General Service, Municipal Service, and Philadelphia Housing Authority ("PHA") Service. The vast majority of PGW's customers are served under the General Service Rate. During the 2011 fiscal year, over 99 percent of PGW's customers are estimated to be served under this rate and these customers account for 98 percent of sales volumes (and 66 percent of total throughput). This rate is available to any residential, commercial, or industrial customer pursuant to the applicable rate provision. Monthly customer charges differ depending on whether the customer is classified as residential, commercial, or industrial customer. A different distribution charge applies to residential customers versus commercial and industrial customers. The General Service Rate contains special provisions for separately metered summer air conditioning and compressed natural gas ("CNG") vehicle service. Residential senior citizens may have previously qualified for a discount under this rate. (*See Senior Citizen Discount Program*).

Table 6. Existing Tariff Rates

Tariff	Effective	Existing Tariff Charges [a]
Firm Service		
General Service - Rate GS		
Customer Charge - $/meter per month		
Residential and Public Housing Customers	3/1/11	12.00
Commercial and Municipal Customers	3/1/11	18.00
Industrial Customers	3/1/11	50.00
Gas Cost Rate (GCR) - $/Mcf		
Residential and Public Housing Customers	3/1/11	6.5400
Commercial and Municipal Customers	3/1/11	6.5400
Industrial Customers	3/1/11	6.5400
Distribution Charge - $/Mcf[b]		
Delivery Charge		
Residential	3/1/11	6.3863
Public Housing Customers	3/1/11	4.9820
Commercial and Municipal Customers	3/1/11	4.6530
Industrial Customers	3/1/11	4.5859
Surcharges		
Universal Service and Energy Conservation	3/1/11	2.6468
Restructuring and Consumer Education	9/1/08	0.0259
Efficiency Cost Recovery Surcharge		
Residential and Public Housing Customers	3/1/11	0.0168
Commercial and Municipal Customers	3/1/11	0.0053
Industrial Customers	3/1/11	0.0532
Other Post Employment Benefits Surcharge	3/1/11	0.3107
Total Commodity Charge - $/Mcf		
Residential and Public Housing Customers		15.5990
Commercial and Municipal Customers		13.8657
Industrial Customers		13.7986
Municipal Service - Rate MS		
Customer Charge - $/meter per month	3/1/11	18.00
Gas Cost Rate (GCR) - $/Mcf	3/1/11	6.5400
Distribution Charge - $/Mcf[b]		
Delivery Charge	3/1/11	3.4040
Surcharges		
Universal Service and Energy Conservation	3/1/11	2.6468
Restructuring and Consumer Education	9/1/08	0.0259
Efficiency Cost Recovery Surcharge	3/1/11	0.0000
Other Post Employment Benefits Surcharge	3/1/11	0.3107
Total Commodity Charge - $/Mcf		12.6167
Philadelphia Housing Authority Service - Rate PHA		
Customer Charge - $/meter per month	3/1/11	18.00
Gas Cost Rate (GCR) - $/Mcf	3/1/11	6.5400
Distribution Charge - $/Mcf[b]		
Delivery Charge	3/1/11	4.1480
Surcharges		
Universal Service and Energy Conservation	3/1/11	2.6468
Restructuring and Consumer Education	9/1/08	0.0259
Efficiency Cost Recovery Surcharge	3/1/11	0.0053
Other Post Employment Benefits Surcharge	3/1/11	0.3107
Total Commodity Charge - $/Mcf		13.3607
Interruptible Service		
Boiler and Power Plant Service-Small Volume - Rate BPS-S		
Customer Charge - $/meter per month		
Annual consumption less than 10,000 Mcf.	9/1/03	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	9/1/03	108.00
Annual consumption greater than 100,000 Mcf.	9/1/03	150.00
Commodity Charge [c] - $/Mcf		18.06
Boiler and Power Plant Service - Large Volume - Rate BPS-L		
Customer Charge - $/meter per month		
Annual consumption less than 10,000 Mcf.	9/1/03	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	9/1/03	108.00
Annual consumption greater than 100,000 Mcf.	9/1/03	150.00
Commodity Charge [c] - $/Mcf		15.19
Boiler and Power Plant Service - Heavy Oil - Rate BPS-H		
Customer Charge - $/meter per month		
Annual consumption less than 10,000 Mcf.	9/1/03	51.00
Annual consumption between 10,000 and 100,000 Mcf, inclusive.	9/1/03	108.00
Annual consumption greater than 100,000 Mcf.	9/1/03	150.00
Commodity Charge [c] - $/Mcf		14.22

Table 6 (Continued). Existing Tariff Rates

Tariff	Effective	Existing Tariff Charges [a]
Interruptible Service (Continued)		
Load Balancing Service - Extra-Large Volume - Rate LBS-XL		
Customer Charge - $/meter per month	9/1/03	362.00
Commodity Charge [c] - $/Mcf		13.14
Load Balancing Service - Large Volume - Rate LBS-L		
Customer Charge - $/meter per month	9/1/03	254.00
Commodity Charge [c] - $/Mcf		13.19
Load Balancing Service - Small Volume - Rate LBS-S		
Customer Charge - $/meter per month	9/1/03	145.00
Commodity Charge [c] - $/Mcf		13.24
Gas Transportation Service - Rate GTS		
Customer Charge - $/meter per month	9/1/03	250.00
Commodity Charge[d] - $/Mcf		0.4021
Cogeneration Service - Rate CG		
Customer Charge - $/meter per month	9/1/03	362.00
Commodity Charge[e] - $/Mcf		6.00
Developmental Natural Gas Vehicle Service, Firm Service - Rate NGVS		
Customer Charge - $/meter per month	3/1/11	35.00
Gas Cost Rate (GCR) - $/Mcf	3/1/11	6.5400
Distribution Charge - $/Mcf[b]		
Delivery Charge	3/1/11	1.3212
Surcharges		
Universal Service and Energy Conservation	3/1/11	2.6468
Restructuring and Consumer Education	9/1/08	0.0259
Total Commodity Charge - $/Mcf		10.5339
Developmental Natural Gas Vehicle Service, Interruptible Service - Rate NGVS		
Customer Charge - $/meter per month	9/1/03	35.00
Commodity Charge - $/Mcf		12.21
Transportation Service		
Daily Balancing Service - Rate DB		
Administrative Charge - $/supply pool per month	9/1/03	150.00
Plus charges and/or credits related to balancing and Operational Flow Orders (OFOs)		
Interruptible Transportation - Rate IT	9/1/03	
IT-A - Contracts for not less than 2,500 Dth, maintain standby non-natural gas energy.		
IT-B - Contracts for not less than 5,000 Dth, maintain standby non-natural gas energy.		
IT-C - Contracts for not less than 10,000 Dth, maintain standby non-natural gas energy.		
IT-D - Contracts for not less than 25,000 Dth, maintain standby non-natural gas energy.		
IT-E - Contracts for not less than 80,000 Dth, maintain standby non-natural gas energy.		

Customer Charge - $/meter location per month		Transportation Charge - $/Dth delivered		
IT-A	125.00	IT-A	1.81	maximum
IT-B	225.00	IT-B	0.87	maximum
IT-C	225.00	IT-C	0.68	maximum
IT-D	225.00	IT-D	0.61	maximum
IT-E	350.00	IT-E	0.58	maximum

(a) Reference: Philadelphia Gas Works, Gas Service Tariff, Pa P.U.C No 2.
(b) Sum of Delivery Charge and Surcharges.
(c) Competitively priced based on cost of alternative fuel. Based on June 2010-May 2011 average.
(d) Commodity charge includes Delivery Charge, Transportation charge, and Standby Service Charge, if applicable.
Source of commodity charge is PGW Gas Sales and Revenue Report - Month Ending March 2011.
(e) Commodity charge based on cost of gas purchased and delivered to PGW gate stations.

Table 7 presents a comparison of a typical peak winter month's residential gas bill for PGW and the other principal gas distribution utilities in Pennsylvania. Based on rates, surcharges, and costs of gas currently in effect, PGW's typical winter month residential bill is approximately $97.31 higher than the group average of $233.22. One of PGW's surcharges, Universal Service and Energy Conservation surcharge, includes the recovery of costs related to the Customer Responsibility Program, the Enhanced Low Income Retrofit Program (ELIRP), and the Senior Citizen Discount Program. PGW's Universal and Energy Conservation surcharge is currently $2.6468 per Mcf. For the typical peak winter month's residential bill for 20 Mcf of consumption, the Universal Service Charge amounts to $52.94 of the $330.53. Black & Veatch understands that, in comparison to PGW, comparable social program related surcharges of other Pennsylvania utilities are significantly lower because the cost of these programs are not as high as they are in Philadelphia.

Table 7. Comparison of Residential Gas Bills – Pennsylvania Utilities for Customers Using 20 Mcf per Month

Utility	Gas Cost Effective	Monthly Bill[(a) (b)]
PECO Energy	3/12/2011	229.60
UGI Corporation	5/31/2011	240.52
National Fuel Gas	5/1/2011	189.59
Peoples Natural Gas	4/10/2011	176.49
UGI Penn Natural Gas (formerly PG Energy)	6/1/2011	226.69
Columbia Gas of Pennsylvania	4/1/2011	229.61
Equitable Gas	4/1/2011	242.69
Philadelphia Gas Works	3/1/2011	330.53

(a) Table assumes 1 cubic foot equals 1,000 Btu.
(b) Gas Costs are a contributing factor to the difference in Monthly Bill. Gas Costs range from $5.35/Mcf to $8.49/Mcf .

Interruptible Service

PGW provides interruptible sales service under several rate schedules. Virtually all interruptible sales service is under the Boiler and Power Plant Service ("BPS") or Load Balancing Service ("LBS"). The BPS rates are set within a range, based on the estimated cost of gas and on published No. 2 fuel oil prices in Philadelphia. The LBS service is priced similarly, except that No. 6 fuel oil is used rather than No. 2 fuel oil. Because this service is interruptible, customers taking BPS or LBS service must be able to use an alternate energy source. The rates are competitive. If alternate fuel (No. 2 or No. 6 fuel oil) is less expensive than the equivalent price that PGW offers in any given month, the customer may use the alternate fuel rather than burn natural gas.

Transportation Service

PGW currently provides interruptible transportation service to approximately 350 customers. The increase in transportation customers is primarily due to customers transferring from sales to transportation service. During the calendar year 2010, Grays Ferry Cogeneration Facility accounted for about 44 percent of the transportation throughput and about 10 percent of the transportation revenue. Service to this customer is provided through essentially dedicated facilities under a long-term negotiated contract. Under this contract, PGW receives approximately 8 cents per Mcf for each unit transported plus a service charge intended to cover PGW's cost of operating and maintaining the facilities required to serve this customer. The other customers are served under individually negotiated contracts. In some cases, transportation customers also take some service under the sales rate schedule for a portion of their load.

Although PGW has operated under its Restructuring Compliance Tariff with unbundled rates since September 1, 2003, many of PGW's customers continue to take fully bundled service from PGW. A fully bundled service is a service where the customer deals with one provider and pays for all services through a single charge. All of the separate services (gas supply, transportation, storage, and distribution) currently performed by PGW are packaged into one full-service rate.

Under PGW's restructured rates, customers have the option to continue taking the gas supply, transportation, and storage services from PGW or to choose a third party supplier to provide these services. Whether the customer decides to have PGW provide these services or a third party, the customer continues to take and pay for distribution service from PGW. Under its current tariff, PGW assigns (with recall rights) portions of its transportation and storage (pipeline and LNG) capacity to the third party supplier such that PGW and customers who take a fully bundled service will not be adversely impacted by having to pay for capacity that would otherwise be stranded by customers who choose a third party supplier. PGW retains ownership to the transportation and storage capacity because PGW continues to be the supplier of last resort. If a third party supplier defaults or is no longer able to meet its commitments, PGW is able to recall the transportation and storage capacity and serve the customers who had opted for service from this third party supplier.

Under the unbundled rates, PGW's contribution margin from firm customers is not materially impacted by whether a customer chooses a third party supplier or elects to continue taking the fully bundled service. In effect, the unbundled rates and services make PGW indifferent as to which service a customer takes. Customers will continue to pay the distribution and customer charges no matter which service is taken. The GCR mechanism will keep PGW whole with regard to gas supply, transportation, and storage costs. PGW's ability to assign capacity to the third party suppliers will not adversely impact customers who choose to take the fully bundled service.

It is projected that for fiscal year 2011, approximately 24.7 million Mcf of commercial, industrial and municipal throughput, or 33 percent of total throughput, is taking gas supply and transportation from a third party supplier. For purposes of this Report, it is assumed that this throughput will continue to grow annually, reaching 25.8 million Mcf, or approximately 34 percent of total throughput by 2016.

Gas Cost Rate

As previously discussed, all changes in gas supply related costs are passed through to customers through the gas cost rate ("GCR"). The specific components of PGW's current GCR are depicted in Figure 3. PGW's gas supply costs consist of purchased gas costs, transportation costs, and off-system storage costs. This cost is reduced by the cost directly paid by interruptible sales customers (specifically, BPS and LBS customers). Sales are made to these interruptible customers based on prices quoted monthly by PGW. The prices quoted are based on the average delivered price paid by PGW during the month with some consideration given to the customer's cost of alternative fuel oil. Natural gas service is competing against the price of alternative fuel; however, PGW only incurs gas supply cost attributable to these customers to the extent that sales are made (and gas is purchased to meet load). Total gas supply costs are also adjusted to reflect changes in the inventory cost of off-system and LNG storage and the cost of power purchased for the LNG facilities. The change in inventory cost is attributable to changes in volume as well as the price paid for the gas put into storage.

These costs are divided by the total sales volumes less the volumes attributable to direct billed interruptible sales customers to determine the unit cost of fuel, or sales service charge as depicted in Figure 3. Various adjustments are then made to the sales service charge. An additional adjustment is made for the net over or under collection of natural gas during the previous fiscal year resulting from differences between values used to project the prior year's GCR and those actually experienced. The interest expense or credit on the over or under recovery is also applied to calculate the total adjustment. In addition, a credit for margin realized from interruptible sales ("IRC") is made. Each of these components comprises the GCR. The GCR is typically adjusted quarterly although PGW has the ability on thirty days notice to the PUC to change it monthly.

Prior to the restructuring, PGW recovered certain non-fuel expenses in addition to gas supply costs through the GCR. These included discounts given to low income customers through the Customer Responsibility Program and funds provided to weatherize the homes for low-income customers through the Conservation Works Program. These costs are now recovered through surcharges which are not included as part of the GCR. By recovering these costs through surcharges, customers cannot avoid these costs by not purchasing gas from PGW.

Surcharges

PGW's surcharges include a Restructuring and Consumer Education Surcharge, Universal Service and Energy Conservation Surcharge, Efficiency Cost Recovery Surcharge and Other Post Employment Benefit (OPEB) Surcharge. These surcharges are depicted in Figure 4. Gas utilities in Pennsylvania can recover the costs of social programs through what are generally referred to as universal service charges. The Universal Service and Energy Conservation Surcharge provides for the recovery of discounts to customers on the Customer Responsibility Program ("CRP"), of discounts to customers receiving the Senior Citizen Discount, of the costs of the Conservation Works Program, and of past due arrearages forgiven to CRP customers entering CRP after September 1, 2003. The Universal Service Charge is applicable to all PGW customers, excluding interruptible customers, who are delivered natural gas through PGW's distribution system. PGW automatically adjusts the surcharge quarterly in connection with its GCR filing.

The Restructuring and Consumer Education Surcharge separately tracks and recovers costs associated with the transition to customer choice and what are generally referred to as PUC Chapter 56 (Customer Service) and Chapter 59 (Safety) costs. The restructuring costs include the recovery of Commission approved costs which PGW has or will incur to meet requirements of the Natural Gas Choice and Competition Act and applicable Commission regulations, orders, and other regulatory requirements. The additional costs associated with Chapter 56 primarily relate to more frequent reading of indoor meters. The additional costs associated with Chapter 59 primarily relate to more frequent meter testing and indoor leak surveys.

The Efficiency Cost Recovery Surcharge recovers the program costs and the administrative costs of the energy efficiency programs (i.e. the demand side management programs) for the firm customer rate classes. The Other Post Employment Benefit (OPEB) Surcharge recovers the amounts necessary for PGW's OPEB obligations.

Weather Normalization Adjustment

Since 2002, PGW's Tariff has included a weather normalization adjustment ("WNA") clause, and is the only PA PUC-regulated utility to have such a clause. The benefit of a WNA is that it mitigates the single biggest risk to PGW of recovering its approved margin, warmer than normal weather during the winter season. PGW's approved commodity charges (exclusive of cost of gas) are derived using throughput (volumes) that are based on the assumption that weather will be normal. If conditions are warmer than normal, sales decline and in conjunction with that, margin revenues decline. Several warmer than normal winters, including one of the warmest winters in PGW's history, created the circumstances that led to PGW's need to file for extraordinary rate relief in 2002. The WNA is a permanent part of PGW's retail Tariff.

The WNA is designed to adjust the customers' bills upwards or downwards to reflect differences between actual heating degree-days and normal heating degree-days. The benefits of a WNA include the following:

- Stabilizes earnings,
- Stabilizes cash flow during the winter heating season,
- Reduces the need to file rate cases, thereby lowering costs,
- Reduces the need for short term financing, and
- Stabilizes customers' bills.

The winter of 2010/11 was the ninth winter season the WNA was in effect and the heating degree-days ("HDD") during the winter period were 8.4 percent lower than normal (4,023 actual HDD versus 4,392 normal HDD). Heating customers were credited approximately $2.75 million as a result of the colder winter period even though as a whole the heating season was warmer than normal. PGW's WNA applies to customers served under its General Service, Municipal Service, and PHA rate schedules and is calculated for each customer bill rendered between October 1 and May 31.

The type of WNA that PGW implemented is referred to as a Type 1 WNA. This type of WNA adjusts the customer's bill to reflect conditions during the billing cycle covering that bill. This contrasts with a Type 2 WNA which is calculated on a seasonal basis. The advantage of the Type 1 WNA is that the calculation of the customers' bills and PGW's revenue recovery are concurrent with the current billing cycle. The adjustment is calculated as the ratio of the normal HDD during the billing

cycle divided by the actual HDD during the cycle. For example, assuming a residential customer uses 10 Mcf during the period November 16 through December 15, the actual HDD during this period are 750, and the normal HDD during this period are 850. The customer's commodity charge (exclusive of gas cost) would be calculated as 10 Mcf times 850 HDD divided by 750 HDD times $6.184 per Mcf which equals $70.09. Without a WNA, the customer's bill would have been $61.84 (10 Mcf times $6.184 per Mcf). The WNA only applies if the actual HDD deviate by more than 1 percent from the normal HDD during the billing cycle. Therefore, if the actual HDD during the cycle in the above example had been within the range of 842 to 859 HDD, no adjustment would be made to the bill.

Five-Year Gas Demand-Side Management Plan

PGW filed a petition with the PUC for approval of a 5-year gas demand-side management plan ("DSM Plan" or "Plan") on March 26, 2009, and subsequently filed an amended petition on April 20, 2009. In December 2009 the DSM proposal was consolidated in the rate increase proceeding filed by PGW at the PUC. The Plan contains a proposed mechanism to recover the costs of program implementation and revenue loss directly attributable to program implementation. The goals of PGW's DSM Plan are to reduce customer bills, maximize customer value, contribute to the fulfillment of the City's Sustainability Plan, and reduce PGW cash flow requirements. These goals will be accomplished by:

- Fielding a portfolio of programs that targets cost-effective gas efficiency savings among all PGW's firm heating customers,
- Maximizing delivery efficiency to minimize costs and maximize coverage from the available budget,
- Staging program implementation to permit orderly and sustainable expansion,
- Treating customers in greatest economic need and with the most cost-effective opportunities first,
- Supporting economic development in the City, both directly and indirectly, and
- Exploring opportunities to take advantage of efficiencies by partnering with other parties.

The DSM Plan includes expenditures of $60 million for the period 2011 through 2015. Over the expected useful life of the measures to be installed under the plan, customers are expected to achieve a lifetime cost savings of $110 million in 2009 dollars by reducing lifetime usage by 25 trillion BTU. The Plan is expected to reach 64,000 customers and create between 750 and 1,250 jobs. As part of its filing, PGW proposed an automatic adjustment charge mechanism to recover the costs of the program as well as revenues lost as a result of customers' conservation steps. PGW asked the PUC to review the petition to approve the 5-year plan, as well as the cost recovery mechanism on an expedited basis. Based on the PUC Order dated July 29, 2010, PGW received approval for the adjustment charge mechanism to collect program costs, but not margin revenues lost due to customers' reduction in usage due to the conservation steps. Any reduction in customer margins could be reflected in future base rate filings. PGW began implementation of the DSM program promptly in early Fiscal Year 2011.

Listed below are the major Plan programs. As used below, the term "retrofit" follows the common use of the term in this kind of program, meaning modification of an existing structure to improve energy efficiency.

1. Enhanced Low-Income Retrofit Program

   Target Audience: Low-income Residential (CRP Participants)

   Description: Measures similar to those installed under PGW's low income weatherization program will be installed at no cost to the customer.

2. Comprehensive Residential Retrofit Incentive Program

   Target Audience: High-use Residential

   Description: Non-low-income customers will be offered a range of measures with financial incentives which offer a 2 Year Simple Payback plus an extended payment plan, and a listing of Home Performance with ENERGY STAR™ Contractors.

3. Residential Heating Equipment Rebates Program

   Target Audience: Customers purchasing residential-sized heating equipment

   Description: Special incentives will be offered to those who select Residential-sized, energy efficient gas appliances and heating equipment. This program targets the entire supply chain, providing incentives designed to cover 80 percent of incremental costs for high efficiency models.

4. Commercial and Industrial Equipment Rebates Program

   Target Audience: Commercial and industrial customers at time of installation/ replacement

   Description: The program proposes using the key intervention point when design decisions are being made for projects in an effort to avoid lost opportunities to provide broad support for retailers, engineers, and contractors, and incentives designed to cover 80 percent of incremental costs for higher efficiency.

5. High-Efficiency Construction Incentives Program

   Target Audience: Residential and Commercial Construction

   Description: Promote adoption of energy efficient design in all aspects of housing construction, including incentives designed to cover 80 percent of incremental costs (including design), and potential integration with other parties.

6. Commercial and Industrial Retrofit Incentives Program

   Target Audience: Commercial and Industrial Facilities

   Description: Energy audits of existing facilities and customized incentives are among the measures proposed.

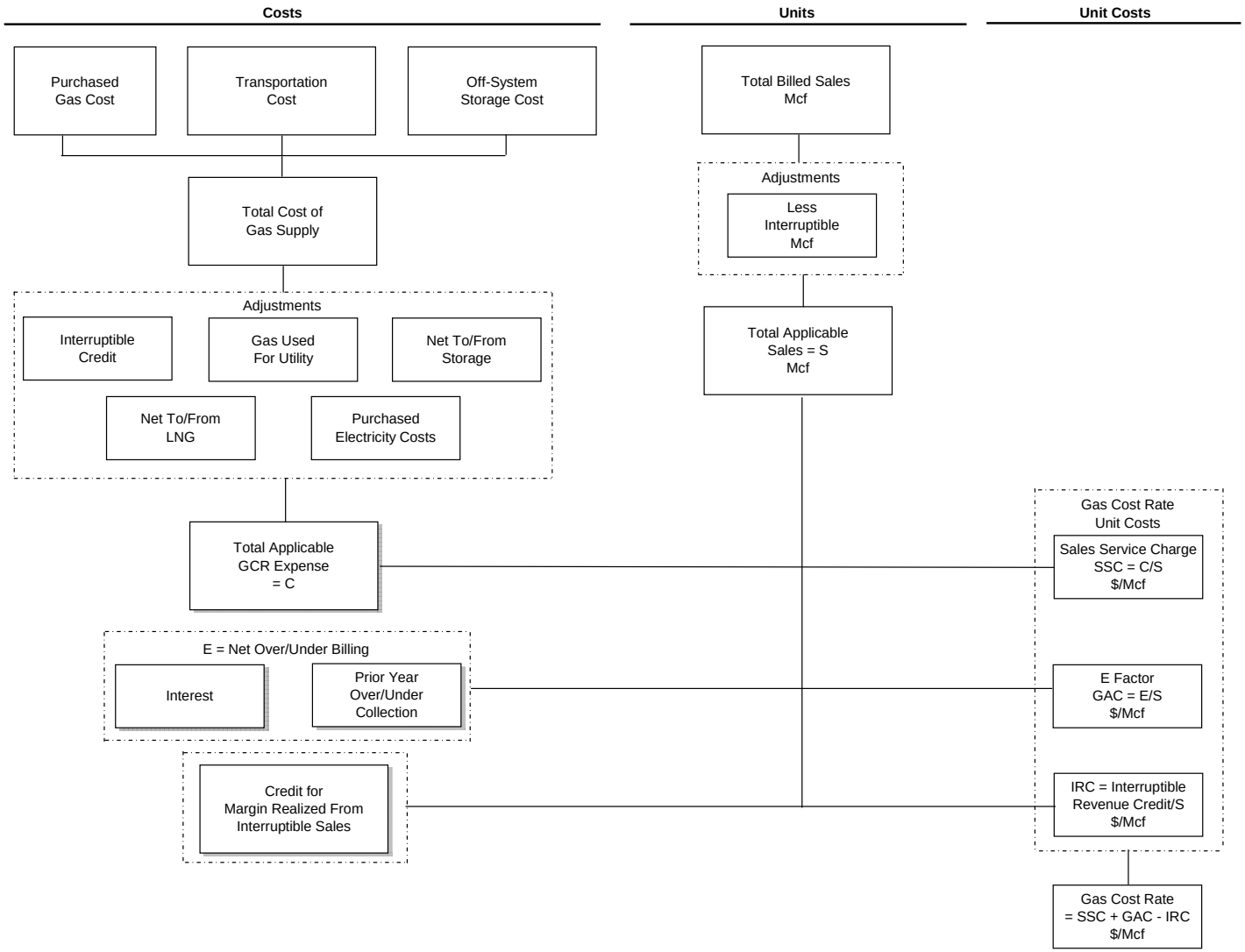

Figure 3. Components of PGW Gas Cost Rate

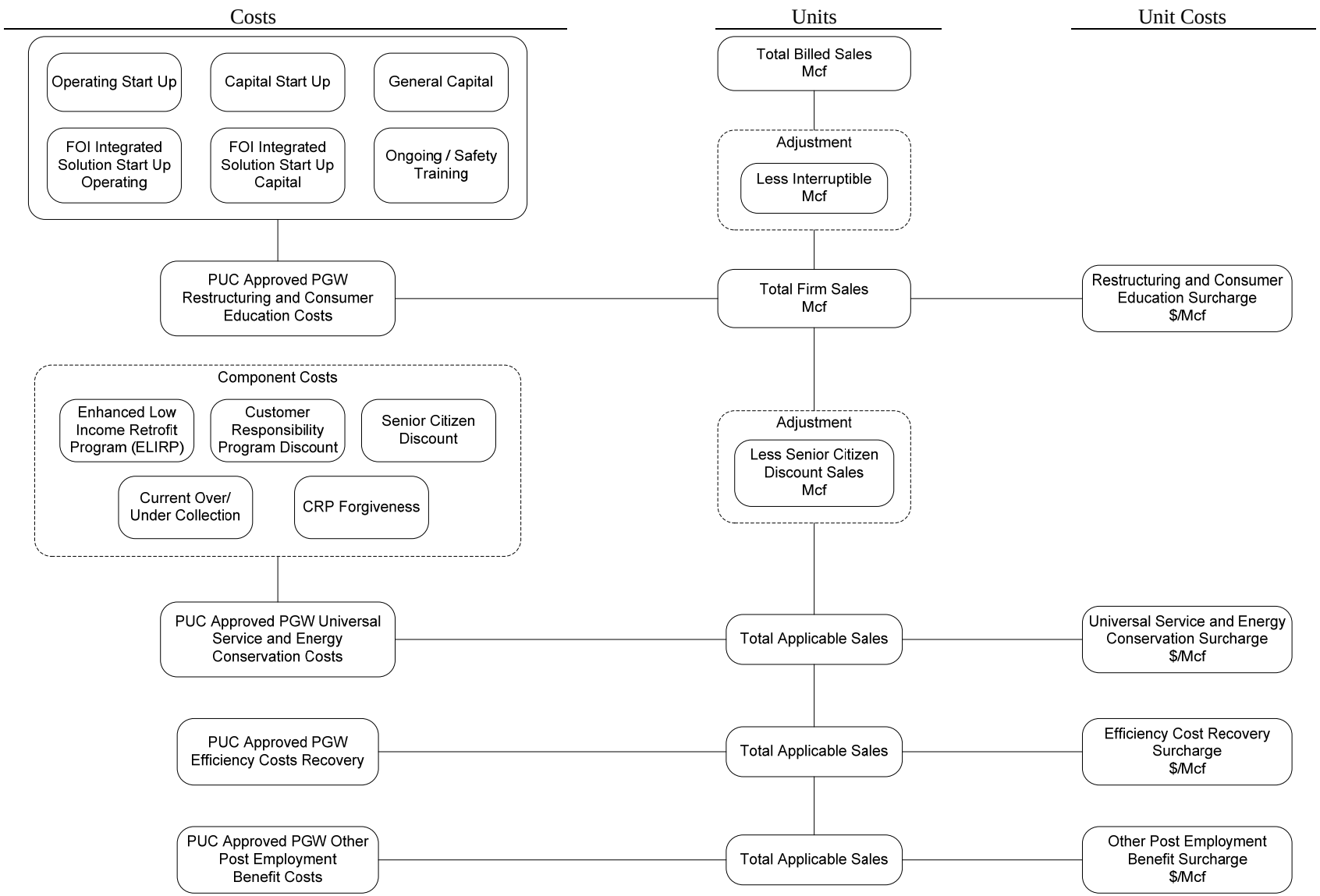

Figure 4. Components of PGW Surcharges

Infrastructure Replacement

As discussed earlier in this report in the Capital Improvement Program – Distribution section, PGW is currently replacing 18 miles of cast iron mains annually. This program was initiated by PGW based on studies conducted for PGW. The cost of this program is being paid for by customers under the existing base rates. Primarily as a result of the natural gas transmission pipeline explosion in San Bruno, California, in September 2010, the cast iron main explosion in Allentown, Pennsylvania in February 2011, and a cast iron main related explosion in Philadelphia in January 2011, the Pennsylvania Public Utilities Commission is considering the implementation of required infrastructure replacement programs. At this time, the specifics of this mandate are not known. There are two important components of this program that would impact PGW.

First, it is possible that the Pennsylvania PUC may mandate that PGW replace more mains than the current 18 miles that PGW is already replacing annually. PGW's existing staff has the capability to replace up to 22 miles of mains annually. PGW has obtained an agreement in the labor agreement just negotiated to allow PGW to use outside contractors to perform any replacements above 22 miles per year. The actual amount mandated by the PUC will depend upon how much pipe the PUC determines needs to be replaced and over how long a period the replacements are to occur. Since each utility's infrastructure consists of different materials and different ages, it is highly likely that the programs will be specific to each utility. For purposes of this report, it is assumed that the annual infrastructure replacement program ultimately adopted by the PUC would be compatible with PGW's System and existing operations.

The second component of this program relates to how the cost of the incremental requirement will be funded. In other states where such programs have been initiated in the past, a frequent filing of rate cases to increase base rates has been found to be burdensome. Therefore, many states have implemented infrastructure cost recovery mechanisms. These cost recovery mechanisms operate in a manner similar to the other surcharges that PGW already has in place. The incremental costs of the program are collected through a surcharge and then ultimately added to base rates as rate cases are filed on a normal cycle. According to the American Gas Association, there are 19 states where such mechanisms have been approved and three more states are currently considering such mechanisms. Pennsylvania is also considering a surcharge approach and there has been a bill introduced in the Pennsylvania House of Representatives (H.B. 1294) addressing this and that bill has the full support of the PUC. For purposes of this report, it is assumed that the cost of any mandated program would be recovered from customers in a timely fashion such that there is no significant impact on PGW's cash flow. Further, it is assumed that any program mandated by the PUC would not create unduly disruptive price impacts that might affect the competitiveness of natural gas relative to alternate energy sources

Customer Responsibility Program

In November 1993, the Philadelphia Gas Commission adopted a low-income program known as the Customer Responsibility Program ("CRP"). This program became effective in February 1994. The purpose of CRP is to increase the collection of revenues, provide an affordable payment plan for low-income customers, impress payment responsibility on the customer, reinforce the importance of conservation and increase grant assignment. The goal of the program is to increase cash flow to PGW and decrease accounts receivable.

Currently, CRP is open to any customer who is at or below 150 percent of the Federal poverty level ("FPL"). Monthly bills for CRP customers are based on income, so that they are affordable for low-income households. If a customer entering CRP has arrears, those arrears are forgiven at a rate of 1/36th per month. As part of their CRP agreement of fixed monthly bills and arrearage forgiveness, CRP customers are required to:

- accept conservation measures offered to them in the Enhanced Low-income Retrofit Program (ELIRP);
- allow the installation of an Automatic Meter Reading device;
- make a $5 monthly co-payment toward their pre-program arrears, if they have any;
- apply for LIHEAP, if eligible, and designate PGW as the grant recipient;
- re-certify at least once per year, or when household size or income changes; and
- make payments on time and in full (CRP customers are considered in default when they are one full payment past due).

In September 2003, the CRP program was changed to conform to requirements of the PUC. This revised program is described below.

CRP is a customer assistance program that can help low-income residential customers who are at or below 150 percent of the poverty level to better afford their PGW bills and maintain their gas service. Participants receive a discount based on their gross household income. Applicants must apply by showing proof of income and social security cards for everyone in the household. There are three agreement types:

PGW Annual Bill	Household Income
8% of income	0-50% FPL
9% of income	51-100% FPL
10% of income	101-150% FPL

The minimum payment under a CRP agreement is $25 per month. Customers with pre-program arrears must make a $5 monthly co-payment toward the arrears, in addition to the CRP budget amount. They must also pay their bill on time to receive forgiveness of pre-program arrears.

Approximately 84,000 customers, or about 19 percent of PGW's total residential customer base, are enrolled in CRP. The participation level has been steadily increasing each year due to intensive outreach efforts. The main costs associated with the CRP program are the discounts that customers receive (revenue shortfall) and their arrearage forgiveness.

The CRP revenue shortfall is currently recovered in the Universal Service Surcharge. In the past five fiscal years, these amounts were $89.9 million for 2006, $86.6 million for 2007, $85.9 million for 2008, $101.4 million for 2009 and $78.9 million for 2010. The shortfall fluctuation can be primarily attributed to the higher cost of natural gas supply and increased participation levels.

PGW forgives 1/36th of CRP pre-program arrears each month, provided that all bills are paid on time and in full. In the past five years, PGW forgave $10.1 million in 2006, $9.3 million in 2007, $9 million in 2008, $8 million in 2009 and $9.5 million in 2010.

On June 3, 2010, PGW filed a Petition with the PUC proposing modifications to its CRP structure in order to take account of certain changes in the application of LIHEAP cash grants, as well as to propose a conservation incentive to encourage CRP customers to conserve natural gas. In March 2011, PGW received a copy of a letter which the Department of Public Works ("DPW") filed with the Commission expressing DPW's view that PGW's proposed modifications to CRP were illegal and inconsistent with relevant federal and DPW rules, regulations and interpretations thereof. The DPW Letter specifically threatened to revoke PGW's LIHEAP "vendor status" if PGW were to implement the proposed modifications to CRP that were set forth in the Petition.

Conservation Works Program/Enhanced Low Income Program

The Conservation Works Program ("CWP") is designed to provide cost-effective energy savings to PGW's low-income customers who participate in CRP. CWP is intended to reduce the overall long-term costs of CRP.

CWP began in 1990 and was operated by the Energy Coordinating Agency of Philadelphia ("ECA") for the first years of the program. In September 1996, the program was redesigned, a second weatherization contractor was added, and PGW became the program operator. Both contractors have pursued a lower cost program approach designed to install only the most cost-effective measures. Since redesign, the program has continued with an annual budget of approximately $2 million. About 3,000 homes have been treated annually in recent years.

On January 1, 2011, CWP was expanded into the Enhanced Low-Income Retrofit Program (ELIRP), as part of PGW's new portfolio of energy-efficiency programs for all of the Company's customers. CWP had been designed to spend smaller amounts within each home so as to treat as many homes as possible within the allotted budget amounts. The new ELIRP emphasizes greater expenditures within each home entered, so as to realize as much savings per home. The goal of ELIRP is to generate an average energy reduction of 20% per home treated.

The full portfolio of energy-efficiency programs, EnergySense, consists of 6 separate programs offering incentives available to all PGW customers to assist in conserving energy. The portfolio has five broad goals:

- Reduce customer bills.
- Maximize customer value.
- Contribute to the fulfillment of the City's sustainability plan.
- Reduce PGW cash flow requirements.
- Help the Commonwealth and the City of Philadelphia reduce greenhouse gas.

As currently approved by the PUC, EnergySense is a 5 year program, beginning in 2011, which will spend $60 million to generate approximately $110 million in savings. ELIRP accounts for an average of $6 million in expenditures annually and as such represents the most significant portion of total EnergySense activity.

Senior Citizen Discount Program

The senior citizen discount program is a closed program. Since September 1, 2003, the program is not available to new participants. However, PGW currently has approximately 31,000 participants as of March 2011 in its senior citizen discount program. All participants currently in the program were "grandfathered" in when the PUC discontinued it in September 2003. In 2004 there were approximately 70,000 "grandfathered" participants in the program. The senior citizen discount amounts to a 20 percent reduction on the participant's total gas bill each month.

Other Programs and Grants

In addition to the programs described above, PGW also participates in or partially funds several other assistance programs that are intended to increase cash flow and reduce accounts receivable.

LIHEAP Program

The Federally funded Low Income Home Energy Assistance Program ("LIHEAP") provides funds to households to ensure continued utility service. The City's low-income residential gas consumers may apply for assistance through the Department of Public Welfare. PGW district offices and many community organizations throughout Philadelphia offer assistance with the application process. The LIHEAP program consists of two grant components: Cash and CRISIS grants. The main difference between the two grant types is that CRISIS grants are offered only to eligible customers whose utility service is off or in danger of having services terminated. Funds obtained are paid directly to PGW for crediting to the customer's account.

LIHEAP is an important source of low income assistance funding for PGW and has ranged over the last seven years (2004-2010) from a low of $18.7 million in 2004 to a high of $40.8 million in 2010. PGW's share of LIHEAP funds allocated by the Commonwealth of Pennsylvania has ranged from approximately 13 to 17 percent since 2004. These levels have been achieved through a vigorous educational and outreach program by PGW to encourage its low-income residential population to apply for the grants. Funding levels vary based on Federal allocation and program design by state.

Since 1996, the Commonwealth of Pennsylvania has had the flexibility to change the customer eligibility criteria for LIHEAP participation from 210 percent of the FPL to 110 percent of the FPL. During the 2010 – 2011 grant season, the program capped eligibility at 160 percent of the FPL.

Natural gas price escalation, which began in 2003 and has spiked dramatically at times since then, has led to an increase in LIHEAP authorization by the Federal government to $5.1 billion in 2008-2009. Of this, Pennsylvania received approximately $310 million, $273 million of which is expected to be used for grants. During the 2010-2011 LIHEAP grant season, Pennsylvania received approximately $282 million, of which $237 million is expected to be used for grants.

Beginning with the 2009-2010 LIHEAP season, DPW required PGW to change how LIHEAP Cash grants were applied to the CRP customers. As of November 2009, PGW began to apply LIHEAP cash grants received by CRP customers directly to reduce the customer's "asked to pay" amount. In prior years, PGW used grants received by CRP customers to help offset the discounts they already receive from the program. On June 3, 2010, PGW filed a Petition with the PUC proposing modifications to its CRP structure in order to take account of the DPW mandated changes, as well as to propose a conservation incentive to encourage CRP customers to conserve natural gas.

Vendor Payment Program

PGW continues to support a Vendor Payment Program for a group of customers known as Scattered Site Tenants of the PHA. The customers occupy dwellings, usually single family homes, owned by the PHA and for which the Federal Government provides rent subsidies. Under agreement with the PHA and the Scattered Site Tenants, the Federal Government's Department of Housing and Urban Development provides a utility allowance to PHA, on behalf of the tenant. There are two groups of PHA tenants: one for which utility payments are received by PGW directly from PHA, and a second group, which is responsible for paying their own utility bills.

Utility Emergency Services Fund

PGW also participates in the Utility Emergency Services Fund ("UESF"), which is a private fuel fund set up with the assistance of the City of Philadelphia, the Water Department, PECO Energy, individual contributions, and private foundations. Under this program, customers at or below 175 percent of the FPL may combine a LIHEAP grant with a UESF grant and matching grant from PGW, and their own payment, if necessary, to zero-out all arrearages to avoid termination or restore service. The maximum UESF grant and PGW matching grant is currently $750 each (for a total of $1,500). To be eligible for a UESF grant, the customer must have a termination notice or already have service terminated. The customer must also apply for LIHEAP and must zero out their account. If the total arrearage is not satisfied by the combination of LIHEAP, UESF, and the matching PGW grant, then the customer must pay the balance that would remain, prior to being approved for the UESF grant and matching utility grant. Also, customers are limited to one UESF grant every two years.

Dollar Plus Program

PGW also continues to support the Dollar Plus Program, wherein PGW's customers are asked to add $1.00 or more to their gas bill payments as a donation to the Utility Emergency Services Fund.

Supplemental Grant Programs

On a periodic basis, additional grant programs become available through city and state appropriations with some stipulations agreed upon between the PGW and the city or state. They are typically coupled with LIHEAP, to provide supplemental funds to customers for whom LIHEAP Crisis grants are insufficient to restore service or avoid termination. In 2007-2008, the City of Philadelphia made available $200,000 for this purpose, and followed in 2008-2009 with an additional $100,000. Also, in 2008-2009, the state of Pennsylvania made available $42,500, again, to assist customers for whom the LIHEAP grant was insufficient to restore service. Customers do not need to make a separate application for these grants. They are provided on a first-come, first-served basis to customers who meet the stipulations. Neither the state nor the city had funds available during fiscal 2010 and 2011.

Payment Plans

PGW maintains a number of residential customer payment plans that are tailored to the customer's ability to pay in order to allow the customer the opportunity to pay down past arrearages and budget future usage and payments.

Billing and Collections

To strengthen its financial condition, PGW continues to improve its billing and collections programs. The principal components of this effort are improving the functionality of its Billing, Collections, and Customer Service ("BCCS") system; continuing to investigate and analyze process improvement opportunities; and improving customer service.

PGW has implemented five Business Transformation initiatives designed to increase the collection of accounts receivable, reduce write-off, and reduce operational expenses. These initiatives included both system and process changes. The initiatives are as follows:

***Soft-off monitoring*.** PGW automated many of the services associated with soft-off monitoring. Previously, when a customer moved, PGW deployed a field service representative to shut off service. Many times the field service representative would be unable to gain access to the meter and the service would remain on and continue to bill the out going customer resulting in additional uncollectible receivables. PGW is now able to final bill a customer's account and transfer the future usage expense responsibility to PGW and monitor the premise closely to avoid any excess usage or theft of service. In addition to decreasing the uncollectible receivables as a result of a failed shut off attempt, the soft-off program allows Operations to redirect field employees to other jobs resulting in a more efficient use of resources.

The soft-off monitoring benefits reflect the cost of having the program in place versus not having the program. The goal is for the cost of the program to be 25 percent less than the cost of not having a program. The soft-off monitoring benefits for fiscal year 2010 demonstrated a program cost that was 30 percent less than the cost of not having a program. The total fiscal year 2010 annual benefits amounted to $1.72 million.

Through April of fiscal year 2011, the benefits demonstrated a program cost that was 34 percent less than the cost of not having a program; during the same time period in fiscal year 2010 it was 25 percent. The fiscal year 2011 benefits through April amounted to $1.21 million.

Landlord cooperation program (LCP). The LCP program allows landlords of residential properties to work more collaboratively with PGW to improve PGW's ability to collect from tenants (gain access to the meter) and minimize tenant delinquencies in exchange for not liening a landlord's property for a tenant's unpaid balance. The changes to LCP were designed to improve required communications and allow for liens on a property when landlords of residential properties fail to cooperate or enroll in the program.

The LCP actual benefits for fiscal year 2010 amounted to $6.68 million. Actual pre-lien cash receipts benefits amounted to $2.35 million and actual lien cash receipts benefits amounted to $4.33 million. Through April of fiscal year 2011, the benefits amounted to $3.56 million; during the same time period in fiscal year 2010 the benefits amounted to $3.53 million.

In fiscal year 2011, PGW has initiated discussions with landlords of commercial properties in order to address their concerns regarding timely notice of their tenant's delinquency status.

Write-off reactivation. PGW ensures that prior written-off balances are immediately identified and appropriately transferred when the same customer re-applies for service.

The write-off reactivation actual benefits for fiscal year 2010 amounted to $6.19 million. Through April of fiscal year 2011, the benefits amounted to $5.69 million; during the same time period in fiscal year 2010 the benefits amounted to $4.92 million.

Lien re-write. PGW has automated the lien process to ensure that all properties are appropriately liened as part of the collection process. In addition to automating the process, this initiative made it possible to process multiple liens on a single property. The result is a significantly higher number of liens filed.

The lien re-write actual benefits for fiscal year 2010 amounted to $8.45 million. Actual pre-lien cash receipts benefits amounted to $1.23 million and actual lien cash receipts benefits amounted to $7.22 million. Through April of fiscal year 2011, the benefits amounted to $9.45 million; during the same time period in fiscal year 2010 the benefits amounted to $5.65 million.

Risk-based collections. PGW has implemented a risk based collection strategy. Customer's past payment patterns are analyzed, and each customer is assigned a "score" based on the age of their receivable, amount of their receivable, and risk of their receivable going to write off. Actual write-off occurs 90 days after the shut-off for accounts when there are no payments against the final bill. Based on a customer's score, PGW determines an appropriate collection path. If a customer has a high score, they are selected for the physical shut off path, however if a customer has a lower score, more frequent customer communications may be the only thing needed to ensure payment.

Although PGW implemented the risk based score into the collections selection process in fiscal year 2010, the actual execution of the collection field events was still driven by the location of the premises. Starting in the fiscal year 2011 collection season, efforts are being undertaken to control the selection process in a way to ensure that the execution of field events is better managed such that the highest risk work is executed on a daily basis. Concurrently, new system requirements are being developed to make the appropriate changes to the work management application to utilize the risk score when creating the actual collection orders and assigning them to be executed by our field technicians. These system changes are on schedule to be fully functional by the fiscal year 2012 collection season.

PGW continues to abide by all regulations with respect to collections. On November 30, 2004, the Pennsylvania General Assembly passed and the Governor signed Act 201, entitled the "Responsible Utility Customer Protection Act". Under specified conditions, PGW may shut off service to delinquent customers during the winter and on Fridays. To shut off service to non-low-income customers during winter months, PGW is no longer required to get PUC permission. PGW may now require higher income customers whose service has been shut off to pay past due bills in full, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before PGW restores

service. Lower income customers who have been shut off must agree to repay their arrearages over time. Act 201 also permits PGW to make any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name.

The Act provides a number of tools to help PGW collect payment including:

1. Confirmation that termination of service following shut-off notification may occur up to 60 days after receipt of the notice.
2. Shut-off with notice is permitted if the customer does not pay a required deposit, does not follow through with payment arrangements or refuses to allow PGW access to its equipment.
3. Shut-off without notice permitted for theft of service, obtaining service through fraud, tampering with a gas meter, unsafe service conditions or presenting a fraudulent check to stop termination.
4. Winter (December 1 - March 31) termination is now permitted (under specified conditions) without PUC prior approval if the customer's household income exceeds 150 percent of the federal poverty level.

Act 201 has significantly improved PGW's collection capabilities. In addition, PGW has become more aggressive in terminating service for those with the means to pay.

In addition to its collection efforts, PGW continues to offer customers many options to pay their bills in order to avoid collection activity:

Customer Service Centers (CSC). A CSC or District Office (DO) is a remote office owned or leased by PGW that accepts payments for all PGW services. PGW has six CSCs located throughout Philadelphia, due to staffing requirements, only four CSCs are operational per day,

Authorized Agents for walk–in payments. Customers can make payments at authorized agent locations, usually check cashing agencies. These locations are In Person Payment (IPP) centers, or have BuyPay or Americash and Checkfree service. An authorized agent is an establishment that accepts payments from PGW customers and remits the total to PGW.

Payments Pay by Phone. Credit card or check payments are accepted through the Interactive Voice Response (IVR) system using a 3rd party vendor and by PGW customer service representatives through a desktop application maintained by the same vendor.

Web Payments. Customers may pay their bill by credit card or check on PGW's website which is processed through a 3rd party vendor's web portal.

Auto Payments. Customers may sign up to have monthly payments automatically deducted from their bank account on their bill due date.

Lastly, PGW is in the process of reformatting the bill to make it easier for customers to understand their account information and the energy saving tools available to them. The new bill will include a 24 month usage chart and more specific information for budget billing and payment arrangement customers.

Business Transformation

In 2006, PGW's Executive Management determined that operational changes should be made to improve the long-term financial outlook of PGW. PGW's Business Transformation (BT) program was launched to design and coordinate a range of change programs. The goal of the Business Transformation is to enable PGW to improve its operational practices, improve service quality and reduce the cost of operations.

The recent economic challenges reinforce management's belief in the value that an efficient and financially strong PGW would be in the best interest of its employees, the community and stakeholders.

The comprehensive BT program seeks phased improvement opportunities in Customer Affairs, Field Operations, Supply Chain and for the Enterprise as described as follows:

- The *Customer Affairs* initiatives are designed to improve collections and back-office operating efficiencies through process, policy and technology changes.
- The *Field Operations* initiatives are designed to improve field efficiency through the redesign of field work processes and the implementation of a new integrated work planning, forecasting and scheduling model. These changes are intended to reduce operating costs, improve service and increase customer satisfaction.
- The *Supply Chain* initiatives are designed to reduce operating costs, space requirements and working capital levels through centralization of key supply chain processes, optimization of the fleet and the redesign of the Procurement Organization.
- The *Enterprise* initiatives are designed to enhance employee performance management processes, reduce PGW's physical footprint, and create a robust Project Management capability to support ongoing innovation and continuous process improvement.

In 2008, PGW received approval from PFMC and the PGC to proceed with the first phase of the program called BT "Lite". The BT initiatives selected to comprise this initial phase addressed immediate challenges being faced in Collections and aspects of Field Operations, included changes to the Time Accounting system, and the consolidation of PGW's real estate holdings. These initiatives are currently underway and the following summarize the expected results of these efforts:

- All five (5) collection initiatives have been fully implemented. Benefits for fiscal year 2010 were $21 million and exceeded the forecast of $14.5 million. Benefits for fiscal year 2011 are expected to be in the range of $18-20 million, slightly above the forecast.
- The BT "Lite" Resource Management Initiative is complete and has had a positive impact of Field Operations work planning and scheduling. Reductions in overtime

and increases in wrench time have been observed in fiscal year 2010. Field Management and GPS capabilities have been fully implemented.

- A new integrated Time and Labor Management system has been fully implemented and integrated with the AIMS work management system for labor reporting.
- The Real Estate Rationalization assessment is completed and is awaiting approval by the City administration. Annual operating expenditure savings are in the range of $3-5 million.
- PGW has completed the design work on the Supply Chain Transformation and has begun implementing the consultant recommendations. Benefits for fiscal year 2010 are forecasted to be between $500-750 thousand with a recurring annual benefit forecast in the range of $1.1 to 1.4 million.

PGW expects these BT "Lite" initiatives to deliver estimated gross annual recurring benefits in the range of $15-$20 million.

Competition

PGW's customer, volume, and revenue mix is heavily weighted towards the residential and smaller commercial markets. PGW currently holds in excess of 90 percent of the home heating market in the City with fuel oil constituting most of the remaining market. This high market share combined with a service territory that is not growing limits PGW's ability to increase its customer base. For residential and small commercial customers, the short run cost of changing energy sources is generally prohibitive without some kind of incentive to switch appliances (rebates or financing of appliances, for example). While not totally immune from competition, the residential and small to medium-sized commercial markets are quite stable. Further, opportunities for PGW to increase market share are limited without investment in marketing or incentive programs.

Generally, competition in the larger commercial and industrial markets is common. PGW's BPS and LBS customers (interruptible sale customers) have the ability to burn alternate fuels (generally fuel oil). If the equivalent price of natural gas is higher than fuel oil, many customers will opt to burn oil. Further, these interruptible customers may be curtailed during peak periods in the winter. While large commercial and industrial loads are an important part of PGW's base, PGW's risk to competition is lower than most natural gas utilities that have a relatively higher industrial load. Further, regulations of the Clean Air Act will sometimes cause dual fuel commercial and industrial consumers to use natural gas (instead of fuel oil) in order to meet stringent air emission operating permits. Finally, the commodity price of natural gas has fallen significantly over the past several years especially relative to the price of oil. The increased spread between natural gas and fuel oil prices has resulted in large commercial and industrial customers switching to natural gas.

Financial Feasibility for the Twentieth Series Bonds and Tenth Series Bonds

The financial data used in the analyses presented herein were obtained from the historical financial records of PGW, PUC GCR filings, and proposed operating and capital budgets for fiscal years 2011 through 2016. PGW's financial statements are audited annually. The most recently available audited financial statement is for fiscal year 2010, and may be viewed at www.pgworks.com. PGW's financial statements are maintained in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP), and are in accordance with City of Philadelphia reporting requirements.

Projected Revenues

Operating revenues for PGW consist principally of revenues from the sale and transportation of natural gas to residents of the City of Philadelphia. Non-operating revenues include interest income and miscellaneous other revenues from non-operating sources.

Projected Average Number of Customers

Consistent with the trend in a declining customer base, the number of customers served by PGW is projected to decline slightly during fiscal years 2011 through 2016. Table 8 summarizes projected average number of customers. Historical average number of customers (for fiscal years 2005 through 2010) has been approximately 500,000. The total average number of customers served is projected to decline from approximately 491,359 in fiscal year 2011 to about 471,608 in fiscal year 2016, a total decline of about 4.1 percent over five years. Most of this decline is in the number of non-heating residential customers served. Based on a marketing load forecast study on demographic loss, PGW has projected a sharp reduction in its non-heating residential customers from 28,789 customers in 2011 to 12,465 customers in 2016.

It is projected that for fiscal year 2011 approximately 2,709 commercial, industrial and municipal customers, or 0.6 percent of total customers, will take gas supply, transportation and storage services from a third party supplier. For purposes of this Report, it is assumed that the number of transport customers will continue to grow annually, reaching approximately 3,718, or approximately 0.8 percent of total customers, by 2016.

The principal difference between customers taking sales versus transportation service is that PGW does not buy the natural gas commodity for the transportation customers. However, PGW continues to charge for the transportation of gas through its distribution system, through which customers will continue to take service from PGW. This charge for distribution service should not differ appreciably from the charge (less gas cost) that would apply to sales service customers. Therefore, PGW is unlikely to experience a material reduction in contribution margin (gross revenues less cost of gas) due to customers migrating to transportation service. So long as PGW's existing GCR provision remains in effect, the contribution margin will be unaffected as long as the number of customers who opt for other suppliers is relatively modest. While it is difficult to predict with certainty the actual number of customers who will migrate and the timing of such a migration, PGW's projection of interruptible customers transferring to transportation service appears to be reasonable. If the rates for transportation service are properly designed, the net revenues realized by PGW will not be materially sensitive to whether customers take sales or transportation service.

Table 8. Projected Average Number of Customers

Line No.	Description	Budget 2011	Projected[a] 2012	2013	2014	2015	2016
1	**Total Average Number of Customers**	**491,359**	**487,589**	**483,582**	**479,590**	**475,624**	**471,608**
	Gas Customers						
	Non-Heating						
	Firm						
2	Residential	28,789	25,500	22,224	18,959	15,706	12,465
3	CRP Residential	943	945	875	875	875	875
4	Commercial	4,868	4,730	4,626	4,488	4,350	4,251
5	Industrial	189	184	177	171	164	162
6	Municipal	121	121	121	121	121	122
7	Housing Authority	0	0	0	0	0	0
8	NGV	1	1	1	1	1	1
9	Total Average Firm Non-Heating	34,911	31,480	28,024	24,615	21,218	17,874
	Interruptible						
10	BPS - Small	69	67	65	63	62	59
11	BPS - Large	52	51	50	49	49	48
12	BPS - A/C	3	3	3	3	3	3
13	LBS - L Direct	0	0	0	0	0	0
14	LBS - L Indirect	1	1	1	1	1	1
15	LBS - S Indirect	6	6	6	6	6	6
16	LBS - XL Direct	0	0	0	0	0	0
17	LBS - XL Indirect	1	1	1	1	1	1
18	Cogeneration - Indirect	3	3	3	3	3	3
19	LNG - Direct	0	0	0	0	0	0
20	GTS - Sales	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0
22	Total Average Interruptible	135	132	129	126	124	121
23	**Total Average Non-Heating**	**35,046**	**31,613**	**28,153**	**24,742**	**21,342**	**17,996**
	Heating						
24	Residential	348,540	347,583	346,632	345,687	344,749	343,815
25	CRP Residential	83,557	83,805	83,875	83,875	83,875	83,875
26	Commercial	17,946	18,024	18,179	18,335	18,484	18,666
27	Industrial	465	461	456	450	440	432
28	Municipal	431	439	447	455	463	471
29	Housing Authority	2,666	2,660	2,654	2,648	2,642	2,636
30	**Total Average Heating**	**453,604**	**452,971**	**452,242**	**451,449**	**450,652**	**449,894**
31	**Total Average Sales Customers**	**488,650**	**484,584**	**480,395**	**476,191**	**471,994**	**467,890**
32	**Total Average Transportation Customers[b]**	**2,709**	**3,006**	**3,187**	**3,399**	**3,631**	**3,718**

(a) Projected figures are based on budgeted department figures.
(b) Increase in transportation customers is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Historical and Projected Gas Sales and Throughput

Historical throughput (sales plus transportation volumes) for the 2005 through 2010 fiscal years and projected throughput for the 2011 through 2016 fiscal years are summarized in Table 9. The throughput volumes for the projected period are based on 4,360 HDD for 2011 through 2016.

The decline in total residential throughput (heating and non-heating) is consistent with the projected decline in the average number of residential customers and the long-term decline in residential use per customer. The projection for residential and commercial throughput generally reflects a constant use per customer.

As interruptible customers migrate to transportation service, sales volumes attributable to interruptible customers also decline as transportation volumes increase. As stated previously, if transportation rates are designed properly, the migration of customers and volumes from firm or interruptible sales service to transportation service should not translate into a material change in net contribution margin. Firm transportation throughput increases from 24.7 million Mcf in 2011 to 25.8 million Mcf in 2016, sales throughput declines only slightly. Therefore, most of this increase in transportation throughput is attributable to incremental new business. This increase in transportation throughput is resulting in an increase in the overall PGW throughput. This trend is primarily due to the price advantage that natural gas has over alternate fuels (such as oil) and this trend is expected to continue during the projected period.

Table 9. Historical and Projected Sales and Throughput

Line No.	Description	Actual[a] 2005	2006	2007	2008	2009	2010	Budget 2011	Projected 2012	2013	2014	2015	2016
		MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf
	Gas Sales Volumes												
	Non-heating												
	Firm												
1	Residential	1,955	1,521	969	757	755	663	578	514	446	380	314	249
2	CRP Residential	NA	NA	71	45	0	0	35	35	35	35	35	35
3	Commercial	1,755	1,665	1,544	1,395	1,289	1,196	1,172	1,099	1,030	958	888	836
4	Industrial	327	305	280	235	219	192	189	179	170	167	164	163
5	Municipal	278	255	241	152	177	134	141	142	143	144	146	146
6	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
7	NGV Firm	0	1	0	0	0	1	1	1	1	1	1	1
8	Total Firm Non-heating	4,315	3,747	3,104	2,585	2,441	2,186	2,115	1,969	1,823	1,684	1,547	1,429
	Interruptible												
9	BPS - Small	205	139	132	141	126	108	108	104	101	98	97	93
10	BPS - Large	2,795	1,512	1,460	923	862	509	561	526	494	464	434	416
11	BPS - A/C	0	14	0	0	0	0	5	5	5	4	4	4
12	LBS - L Direct	97	13	0	0	0	0	0	0	0	0	0	0
13	LBS - L Indirect	391	148	24	1	21	17	22	22	22	22	22	22
14	LBS - S Indirect	787	375	728	535	99	70	78	78	77	77	76	76
15	LBS - XL Direct	10	6	17	22	0	0	0	0	0	0	0	0
16	LBS - XL Indirect	62	189	62	25	33	29	31	31	31	31	31	31
17	Cogeneration - Indirect	47	17	12	14	14	12	12	11	10	9	9	9
18	LNG - Direct	0	0	0	0	0	0	0	0	0	0	0	0
19	Grays Ferry	0	0	0	0	0	0	0	0	0	0	0	0
20	GTS - Sales	116	13	271	130	15	305	0	0	0	0	0	0
21	NGV Indirect	0	0	0	0	0	0	0	0	0	0	0	0
22	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0
23	Total Interruptible	4,510	2,426	2,705	1,791	1,170	1,049	818	777	739	705	672	650
24	**Total Non-Heating**	**8,825**	**6,173**	**5,809**	**4,376**	**3,611**	**3,235**	**2,933**	**2,746**	**2,562**	**2,389**	**2,219**	**2,079**
	Heating												
25	Residential	39,033	32,980	26,218	25,259	36,915	34,632	28,112	28,000	27,851	27,708	27,602	27,518
26	CRP Residential	NA	NA	8,805	8,891	274	0	10,714	10,724	10,714	10,714	10,656	10,666
27	Commercial	8,363	7,525	7,579	6,983	6,772	6,489	7,026	6,993	6,985	7,031	7,100	7,196
28	Industrial	711	610	570	421	404	378	411	406	399	398	390	390
29	Municipal	826	857	835	566	576	538	588	598	607	617	625	633
30	Housing Authority	560	526	806	820	644	567	694	691	687	683	680	677
31	**Total Heating**	**49,493**	**42,498**	**44,812**	**42,940**	**45,584**	**42,605**	**47,545**	**47,411**	**47,242**	**47,151**	**47,052**	**47,080**
32	**Total Sales Volumes**	**58,318**	**48,671**	**50,621**	**47,316**	**49,195**	**45,840**	**50,478**	**50,157**	**49,804**	**49,540**	**49,271**	**49,159**
33	**Total Transportation[b]**	11,624	10,728	13,139	19,032	22,624	23,136	24,677	25,018	25,237	25,464	25,705	25,833
34	**Total Throughput**	**69,943**	**59,399**	**63,760**	**66,348**	**71,819**	**68,976**	**75,155**	**75,175**	**75,041**	**75,004**	**74,976**	**74,992**

(a) PGW historical data. CRP volumes are included in appropriate residential figure.
(b) Increase in transportation sales is due to the transfer of interruptible customers to GTS service and firm sales customers to firm transportation service. No firm customers are assumed to transfer to GTS service.

Sales and Transportation Revenues

Historical revenues (sales plus transportation service) for the 2005 through 2010 fiscal years and projected revenues for the 2011 through 2016 fiscal years are summarized in Table 10. The revenue figures shown in Table 10 are based on application of PGW's existing rates to the projected number of customers, projected normal sales and transported volumes, and the gas cost assumptions discussed in the "*Projected Revenue Requirements – Gas Costs*" section of this Report. The revenue projections reflect the same adjustments made to sales and throughput (migration of interruptible customers to transportation). We assume consistent with PGW's existing GCR, that changes in the gas cost recovery portion of revenues will equal changes in gas costs.

In this Report, the revenue projections reflect currently effective rates and a 95.6 percent to 96.7 percent collection factor range on billed revenues (*See Table 12*). This report reflects the base rates which are the same rates as those reflected in the case PGW filed in December 2009 and those same base rates were reflected in the May 19, 2010 Settlement and July 29, 2010 PUC Order. There are no other base rate increases reflected in this Report. If revenues are less than the projections reflected in this Report or costs increase to levels above those reflected in this Report, PGW may have to file for additional rate relief (or PGW will have to achieve an equivalent combination of permanent revenue enhancements or cost savings). The base rate increase approved should produce a level of revenues that should allow PGW to fulfill its goal of not using short-term financing for other than seasonal working capital requirements. In addition, this level of rate relief (and/or revenue enhancements and/or cost savings) should also enable PGW to:

- Cover the increase in non-gas operating expenses and interest expense since the granting of the 2008 rate approval,
- Provide sufficient funds available for debt service and to meet its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance, including the planned Twentieth Series Bonds and Tenth Series Bonds, and
- Repay short term commercial paper obligations, if any.

The level of revenues projected for fiscal years 2011 through 2016 is based on normal weather conditions. As discussed in *"Rates and Tariffs - Weather Normalization Adjustment"*, the WNA essentially removes the single biggest risk to PGW of recovering its approved margin during periods of warmer than normal weather during the winter season as long as it remains in effect. Because PGW's WNA tariff has no sunset provision, the WNA will continue in place unless the PUC issues an order directing that it be discontinued. We are assuming for the purposes of this Report that the WNA will remain in effect through the projected period.

As with the projected volume and number of customers, as interruptible sales volumes and customers migrate to interruptible transportation service, so do revenues. Total transportation revenues also increase due to the previously discussed forecasted increase in customers migrating from firm sales to firm transportation service. As stated previously, if transportation rates are designed properly, this migration should not translate into a material reduction in net contribution margin and hence, net cash flow and income should not be materially affected.

Table 10. Historical and Projected Revenues (Thousands of Dollars)

Line No.	Description	Actual[a] 2005	2006	2007	2008	2009	2010	Budget 2011	Projected 2012	2013	2014	2015	2016
		$	$	$	$	$	$	$	$	$	$	$	$
	Gas Sales Revenues												
	Non-heating												
	Firm												
1	Residential	37,132	35,981	24,848	20,165	19,257	14,930	13,064	12,271	10,852	9,454	8,145	6,826
2	CRP Residential[b]	0	0	0	0	0	0	0	0	0	0	0	0
3	CRP Shortfall	(1,595)	(1,799)	(409)	(125)	(185)	24	(269)	(306)	(307)	(309)	(325)	(349)
4	Commercial	26,980	32,148	28,171	25,794	24,045	18,333	16,898	17,050	16,249	15,348	14,776	14,564
5	Industrial	5,036	5,929	5,092	4,265	4,089	2,903	2,687	2,736	2,637	2,631	2,678	2,779
6	Municipal	3,862	4,603	4,021	2,424	2,958	1,733	1,710	1,880	1,924	1,971	2,081	2,200
7	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
8	NGV	0	3	6	6	7	8	6	7	7	7	7	8
9	Total Firm Non-heating	71,415	76,865	61,729	52,529	50,171	37,932	34,096	33,638	31,362	29,102	27,362	26,028
	Interruptible												
10	BPS - Small	2,705	2,281	2,079	2,642	2,128	1,738	1,643	1,479	1,462	1,437	1,436	1,421
11	BPS - Large	29,289	22,068	18,428	15,493	12,117	7,141	7,630	6,653	6,397	6,070	5,791	5,703
12	BPS - A/C	0	201	0	0	0	0	39	38	39	38	39	39
13	LBS - L Direct	765	157	33	0	0	0	0	0	0	0	0	0
14	LBS - L Indirect	3,165	1,837	205	(14)	234	216	258	303	308	312	319	326
15	LBS - S Indirect	6,502	4,549	7,424	6,605	1,202	879	900	1,059	1,075	1,089	1,107	1,125
16	LBS - XL Direct	83	70	171	264	0	0	0	0	0	0	0	0
17	LBS - XL Indirect	512	1,888	627	331	379	356	357	400	406	412	419	429
18	Cogeneration - Indirect	0	0	0	0	0	0	0	0	0	0	0	0
19	LNG - Direct	371	199	130	171	142	89	91	89	83	76	81	88
20	Grays Ferry	194	0	0	0	0	0	0	0	0	0	0	0
21	GTS - Sales	0	0	0	0	0	0	0	0	0	0	0	0
22	NGV Indirect	1,091	259	2,341	1,187	291	2,084	0	0	0	0	0	0
23	Off-System Sales	0	0	0	0	0	0	0	0	0	0	0	0
24	Total Interruptible	44,678	33,509	31,438	26,679	16,493	12,503	10,918	10,021	9,770	9,434	9,192	9,131
25	**Subtotal Non-Heating**	116,093	110,374	93,167	79,208	66,664	50,435	45,014	43,659	41,132	38,536	36,554	35,159
26	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
27	Prior Year's Gas Cost Recovery	(1,212)	2,211	(2,036)	(521)	631	908	504	0	0	0	0	0
28	**Total Non-Heating**	114,880	112,585	91,131	78,687	67,295	51,343	45,518	43,659	41,132	38,536	36,554	35,159
	Heating												
29	Residential	626,072	670,102	668,941	666,375	750,750	590,014	617,903	660,550	667,672	675,331	696,064	724,908
30	CRP Residential[c]	0	0	0	0	0	0	0	0	0	0	0	0
31	CRP Shortfall	(59,493)	(86,645)	(86,207)	(87,602)	(101,269)	(78,945)	(69,530)	(79,679)	(81,445)	(83,445)	(87,909)	(94,812)
32	Commercial	129,073	147,635	138,350	125,399	131,580	98,569	99,341	106,656	108,105	110,407	115,612	122,659
33	Industrial	11,048	12,020	10,384	7,609	7,793	5,792	5,866	6,248	6,226	6,300	6,402	6,691
34	Municipal	12,041	15,608	13,955	9,167	9,993	7,137	7,237	8,035	8,289	8,558	9,038	9,648
35	Housing Authority	8,583	10,214	10,609	10,993	11,800	8,403	9,835	10,563	10,650	10,750	11,091	11,564
36	**Subtotal Heating**	727,323	768,934	756,032	731,941	810,647	630,970	670,652	712,373	719,497	727,901	750,298	780,658
37	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
38	Prior Year's Gas Cost Recovery	(14,164)	24,792	(23,948)	(8,407)	8,991	16,742	12,008	0	0	0	0	0
39	**Total Heating**	713,159	793,726	732,084	723,534	819,638	647,712	682,660	712,373	719,497	727,901	750,298	780,658
40	Weather Normalization Adjustment	(1,365)	13,406	6,438	11,923	505	12,970	0	0	0	0	0	0
41	Total Adjusted Heating	711,794	807,132	738,522	735,457	820,143	660,682	682,660	712,373	719,497	727,901	750,298	780,658
42	**Total Sales Revenues**	826,674	919,717	829,653	814,144	887,437	712,025	728,178	756,032	760,629	766,437	786,852	815,817
43	**Total Transportation[d]**	**4,679**	**6,460**	**12,949**	**19,215**	**24,913**	**26,860**	**31,809**	**33,814**	**35,062**	**36,395**	**37,999**	**39,035**
44	**Total Revenues**	**831,353**	**926,177**	**842,602**	**833,359**	**912,350**	**738,885**	**759,987**	**789,846**	**795,691**	**802,832**	**824,851**	**854,852**
45	OPEB Surcharge	0	0	0	0	0	0	16,000	16,000	16,000	16,000	16,000	16,000
46	DSM Surcharge	0	0	0	0	0	0	5,450	5,450	5,450	5,450	5,450	5,450
47	**Adjusted Total Revenues**	831,353	926,177	842,602	833,359	912,350	738,885	781,437	811,296	817,141	824,282	846,301	876,302

(a) PGW historical data.
(b) Actual revenues included in Residential, Line 1.
(c) Actual revenues included in Residential, Line 29.
(d) Increase in transportation revenues is due to the transfer of interruptible customers to GTS service. No firm customers are assumed to transfer to GTS service.

Other Operating Revenues

Other operating revenues are projected to remain at an annual level of approximately $17.5 million throughout fiscal years 2011 through 2012 (Table 16, Line 9). These revenues consist of sales of energy- related appliance services, finance charges realized on overdue accounts, field collection charges, and other miscellaneous sources.

Assistance Programs

Historically, PGW has seen high accounts receivable balances and higher than usual delinquent accounts. As part of PGW's proactive approach to managing this problem, PGW has continued to develop programs targeted at assisting customers with meeting their energy costs. Table 11 details PGW's LIHEAP participation in recent years and provides an estimate for fiscal year 2011. Assistance programs are forecast to contribute $38.5 million in revenues in fiscal year 2011.

Accounts Receivable

Since PGW has increased its focus on improving its billing and collection practices *(See Billing and Collections)* in the past few years, beginning in fiscal year 2005, it has generally experienced a small decrease in its accounts receivable. As shown in Table 12, net accounts receivable decreased 5 percent from $93.1 million in 2004 to $88.6 million in 2007. By 2010, net receivables increased to $92.2 million. Between 2011 and 2016, net accounts receivable are projected to increase 12 percent. If gas costs substantially exceed these levels, accounts receivable and bad debts may increase. Conversely, if gas costs are less than these levels, accounts receivable and bad debts may decrease.

Table 12 summarizes historical and projected accounts receivable and account write-offs. As seen from the table, we assume receivables as a percentage of billed gas revenues will remain relatively constant over the projection period at about 21 percent.

Realized bad debt expense as a percent of billed gas revenues is projected to range from 4.4 percent to 3.4 percent over the projected period. Table 12 also shows PGW's historical and projected average collection rate. PGW's collection rate is projected to be 95.6 percent to 96.7 percent over the forecast period. The five-year historical average collection factor (fiscal years 2006 through 2010) is 96.0 percent. PGW's collection rate for 2009 and 2010 was 93.8 and 98.7 percent, respectively.

If the severity of the ongoing economic downturn continues, then billing and collections could be adversely affected, and a corresponding decrease in the collection rate and increase in receivables beyond those levels assumed in our projections could result.

Table 11. Historical and Budgeted Assistance Programs

Description	Historical												Estimated	
	2005[a]		2006[a]		2007[a]		2008[a]		2009		2010		2011	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Grant Money Available	$116,058,846		$154,859,009		$131,148,030		$152,021,400		$285,644,270		$254,494,060		$265,000,000	
Cash	$82,414,865	71.0%	$91,232,494	58.9%	$88,708,770	67.6%	$87,355,715	57.5%	$171,386,562	60.0%	$207,325,659	81.5%	$216,224,085	81.6%
Crisis	$33,643,981	29.0%	$63,626,515	41.1%	$42,439,260	32.4%	$64,665,685	42.5%	$114,257,708	40.0%	$47,168,401	18.5%	$48,775,915	18.4%
Number of Grants														
State of PA														
Cash	339,898	74.2%	385,006	71.5%	369,618	73.5%	370,873	68.6%	498,406	72.8%	434,128	76.7%	475,000	79.2%
Crisis	118,163	25.8%	153,543	28.5%	132,953	26.5%	169,980	31.4%	186,015	27.2%	132,176	23.3%	125,000	20.8%
Total State of PA	458,061	100.0%	538,549	100.0%	502,571	100.0%	540,853	100.0%	684,421	100.0%	566,304	100.0%	600,000	100.0%
PGW														
Cash	63,377	18.6%	65,301	17.0%	62,454	16.9%	57,501	15.5%	80,420	16.1%	76,054	17.5%	78,000	16.4%
Crisis	10,515	8.9%	21,515	14.0%	16,674	12.5%	12,162	7.2%	17,116	9.2%	10,777	8.2%	7,500	6.0%
Total PGW	73,892	16.1%	86,816	16.1%	79,128	15.7%	69,663	12.9%	97,536	14.3%	86,831	15.3%	85,500	14.3%
Total Funding - Final														
State of PA														
Cash	$82,414,865		$91,232,494		$88,708,770		$87,355,715		$171,386,562		$207,325,659		$216,224,085	
Crisis	$33,643,981		$63,626,515		$42,439,260		$64,665,685		$114,257,708		$47,168,401		$48,775,915	
Total State of PA	$116,058,846		$154,859,009		$131,148,030		$152,021,400		$285,644,270		$254,494,060		$265,000,000	
PGW														
PGW - Cash	$16,649,495	20.2%	$15,416,311	16.9%	$16,243,105	18.3%	$14,374,086	16.5%	$27,445,976	16.0%	$38,404,025	18.5%	$36,000,000	16.6%
PGW - Crisis	$3,112,630	9.3%	$8,472,290	13.3%	$5,075,658	12.0%	$5,118,573	7.9%	$7,517,869	6.6%	$3,099,645	6.6%	$2,500,000	5.1%
Total PGW[a]	$19,762,125	17.0%	$23,888,601	15.4%	$21,318,763	16.3%	$19,492,659	12.8%	$34,963,845	12.2%	$41,503,670	16.3%	$38,500,000	14.5%
Value of Grants, per customer														
State of PA														
Cash	$242		$237		$245		$239		$344		$478		$455	
Crisis	$285		$414		$319		$380		$614		$357		$390	
PGW														
Cash	$263		$236		$260		$250		$341		$505		$462	
Crisis	$296		$394		$304		$421		$437		$288		$333	

(a) The City of Philadelphia provided supplemental low income customer assistance totaling $60,000 in 2005, $550,000 in 2006, $200,000 in 2007, and $100,000 in 2008.

Table 12. Historical and Projected Accounts Receivable and Write-offs

Description	Fiscal Year Ending August 31,														
	Historical									Budget	Projected				
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Billed Gas Revenues ($000) [(a)]	557,467	755,920	786,406	846,729	899,174	868,586	842,287	902,729	721,235	768,925	811,296	817,141	824,282	846,301	876,302
Accounts Receivable ($000)	254,047	321,408	323,340	295,114	243,249	238,849	239,739	228,505	195,773	186,130	178,007	165,082	162,411	162,056	164,319
Less: Reserve for Bad Debt	(187,461)	(228,548)	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)	(123,009)	(103,600)	(93,210)	(85,671)	(78,196)	(71,152)	(64,988)	(60,185)
Net Accounts Receivable	66,586	92,860	93,124	87,634	74,360	88,618	99,304	105,496	92,173	92,920	92,336	86,886	91,259	97,068	104,134
Bad Debt Reserve/Accounts Receivable	73.8%	71.1%	71.2%	70.3%	69.4%	62.9%	58.6%	53.8%	52.9%	50.1%	48.1%	47.4%	43.8%	40.1%	36.6%
Net Write-Offs ($000)	48,411	43,914	69,332	93,160	78,723	58,658	46,797	59,425	54,990	44,000	40,000	38,000	36,000	35,000	34,000
Receivable/Billed Gas Revenues	45.6%	42.5%	41.1%	34.9%	27.1%	27.5%	28.5%	25.3%	27.1%	24.2%	21.9%	20.2%	19.7%	19.1%	18.8%
Bad Debt ($000)	51,548	85,000	71,000	70,424	40,132	40,000	37,000	42,000	35,000	33,610	32,561	29,581	29,056	28,936	29,297
Bad Debt/Billed Gas Revenues	9.2%	11.2%	9.0%	8.3%	4.5%	4.6%	4.4%	4.7%	4.9%	4.4%	4.0%	3.6%	3.5%	3.4%	3.3%
Bad Debt/Accounts Receivable	20.3%	26.4%	22.0%	23.9%	16.5%	16.7%	15.4%	18.4%	17.9%	18.1%	18.3%	17.9%	17.9%	17.9%	17.8%
Total Customer Receipts ($000)	575,300	690,300	756,000	846,600	905,877	863,658	833,960	877,311	740,756						
Total Customer Billings ($000)	589,600	797,400	827,000	881,800	938,066	901,677	873,424	935,536	750,263						
Collection Factor	97.57%	86.57%	91.41%	96.01%	96.57%	95.78%	95.48%	93.78%	98.73%	95.63%	95.99%	96.38%	96.47%	96.58%	96.66%
Five-Year Average Collection Factor (2006-2010)									95.97%						

(a) Adjusted Total Revenues (Table 10, Line 46) less Prior Year's Gas Cost Recovery (Table 10, Lines 27 and 38)

Capital Improvement Program Financing

The Capital Improvement Program described earlier (*See Capital Improvement Program*) is expected to be financed by PGW through funds currently available for capital projects, a revenue bond issue (planned in fiscal year 2016), investment income, and system revenues.

The projected CIP expenditures for the six-year period ending August 31, 2016, are shown on Line 8 of Table 13 and total approximately $401 million. Lines 1 through 7 outline the sources available to meet the CIP financing requirements. Line 1 in fiscal year 2011 shows the net balance available in the Capital Improvement Fund as of August 31, 2010, available to fund the CIP. Lines 2 through 5 show the net proceeds from bond sales, Line 6 shows the amount projected to be available each year from current operating revenues, and Line 7 presents the total funds available. Planned fund uses are summarized on Lines 8 and 9 of Table 13.

Table 13. Capital Improvement Fund (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, Projected					
		2011	2012	2013	2014	2015	2016
		$	$	$	$	$	$
1	Balance from Previous Year	170,810	130,418	83,926	43,926	28,926	13,926
2	Bond Proceeds @ Par	0	0	0	0	0	100,000
3	Less Discount & Issuance Costs	0	0	0	0	0	(6,500)
4	Less Deposit to Sinking Fund Reserve	0	0	0	0	0	(5,783)
5	Net Bond Proceeds	0	0	0	0	0	87,717
6	Other Sources of Funds	24,406	26,963	27,035	52,074	49,587	5,268
7	Total Sources of Funds	195,216	157,381	110,961	96,000	78,513	106,911
8	Capital Expenditures	64,798	73,455	67,035	67,074	64,587	64,193
9	Capitalized Interest	0	0	0	0	0	0
10	Total Uses of Funds	64,798	73,455	67,035	67,074	64,587	64,193
11	Net Balance - End of Year	130,418	83,926	43,926	28,926	13,926	42,718

As presented in Table 13, the only bond issue projected during the five year period is in 2016 in the principal amount of $100 million. Coupled with a beginning available balance of $170.8 million and a total of $273.1 million of other funding sources, sufficient funds are expected to be available for PGW to complete its planned capital improvement program.

Projected Revenue Requirements

PGW's rates are developed to provide sufficient levels of revenue to meet cost of gas, all operation and maintenance expenses of the System, debt service requirements on obligations issued for the System, capital improvement expenditures to be funded from current revenues, and other specific bond ordinance and revenue requirements. This section provides a discussion of the components that make up PGW's revenue requirements.

Gas Costs

Table 14, Line 1 presents PGW's historical and projected natural gas costs. The unit gas costs assumed by PGW and relied upon in this Report are projected to increase from approximately $7.09 per Mcf in fiscal year 2011 to $9.32 per Mcf in fiscal year 2016. PGW gas cost assumptions are based on pricing input from Global Insight and futures prices from the New York Mercantile Exchange. PGW purchases its gas supplies under a portfolio approach as discussed in the "*PGW Gas Supply – Supply Services*" section of this Report. As a result of the GCR, changes in the cost of gas result in equal changes in revenues. The mechanism by which PGW recovers its gas supply costs is discussed in the "*Gas Cost Rate*" section of this Report.

Operation and Maintenance Expenses

Table 14 presents PGW's historical and projected operation and maintenance expense. The audited expenses for 2010 serve as a base for the projected years.

As discussed in the *Sales and Transportation Revenues* section of this Report, PGW's collection factor is projected to average 96 percent of billed revenues through 2011-2016 fiscal years with bad debt expense forecasted to range from $33.6 million to $29.3 million. The higher level of bad debt expense for PGW relative to other gas utilities is consistent with the higher level of costs associated with social programs for PGW. Pension fund and health insurance costs are based on PGW's fiscal year 2011 operating budget filing and have been updated with the most current information from PGW for the forecast period through fiscal year 2016. The number of employees is projected to decline from 1,657 to 1,600 through the forecast period due to attrition.

Debt Service Requirements

Table 15 presents a summary of the existing and proposed long-term debt service requirements for the five-year projection period. The proposed Twentieth Series Bonds and Tenth Series Bonds are assumed to be issued on or after August 1, 2011. Debt service on these issues assumes a 3.10 percent and 3.84 percent, respectively, all-in true interest cost. The Twentieth Series Bonds will be issued in one or more series with the proceeds used to achieve the current refunding of PGW's outstanding Sixteenth Series Bonds. The Tenth Series Bonds are assumed to be issued in one or more series with the proceeds used to achieve the current refunding of all or a portion of PGW's outstanding First Series A Bonds, Second Series A Bonds, and Third Series Bonds[10].

[10] The refunding of First Series C Bonds, Fourth Series Bonds, Fifth Series A-1 Bonds, Seventh Series Bonds and Eighth Series B, C, D, and E Bonds are not reflected in Table 15 and PGW would only refund these bonds if savings in addition to that reflected in Table 15 could be achieved.

Table 14. Historical and Projected Operation and Maintenance Expenses (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, Historical 2005	2006	2007	2008	2009	2010	Budget 2011	Projected 2012	2013	2014	2015	2016
		$	$	$	$	$	$	$	$	$	$	$	$
	Operating Expenses												
1	Natural Gas	509,701	625,076	539,296	511,938	545,859	353,998	358,064	387,975	395,013	403,311	426,769	458,284
2	Other Raw Materials	4	17	4	38	(13)	6	20	20	20	20	20	20
3	Subtotal Fuel	509,705	625,093	539,300	511,976	545,846	354,004	358,084	387,995	395,033	403,331	426,789	458,304
4	Gas Processing	18,584	15,234	16,240	14,436	16,779	14,952	14,543	15,410	15,648	15,999	16,259	16,441
5	Field Services	28,455	35,667	36,100	37,126	37,727	34,026	37,101	37,768	38,298	38,857	39,686	40,568
6	Distribution	15,115	15,179	17,119	17,319	21,059	23,426	28,329	28,649	29,047	29,500	29,985	30,521
7	Collection	10,971	9,952	8,157	8,441	8,723	7,534	4,527	4,592	4,621	4,714	4,808	4,838
8	Customer Services	12,512	11,083	11,783	12,305	12,897	13,030	14,286	14,370	14,555	14,740	14,926	15,169
9	Customer Accounting	7,695	7,337	7,064	7,006	7,525	7,732	7,791	7,836	7,980	8,152	8,375	8,627
10	Bad Debt Expense	70,424	40,132	40,000	37,000	42,000	35,000	33,610	32,561	29,581	29,056	28,936	29,297
11	Marketing & Point-of-Sale Expenses	2,592	2,467	2,418	2,628	3,436	3,900	4,842	4,832	4,864	4,830	4,862	4,826
12	Administrative & General	43,391	39,897	38,846	44,001	38,360	44,859	54,670	52,244	52,791	53,273	53,881	54,274
13	Health Insurance	33,571	35,076	36,111	34,226	37,061	42,083	48,674	53,563	58,707	64,375	70,625	77,520
14	Capitalized Fringe Benefits	(10,348)	(9,797)	(10,449)	(10,331)	(9,284)	(8,660)	(8,600)	(8,375)	(8,581)	(8,795)	(9,046)	(9,388)
15	Capitalized Admin. Charges	(6,706)	(6,779)	(7,689)	(7,180)	(6,973)	(7,384)	(7,291)	(5,940)	(6,457)	(6,580)	(6,245)	(6,188)
16	Regulatory Asset Amortization	0	0	0	0	0	0	0	0	0	0	0	0
17	Amortization of Restructuring Costs	1,087	1,087	0	0	0	0	0	0	0	0	0	0
18	Year 2000 & Deregulation Amortization	0	0	0	0	0	0	0	0	0	0	0	0
19	BT Supply Chain Initiative	0	0	0	0	4,655	722	1,200	(598)	(616)	(635)	(654)	(673)
20	Pensions	14,702	17,563	15,217	14,258	15,425	24,633	22,854	22,456	22,079	21,700	21,320	21,017
21	Taxes	6,218	6,124	6,730	5,677	6,588	6,990	7,036	7,117	7,192	7,266	7,341	7,438
22	Other Post Employment Benefits	0	0	26,421	25,834	25,952	27,269	21,386	20,145	18,582	16,631	14,237	11,458
23	Environmental Expenses	0	0	0	0	0	0	0	0	0	0	0	0
24	Pro Forma Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
25	Cost Savings/Productivity Improvements	0	0	0	0	0	0	(2,064)	(1,203)	(679)	(373)	(380)	0
26	**Total Other Operating Expenses**	248,263	220,222	244,068	242,746	261,930	270,112	282,894	285,427	287,612	292,710	298,916	305,745
27	**Total Operating Expenses**	**757,968**	**845,315**	**783,368**	**754,722**	**807,776**	**624,116**	**640,978**	**673,422**	**682,645**	**696,041**	**725,705**	**764,049**
28	Depreciation	35,904	35,389	37,166	40,021	40,490	41,521	39,900	39,601	39,305	39,001	39,009	39,010
29	Cost of Removal	3,643	2,566	2,542	2,847	1,710	1,647	3,000	3,000	3,000	3,000	3,000	3,000
30	Less: Clearing Account Depreciation	(4,502)	(3,230)	(3,328)	(3,344)	(4,419)	(4,690)	(4,713)	(4,699)	(4,744)	(4,748)	(4,616)	(4,566)
31	Net Depreciation	35,045	34,725	36,380	39,524	37,781	38,478	38,187	37,902	37,561	37,253	37,393	37,444
32	**Total Operating Expense & Dep'n.**	**793,013**	**880,040**	**819,748**	**794,246**	**845,557**	**662,594**	**679,165**	**711,324**	**720,206**	**733,294**	**763,098**	**801,493**

Table 15. Projected Long Term Debt Service Requirements (Thousands of Dollars)

		Fiscal Year Ending August 31,					
		Projected					
Line No.	Description	2011	2012	2013	2014	2015	2016
		$	$	$	$	$	$
	Revenue Bonds under 1975 Ordinance						
1	Series 11C	11,017	14,005	0	0	0	0
2	Series 16	930	0	0	0	0	0
3	Series 17	13,121	11,560	17,217	15,672	14,127	18,176
4	Series 18	4,900	4,892	4,886	4,874	9,221	3,755
5	Series 19	723	723	723	723	723	723
6	Series 20 - Refunding - 2011[a]	0	655	7,418	7,406	2,914	0
7	Total 1975 Ordinance Debt	30,691	31,835	30,244	28,676	26,983	22,653
	Revenue Bonds under 1998 Ordinance						
	Senior Debt						
8	First Series A	12,779	648	648	648	648	648
9	Second Series	3,087	0	0	0	0	0
10	Third Series	3,141	0	0	0	0	0
11	Fourth Series	7,349	7,349	7,347	7,344	7,349	3,744
12	Fifth Series	8,416	8,418	8,417	8,420	8,416	8,419
13	A-2 Fifth Series Variable [b]	150	150	150	150	150	150
14	Seventh Series	14,401	14,401	16,850	14,297	14,297	17,905
15	Eighth Series [c]	13,853	13,857	17,382	21,931	25,065	22,901
16	Ninth Series	9,148	9,938	9,935	9,934	9,937	9,934
17	Tenth Series - Refunding - 2011[d]	0	14,266	7,291	6,555	5,817	7,744
18	New Bond Issue - 2016	0	0	0	0	0	5,783
19	Senior Debt	72,322	69,026	68,018	69,279	71,678	77,228
	Subordinate Debt						
20	First Series C	1,988	1,984	1,990	1,985	0	0
21	Total Subordinate Debt	1,988	1,984	1,990	1,985	0	0
22	Total 1998 Ordinance Debt	74,310	71,010	70,008	71,264	71,678	77,228
23	Total Long-Term Debt Service	105,001	102,845	100,252	99,939	98,661	99,881

(a) Refunded Sixteenth Series

(b) Assumes a 0.5 percent annual interest rate as budgeted by PGW.

(c) Refunded the Sixth Series.

(d) Refunded all or a portion of First Series A, Second Series, and Third Series

Payments to City

In accordance with the Management Agreement and the Gas Choice Act, PGW makes an annual base payment of $18 million to the City. In fiscal year 2011, PGW will pay $18 million to the City with the City granting back $1.7 million. For fiscal year 2012 through the rest of the forecast period, the City grant back to PGW is expected to cease.

Adequacy of Projected Revenues to Meet Projected Revenue Requirements Under Ordinance Requirements

Table 16 presents a pro forma statement developed from the revenue and expense projections for 2011 through 2016. This table is in conjunction with Table 17, which presents a statement of cash flows, provides an indication of the adequacy of PGW's revenues and shows the financial feasibility of Twentieth Series Bonds and Tenth Series Bonds.

The operating revenue projections presented earlier in Table 10, Line 44 are summarized in Lines 1 through 3 of Table 16. These projected revenues are based on PGW's currently effective rate schedules. Revenues from Other Sales, primarily unbilled gas adjustments, are shown on Line 4 of Table 16. An Other Post Employee Benefits (OPEB) and Demand Side Management surcharge are included on Line 6 (Line 45 on Table 10) and Line 7 (Line 46 on Table 10) in fiscal years 2011 through 2016.

Other operating revenues presented on Table 16, Line 9 include revenues from sales of energy-related appliance services and field collection charges. Projected Other Income for the System (Table 16, Line 30) includes interest earnings from the different reserve funds.

The projected operation and maintenance expenses shown on Table 16, Lines 11 through 28 are from Table 14. PGW's projected net operating income before interest is summarized on Line 31 of Table 16. Interest expense on existing bonds and proposed bonds is presented on Line 32. Other interest costs including loss from refunded debt and the allowance for funds used during construction ("AFUDC") are shown on Lines 33 through 35. PGW's projected net income is shown on Line 37 of the table is $54.1 million in fiscal year 2011, increases to $60.7 million in fiscal year 2013, and decreases to $43.3 million in fiscal year 2016.

Table 16. Projected Statement of Income (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, 2011	2012	2013	2014	2015	2016
		$	$	$	$	$	$
	Projected Revenues						
1	Non-Heating	45,518	43,659	41,132	38,536	36,554	35,159
2	Gas Transport Service	31,809	33,814	35,062	36,395	37,999	39,035
3	Heating	682,660	712,373	719,497	727,901	750,298	780,658
4	Other Sales	(237)	642	96	106	282	353
5	Total Gas Revenues - Existing Rates	759,750	790,488	795,787	802,938	825,133	855,205
6	OPEB Surcharge	16,000	16,000	16,000	16,000	16,000	16,000
7	DSM Surchage	5,450	5,450	5,450	5,450	5,450	5,450
8	Total Gas Revenues	781,200	811,938	817,237	824,388	846,583	876,655
9	Other Operating Revenues	16,812	17,440	17,677	17,931	18,349	18,858
10	**Total Operating Revenues**	798,012	829,378	834,914	842,319	864,932	895,513
	Operating Expenses						
11	Natural Gas	358,064	387,975	395,013	403,311	426,769	458,284
12	Other Raw Materials	20	20	20	20	20	20
13	Total Fuel	358,084	387,995	395,033	403,331	426,789	458,304
14	Gas Processing	14,543	15,410	15,648	15,999	16,259	16,441
15	Field Services	37,101	37,768	38,298	38,857	39,686	40,568
16	Distribution	28,329	28,649	29,047	29,500	29,985	30,521
17	Collection	4,527	4,592	4,621	4,714	4,808	4,838
18	Customer Services	14,286	14,370	14,555	14,740	14,926	15,169
19	Customer Accounting	7,791	7,836	7,980	8,152	8,375	8,627
20	Bad Debt Expense	33,610	32,561	29,581	29,056	28,936	29,297
21	Other Post Employee Benefits	21,386	20,145	18,582	16,631	14,237	11,458
22	A&G and Other Expenses	121,321	124,096	129,300	135,061	141,704	148,826
23	Total Non-Fuel O&M	282,894	285,427	287,612	292,710	298,916	305,745
24	Depreciation	39,900	39,601	39,305	39,001	39,009	39,010
25	Cost of Removal	3,000	3,000	3,000	3,000	3,000	3,000
26	Less: Clearing Accounts	(4,713)	(4,699)	(4,744)	(4,748)	(4,616)	(4,566)
27	**Net Depreciation**	38,187	37,902	37,561	37,253	37,393	37,444
28	**Total Operating Expenses**	**679,165**	**711,324**	**720,206**	**733,294**	**763,098**	**801,493**
29	**Net Operating Income**	**118,847**	**118,054**	**114,708**	**109,025**	**101,834**	**94,020**
30	Other Income	7,865	9,344	9,784	9,694	9,221	9,045
31	**Net Income Before Interest Charges**	**126,712**	**127,398**	**124,492**	**118,719**	**111,055**	**103,065**
	Interest						
32	Long Term Debt	57,311	53,224	51,465	49,402	47,111	48,443
33	Other	10,430	10,010	7,952	7,937	7,058	8,275
34	Loss From Refunded Debt	5,546	5,238	5,001	4,603	4,148	3,645
35	AFUDC	(689)	(637)	(670)	(671)	(646)	(642)
36	Total Interest	72,598	67,835	63,748	61,271	57,671	59,721
37	**Net Income**	**54,114**	**59,563**	**60,744**	**57,448**	**53,384**	**43,344**

Table 17. Projected Statement of Cash Flows (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, 2011	2012	2013	2014	2015	2016
		$	$	$	$	$	$
1	**Beginning Cash Balance**	**79,052**	**84,497**	**93,155**	**93,359**	**78,092**	**40,144**
	Sources of Funds						
	Internal Sources						
2	Net Income	54,114	59,563	60,744	57,448	53,384	43,344
3	Depreciation	39,900	39,601	39,305	39,001	39,009	39,010
4	Amortized Costs[(a)]	5,927	5,517	5,206	4,793	4,322	3,836
5	Earnings on Restricted Funds	(2,049)	4,547	4,086	5,182	2,848	4,117
6	Increase/(Decrease) OPEB Liability[(b)]	2,886	1,645	82	(1,869)	(4,263)	(7,042)
7	Increased/(Decreased) Other Liabilities	(9,576)	(12,143)	(873)	(1,020)	(780)	(120)
8	Total Internal Sources	91,202	98,730	108,550	103,535	94,520	83,145
	External Sources						
9	Revenue Bond Proceeds	0	0	0	0	0	87,717
10	Capital Improvement Fund Drawdown	40,392	46,492	40,000	15,000	15,000	58,925
11	Release of Sinking Fund Asset	0	0	0	0	0	0
12	Grant Back from City	1,700	0	0	0	0	0
13	Temporary Borrowings	0	0	0	0	0	0
14	Total External Sources	42,092	46,492	40,000	15,000	15,000	146,642
15	**Total Sources of Funds**	**133,294**	**145,222**	**148,550**	**118,535**	**109,520**	**229,787**
	Uses of Funds						
16	Debt Reduction on all Bonds	38,819	36,730	46,570	48,250	51,150	50,963
17	PMA Bond Debt Reduction	1,640	1,715	1,805	1,890	0	0
18	Debt Reduction Funding	0	0	0	0	0	0
19	CIP Requirements	64,798	73,455	67,035	67,074	64,587	64,193
20	Payment to City/Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000
21	Deposit to CIP Fund	0	0	0	0	0	87,717
22	Repayment of Commercial Paper	0	0	0	0	0	0
23	Change in Non-Cash Working Capital[(c)]	4,592	6,664	14,936	(1,412)	13,731	17,548
24	**Total Uses of Funds**	**127,849**	**136,564**	**148,346**	**133,802**	**147,468**	**238,421**
25	Increase/(Decrease) in Cash	5,445	8,658	204	(15,267)	(37,948)	(8,634)
26	**Ending Cash Balance**	**84,497**	**93,155**	**93,359**	**78,092**	**40,144**	**31,510**

(a) Includes amortization on bond issuance costs and extraordinary losses.
(b) (Table 16, Line 21) - (Table 16, Line 6) - ($2.5 Million from Base Rates)
(c) Includes changes in Accounts Payable, Accounts Receivable, and Materials and Supplies.

Table 17, Line 1 presents PGW's cash balance as of September 1 for each fiscal year. From this starting point, the net income line from Table 16 is combined with non-cash adjustments (such as depreciation and amortization) expensed on the Income Statement. External sources of funds are summarized on Lines 9 through 13 and include revenue bond proceeds and drawdowns on the capital improvement fund. The total for all sources of funds is shown on Line 15 of Table 17.

Uses of funds are summarized on Lines 16 through 23 of Table 17. Lines 16 and 17 present the principal payments made on long-term debt, and Line 18 includes Debt Reduction Funding. CIP requirements are shown on Line 19, and payments to the City and short-term debt obligations are shown on Lines 20 and 22. Deposits to CIP Fund are shown in Line 21. Changes in non-cash working capital items, including changes in accounts payable and accounts receivable, are shown in Line 23.

The net increase or decrease in available cash for each fiscal year is shown on Line 25 of Table 17. The ending cash balance for the year, which is the sum of Lines 1 and 25, is shown on Line 26. The ending cash balance for 2012 represents approximately 17 weeks of operations and maintenance expenses (excluding the cost of gas) and the ending cash balances for fiscal years 2013 through 2016 represent approximately 17 to 5 weeks, respectively, of operations and maintenance expense (excluding the cost of gas). These projected year-end cash balances for fiscal years 2012 through 2016 should be sufficient for PGW to accommodate normal fluctuations in expenditures for utility operations.

A detailed calculation of debt service coverage requirements under the 1975 General Ordinance and the 1998 General Ordinance is presented in Table 18. The results presented in the table indicate that provided the assumptions made herein are realized, PGW will meet the requirements of the 1975 General Ordinance and the 1998 General Ordinance for all years in the projection period.

Table 18. Projected Debt Service Coverage (Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, 2011	2012	2013	2014	2015	2016
		$	$	$	$	$	$
	SOURCES OF FUNDS						
1	Total Gas Revenues	781,200	811,938	817,237	824,388	846,583	876,655
2	Other Operating Revenues	16,812	17,440	17,677	17,931	18,349	18,858
3	Total Operating Revenues	798,012	829,378	834,914	842,319	864,932	895,513
4	Other Income	8,205	14,528	14,540	15,547	12,715	13,804
5	Restricted OPEB Funding Revenues [(a)]	2,886	1,645	82	(1,869)	(4,263)	(7,042)
6	**Total Sources of Funds**	809,103	845,551	849,536	855,997	873,384	902,275
	USES OF FUNDS						
7	Fuel Costs	358,084	387,995	395,033	403,331	426,789	458,304
8	Other Operating Costs	321,081	323,329	325,173	329,963	336,309	343,189
9	Total Operating Expenses	679,165	711,324	720,206	733,294	763,098	801,493
10	Less: Non-Cash Expenses	(45,792)	(44,283)	(42,445)	(42,087)	(42,146)	(42,185)
11	**Total Uses of Funds**	633,373	667,041	677,761	691,207	720,952	759,308
12	**Funds Available for Debt Service**	175,730	178,510	171,775	164,790	152,432	142,967
13	1975 Ordinance Bonds Debt Service	30,691	31,835	30,244	28,676	26,983	22,653
14	**Debt Service Coverage - 1975 Ordinance**	**5.73**	**5.61**	**5.68**	**5.75**	**5.65**	**6.31**
15	Net Available after Prior Bond Debt Service	145,039	146,675	141,531	136,114	125,449	120,314
16	1998 Ordinance Bonds Debt Service	72,322	69,026	68,018	69,279	71,678	77,228
17	**Debt Service Coverage - 1998 Ordinance**	**2.01**	**2.12**	**2.08**	**1.96**	**1.75**	**1.56**
18	Net Available after Prior Debt Service	72,717	77,649	73,513	66,835	53,771	43,086
19	1998 Ordinance Subordinate Debt Service	1,988	1,984	1,990	1,985	0	0
20	**Debt Service Coverage on Subordinate Debt**	**36.59**	**39.14**	**36.95**	**33.68**	**-**	**-**

(a) See Footnote (b) Table 17

Assumptions and Opinions

In developing the information which Black & Veatch utilized for preparing the projections presented herein, Black & Veatch relied on PGW's financial planning model and PGW's assumptions contained within that model with several exceptions as noted in this Report. The analyses summarized in this Report are based on assumptions that have been provided by or reviewed by PGW and others and relied on currently available information and present circumstances. Black & Veatch has not conducted verification tests of this information. While we believe that these data and the underlying assumptions are reasonable, actual results may materially differ from those projected, as influenced by the conditions, events and circumstances that actually occur that are unknown at this time and/or which are beyond the control of Black & Veatch. Such factors may include PGW's ability to execute the capital improvement plan as scheduled and within budget, regional climate and weather conditions affecting the demand for gas, and adverse legislative, regulatory or legal decisions (including environmental laws and regulations) affecting PGW's ability to operate the System.

Considerations and Assumptions

The following, while not all inclusive, is a list of critical assumptions used in the development of the projections presented herein:

Revenues

1. As set forth by the PUC in its order dated February 22, 2001, the PUC will comply with its statutory obligations under the Public Utility Code, including the section of the Gas Choice Act (66 Pa C.S.A. §2212(b)) requiring that the PUC, in determining PGW's revenue requirement and approving overall rates and charges, "follow the same rate-making methodology and requirements that were applicable to [PGW] prior to the assumption of jurisdiction by the [PUC]" and permit PGW to "impose, charge or collect rates or charges as necessary to permit…PGW to comply with its covenants to the holders of any approved bonds." The PUC affirmed this intention in a Policy Statement issued on April 19, 2010.
2. The throughput and revenue figures are based on the assumption of normal weather (4,360 HDD for 2011). To the extent that weather is warmer than normal, the resulting contribution margin will be maintained to the extent that the WNA remains in effect.
3. Projected revenue figures are based on the assumption that PGW will recover, in a timely manner, 100 percent of all gas supply costs (including upstream transportation, upstream storage, and LNG related costs) and 100 percent of the costs (or discounted revenues) attributed to the Customer Responsibility Program, Customer Works Program, Senior Citizen Discount Program, restructuring transition costs, and costs attributable to PUC mandated programs such as those indicated in Chapters 56 and 59 of the Public Utility Code (less certain avoided costs).

4. If PGW were unable to meet the rate covenants required under the 1975 General Ordinance and 1998 General Ordinance, PGW would then have to reduce expenditures, develop other sources of Project Revenues and Gas Works Revenues, and/or file for and receive timely rate relief.
5. If lost margins resulting from customers' reducing usage due to DSM programs are significant, PGW will file for additional base rate increases.
6. If PGW is mandated to replace infrastructure (mains) at a rate in excess of what is currently projected in its 2011 - 2016 capital improvement plan, the Pennsylvania PUC will provide either rate increases or surcharges to fund these expenditures.

Operating Expenses

1. PGW's annual bad debt expense will range from $33.6 to $29.3 million and PGW's collection factor on billed revenues will be 95.6 to 96.6 percent during the projected 2011-2016 period.

Capital Improvement Program (2011 – 2016)

1. The planned capital improvements are assumed to be sufficient to maintain the System and meet regulatory requirements.
2. Projected levels of capital improvements that are paid for by internally generated funds are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

City of Philadelphia

1. The City of Philadelphia undertook an evaluation of strategic options for PGW. The City selected a strategic alternatives advisor to present an assessment of options and suggestions with respect to the possibility of transferring ownership and/or operation of PGW to a private entity through a sale or long-term lease. The City, in its sole and absolute discretion, will determine whether and how to utilize the results of the assessment. For purposes of this report, Black & Veatch has assumed that PGW will continue to operate under its current structure and ownership.
2. In 2011, the City will grant back $1.7 million to PGW of the $18 million payment that PGW makes to the City. In 2012 through 2016, the City will not grant back any of the $18 million annual payment.

Opinions

Based on these analyses and the assumptions set forth or referred to in this Report, we offer the following opinions to indicate PGW's conformance with specific requirements which must be met for the issuance of the Twentieth Series Bonds and Tenth Series Bonds, as provided in the 1975 General Ordinance and the 1998 General Ordinance:

1. 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.

2. Based upon Black & Veatch's evaluation of financial projections and certain assumptions with respect to the System which Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System, the System should yield Project Revenues and Gas Works Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) respectively, over the amortization periods of the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance which will be sufficient to (a) meet all expenses of operation, maintenance, repair and replacement of the System, (b) meet all reserve or special funds required to be established under the 1975 General Ordinance and the 1998 General Ordinance, (c) meet the principal of and interest on all Bonds (including the Twentieth Series Bonds and Tenth Series Bonds) issued under such Ordinances, as the same shall become due and payable, and (d) provide such surplus requirements as are contained in the respective rate covenants of the 1975 General Ordinance and the 1998 General Ordinance. The Project Revenues and Gas Works Revenues forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of the First Class City Revenue Bond Act.
3. The Project Revenues and Gas Works Revenues which are pledged as security for the Bonds issued under the 1975 General Ordinance and the 1998 General Ordinance, respectively, are currently, and are projected to be, sufficient to comply with the Rate Covenants set forth in Section 4.03(b) of the 1975 General Ordinance and Section 4.03(b) of the 1998 General Ordinance.
4. The capital improvements proposed during the projection period, September 1, 2011, through August 31, 2016, should, along with continued good operation and maintenance practices, enable PGW to maintain the System in good operating condition. Review of present management practices indicates that good operation and maintenance is likely to continue.
5. Contracted PGW gas supplies plus (a) spot market purchases, (b) anticipated additional contracted supplies plus supplemental gas capacities, as well as, (c) the pipeline transport capacity to move these supplies to PGW, appear adequate to meet PGW's projected demand on a day of maximum demand (a "design peak day"), in an hour of maximum demand (a "design peak hour"), and during a year of maximum demand (a "design peak year").

The following are some significant changes or events that have occurred over the last few years, and are addressed more fully in the text of this Report:

1. Projected gas supply costs have dropped significantly, over 20 percent over the 2012 through 2015 period.
2. PGW's System throughput is projected to increase primarily due to increases in transportation service.
3. PGW's project capital improvements for 2011 and 2012 have decreased by approximately $5 million and by approximately $15 million over the 2013 through 2015 period.
4. Operation and maintenance expenses (excluding gas supply expenses) are about $35 million higher over the 2011 through 2015 period than projected in previous reports.
5. Bad debt expenses are about $25 million lower over the 2011 through 2015 period than projected in previous reports. This is primarily due to the significantly lower cost of gas.

6. PGW is projected to make the $18 million annual payment to the City with the City granting $1.7 million back in 2011 and ceasing the grant back beginning in 2012.
7. PGW's debt service payments over the 2011 through 2015 period are approximately $10 million lower than projected in previous reports.

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APPENDIX C

CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

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APPENDIX C

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

General

The City was incorporated in 1789 by an Act of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth") (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854, the General Assembly of the Commonwealth, by an act commonly referred to as the Consolidation Act, made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly of the Commonwealth (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council"); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, now also provides for the governance of The School District of Philadelphia (the "School District") as a home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City's affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the Home Rule Charter, as currently in effect, there are two principal governmental entities in the City of Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in the City, consisting of Common Pleas, Municipal and Traffic Courts, is part of the Commonwealth judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection, disposal and recycling; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate PGW for the benefit of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City.

The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones. Of the thirty members of the board of PIDC, seven are City officers or officials (the Mayor, the Director of Commerce, the President of City Council or a designee, the Chairman of the City Planning Commission, the City Solicitor, the Managing Director, and the Director of Finance), fifteen are nominated jointly by the President of the Greater Philadelphia Chamber of Commerce and the Director of Commerce, and eight are nominated by the President of the Greater Philadelphia Chamber of Commerce. The board of PAID is appointed by the Mayor.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include, without limitation, the construction and leasing of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings. The PMA is governed by a five-member board appointed by City Council from nominations made by the Mayor.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and/or administer low and moderate income rental units and housing in the City. The Redevelopment Authority, supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas. The Redevelopment Authority is governed by a five-member board appointed by the Mayor and must submit its budgets to the City for review and approval. The Philadelphia Housing Authority is normally governed by a five-member board with two members appointed by the Mayor, two appointed by the City Controller and a tenant member elected by the other members; however, on March 5, 2011, the board resigned to allow the U.S. Department of Housing and Urban Development to take over control of the Philadelphia Housing Authority for approximately a year, as a result of an ongoing federal investigation. On August 4, 2011, Michael P. Kelly was appointed Executive Director of PHA by the board. Mr. Kelly had previously acted as receiver for PHA at the request of HUD during the federal investigation.

The Hospitals and Higher Education Facilities Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes. The Hospitals Authority is governed by a five-member board appointed by City Council from nominations made by the Mayor.

The Philadelphia Parking Authority is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations. The members of the Philadelphia Parking Authority's board are appointed by the Governor of Pennsylvania, with certain nominations from the General Assembly of the Commonwealth.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating

a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region. Currently, two of the fifteen members of SEPTA's board are appointed by the Mayor and confirmed by City Council.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993. The Pennsylvania Convention Center is owned by the Commonwealth and leased to the Convention Center Authority. An expansion of the Pennsylvania Convention Center was completed in March 2011. This expansion enlarged the Pennsylvania Convention Center to almost 1,000,000 square feet of saleable space with the largest contiguous exhibit space in the Northeast, the largest convention center ballroom in the East and the ability to host large tradeshows or two major conventions simultaneously. Of the fifteen members of the board of the Convention Center Authority, two are appointed by the Mayor and one by each of the President and Minority Leader of City Council. The Commonwealth, the City and the Convention Center Authority have entered into an operating agreement with respect to the operation and financing of the Pennsylvania Convention Center.

School District

The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its board is appointed by the Mayor and must submit a lump sum statement of expenditures to the City annually. Such statement is used by City Council in making its determination to authorize the levy of taxes on behalf of the School District. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, both the City and the School District are governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), effective December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") provided for under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission. As of the date hereof, the School Reform Commission has not delegated any duties to the Board. Two of the five members of the School Reform Commission are appointed by the Mayor and three by the Governor of Pennsylvania.

SUMMARY FINANCIAL INFORMATION

Tables 1 and 2 below should be read in conjunction with the discussion concerning financial procedures of the City described under "CITY FINANCIAL PROCEDURES" below.

Table 1
General Fund
Summary of Operations (Legal Basis)
(Amounts In Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Estimate[4] 2011	Adopted Budget[6] 2012
Revenues							
Real Property Taxes[1]	395.8	397.5	402.8	400.1	402.2	488.7	486.7
Wage and Earnings Tax	1,111.2	1,167.4	1,184.8	1,117.0	1,114.2	1,149.9	1,188.6
Net Profits Tax	14.6	15.3	12.5	12.2	14.5	17.1	17.5
Business Privilege Tax	415.5	436.4	398.8	386.0	364.7	370.8	369.3
Sales Tax[2]	127.8	132.6	137.3	128.2	207.1	247.5	256.5
Other Taxes[3]	304.1	286.7	260.3	209.3	213.9	215.0	220.9
Total Taxes	2,369.0	2,435.9	2,396.5	2,252.8	2,316.6	2,489.0	2,539.5
Locally Generated Non-Tax Revenue	235.9	247.9	265.8	256.3	229.4	266.1	259.9
Revenue from Other Governments[5]	924.5	1,032.9	1,033.4	993.4	1,076.4	1,076.6	651.8
Receipts from Other City Funds[5]	24.9	27.4	27.2	135.4	31.9	64.2	51.5
Total Revenue	3,554.3	3,744.1	3,722.8	3,637.9	3,654.3	3895.9	3,502.7
Obligations/Appropriations							
Personnel Services	1,250.2	1,327.6	1,390.7	1,406.3	1,358.5	1,363.8	1,330.1
Purchase of Services	1,065.7	1,151.6	1,188.7	1,174.2	1,111.4	1,130.8	759.0
Materials, Supplies and Equipment	82.1	89.1	92.1	82.7	68.7	80.7	79.0
Employee Benefits	760.2	890.3	983.0	973.2	831.4	979.9	1,022.7
Indemnities, Contributions and Grants	110.9	119.0	120.9	130.0	128.0	109.4	117.5
City Debt Service	82.9	89.1	87.2	100.9	105.5	110.4	130.7
Other	38.6	31.2	32.3	22.7	26.0	0.0	4.0
Payments to Other City Funds	35.4	38.7	24.8	25.3	24.2	27.9	27.1
Total Obligations/Appropriations	3,426.0	3,736.6	3,919.8	3,915.3	3,653.7	3,802.9	3,470.1
Operating Surplus (Deficit) for the Year	128.2	7.5	(197.0)	(277.4)	0.6	93.0	32.6
Net Adjustments – Prior Year	30.1	35.9	18.6	20.7	22.6	24.5	24.5
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	96.2	254.5	297.9	119.5	(137.2)	(114.0)	3.5
Cumulative Adjusted Year End Fund Balance (Deficit)	254.5	297.9	119.5	(137.2)	(114.0)	3.5	60.6

(1) Current Estimate 2011 reflects a 9.9% increase.
(2) Reflects 1% increase effective October 8, 2009.
(3) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(4) From the June 30, 2011 Quarterly City Manager's Report (QCMR).
(5) State gaming revenues are reported as a Receipt from Other City Funds in 2009 and as Revenue from Other Governments in 2010, 2011 and 2012.
(6) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of transferring the majority of the Department of Human Services revenues and obligations to the Grants Revenue Fund.

Source: City of Philadelphia Department of Finance
Figures may not add up due to rounding.

Table 2
Principal Operating Funds (Debt Related)
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current[5] Estimate 2011	Adopted [6] Budget 2012
Revenues							
General Fund	3,554.3	3,744.1	3,722.8	3,637.9	3,654.3	3,895.9	3,502.7
Water Fund[1]	490.3	519.7	589.7	543.5	546.7	574.0	640.2
Aviation Fund[2]	271.5	268.6	287.9	294.1	290.2	304.6	386.1
Other Operating Funds[3]	41.9	44.9	113.2	49.5	50.1	49.9	51.6
Total Revenue	4,358.0	4,577.3	4,713.6	4,525.0	4,541.3	4,824.4	4,580.6
Obligations/Appropriations							
Personnel Services	1,412.9	1,498.2	1,568.9	1,579.0	1,523.6	1,528.3	1,515.6
Purchase of Services	1,233.5	1,328.5	1,441.4	1,369.2	1,312.8	1,347.8	1,034.9
Materials, Supplies and Equipment	136.2	145.9	151.1	140.7	128.9	137.7	154.0
Employee Benefits	845.3	990.1	1,095.8	1,091.4	932.8	1,101.5	1,162.4
Indemnities, Contributions and Taxes	116.5	122.6	127.1	135.9	134.4	117.0	129.3
Debt Service[4]	337.6	348.8	346.7	384.8	397.8	398.4	457.8
Other	38.6	31.2	32.3	22.7	24.2	0.0	4.0
Payments to Other City Funds	119.4	144.9	154.7	88.1	98.5	130.6	132.8
Total Obligations/Appropriations	4,240.0	4,610.2	4,917.9	4,811.8	4,553.0	4,761.4	4,590.8
Operating Surplus (Deficit) for the Year	118.0	(32.8)	(204.3)	(286.8)	(11.6)	63.0	(10.2)
Net Adjustments Prior Year	60.6	69.6	51.0	41.8	58.1	55.56	59.7
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	132.9	311.5	348.3	195.0	(50.0)	(3.4)	45.3
Cumulative Adjusted Year End Fund Balance (Deficit)	311.5	348.3	195.0	(50.0)	(3.4)	115.1	94.8

(1) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of $4,994,000 per year, provided certain further conditions are satisfied. From Fiscal Year 1991 to Fiscal Year 2003, the maximum transfer, per administrative agreement, was $4,138,000. For Fiscal Year 2004, the budgeted transfer was not made. For Fiscal Year 2005, the transferred amount was $4,401,000. For Fiscal Year 2006, 2007 and 2008, the transferred amount was $4,994,000. For Fiscal Year 2009, the transferred amount was $4,185,463. For Fiscal Year 2010 the transferred amount was $2,303,986, the current estimate for Fiscal Year 2011 is $3,004,000, and the budget for Fiscal Year 2012 is 3,788,000.

(2) Airport revenues are not available for other City purposes.

(3) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.

(4) Excludes PICA bonds.

(5) From the June 30, 2011 Quarterly City Manager's Report..

(6) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of transferring the majority of the Department of Human Services revenues and obligations to the Grants Revenue Fund.

Figures may not add up due to rounding.

DISCUSSION OF FINANCIAL OPERATIONS

Impact of Economic Downturn

Since October of 2008, the City has implemented significant actions to balance the budget and its five-year plans, including reducing overtime costs, reducing General Fund full and part time employee headcount by 1,600 (from June 30, 2008 to December 31, 2010), implementing a temporary five year sales tax increase and a 9.9% Real Estate Tax increase in Fiscal Year 2011, pension funding changes, freezing City funded and business privilege tax reductions until Fiscal Year 2014, increasing fees, and instituting spending cuts throughout the government. During this period of time, the City has improved its public safety results due to important changes in policing and has maintained delivery of its services.

The City undertook these measures as a result of the impact of the national and global recession. Beginning in August 2008, the City began to experience adverse budgetary performance for Fiscal Year 2009 as a result of the recession. In November 2008, the City projected a $1 billion gap over the five year period of the Seventeenth Five-Year Plan, and the City took a series of measures to close the projected gap for Fiscal Year 2009 and over the period of the Seventeenth Five-Year Plan. However, the economy deteriorated further and revenues declined at a greater pace than had been projected, leaving the City with a Fiscal Year 2009 operating deficit of $286.8 million resulting in a deficit of $236.8 million after prior year net adjustments of $41.8 million. Tax receipts continued to display weakness in Fiscal Year 2010, increasing the projected gap for both Fiscal Year 2010 and the period of the Eighteenth Five-Year Plan. In total during the six year period Fiscal Years 2009-2014, the projected shortfall reached $2.4 billion. The actions taken by the City, described above, are currently anticipated to close these projected gaps.

Fiscal Year 2012 Adopted Budget

The City's Fiscal Year 2012 budget was presented to City Council on March 3, 2011, was approved by City Council on June 23, 2011, and signed by the Mayor on June 24, 2011. The process and required timing for the approval of the budget is described under "CITY FINANCIAL PROCEDURES-Budget Procedures" herein. The budget projects estimated revenues of $3.503 billion, obligations of $3.470 billion, an operating surplus of $57.1 million and an ending fund balance of $60.6 million on the legally enacted basis.

The Fiscal Year 2012 budget conforms to the Twentieth Five-Year Plan (hereinafter defined) which was submitted to PICA (hereinafter defined) on July 7, 2011, and approved by PICA on July 26, 2011.

For the past several years, the financial position of the City's General Fund has been distorted by the timing of the receipt of reimbursements from the Commonwealth for the Department of Human Services. For a variety of reasons, those reimbursements have not been received in the same year as the costs were incurred. As a result, the costs are reflected in the City's fund balances, but the reimbursements are not, leading to fund balances that are distorted and artificially low. In some years, the late receipt of reimbursements has led to changes of tens of millions of dollars in the City's fund balance.

The Fiscal Year 2012 budget moves reimbursed costs and corresponding revenues for services provided by the Department of Human Services of approximately $495.1 million to the Grants Revenue Fund. As a result of this change the City's General Fund balance will better reflect the City's financial condition.

Fiscal Year 2011 Budget

The City's Fiscal Year 2011 budget was presented to City Council on March 4, 2010, was approved by City Council on May 20, 2010, and signed by the Mayor on June 1, 2010. The budget projects estimated revenues of $3.909 billion, obligations of $3.853 billion, an operating surplus of $80.5 million and an ending fund balance of $42.6 million after discharging the Fiscal Year 2010 fund balance deficit on the legally enacted basis. The budget includes a 9.9% Real Estate Tax increase which is estimated to yield $86 million. The Nineteenth Five-Year Plan (hereinafter defined) was approved by PICA on August 10, 2010.

Fiscal Year 2011 Current Estimate

The June 30, 2011 Quarterly City Manager's Report contains revised estimates for Fiscal Year 2011. Revenue estimates have been revised downward by $32.8 million versus the March 31, 2011 Quarterly City Manager's Report, largely as the result of delayed receipts of prior year Department of Human Services reimbursements, lower collections of Real Estate Transfer Tax and trash collection fees which are being partially off-set by higher than projected tax collections for Business Privilege Taxes, PICA Taxes and forfeited bail fees. The revised estimate of obligations includes $31 million in lower than projected obligations including lower costs for child welfare services of $15 million, debt service of $13 million and demolition of buildings of $3 million as compared to the March 31, 2011 Quarterly City Manager's Report. The revised estimate projects revenues for Fiscal Year 2011 of $3.895 billion, obligations of $3.803 billion, an operating surplus of $117.5 million, and an ending fund balance of $3.5 million after discharging the Fiscal Year 2010 fund balance deficit on the legally enacted basis.

As presented in this Appendix C, unless otherwise noted, current estimates for Fiscal Year 2011 are based on the June 30, 2011 Quarterly City Manager's Report .

Fiscal Year 2010 Budget

The City's Fiscal Year 2010 budget was presented to City Council on March 19, 2009, was approved by City Council on May 21, 2009, and signed by the Mayor on May 27, 2009. The budget projected estimated revenues of $3.815 billion, obligations of $3.694 billion and an ending fund balance of $85.3 million after discharging the Fiscal Year 2009 fund balance deficit on the legally enacted basis. The budget included a temporary one percent City Sales Tax increase which was estimated to yield $97 million in Fiscal Year 2010 increasing to an estimated $121 million in Fiscal Year 2014. The Sales Tax increase became effective on October 8, 2009. With the delay in Commonwealth approval of the temporary Sales Tax increase, reduced child welfare funding, revisions to the pension amortization schedule and other reductions and delays in implementation of revenue initiatives, the City revised the Fiscal Year 2010 budget and Eighteenth Five-Year Plan and submitted the revision to PICA on September 1, 2009. PICA approved the revised Eighteenth Five-Year Plan on September 16, 2009. Such revised Eighteenth Five-Year Plan was based upon Fiscal Year 2010 estimated projected revenues of $3.789 billion, obligations of $3.727 billion and an ending funds balance on the legally enacted basis of negative $51.7 million.

Fiscal Year 2010 Results

For Fiscal Year 2010, the City had revenues of $3.654 billion, obligations of $3.653 billion and an ending fund balance on the legally enacted basis of negative $114 million. The decrease in such ending fund balance from the projection used in the revised Eighteenth Five-Year Plan was the result of the delayed reimbursement of Department of Human Services costs from the federal and state governments.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report and Notes therein.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City of Philadelphia contained in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010 (the "Fiscal Year 2010 Comprehensive Annual Financial Report"), which can be found at http://www.phila.gov/reports/reports2.html.

The City Controller has not participated in the preparation of this Remarketing Circular nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Remarketing Circular. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Remarketing Circular other than what is contained in the Fiscal Year 2010 Comprehensive Annual Financial Report.

Pennsylvania Intergovernmental Cooperation Authority

The City is required to develop an annual five-year financial plan and obtain annual approval of such five-year financial plan from the Pennsylvania Intergovernmental Cooperation Authority ("PICA"); the City is also required to prepare and submit quarterly reports to PICA. See "PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY" for a further discussion of PICA, its relationship to the City and its financial oversight role.

Principal Operations

The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through two other major governmental funds and 12 minor governmental funds. The two major governmental funds and three of the minor governmental funds are financed solely through grants from the Commonwealth and Federal government. The City's Debt Service Fund and Capital Projects Fund are also included with the minor governmental funds. The Fiscal Year 2012 Operating Budget moves the activities of the Department of Human Services from the General Fund to the Grants Revenue Fund.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The funds' financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty-three individual governmental funds. The City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2010), presents data separately for the General Fund, Grants Revenue Fund and Health Choices Behavioral Health Fund, which are considered to be major funds. Data for the remaining twenty funds are combined into a single aggregated presentation.

Proprietary Funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary funds - airport, water and wastewater operations, and industrial land bank.

Fiduciary Funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's Comprehensive Annual Financial Report (including for the City's fiscal year ended June 30, 2010), as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

Basis of Accounting and Measurement Focus

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as Real Estate Taxes, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

- The Health Choices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to residents of the City.

- The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

- The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.

- The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports on the following major Proprietary Funds:

- The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.

- The Aviation Fund accounts for the activities of the City's airports.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation Fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Legal Compliance

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP"). In accordance with the Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, ten Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, Health Choices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development, Car Rental Tax, Wage Tax Reduction, Acute Care Hospital Assessment and Housing Trust Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated

together) must have councilmatic approval. Appropriations that are not expended or encumbered at year-end are lapsed.

The City's capital budget is adopted annually by City Council. The capital budget is appropriated by project for each department. Requests to transfer appropriations between projects must be approved by City Council. Any appropriations that are not obligated at year-end are either lapsed or carried forward to the next fiscal year.

Schedules prepared on the legally enacted basis differ from the GAAP basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

Budget Procedure

At least ninety days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least thirty days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. If the Mayor disapproves the bill, he must return it to City Council with the reasons for his disapproval at the first meeting thereof held not less than ten days after he receives it. If the Mayor does not return the ordinance within the time required, it becomes law without his approval. If City Council passes the bill by a vote of two-thirds of all of its members within seven days after the bill has been returned with the Mayor's disapproval, it becomes law without his approval. The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table 20 for a summary of the City's capital improvement program for the Fiscal Years 2012 through 2017.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from funds that City Council appropriates, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Awards

For the thirtieth consecutive year, the Government Finance Officers Association of the United States and Canada ("GFOA") awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting ("GFOA Awards") to the City for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2009. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements. The City has applied for the GFOA Award for its 2010 CAFR.

REVENUES OF THE CITY

General

In 1932, the General Assembly of the Commonwealth adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the Real Estate Tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax.

Major Revenue Sources

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 below for revenues by major source for Fiscal Years 2001-2012 and Table 4 below for General Fund tax revenues for Fiscal Years 2006-2012. The following descriptions do not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 2000 through 2010 are contained in the Fiscal Year 2010 Comprehensive Annual Financial Report.

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Table 3
Summary of Principal Operating Funds (Debt Related)
Revenues by Major Source
Fiscal Years 2001-2012 (Legal Basis)
(Amounts in Millions of USD)

	General Fund Tax Revenues						Other Revenues						
Fiscal Year	Real Property Taxes[1]	Wage Earnings & Net Profits Taxes[1]	Business Privilege Tax[1]	Sales and Use Tax[1]	Other Taxes[2]	Total Taxes	Water & Wastewater Charges	Airport Charges	Other Locally Generated Charges	Total Local Revenue	Revenue from Other Govts	Revenue from Other City Funds	Total Revenues
2001	363.4	1,059.0[3]	314.0[3]	111.3	130.0[3]	1,977.7	285.8	175.7	251.3	2,690.5	781.7	90.5	3,562.7
2002	376.8	1,019.3	295.8	108.1	148.6	1,945.4	302.8	181.7	257.9	2,687.8	722.5	80.8	3,491.1
2003	361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
2004	377.7	1,062.6	309.2	108.0	202.2	2,059.7	383.1	235.0	207.4	2,885.2	834.2	92.1	3,811.5
2005	392.7	1,087.3	379.5	119.9	250.9	2,230.3	419.7	246.3	200.8	3,097.1	1,082.4	71.6	4,251.1
2006	395.8	1,125.8	415.5	127.8	304.1	2,369.0	460.4	269.4	236.2	3,335.0	953.1	69.9	4,358.0
2007	397.5	1,182.7	436.4	132.6	286.7	2,435.9	486.9	266.0	248.3	3,437.1	1,063.3	77.0	4,577.4
2008	402.8	1,197.3	398.8	137.3	260.3	2,396.5	555.0	275.3	267.5	3,494.3	1,066.2	153.1 [4]	4,713.6
2009	400.1	1,129.2	386.0	128.2	209.3	2,252.8	484.5	291.3	258.3	3,286.9	1,025.4	212.7 [5]	4,525.0
2010	402.2	1,128.7	364.7	207.1[6]	213.9	2,316.6	516.4	290.2	224.5	3,347.7	1,110.7[7]	82.7	4,541.3
2011 (Current Estimate)[9]	488.7[8]	1,167.0	370.8	247.5	215.0	2,489.0	541.5	302.2	266.1	3,498.8	1,109.5	116.1	4,824.4
2012 (Adopted Budget)[10]	486.7	1,206.0	369.3	256.5	220.9	2,539.5	567.1	381.1	259.1	3,747.6	686.4	146.6	4,580.6

(1) See Table 7 in the Fiscal Year 2010 Comprehensive Annual Financial Report for Tax Rates.
(2) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(3) Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal Year 2001. (Wage Tax, $50.4 million; Business Privilege, $5.2 million; Other Taxes, $4.3 million).
(4) In Fiscal Year 2008, there was an increase of $73 million in payment from Water Fund to Water Residual Fund.
(5) In Fiscal Year 2009, there was an $86 million payment from the Wage Tax Reduction Fund.
(6) Reflects 1% increase effective October 8, 2009.
(7) In Fiscal Year 2010, the Wage Tax Reduction payment is shown in the Revenue from Other Governments column.
(8) Reflects a Real Estate Real Estate Tax increase of 9.9%.
(9) From the June 30, 2011 Quarterly City Manager's Report.
(10) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of the transfer of the majority of the Department of Human Services revenue and obligations to the Grants Revenue Fund.

Figures may not add up due to rounding.

Table 4
General Fund Tax Revenues[1]
Fiscal Years 2006-2012
(Amounts in Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Estimate[5] 2011	Adopted Budget 2012
Real Property Taxes							
Current	354.1	367.2	366.5	365.6	364.3	451.2[4]	449.2
Prior	41.7	30.3	36.3	34.4	37.9	37.5	37.5
Total	395.8	397.5	402.8	400.0	402.2	488.7	486.7
Wage And Earnings Tax[2]							
Current	1,104.0	1,162.4	1,176.5	1,105.9	1,102.3	1,137.9	1,176.6
Prior	7.2	5.1	8.3	11.1	11.9	12.0	12.0
Total	1,111.2	1,167.5	1,184.8	1,117.0	1,114.2	1,149.9	1,188.6
Business Taxes							
Business Privilege							
Current	390.5	401.9	376.1	367.1	329.3	350.8	349.3
Prior	25.0	34.5	22.7	18.9	35.4	20.0	20.0
Subtotal Business Privilege	415.5	436.4	398.8	386.0	364.7	370.8	369.3
Net Profits Tax							
Current	11.8	10.9	9.1	9.5	12.1	14.6	15.0
Prior	2.8	4.3	3.4	2.7	2.4	2.5	2.5
Subtotal Net Profits Tax	14.6	15.3	12.5	12.2	14.5	17.1	17.5
Total Business Taxes	430.1	451.6	411.3	398.2	379.2	387.9	386.8
Other Taxes							
Sales and Use Tax	127.8	132.6	137.3	128.3	207.1[3]	247.5	256.5
Amusement Tax	17.0	16.4	18.0	21.4	21.8	21.1	21.6
Real Property Transfer Tax	236.4	217.3	184.0	115.1	119.2	117.3	120.8
Parking Taxes	48.4	50.3	55.5	70.4	70.5	72.5	74.3
Other Taxes	2.3	2.6	2.8	2.4	2.4	4.1	4.1
Subtotal Other Taxes	431.9	419.2	397.6	337.6	421.0	462.5	477.3
TOTAL TAXES	2,369.0	2,435.9	2,396.5	2,252.8	2,316.6	2,489.0	2,539.5

(1) See Table 7 in the Fiscal Year 2010 Comprehensive Annual Financial Report for Tax Rates.
(2) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.
(3) Effective October 8, 2009, there was a 1% increase to the City Sales tax.
(4) Reflects a Real Estate Real Estate Tax increase of 9.9%.
(5) From the June 30, 2011 Quarterly City Manager's Report..

Figures may not add up due to rounding.

Wage, Earnings, and Net Profits Taxes. These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. See "PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY—Source of Payment of PICA Bonds." The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 2001-2012, and the annual wage and earnings tax receipts in Fiscal Years 2001-2010, the current estimate for Fiscal Year 2011, and the adopted budget for Fiscal Year 2012.

Table 5
Summary of Wage, Earnings and Net Profits Tax Rates and Receipts

Fiscal Year	Resident Wage, Earnings and Net Profits Tax Rates[1]	Non-Resident Wage, Earnings and Net Profits Tax Rates	Annual Wage, Earnings and Net Profits Tax Receipts (including PICA Tax) (Amounts in Millions of USD)
2001	4.5635%	3.9672%	$ 1,332.6
2002	4.5385	3.9462	1,297.3
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005	4.4625 (Jul. 1)	3.8801 (Jul. 1)	1,387.5
	4.3310 (Jan. 1)	3.8197 (Jan. 1)	
2006	4.3310 (Jul. 1)	3.8197 (Jul. 1)	1,435.6
	4.3010 (Jan. 1)	3.7716 (Jan. 1)	
2007	4.3010 (Jul. 1)	3.7716 (Jul. 1)	1,510.6
	4.2600 (Jan. 1)	3.7557 (Jan. 1)	
2008	4.2600 (Jul. 1)	3.7557 (Jul. 1)	1,527.5
	4.2190 (Jan. 1)	3.7242 (Jan. 1)	
2009[2]	3.9800 (Jul. 1)	3.5392 (Jul. 1)	1,477.8
	3.9300 (Jan. 1)	3.5000 (Jan. 1)	
2010	3.9296	3.4997	1,472.0
2011	3.9280	3.4985	1,524.5 Current Estimate[3]
2012	3.9280	3.4985	1,563.1 Adopted Budget

(1) Includes PICA Tax.
(2) There were two rate decreases during Fiscal Year 2009.
(3) From the June 30, 2011 Quarterly City Manager's Report...

Commonwealth funding from gaming revenues is mandated by statue to be used to reduce the resident and nonresident wage tax rate. Gaming revenues were first used to reduce the wage tax rates in 2009. Revenues from gaming revenues were $86.545 million in FY2009, $86.270 million in FY2010 and are projected to be $86.277 million in FY2011. Accordingly, the wage tax rates in 2009, 2010 and 2011 reflect a rate reduction due to these revenues.

In the Seventeenth Five-Year Plan, the Mayor approved further reductions in this tax rate for each of the Fiscal Years 2009-2013. The Seventeenth Five-Year Plan approved reducing the wage tax from the Fiscal Year 2008 level of 4.2190% for residents and 3.7242% for non-residents to 3.60% for residents and 3.25% for non-residents by Fiscal Year 2013. These reduced rates include rate reductions funded with Commonwealth funds from gaming proceeds. In Fiscal Year 2009 there were two rate reductions: one that took effect July 1, 2008 and the other that took effect January 1, 2009. The Eighteenth Five-Year Plan suspended future City-funded rate reductions until Fiscal Year 2015. The Nineteenth Five-Year Plan suspended City-funded rate reductions until Fiscal Year 2014, and the Twentieth Five-Year Plan continues to suspend the City-funded rate reductions until Fiscal Year 2014.

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

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

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

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

The tax rates for tax years 2003-2012 are set forth below.

Table 6
Summary of Business Privilege Tax Rates

Tax Year	Business Privilege
2003	2.300 mills
2004	2.100 mills
2005	1.900 mills
2006	1.665 mills
2007	1.540 mills
2008	1.415 mills
2009	1.415 mills
2010	1.415 mills
2011	1.415 mills
2012	1.415 mills

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the Business Privilege Tax from its previous level of 3.25 mills. In the Seventeenth Five-Year Plan, the Mayor approved further reductions in the gross receipts portion of the Business Privilege Tax for each of the Fiscal Years 2009-2013. The Eighteenth Five-Year Plan suspended future City-funded rate reductions until Fiscal Year 2015. The Nineteenth Five-Year Plan suspended future City rate reductions until Fiscal Year 2014, and the Twentieth Five-Year Plan continues to suspend the City-funded rate reductions until Fiscal Year 2014.

All business activity is also assessed a one-time $300 licensing fee administered by the Department of Licenses and Inspections.

Real Property Taxes. A Real Estate Tax on all taxable real property is levied on the assessed value of residential and commercial property located within the City's boundaries. From Fiscal Year 2003 through Fiscal Year 2007 the City's portion of the rate was 34.74 mills and the School District's portion was 47.90 mills. In Fiscal Year 2008, City Council shifted 1.69 mills of City tax to the School District. In Fiscal Year 2008, the City's portion of the rate became 33.05 mills and the School District's portion became 49.59 mills. In Fiscal Year 2011, the Real Estate Tax rate was increased 9.9% through Fiscal Year 2012 with the City's portion of the rate increasing to 41.23 mills and the School District's portion remaining the same at 49.59 mills. In Fiscal Year 2012, the Real Estate Tax rate was increased 3.85% for Fiscal Year 2012 (one year only) with the City's portion of the rate remaining the same at 41.23 mills and the School District's portion increasing to 53.09 mills.

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

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The Fiscal Year 2010 budget assumed an increase to 2% from the then-current 1% rate. The General Assembly of the Commonwealth enacted legislation authorizing this increase effective October 8, 2009. The Eighteenth Five-Year Plan and the Nineteenth Five-Year Plan assume this temporary increase will sunset on June 30, 2014, and the Twentieth Five-Year Plan also assumes the temporary increase will sunset on June 30, 2014.

The table below sets forth the City Sales Tax collected in Fiscal Years 2001 through 2010, the current estimate for Fiscal Year 2011 and the adopted budget for fiscal Year 2012.

Table 7
Summary of City Sales Tax Collections
(Amounts In Millions of USD)

Fiscal Year	City Sales Tax Collections
2001	$ 111.3
2002	108.1
2003	108.0
2004	108.0
2005	119.9
2006	127.8
2007	132.6
2008	137.3
2009	128.0
2010	207.1
2011 (Current Estimate[1])	247.5
2012 (Adopted Budget)	256.5

[1] From the June 30, 2011 Quarterly City Manager's Report..

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

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

Revenue from Other Governments. The City's Fiscal Year 2010 General Fund received 29.5 percent of General Fund revenues from other governmental jurisdictions, including: (1) $580.8 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $140.3 million from the Federal government; and (3) $78.6 million from other governments, in which revenues are primarily rental and payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $275.8 million are included in "Revenue from Other Governments."

The City's Fiscal Year 2011 General Fund current estimate projects that approximately 27.6 percent of General Fund revenues will be received from other governmental jurisdictions, including: (1) $560.5 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $165.1 million from the Federal government; and (3) $55.7 million from other governments, in which revenues are primarily rentals and payments from PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $291.2 million are included in "Revenue from Other Governments."

The City's Fiscal Year 2012 General Fund adopted budget projects that approximately 18.6 percent of General Fund revenues will be received from other governmental jurisdictions, including: (1) $212.6 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $90.5 million from the Federal government; and (3) $53.7 million from other governments, in which revenues are primarily rentals and payments from the PGW and parking fines and fees from the Philadelphia Parking Authority. In addition, the net collections of the PICA Tax of $290.9 million are included in "Revenue from Other Governments. The decrease in Fiscal Year 2012 Revenue from Other Governments is largely due to the transfer of the majority of the Department of Human Services revenue and obligations to the Grants Revenue Fund.

These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Revenues from City-Owned Systems

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

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) $4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the $4,994,000 amount was reduced to $4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to $4,994,000 but no payment was made. For Fiscal

Year 2005, the transferred amount was $4,401,000; for Fiscal Years 2006 through 2008, the transferred amount was $4,994,000. In Fiscal Years 2009 and 2010, the transferred amounts were $4,185,463 and $2,303,986, respectively. In Fiscal Year 2011, the current estimate is $3,004,000, and the Fiscal Year 2012 adopted budget amount is $3,788,000.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of $18,000,000 to the City's General Fund. For Fiscal Year 2005, the City agreed to forgo the $18,000,000 payment, and for Fiscal Years 2006, 2007, 2008, 2009 and 2010, the City budgeted the receipt of the $18,000,000 payment and the grant back of such amount to PGW. The City's Nineteenth Five-Year Plan assumes that the $18,000,000 payment will be made in each of Fiscal Years 2011 through 2015 and that the City will grant back such payment to PGW in each such Fiscal Year. See also "EXPENDITURES OF THE CITY -- Fiscal Year 2011 PGW Payment to City." The City's Twentieth Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund but discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016.

Philadelphia Parking Authority

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

PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The City received transfers of rental payments in Fiscal Years 2006 through 2010 that totaled $30,186,642, $33,184,918, $33,570,037, $31,239,909 and $23,732,623, respectively. The Fiscal Year 2011 current estimate is projected to be $28,008,550, and the Fiscal Year 2012 adopted budget amount is $27,000,000.

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

Assessment and Collection of Real and Personal Property Taxes

Historically, the Board of the Revision of Taxes (the "BRT") was responsible for both the property assessment and property appeals functions for the City. The BRT consists of a seven-member panel that is appointed by the Judges of the First Judicial District of Pennsylvania. On December 17, 2009, City Council passed legislation that would disband the BRT and replace it with separate offices for assessments and appeals, subject to the approval of City voters. In the May 10, 2010, primary election voters approved the separation of the assessment and appeals functions. On June 16, 2010 a new Chief

Assessment Officer, Rich McKeithen, was appointed by the Mayor and approved by City Council on June 17, 2010 to lead the new Office of Property Assessment.

According to the legislation, the BRT would cease to exist at the end of September 2010 and the changes described above would take effect; however, the Pennsylvania Supreme Court ruled on September 20, 2010 that the City could not abolish the existing appeals board because only the General Assembly of the Commonwealth has the authority to do so. Therefore, the BRT remains in place as the property appeals board; however, the separation of the property assessment function from the property appeals function proceeds as per the original legislation.

Beginning on October 1, 2010, the new Office of Property Assessment was formally created to conduct the annual assessment of all real estate located within the City. The Office of Property Assessment has begun the work to conduct a complete reassessment of the approximately 577,000 parcels in the City. Completion of the reassessment is a major priority for the Mayor's administration and is expected to be finalized in 2012. In the interim, there is a moratorium on all routine property assessments – exceptions to the moratorium include newly constructed properties, improved properties and consolidated or subdivided properties.

According to the existing appeals mechanism, the BRT has the authority to increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After all changes in property assessments, and after all assessment appeals, assessments are certified and the results provided to the Department of Revenue.

Real Estate Taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the Real Estate Tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See the Fiscal Year 2010 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

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Table 8
City of Philadelphia
Real Property Taxes Levied and Collected
For the Calendar Years 2001 through 2010
as of June 30, 2010
(Amounts In Millions of USD)

Calendar Year of Levy[1]	Taxes Levied for the Year	Collected within the Year of the Levy: Amount	Collected within the Year of the Levy: Percentage of Levy	Collected in Subsequent Years	Total Collections to Date: Amount[2]	Total Collections to Date: Percentage of Levy
2001	356.6	326.7	91.6%	25.8	352.5	98.9%
2002	368.2	340.4	92.4%	26.0	366.4	99.5%
2003	359.4	326.8	90.9%	26.8	353.6	98.4%
2004	372.5	340.9	91.5%	25.3	366.2	98.3%
2005	373.5	350.3	93.8%	20.8	371.1	99.4%
2006	385.6	339.6	88.1%	21.1	360.7	93.5%
2007	391.7	347.5	88.7%	20.3	367.8	93.9%
2008	390.2	346.4	88.8%	18.9	365.3	93.6%
2009	396.5	315.4[3]	79.6%	29.7	345.1	87.0%
2010	405.8	353.7[3]	87.2%	N/A	353.7	87.2%

[1]Real Real Estate Tax bills are sent out in November and are payable at 1% discount until February 28th, otherwise the face amount is due by March 31 without penalty or interest.

[2] Includes collections through June 30, 2010.

[3] Includes collections through June 30, 2010. It is estimated that approximately 91% of the amount levied for 2010 will be collected within the year of levy.

Table 9
Principal Real Estate TaxPayers
2011 and 2002
(Amounts in Millions of USD)

Taxpayer	2011 Assessment*	2011 Percentage of Total Assessments	2002 Assessment*	2002 Percentage of Total Assessments
Franklin Mills Associates	57.6	0.47	48.1	0.49
Phila Liberty Place E LP	54.4	0.44	64.3	0.61
Nine Penn Center Associates	54.1	0.44	52.0	0.53
HUB Properties Trust	43.8	0.36	59.5	0.61
Brandywine Operating Partners	40.6	0.33	-	-
PRU 1901 Market LLC	35.2	0.29	32.3	0.33
Maguire/Thomas	33.9	0.28	32.0	0.33
Commerce Square Partners	33.3	0.27	32.3	0.33
Phila Shipyard Development Corp	30.3	0.25	-	-
Philadelphia Market Street	28.8	0.24	30.4	0.31
Total	412.0	3.37	350.9	3.54
Total Taxable Assessments **	12,225.0		9,953.3	

*Assessment Values rounded to the nearest $100,000 and only include the largest assessed property for each taxpayer -- additional properties owned by the same taxpayer are not included.
** Total Taxable Assessment as of May 5, 2011.
Source: City of Philadelphia, Board of Revision of Taxes.

Table 10
Ten Largest Certified Market and Assessment Values
of Tax-Abated Properties
Certified Values for 2011
(Amounts in Millions of USD)

Location	2011 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment	Exempt Thru Tax Year
1701 John F Kennedy Blvd.	181.5	58.1	2.9	55.2	2017
1001 N Delaware Ave	150.9	48.3	12.8	35.5	2020
2929L Arch St.	117.0	37.4	0	37.4	2015
1500 Spring Garden St.	54.8	17.5	2.9	14.6	2020
2201 Park Towne Pl.	48.0	15.4	13.5	1.9	2012
3401 Chestnut St.	35.3	11.3	0.7	10.6	2017
1327-39 Chestnut St.	35.0	11.2	10.9	0.3	2016
4000 Monument Rd.	31.8	10.2	6.2	4	2017
1601 N 15th St.	31.5	10.1	0.2	9.9	2017
200 W Washington Sq.	30.6	9.8	0.7	9.1	2014

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

EXPENDITURES OF THE CITY

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

Personal Services (Personnel)

As of June 30, 2011, the City employed 26,588 full-time employees with the salaries of 22,113 employees paid from the General Fund. Additional employment is supported by other funds, including the Water Fund and the Aviation Fund.

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

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

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Table 11
Filled, Full Time Positions - All Operating Funds
as of June 30 (Actual)

	2006	2007	2008	2009	2010	2011	2012[1]
General Fund							
Police	7,287	7,424	7,367	7,443	7,378	7,219	7,371
Streets	1,858	1,814	1,839	1,724	1,693	1,689	1,785
Fire	2,270	2,399	2,326	2,252	2,187	2,146	2,229
Health	662	664	665	662	662	661	731
Courts	1,936	1,928	1,970	1,889	1,756	1,869	1,977
Prisons	2,225	2,176	2,131	2,294	2,254	2,166	2,310
Human Services	1,703	1,721	1,784	1,743	1,751	1,668	807
All Other	4,878	4,941	5,029	4,905	4,616	4,602	4,961
Total General Fund	22,819	23,067	23,111	22,912	22,297	22,020	22,171
Other Funds	4,616	4,598	4,642	4,570	4,566	4,540	6,276
Total - All Funds	27,435	27,665	27,753	27,482	26,863	26,560	28,447

[1] From the Operating Budget in Brief for Fiscal Year 2012.

Labor Agreements

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

On July 10, 2008, an arbitration panel awarded a one-year contract to the FOP effective July 1, 2008. The award called for a 2% wage increase effective July 1, 2008, a 2% wage increase effective January 1, 2009 and a 1% increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of $1,303 per member to $1,165 per member. The contract expired June 30, 2009.

On December 18, 2009, an arbitration panel awarded a five-year contract to the FOP effective July 1, 2009 which calls for no raise the first year, a 3% wage increase and one percent stress differential increase effective July 1, 2010, a 3% wage increase effective July 1, 2011, and reopeners on wages in Fiscal Year 2013 and 2014. The award also includes higher employee co-pays in the police medical plan, reduced City contributions to the union's healthcare fund in Fiscal Year 2010, self insurance for employee health benefits and a requirement that new employees choose between a 20 percent increase in pension contributions over the amount current employees pay or entering a 401(k) type retirement plan for the first time.

On June 21, 2011, an arbitration award was issued for a smaller unit comprised of uniformed employees of the Sheriff's Office and civilian employees of the Register of Wills. The award deferred wages and improvements for the civilian employees pending the outcome of negotiations with District Council 33. Uniformed employees of the Sheriff's Office received wage increases of 2.5% on July 1, 2010, 2.5% on July 1, 2011, and reopeners in Fiscal Year 2013 and 2014. A new pension plan similar to that for uniformed police was created, but with a lower benefit level. Since these employees were not in the uniformed division of the City's pension plan, the award created a new pension plan for the municipal division of the pension plan which must be approved by City Council in order to be implemented.

On October 17, 2008, an arbitration panel awarded a one-year contract to the IAFF Local 22 effective July 1, 2008. The award called for a 2% wage increase effective July 1, 2008, a 2% wage increase effective January 1, 2009, and a 1% increase in longevity pay effective January 1, 2009. In addition, the panel reduced the per member per month health medical payment from the current monthly rate of $1,444 per member to $1,270 per member. The contract expired on June 30, 2009.

On October 15, 2010, an arbitration panel awarded a four year contract to the IAFF Local 22 effective July 1, 2009 which calls for no raise the first year, a 3% wage increase effective July 1, 2010, a three percent wage increase effective July 1, 2011, and a 3% wage increase effective July 1, 2012. The award also includes a change from purchase of health insurance to self-insurance as of January 1, 2011, higher employee co-pays in the Fire medical plan, the union's healthcare fund will be responsible for the first $5 million in self-insurance costs, and a requirement that new employees choose between a 20% increase in pension contributions over the amount current employees pay or entering a 401(k) type retirement plan for the first time. The City has appealed the economic provisions of the award other than the revisions to the pension plan. The appeal is currently pending in the Philadelphia Court of Common Pleas.

The City reached a one year agreement with District Council 33 and District Council 47, which was effective July 1, 2008. The agreement called for a lump sum bonus of $1,100 per member. The agreement also called for no increase in the current per member per month health benefit payment. The contract expired June 30, 2009. Negotiations are currently underway with District Councils 33 and 47.

The following table presents employee wage increases for the Fiscal Years 2006 through 2012.

Table 12
Employee Wage Increases
Fiscal Years 2006-2012

Fiscal Year	District Council No. 33	District Council No. 47	Fraternal Order of Police	International Association of Fire Fighters
2006	2.0%	2.0%	3.0%	3.0%
2007	3.0%(1)	3.0%(1)	3.0%	3.0%
2008	4.0%(2)	4.0%(2)	4.0%	4.0%
2009	No increase(3)	No increase(3)	4.0%(4)	4.0%(4)
2010	(5)	(5)	0.0%(6)	0.0%(7)
2011	(5)	(5)	3.0%(6)	3.0%(7)
2012	(5)	(5)	3.0%(6)	3.0%(7)

(1) Third year of a four year contract: 3% effective July 1, 2006.
(2) Fourth year of a four year contract: 4% effective July 1, 2007.
(3) Cash bonus of $1,100 paid 15 days after ratification.
(4) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.
(5) Contract expired on June 30, 2009, negotiations are currently underway.
(6) Five year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, and re-openers on wages in Fiscal Years 2013 and 2014.
(7) Four year contract: 0% effective July 1, 2009, 3% effective July 1, 2010, 3% effective July 1, 2011, 3% effective July 1, 2012. The contract award is currently being appealed by the City.

Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2006 through 2012 are shown in the following table.

Table 13
General Fund Employee Benefit Expenditures
Fiscal Years 2006-2012
(Amounts in Millions of USD)

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Estimate[2] 2011	Adopted Budget 2012
Pension Contribution[1]	346.5	436.8	430.8	459.0	346.7	492.5	554.3
Health/Medical/Dental	291.8	331.5	421.0	377.0	349.7	345.0	334.3
Social Security	60.8	64.1	69.7	68.8	65.2	70.2	62.1
Other	61.1	57.9	61.5	68.4	69.5	72.2	72.0
Total	760.2	890.3	983.0	973.2	831.4	979.9	1,022.7

[1] The Pension Contribution amount includes debt service on the Pension Obligation Bonds, Series 1999.
[2] From the June 30, 2011 Quarterly City Manager's Report.

Municipal Pension Fund (Related to All Funds)

The Board of Pensions and Retirement (the "Pension Board") is charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially sound retirement system providing benefits for all City employees. The Pension Board, pursuant to the Home Rule Charter, is composed of the Director of Finance, who serves as chairperson, the Managing Director, the City Solicitor, the Personnel Director, the City Controller and four members who are elected by the Civil Service employees of the City of Philadelphia. The elected members serve a four-year term of office.

The Pension Board formally approves all benefit applications, but its major role is that of "trustee," to ensure that the retirement system remains actuarially and financially sound for the benefit of current and future benefit recipients. The Pension Board, with the assistance of its professional consultants, develops the policies and strategies which enable the Pension Board to successfully execute its fiduciary obligations.

Court decisions have interpreted the requirement to maintain a retirement system, described above, to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs; and

B. Amortization of the unfunded actuarial accrued liability ("UAAL").

Prior to July 1, 2009, the amortization of the UAAL was determined in accordance with the provisions of the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, 1984 ("Act 205"), as amended from time to time. Any increases or decrease in unfunded liabilities were amortized according to Act 205; however, effective for the July 1, 2009 valuation, which defines the City's contribution obligation for the Fiscal Year ending on June 30, 2010, and subsequent valuations, which define the City's contribution obligation in subsequent fiscal years, and as further described below, the unfunded liability may be amortized over a fixed 30 year period as a level dollar amount pursuant to Act 44.

Based on the City's actuarial report dated March 22, 2011 for the period ending July 1, 2010, the UAAL was $4.936 billion which equals a funding ratio of 47% and a UAAL as a percentage of covered payroll of 347.3%, each based on actuarial assets of $4.381 billion. The market value of the assets in the Municipal Pension Fund was $3.651 billion as of July 1, 2010, and the funding ratio based on such market value was 39%. As of June 30, 2011, the market value of assets in the Municipal Pension Fund was $4.0 billion.

As part of Act 44, which provided for a new method of determining municipal distress levels and alternative funding relief in response to the 2008/2009 market decline, the City adopted the fresh start amortization alternative of 30 years (previously 20 years) and lowered the assumed rate of interest for funding valuation purposes from 8.75% to 8.25%.[†] Additionally, the legislation allowed the City to defer a portion of its pension payment in the amount of $150 million in Fiscal Year 2010 and $80 million in Fiscal Year 2011 to be paid back (including interest) over a four-year period ending in Fiscal Year 2014. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly.

A schedule of funding progress as of June 30, 2010, a comparative schedule of operations of the City's Municipal Pension Fund for Fiscal Years 2001 through 2010, the City's annual pension cost and net pension obligation for Fiscal Years 2008, 2009 and 2010, and the actuarial valuation method for determining the City's contributions (subject to the changes described above), among other items, are contained in the Fiscal Year 2010 Comprehensive Annual Financial Report.

Non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, non-uniformed employees may receive up to 80% of their average final compensation depending upon their years of credited service. Generally, uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service. City employees participate in arrangements set forth under one of two municipal pensions programs know as Plan 67 or Plan 87 (except as described for certain police employees below), depending, primarily, on such employee's date of hire. The retirement age differs for Plan 67 (age 55) and Plan 87 (age 60) for non-uniformed employees and also for Plan 67 (age 45) and Plan 87 (age 50) for uniformed employees.

Police employees hired on or after January 1, 2010 will have the option to participate in a defined benefit plan with a different benefit calculation formula and eligibility and vesting rules and a defined contribution plan with eligibility for City matching contributions, or enter Plan 87 but with an increased employee contribution rate of 6.0% instead of 5.0%.

Other Post-Employment Benefits

The City self-administers a single employer, defined benefit plan and provides health care for five years subsequent to separation for eligible retirees. Certain union represented employees may defer their coverage until a later date but the amount that the City pays for their health care is limited to the amount that the City would have paid at the date of their retirement. The City also provides lifetime insurance coverage for all eligible retirees. Firefighters are entitled to $7,500 coverage and all other employees receive $6,000 in coverage.

The City funds its retiree benefits on a pay-as-you-go basis. To provide health care coverage, the City pays a negotiated monthly premium for retirees covered by union contracts (other than police) and is self insured for nonunion employees and union police employees.

The City's annual other post employment benefit ("OPEB") expense is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty (30) years.

For Fiscal Year 2010, the City's ARC was $93.6 million and it contributed $71.7 million for OPEB expense; its net OPEB obligation for Fiscal Year 2010 was $43.3 million.

[†] On October 28, 2010, the Pension Board voted to further lower the pension fund's annual earnings assumption from 8.25% to 8.15%.

Further information on the City's annual OPEB expense and net OPEB obligation for Fiscal Years 2008, 2009 and 2010 and the funded status of the OPEB benefits is contained in the Fiscal Year 2010 Comprehensive Annual Financial Report.

Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2006 through 2012.

Table 14
Purchase of Service in the General Fund
Fiscal Years 2006-2012
(Amounts in Millions of USD)

			Actual			Current[9] Estimate	Adopted[10] Budget
	2006	2007	2008	2009	2010	2011	2012
Human Services[1]	467.9	495.3	515.3	499.0	465.5	451.4	68.4
Public Health	61.1	65.5	65.1	67.9	64.7	69.3	65.7
Public Property[2]	137.9	156.3	139.5	142.6	136.2	138.9	141.5
Streets[3]	54.8	58.3	58.4	51.0	55.8	51.5	46.4
Sinking Fund - Lease Debt[4]	77.0	84.3	85.1	86.1	79.9	87.5	93.2
Legal Services[5]	33.6	35.4	37.3	37.3	35.9	36.6	37.6
First Judicial District	24.4	24.8	25.6	23.6	23.7	22.2	22.0
Licenses & Inspections[6]	11.5	11.4	11.9	9.6	8.2	4.1	7.1
Supportive Housing [7]	28.6	31.3	33.9	32.3	31.7	30.2	30.2
Prisons	82.8	87.5	93.6	110.7	106.4	108.0	104.0
All Other[8]	86.4	101.5	123.0	114.1	103.4	131.1	142.9
Total	1,065.7	1,151.6	1,188.7	1,174.2	1,111.4	1,130.8	759.0

(1) Includes payments for care of dependent and delinquent children.
(2) Includes payments for SEPTA, space rentals, utilities, and telecommunications. In Fiscal Year 2008, the telecommunications division was transferred to the Managing Director – Division of Technology ("DOT"). Services purchased for DOT appear in the table under the category "All Other."
(3) Includes solid waste disposal costs.
(4) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
(5) Includes payments to the Defender Association to provide legal representation for indigents.
(6) Includes payments for demolition in Fiscal Year 2006 through Fiscal Year 2011.
(7) Includes homeless shelter and boarding home payments.
(8) Includes payment for Convention Center Subsidy and Vehicle leasing.
(9) From the June 30, 2011 Quarterly City Manager's Report.
(10) The reduction in Revenue from Other Governments (State and Federal funding) in Fiscal Year 2012 is largely the result of the transfer of the majority of the Department of Human Services revenue and obligations to the Grants Revenue Fund.

Figures may not add up due to rounding.

City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of $15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual $20 million beginning in Fiscal Year 2002. In Fiscal Year 2008, the Mayor and City Council agreed to provide an additional $2 million, bringing the total contribution to $37 million. In Fiscal Year 2010, the City made a $38.5 million contribution. In Fiscal Year 2011, the

City made a $38.6 million contribution. The Fiscal Year 2012 adopted budget includes an additional contribution of $10 million, bringing the total contribution to $48.6 million.

Annual Payments to PGW

In order to assist PGW, (i) the City agreed to forgo the $18 million annual payment in Fiscal Year 2004, (ii) for Fiscal Years 2005, 2006, 2007, 2008, 2009 and 2010 the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and (iii) the City's Nineteenth Five-Year Plan contemplates that in each of the Fiscal Years 2011 through 2015, the City will make a grant to PGW equal to the annual payment received from PGW in such Fiscal Years. See also "Fiscal Year 2011 PGW Payment to City." The City's Twentieth Five-Year Plan includes the PGW annual payment of $18,000,000 to the City's General Fund but discontinues the City's grant back to PGW equal to the annual payment received from PGW for Fiscal Years 2012, 2013, 2014, 2015 and 2016.

Fiscal Year 2011 PGW Payment to City

In Fiscal Year 2011, PGW remitted to the City the required annual payment of $ 18,000,000.

City Payments to SEPTA

The City made operating subsidy payments to SEPTA in Fiscal Years 2008, 2009, 2010 and 2011 of $61.3 million, $62.9 million, $64.2, and $65.9 million, respectively. The Fiscal Year 2012 budget projects operating subsidy payments to SEPTA of $66.3 million. The proposed Twentieth Five-Year Plan provides that the City's contribution to SEPTA will increase to $74.8 million by Fiscal Year 2016.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

Consolidated Cash

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to the following procedures:

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes.

Procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds are managed to maintain daily liquidity to pay expenses, and make investments that preserve principal while striving to obtain the maximum rate of return. In accordance with the Home Rule Charter, the City Treasurer is the City Official responsible for managing cash collected into the City Treasury. The available cash balances in excess of daily expenses are placed in demand accounts, swept into money market mutual funds, or used to make investments directed by professional money managers. These investments are held in segregated trust accounts at a separate financial institution. Cash balances related to Revenue Bonds for Water and Sewer and the Airport are directly deposited and held separately in trust. A Fiscal Agent manages these cash balances per the related bond documents and the investment practice is guided by administrative direction of the City Treasurer per the Investment Committee and the Investment Policy. In addition, certain operating cash deposits (such as Community Behavioral Health, Special Gas/County Liquid and "911" surcharge) of the City are restricted by purpose and required to be segregated into accounts in compliance with Federal or State reporting.

Investment guidelines for the City are embodied in legislation approved by City Council appearing in the Philadelphia City Code, Chapter 19-202. In furtherance of the City, State, and Federal legislative guidelines, the Director of Finance adopted a written Investment Policy (the "Policy") that first went into effect in August 1994 and most recently was revised in January 2011. The Policy supplements other legal requirements and establishes a comprehensive investment policy for the overall administration and effective management of all monetary funds (except the Municipal Pension Fund and PGW Retirement Reserve Fund).

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. government securities, U.S. treasuries, U.S. agencies, repurchase agreements, commercial paper, corporate bonds, money market mutual funds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States, all of investment grade rating or better.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio. Repurchase agreements, money market mutual funds, commercial paper, and corporate bonds are limited to investment of no more than 25% of the total portfolio. Obligations of the Commonwealth and collateralized banker's acceptances and certificates of deposit are limited to no more than 15% of the total portfolio. Collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 5% of the total portfolio.

U.S. government treasury and agency securities carry no limitation as to the percent of the total portfolio per issuer. Repurchase agreements and money market mutual funds are limited to no more than 10% of the total portfolio per issuer. Commercial paper, corporate bonds, obligations of the Commonwealth, collateralized banker's acceptances and certificates of deposit, and collateralized mortgage obligations and pass-through securities directly issued by a federal agency of the United States are limited to no more than 3% of the total portfolio per issuer.

The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by the City or money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance and the City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, PGW and PMA. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan

for the next quarter. Investment managers are given any changes in investment instructions at these meetings. The Investment Committee approves all modifications to the Policy.

The Policy expressly forbids the use of any derivative investment product as well as investments in any security whose yield or market value does not follow the normal swings in interest rates. Examples of these types of securities include, but are not limited to: structured notes, floating rate or inverse floating rate instruments, securities that could result in zero interest accrual if held to maturity, and mortgage derived interest and principal only strips. The City currently makes no investments in derivatives.

General Fund Cash Flow

Because the receipts of General Fund revenues lag behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes payments from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; and (2) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

The City issued $285 million of Tax and Revenue Anticipation Notes in July 2010. These notes were repaid on June 30, 2011. The Twentieth Five-Year Plan projects Tax and Revenue Anticipation Notes in the amount of $250 million to be issued in Fiscal Year 2012.

DEBT OF THE CITY

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

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

As of July 1, 2011, the Constitutional debt limitation for tax-supported general obligation debt was approximately $1,571,939,000. This amount is based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10 year rolling average. The total amount of authorized debt applicable to the debt limit was $1,434,080,000, leaving a legal debt margin of $137,859,000. The calculation of the legal debt margin is as follows:

Table 15
General Obligation Bonded Debt
August 1, 2011
(in thousands)

Authorized, issued and outstanding	$1,343,505
Authorized and unissued	459,304
Total	1,802,809
Less: Self-supporting debt	(355,074)
Less: Serial bonds maturing within a year	(13,655)
Total amount of authorized debt applicable to debt limit	1,434,080
Legal debt limit	1,571,939
Legal debt margin	$ 137,859

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

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972 (with a single exception). Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued $285 million of Tax and Revenue Anticipation Notes on July 28, 2010. These notes were repaid on June 30, 2011. The City expects to issue $200 million of notes in the first week of October 2011 which will be payable in June 2012.

Long-Term Debt

The table below presents a synopsis of the bonded debt of the City and its component units as of the date indicated. In addition, for tables setting forth a ten-year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness as of June 30, 2010, see the Fiscal Year 2010 Comprehensive Annual Financial Report.

Of the total balance of City tax-supported general obligation bonds issued and outstanding on June 30, 2011, approximately 18% is scheduled to mature within five years and approximately 39% is scheduled to mature within ten years.

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Table 16
Bonded Debt -- City of Philadelphia and Component Units
as of July 31, 2011
(Amounts in thousands)
(Unaudited)

Tax-supported bonds		
General Fund		$ 1,368,461
PA Intergovernmental Cooperation Authority		494,710
Subtotal: Tax-supported bonds		1,863,171
Other Long-Term Debt-Related Obligations		
Philadelphia Municipal Authority		
Municipal Services Building	$ 25,261	
Criminal Justice Center	135,850	
Juvenile Justice Center	97,850	258,961
Philadelphia Authority for Industrial Development		
Pension Bonds	1,412,418	
Stadiums	331,480	
Library	8,655	
Cultural and Commercial Corridor	122,860	
One Parkway	45,115	1,920,528
Parking Authority		15,365
Redevelopment Authority		245,880
Subtotal		4,303,906
Revenue bonds		
Water Fund		1,808,566
Aviation Fund		1,423,300
Gas Works		1,208,825
Subtotal: Revenue bonds		4,440,691
Grand total		$ 8,744,597

Source: Office of Director of Finance

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Table 17
City of Philadelphia
Annual Debt Service on City-Related Long-Term Debt
July 31, 2011
(Amounts in millions of USD)

	Tax Supported Bonds[1]			Other Long-Term Obligations[2]			Total		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	$41.76	$67.44	$109.20	$75.71	$132.58	$208.29	$117.47	$200.02	$317.49
2013	48.54	68.44	116.98	82.53	139.30	221.83	131.06	207.74	338.80
2014	50.74	66.22	116.95	82.74	140.33	223.06	133.47	206.54	340.02
2015	53.45	63.55	117.00	84.00	143.93	227.93	137.45	207.48	344.93
2016	52.01	60.86	112.87	83.92	140.23	224.15	135.93	201.09	337.02
2017	54.57	58.20	112.77	84.11	139.85	223.96	138.67	198.05	336.73
2018	57.21	55.35	112.56	89.56	139.03	228.59	146.77	194.38	341.15
2019	60.12	52.34	112.45	74.57	138.25	212.82	134.68	190.59	325.27
2020	62.56	49.50	112.05	64.12	138.01	202.13	126.68	187.50	314.18
2021	54.36	46.37	100.72	64.28	137.88	202.16	118.64	184.25	302.89
2022	57.89	43.58	101.47	64.62	137.58	202.20	122.50	181.16	303.66
2023	60.70	40.52	101.22	65.12	137.11	202.23	125.82	177.62	303.44
2024	63.80	37.24	101.04	65.76	136.51	202.26	129.56	173.75	303.30
2025	67.00	33.79	100.79	66.73	135.57	202.30	133.73	169.37	303.10
2026	62.93	30.38	93.31	80.13	121.38	201.51	143.06	151.76	294.82
2027	66.02	27.00	93.02	158.97	43.77	202.74	224.99	70.77	295.76
2028	69.82	23.61	93.42	164.13	34.54	198.67	233.95	58.15	292.10
2029	42.84	20.90	63.74	277.50	17.61	295.11	320.34	38.51	358.85
2030	58.20	18.39	76.58	53.73	7.81	61.53	111.92	26.20	138.12
2031	61.32	15.37	76.68	56.27	5.32	61.58	117.58	20.69	138.27
2032	64.58	12.18	76.76	13.63	3.21	16.84	78.21	15.39	93.60
2033	28.16	9.70	37.86	4.90	2.71	7.61	33.06	12.42	45.47
2034	14.70	8.38	23.07	5.22	2.39	7.61	19.91	10.77	30.68
2035	15.71	7.36	23.07	5.56	2.06	7.61	21.27	9.42	30.68
2036	16.80	6.28	23.07	5.92	1.69	7.61	22.71	7.97	30.68
2037	17.96	5.12	23.07	6.30	1.31	7.61	24.26	6.43	30.68
2038	19.22	3.85	23.07	6.71	0.90	7.61	25.93	4.75	30.68
2039	20.59	2.48	23.07	7.15	0.46	7.61	27.74	2.95	30.68
2040	8.52	1.50	10.02	0.00	0.00	0.00	8.52	1.50	10.02
2041	9.10	0.93	10.02	0.00	0.00	0.00	9.10	0.93	10.02
2042	9.71	0.32	10.02	0.00	0.00	0.00	9.71	0.32	10.02
TOTAL	$1,370.80	$937.14	$2,307.94	$1,893.85	$2,181.32	$4,075.17	$3,264.65	$3,118.46	$6,383.11

[1] Includes General Obligation bonds.
[2] Includes PAID, PMA, Parking Authority, and Redevelopment Authority bonds.

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations, as shown on Table 16. The City budgets all other long-term debt-related obligations as a single budget item with the exception of the Parking Authority which has a budget of $1,336,700 for Fiscal Year 2012.

The Hospitals Authority and the State Public School Building Authority have issued bonds on behalf of the Community College of Philadelphia ("CCP"). Under the Community College Act, each community college must have a local sponsor, which for CCP is the City. As the local sponsor, the City is obligated to pay up to 50% of the annual capital expenses of CCP, which includes debt service. The remaining 50% is paid by the Commonwealth. Additionally, the City annually appropriates funds for a portion of CCP's operating costs (less tuition and less the Commonwealth's payment). The total payment to CCP in Fiscal Year 2008 was $24,467,924. The amount paid in Fiscal Year 2009 and Fiscal Year 2010 was $26,467,924 each year. The amount paid in Fiscal Year 2011 was $25,409,207. The budgeted amount for Fiscal Year 2012 is $25,409,207. This amount represents the portion of operating costs (less student tuition and the Commonwealth payment) and up to half of the annual capital expenses for the year.

Swap Information

The City has entered into various swaps related to its outstanding General Fund supported bonds as detailed in the following table:

Table 18
Summary of Swap Information
for General Fund Supported Bonds
as of July 31, 2011

City Entity	City GO	City Lease - PAID	City Lease - PAID	City Lease - PAID
Related Bond Series	2009B[1]	2001 (Stadium)	2007B (Stadium)	2007B (Stadium)
Initial Notional Amount	$313,505,000	$298,485,000	$217,275,000	$72,400,000
Current Notional Amount	$100,000,000	$193,520,000	$217,275,000	$72,400,000
Termination Date	8/1/2031	10/1/2030	10/1/2030	10/1/2030
Product	Fixed Payer Swap	Basis Swap[2]	Fixed Payer Swap	Fixed Payer Swap
Rate Paid by Dealer	SIFMA	67% 1-month LIBOR + 0.20%, plus fixed annuity	SIFMA	SIFMA
Rate Paid by City Entity	3.829%	SIFMA	3.9713%	3.9713%
Dealer	Royal Bank of Canada	Merrill Lynch Capital Services, Inc.	JP Morgan Chase Bank, N.A.	Merrill Lynch Capital Services, Inc.
Fair Value[3]	($12,544,645)	($6,977,579)	($31,305,300)	($10,431,570)

(1) On July 28, 2009, the City terminated a portion of the swap in the amount of $213,505,000 in conjunction with the refunding of its Series 2007B bonds with the Series 2009A fixed rate bonds and the Series 2009B variable rate bonds. The City made a termination payment of $15,450,000.

(2) PAID receives annual fixed payments of $1,216,500 from July 1, 2004 through July 1, 2013. As the result of an amendment on July 14, 2006, $104,965,000 of the total notional was restructured as a constant maturity swap (the rate received by PAID on that portion was converted from a percentage of 1-month LIBOR to a percentage of the 5-year LIBOR swap rate from October 1, 2006 to October 1, 2020). The constant maturity swap was terminated in December 2009. The City received a termination payment of $3,049,000.

(3) Fair values are as of July 31, 2011, and are shown from the City's perspective and include accrued interest.

While the City is party to several interest rate swap agreements, for which there is General Fund exposure and on which the swaps currently have a negative mark against the City, the City has no obligation to post collateral on these swaps while the City's underlying ratings are investment grade.

For more information related to certain swaps entered into in connection with revenue bonds issued for PGW, Water and the Airport, see the Fiscal Year 2010 Comprehensive Annual Financial Report. In addition, PICA has entered into swaps which are detailed in the Fiscal Year 2010 Comprehensive Annual Financial Report.

Letter of Credit and Liquidity Agreements

The City has entered into various letter of credit and standby agreements related to its General Fund supported bonds:

Table 19
Summary of Letter of Credit and Standby Agreements
for General Fund Supported Bonds
as of June 1, 2011

Variable Rate Bond Series	Amount Outstanding	Provider	Expiration Date
General Obligation Bonds, Series 2009B	$ 100,000,000	RBC	08/04/2014
PAID Multi-Modal Lease Revenue Refunding Bonds, Series 2007B	289,675,000	JP Morgan/ Bank of America/ PNC Bank	05/24/2013

On August 4, 2011, the City replaced the letter of credit for the General Obligation, Bonds Series 2009B.

Recent and Upcoming Financings

The City, along with PGW, anticipates remarketing the Eighth Series B-E bonds in the amount of $225.5 million and refunding $75 million of Sixteenth Series (1975 ordinance) and First, Second, and Third Series (1998 Ordinance) bonds in Fiscal year 2012.

The City, together with the Water Department, anticipates issuing revenue bonds in the amount of $135 million and also refunding bonds in approximate amount of $36 million in Fiscal Year 2012.

The City anticipates issuing tax and revenue anticipation notes in the amount of $250 million in Fiscal Year 2012.

The following is a list of financings that the City has entered into since the close of Fiscal Year 2010:

In April 2011, the City issued $252,720,000 General Obligation Bonds, Series 2011, $139,059,234 for capital projects and $119,733,727 for refunding for savings.

The City has entered into a $28,000,000 lease agreement with the PMA for the purpose of purchasing certain city vehicles. The lease payments are subject to annual appropriation by the City. This transaction closed in March 2011.

The City, in conjunction with the Philadelphia International Airport, issued $625 million of Airport Revenue Bonds and Airport Revenue Refunding Bonds. This transaction closed on November 15, 2010.

The City, along with PGW, issued $150 million of Ninth Series Gas Works Revenue Bonds. This transaction closed August 26, 2010.

The City, together with the Water Department, issued $185 million of new money water and wastewater bonds for capital projects. This transaction closed August 5, 2010.

In July 2010, the City issued the Tax and Revenue Anticipation Notes, Series A of 2010-2011 in the principal amount of $285 million.

The City is continually monitoring refunding opportunities for its outstanding debt and may undertake certain refundings depending on market conditions.

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2012-2017 contemplates a total budget of $8,990,983,000 of which $1,972,365,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts budgeted each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2012-2017 on June 23, 2011.

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Table 20
Fiscal Years 2012-2017
Capital Improvement Program
(Amounts in Thousands of USD)

City Funds – Tax Supported	2012	2013	2014	2015	2016	2017	2012-2017
Carried-forward Loans	$240,051	$0	$0	$0	$0	$0	$240,051
Operating Revenue	33,509	9,529	8,029	7,029	6,029	3,729	67,854
New Loans	107,012	106,050	86,985	81,625	84,079	80,534	546,285
Pre-financed Loans	3,268	1,000	1,000	1,000	1,000	1,000	8,268
PICA Pre-financed Loans	26,492	0	0	0	0	0	26,492
Tax-supported Subtotal	410,332	116,579	96,014	89,654	91,108	85,263	888,950
City Funds – Self-Sustaining							
Carried-forward Loans	1,094,637	0	0	0	0	0	1,094,637
Operating	179,625	37,322	43,689	44,062	46,444	47,000	398,142
New Loans	683,803	791,680	668,941	866,664	972,741	635,060	4,618,889
Self-Sustaining Subtotal	1,958,065	829,002	712,630	910,726	1,019,185	682,060	6,111,668
Revolving Funds	18,000	0	0	0	0	0	18,000
Other Than City Funds							
Carried-Forward Other Government	17,171	0	0	0	0	0	17,171
Other Governments Off Budget	461	695	869	1,114	1,303	1,421	5,863
Carried-Forward State	67,944	0	0	0	0	0	67,944
State Off Budget	61,495	99,336	123,622	155,243	164,204	165,191	769,091
State	23,707	7,552	6,232	6,507	6,532	6,507	57,037
Carried-Forward Private	74,446	0	0	0	0	0	74,446
Private	17,020	25,120	25,020	25,020	25,020	25,020	142,220
Carried-Forward Federal	298,025	0	0	0	0	0	298,025
Federal Off Budget	25,548	30,258	30,579	7,324	7,324	9,154	110,187
Federal	132,460	86,311	57,340	48,690	50,490	55,090	430,381
Other Than City Funds Subtotal	718,277	249,272	243,662	243,898	254,873	262,383	1,972,365
TOTAL	$3,104,674	$1,194,853	$1,052,306	$1,244,278	$1,365,166	$1,029,706	$8,990,983

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Division of Aviation, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the

General Fund. Claims against the Division of Aviation, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

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

The aggregate loss resulting from general and special litigation claims was $30.2 million for Fiscal Year 2001, $30.0 million for Fiscal Year 2002, $24.1 million for Fiscal Year 2003, $24.5 million for Fiscal Year 2004, $27.5 million for Fiscal Year 2005, $23.0 million for Fiscal Year 2006, $26.6 million for Fiscal Year 2007, $29.8 million for Fiscal Year 2008, $34.5 million for Fiscal Year 2009, $32.7 million for Fiscal Year 2010, and $33.7 million for Fiscal Year 2011. Estimates of settlements and judgments from the General Fund are $33.12 million for each of the Fiscal Years 2012 through 2016, respectively (based on the Twentieth Five-Year Plan). In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2011, payments for claims arising from labor settlements in the General Fund were $1.31 million of which $1.3 million were paid from the Indemnities account, and $6,000 from the Operating budgets of the affected departments. For Fiscal Year 2010, payments for claims arising from labor settlements in the General Fund were $1.4 million of which $1.38 million was paid from the Indemnities account, and $13,000 from the operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged $31.5 million per year over the five years from Fiscal Year 2007 through Fiscal Year 2011.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; a class action suit alleging that the City failed to properly oversee management of funds in the deferred compensation plan of City employees; civil rights claims; and a pay dispute with former and current paramedics. The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in this paragraph are not currently predictable.

Various claims in addition to the lawsuits described in the preceding paragraph have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2009 which resulted from these claims and lawsuits was $5.0 million, and $4.9 million in Fiscal Year 2010. The aggregate loss for Fiscal Year 2011 was $5.4 million. The Water Fund's budget for Fiscal Year 2012 contains an appropriation for Water Department claims in the amount of $6.5 million, although the current estimate, based on the prior three fiscal years' expenditures, is for only $3.3 million in Fiscal Year 2012. The Water Fund is the first source of payment for any of the claims against the Water Department.

In addition, various claims have been asserted against the Division of Aviation and in some cases lawsuits have been instituted. Many of these Division of Aviation claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Division of Aviation. The aggregate loss for Fiscal Year 2009 which resulted from these claims and lawsuits was $430,000 and $881,600 for Fiscal Year 2010. The aggregate loss for Fiscal Year 2011 was $1,685,000. The Indemnities budget for Aviation Fund claims for Fiscal Year 2012 contains an appropriation in the amount of $2.5 million, although the current estimate, based on the prior three fiscal years' expenditures, is only $2 million in Fiscal Year 2012. The Division of Aviation is the first source of payment for any of the claims against the Division of Aviation.

ELECTED AND APPOINTED OFFICIALS

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow Generally Accepted Government Auditing Standards ("GAGAS") established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants. As of June 30, 2011, the Office of the City Controller had 113 employees, including 66 auditors, 24 of whom were certified public accountants.

The City Controller post-audits and reports on the City's and the School District's comprehensive Annual Financial Reports, federal assistance received by the City and the performance of City departments. The City Controller also conducts a pre-audit program of expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit by category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Home Rule Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to PICA on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), the City Solicitor (the "City Solicitor"), the Deputy Mayor for Planning and Economic Development and Director of Commerce (the "Director of Commerce") and the City Representative (the "City Representative"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The Director of Commerce is charged with the responsibility of promoting and developing commerce and industry. The City Representative is the Ceremonial Representative of the City and especially of the Mayor. The City Representative is charged with the responsibility of giving wide publicity to any items of interest reflecting the activities of the City, its inhabitants and for the marketing and promotion of the image of the City.

The City Solicitor is head of the Law Department and acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City.

The Director of Finance is the chief financial and budget officer of the City and is selected from three names submitted to the Mayor by a Finance Panel. The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution; the collection of revenues through the Department of Revenue; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City's debt program and serves as the disbursing agent for the distribution of checks and electronic payments from the City Treasury and the management of cash resources.

The following are brief biographies of Mayor Nutter, his chief of staff, his cabinet, as defined in the City Charter, the City Controller and the City Treasurer:

Michael A. Nutter, Mayor, was sworn in as the City's 98th Mayor on January 7, 2008. He won the Democratic nomination in a five-way primary election. Elected to Philadelphia City Council in 1992, the Mayor represented the City's Fourth Councilmatic District for nearly fifteen years. During his time in City Council, he engineered groundbreaking ethics reform legislation, led successful efforts to pass a citywide smoking ban, worked to lower taxes for Philadelphians and to reform the City's tax structure, and labored to increase the number of Philadelphia police officers patrolling the streets and to create a Police Advisory Board to provide a forum for discussion between citizens and the Police Department. Mayor Nutter received his B.A. from the Wharton School of Business at the University of Pennsylvania in 1979.

Alan L. Butkovitz is serving his second term as the City's elected City Controller, an office independent of the Mayor. Prior to his election as City Controller, Mr. Butkovitz served 15 years in the Pennsylvania House of Representatives, representing the 174th Legislative District in Northeast Philadelphia where he served on the Veterans Affairs and Urban Affairs Committees as well as committees on Aging and Older Adults, Children and Youth and Insurance. Mr. Butkovitz was widely praised for leading the bi-partisan investigation into violence in Philadelphia public schools. He authored legislation creating the Office of the Safe Schools Advocate, the first of its kind in the nation. Mr. Butkovitz was born and raised in the City. He is an attorney and received his Juris Doctor degree from Temple University Law School in 1976 and a bachelor's degree from Temple University in 1973.

Suzanne Biemiller, Interim Chief of Staff, was appointed the City of Philadelphia's Interim Chief of Staff by Mayor Michael A. Nutter on June 13, 2011. She had worked as Director of Policy, Planning and Coordination for the Mayor since January 2010. Previously, Ms. Biemiller worked as a consultant in the Mayor's Office of Sustainability, where she was the principle author and producer of *Greenworks Philadelphia,* the Administration's sustainability strategy. Prior to joining the Nutter Administration, Ms. Biemiller worked for The Pew Charitable Trusts as a senior program officer. While there, she managed the creation of the Philadelphia Research Initiative and produced a number of reports on the city's prospects and challenges. Ms. Biemiller also oversaw the start-ups of a number of local and national initiatives including the Transitional Work Corporation, Electionline.org, SoundAbout Philly and a Pennsylvania-based rural economic development effort. From 2003 to 2005, she took a leave from Pew to serve as the executive director of the Chestnut Hill Business Association. Ms. Biemiller has also worked as a legislative aide to former U.S. Representative Marjorie Margolies and as a project manager with the Philadelphia Industrial Development Corporation's Navy Yard redevelopment effort. Ms. Biemiller graduated from Williams College with a Bachelor of Arts in American Studies and has a Masters in Public Policy degree from Harvard University's Kennedy School of Government.

Richard Negrin, Deputy Mayor for Administration and Coordination and Managing Director, was appointed in July 2010. This Cabinet position has direct management responsibility over the City's key infrastructure departments and coordinates across all City government to provide oversight and support to ensure optimal performance. In December 2009, Mr. Negrin was appointed by Mayor Nutter to serve as Executive Director of the Board of Revision of Taxes to provide strong leadership and to revitalize, restructure and reform the embattled agency. From November 2006 through December 2009, Mr. Negrin served as Vice-Chair of the independent Philadelphia Board of Ethics which helped to change the culture of government by providing guidance, education and training on ethics rules to the entire City workforce as well as to promote greater transparency in government by overseeing financial disclosures by City officials and having oversight related to campaign finance limits and disclosures. Prior to joining the City, Mr. Negrin was Vice President, Associate General Counsel, and a member of the Executive Leadership Council of ARAMARK Corporation. Prior to joining ARAMARK, Mr. Negrin was a litigator with the law firm of Morgan, Lewis & Bockius LLP and was a prosecutor in the Major Trials Unit of the Philadelphia District Attorney's Office. Mr. Negrin is a graduate of Rutgers University School of Law, where he was the recipient of the Richard L. Barbour, Jr. Memorial Award. He received his Bachelor's degree in political science from Wagner College where he received the Pre-Law Prize for academic excellence. During college, Mr. Negrin was a consensus football all-American and served as captain of the football team, helping to lead them to the small college National Championship in 1987. After college, Mr. Negrin played briefly in the National Football League, signing contracts with the Cleveland Browns in 1988 and the New York Jets in 1989.

Rob Dubow, Director of Finance, was appointed on January 7, 2008. The Director of Finance is the Chief Financial Officer of the City. Prior to his appointment, Mr. Dubow was the Executive Director of PICA. He served as Chief Financial Officer of the Commonwealth from 2004 to 2005. From 2000 to 2004, he served as Budget Director for the City, where he had also been a Deputy Budget Director and Assistant Budget Director. Before working for the City, Mr. Dubow was a Senior Financial Analyst for PICA. He also served as a Research Associate at the Pennsylvania Economy League and was a reporter for the Associated Press. Mr. Dubow earned a Masters in Business Administration degree from the Wharton School of Business and a Bachelor of Arts degree from the University of Pennsylvania.

Shelley R. Smith, City Solicitor, was appointed on January 7, 2008. The City Solicitor of the City of Philadelphia is the City's chief legal officer, the head of the City's Law Department, and a member of the Mayor's Cabinet. Prior to her appointment, Ms. Smith was the Associate General Counsel for Regulatory Affairs - East at Exelon Corporation. Prior to joining Exelon, Ms. Smith was with Ballard Spahr as Of Counsel in the Labor, Employment & Immigration Group. Ms. Smith also spent more than a

decade with the City's Law Department where she was trial attorney and supervisor in the Civil Rights Unit, Chief of the Affirmative Litigation and Labor and Employment Units, and, finally, Chair of the Corporate and Tax Group.

Alan Greenberger, Deputy Mayor for Planning and Economic Development and Director of Commerce, was appointed on June 30, 2009. Mr. Greenberger is also the Executive Director of the City Planning Commission where he chairs the Philadelphia Zoning Code Commission. A native of New York City, he moved to the City in 1974 to join Mitchell/Giurgola Architects. He became an associate of Mitchell/Giurgola in 1980, moved to Australia to join Mitchell/Giurgola & Thorpe, architects for the Australian Parliament House, and rejoined Mitchell/Giurgola in the City as a partner in 1986. In 1990, he and several partners at M/G changed the name of the firm to MGA Partners, where he practiced through 2008. He has been the lead designer on numerous MGA projects including the Department of State National Foreign Affairs Training Center, the West Chester University School of Music and Performing Arts Center, America on Wheels Museum, Lehigh University Linderman Library Renovation, Mann Center for the Performing Arts Master Plan and Pavilions, and the Centennial District Master Plan.

Melanie Johnson, City Representative, was appointed on January 7, 2008. The City Representative will promote and give wide publicity to items of interest reflecting the accomplishments of the City and its inhabitants and the growth and development of its commerce and industry. Ms. Johnson had served as the Director of Communications for the Nutter for Mayor Campaign since August of 2006. Prior experience includes her time as Press Secretary to Former Mayor Ed Rendell, Director of Communication for Multicultural Affairs Congress at Philadelphia Convention and Visitors Bureau, and Senior Account Executive at Beach Advertising.

Nancy E. Winkler, City Treasurer, was appointed City Treasurer effective January 31, 2011. Her responsibilities include oversight of all activities related to the issuance of debt by the City, managing the investment of approximately $2.0 billion of operating and bond funds as well as managing the City's depository banking. Prior to her tenure with the City, Ms. Winkler worked for over twenty-eight years with Public Financial Management (the PFM Group), from 1990 to 2011 as Managing Director, with responsibility to manage the firm's municipal, state and authority practices in New York and Maryland. Ms. Winkler holds a B.A. in American Studies and Economics from Georgetown University, where she was a George F. Baker Scholar.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The Governor of Pennsylvania, the President pro tempore of the Pennsylvania Senate, the Minority Leader of the Pennsylvania Senate, the Speaker of the Pennsylvania House of Representatives and the Minority Leader of the Pennsylvania House of Representatives each appoints one voting member of PICA's board. The Secretary of the Budget of the Commonwealth and the Director of Finance of the City serve as ex officio members of PICA's board with no voting rights.

The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-

year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. PICA is also required to certify non-compliance if, among other things, no approved five-year plan is in place; and PICA is required to certify non-compliance with an approved five-year plan if the City has failed to file mandatory revisions to an approved five-year plan. Under the PICA Act, any such certification of non-compliance would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "PICA Bonds" below. Under the PICA Act, the City is required to make quarterly financial reports to PICA, as further described under "Quarterly Reporting to PICA" below.

Five-Year Plans of the City

The PICA Act requires the City to annually develop a five-year financial plan and obtain PICA's approval of it. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was approved by PICA.

The City's Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan"), covering Fiscal Years 2010-2014, included a one percent City Sales Tax increase through Fiscal Year 2014 and a partial deferral of the City's pension payment in Fiscal Year 2010 ($150 million) and Fiscal Year 2011 ($80 million) to be paid back in full by Fiscal Year 2014, as permitted under Act 44 of 2009 of the General Assembly of the Commonwealth ("Act 44"). In addition to the deferrals, the City changed the amortization period from 20 years to 30 years and lowered the interest rate assumption from 8.75% to 8.25%.[1] At PICA's request, the Eighteenth Five-Year Plan was revised to include at least $25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. PICA approved the revised Eighteenth Five-Year Plan on September 16, 2009, subject to the enactment of the legislation authorizing the increase in the City's sales tax and change in the City's pension fund payments. The Commonwealth enacted such legislation on September 18, 2009.

The Mayor presented the Nineteenth Five-Year Plan (the "Nineteenth Five-Year Plan") to City Council on March 4, 2010. City Council approved the Fiscal Year 2011 Budget on May 20, 2010, and the Mayor signed it on June 1, 2010. The Nineteenth Five-Year Plan was approved by PICA on August 10, 2010. The Nineteenth Five-Year Plan includes a temporary 9.9% Real Estate Tax increase through Fiscal Year 2012, which is estimated to generate $94.4 million in Fiscal Year 2011.

The Mayor presented the Twentieth Five-Year Plan (the "Twentieth Five-Year Plan") to City Council on March 3, 2011. The adopted Fiscal Year 2012 Operating Budget conforms to the Twentieth Five-Year Plan. The Twentieth Five-Year Plan was approved by PICA on July 26, 2011.

Quarterly Reporting to PICA

The PICA Act requires the City to prepare and submit quarterly reports to PICA so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the

[1] On October 28, 2010, the City's Board of Pensions and Retirement voted to further lower the pension fund's annual earnings assumption from 8.25% to 8.15%. This is reflected in subsequent five-year plans.

fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for each month in the previous quarter and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) provides a written explanation of the variance that PICA deems reasonable; (ii) proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act. PICA last declared a variance in February 2009. It has since been removed and there are no current variances.

PICA Bonds

PICA has previously issued eleven series of bonds. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued by it. Two series of bonds remain outstanding: (i) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2009 issued in the original aggregate principal amount of $354,925,000, having a final stated maturity date of June 15, 2023 and (ii) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2010 in the original principal amount of $206,960,000, having a final stated maturity date of June 15, 2022. As of the close of business on June 30, 2011, the principal amount of PICA bonds outstanding was $494,710,000.

The proceeds of the previous series of bonds issued by PICA were used (a) to make grants to the City to fund General Fund deficits of the City, to fund the costs of certain capital projects undertaken by the City, to provide other financial assistance to the City to enhance productivity in the operation of City government, and to defease certain general obligation bonds of the City, (b) to refund other bonds of PICA and (c) to pay costs of issuance.

The PICA Act authorized the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits tax on City residents by 1.5% and enacted a PICA Tax of 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, is deposited in the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing the rate of the PICA Tax while any bonds secured by the PICA Tax are outstanding. PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account (as described below) and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established pursuant to the PICA Act exclusively for the benefit of the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, but are subject to withholding if PICA certifies the City's non-compliance with the then-current five-year plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account, the debt service reserve fund created for bonds issued by PICA and the City Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer (which is net of the costs of the State Treasurer in collecting the PICA Tax) for each of the Fiscal Years 2001 through 2010, current estimate for Fiscal Year 2011 and the adopted budget for Fiscal Year 2012 are set forth below.

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Table 21
Summary of PICA Tax Remitted to PICA by the State Treasurer and Net Taxes Remitted to the City (Amounts In Millions of USD)

Year	PICA Tax	PICA Annual Debt Service and Investment Expenses	Net taxes remitted to the City[1]
2001	$273.6	$107.0	$166.6
2002	278.0	107.3	170.7
2003	281.5	79.2	202.3
2004	285.0	78.9	206.1
2005	300.2	85.9	214.3
2006	309.9	87.1	222.8
2007	327.9	86.0	241.9
2008	341.8	86.4	255.4
2009	348.5	86.4	262.1
2010	343.3	68.9	274.4
2011 (Current Estimate)[2]	357.5	66.3	291.2
2012 (Adopted Budget)	357.0	66.1	290.9

[1] Does not include additional one-time grants to the City from PICA reserves in certain years.
[2] From the June 30, 2011 Quarterly City Manager's Report.

ADDITIONAL INFORMATION

Current City Practices

It is the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with the Municipal Securities Rulemaking Board ("MSRB") as soon as practicable after delivery of such report. The CAFR for the City's fiscal year ended June 30, 2010 was deposited with the MSRB on February 25, 2010, through the MSRB's Electronic Municipal Market Access (EMMA) system. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the Fiscal Year ended June 30, 2010. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. The CAFR is also available online at www.phila.gov/investor, the City's website ("City Website" or "Website"). The City also expects to provide financial and other information from time to time to Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

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

The City Website contains information in addition to that set forth in the CAFR. The "Terms of Use" statement of the City Website, incorporated herein by this reference, provides, among other things, that the information contained therein is provided for the convenience of the user, that the City is not obligated to update such information, and that the information may not provide all information that may be of interest to investors. The information contained on the City Website is not incorporated by reference in this Remarketing Circular and persons considering a purchase of the Bonds should rely only on information contained in this Remarketing Circular or incorporated by reference herein.

CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.526 million according to the U.S. Census Bureau, 2010 Population Estimates. The City is in the heart of the eleven-county Philadelphia–Camden–Wilmington metropolitan statistical area with approximately six million residents. Air, rail, highway, and water routes provide easy access to the City.

The City, the fifth largest in the United States, is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest retail market with over 2,500 retail stores in Center City Philadelphia.

Quality of Life

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

The City is a center for health, education, and science facilities with the nation's largest concentration of healthcare resources within a 100-mile radius. There are presently more than 30 hospitals, seven medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

The City has the second largest concentration of students on the East Coast with eighty degree granting institutions of higher education and a total enrollment of over 300,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

Hospitals and Medical Centers

The City also has major research facilities, including those located at its universities, the medical schools, The Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia has recently completed the construction of a new $400 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. A Comprehensive Cancer Center is also located at the University of Pennsylvania.

The following table presents data regarding hospitals and medical centers in the City. Due to mergers, consolidations and closures that have occurred or may occur in the future, this table is accurate only as of its publication date.

Table 22
Hospitals and Medical Centers
as of June 2010

Institution Name	Total Beds
Aria Health System[1]	485
Belmont Center for Comprehensive Treatment	147
Chestnut Hill Hospital	119
Department of Veterans Affairs Medical Center-Philadelphia	142
Einstein Medical Center -Philadelphia	511
Fairmount Behavioral Health System	185
Fox Chase Cancer Center	100
Friends Hospital	192
Girard Medical Center/Continuing Care Hospital of Philadelphia	51
Good Shepherd Penn Partners	38
Hahnemann University Hospital	510
Hospital of the University of Pennsylvania	774
Jeanes Hospital	176
Kensington Hospital	35
Magee Rehabilitation Hospital	96
Mercy Hospital of Philadelphia	180
Methodist Hospital Division - TJUH	165
Nazareth Hospital	195
Penn Presbyterian Medical Center	245
Pennsylvania Hospital	435
Roxborough Memorial Hospital	141
Shriners Hospitals for Children - Philadelphia	39
St. Christopher's Hospital for Children	175
St. Joseph's Hospital	146
Temple University Hospital[2]	740
The Children's Hospital of Philadelphia	461
Thomas Jefferson University Hospital	701
Triumph Hospital Philadelphia	58

[1] Aria Health System includes data for all three divisions - Frankford, Torresdale and Bucks County.
[2] Temple includes data for Episcopal Hospital.
Source: Delaware Valley Healthcare Council of HAP, Monthly Utilization Report, June 2010.

Children's Hospital Expansion. The Children's Hospital of Philadelphia ("CHOP") is expanding its research facilities in West Philadelphia. The $400 million Colket Research Building was completed in the Fall of 2009 and it has opened. CHOP is currently completing design on the $500 million Ambulatory Care Facility, which is expected to begin construction in late 2011 and be opened in late

2013. In addition to this major development, CHOP has purchased the JFK Building on the banks of the Schuylkill River just south of South Street. Administrative offices and research laboratories will be housed in this new space. CHOP is currently reviewing design concepts for the JFK Building.

University of Pennsylvania. A major new $302 million cancer research and treatment center, the Center for Advanced Medicine, opened in October 2008. The West Tower of the Center of Advanced Medicine was completed in 2010 at a cost of $370 million.

The Fox Chase Cancer Center. The Fox Chase Cancer Center (the "Center") is a non-profit institution that is endeavoring to expand its campus in the northeast section of the City. In 2009, Fox Chase opened the $100 million Robert Young Research Pavilion that is currently occupied by the women's cancer treatment center, a research center and will soon house the Cancer Genome Institute. The Fox Chase Cancer Center and the Institute for Individualized Health, together, have formed a partnership to create the Cancer Genome Institute. When it opens, the Institute will be the largest cancer genome sequencing effort in the United States. The Institute will perform highly collaborative research to understand the complex molecular underpinnings of cancer, and then apply those discoveries at the point of care.

Wistar. The Wistar Institute (the "Institute") was founded in 1892 and was the nation's first independent biomedical research facility. The Institute is a leading Philadelphia and national research institute, becoming a National Cancer Institute in 1972. It is a leader in vaccine research, developing vaccines against rubella and rabies in addition to conducting research in the area of genetics. The Institute is located within the campus of the University of Pennsylvania, surrounded on all sides by University owned land. The original building was constructed in 1894, with an annex added in the early 1900's; an animal facility built in 1922 and expanded in 1975; and a cancer wing added in 1975. The Institute is embarking on a $100 million expansion and renovation project that will significantly increase its ability to carry out its mission. The Project will include the construction of a new research building on the site of the Institute's current vivarium, the replacement of the complex's infrastructure which will dramatically improve energy efficiency, and the creation of a new vivarium in existing space.

Demographics

During the ten-year period between 2000 and 2010, the population of the City increased from 1,517,550 to 1,526,006. During the same period, the population of the Commonwealth increased by 3.4%.

Table 23
Population
City, Pennsylvania & Nation

	1990	2000	2010	% Change 1990-2000	% Change 2000-2010
Philadelphia	1,585,577	1,517,550	1,526,006	-4.3%	0.9%
Pennsylvania	11,881,643	12,281,054	12,702,379	3.4%	3.4%
United States	248,709,873	281,421,906	308,745,538	13.2%	9.7%

Source: U.S. Census Bureau, Census 2010, Census 2000, Census 1990.

Table 24
Population Age Distribution

Philadelphia County

Age	1990	% of Total	2000	% of Total	2007 – 2009	% of Total	2010	% of Total
0-24	563,816	35.6	551,308	36.3	529,490	34.4	547,534	35.9
25-44	490,224	30.9	444,774	29.3	461,068	30.0	434,385	28.5
45-64	290,803	18.3	307,746	20.2	355,484	23.1	358,778	23.5
65-84	217,913	13.7	186,383	12.3	162,531	10.6	157,198	10.3
85 & up	22,801	1.4	27,339	1.8	30,653	2.0	28,111	1.8
Total	1,585,577	100	1,517,550	100	1,539,226	100.0	1,526,006	100

Pennsylvania

Age	1990	% of Total	2000	% of Total	2007 – 2009	% of Total	2010	% of total
0-24	4,021,585	33.8	4,016,670	32.6	4,003,759	31.9	4,053,536	31.9
25-44	3,657,323	30.8	3,508,562	28.6	3,207,408	25.5	3,126,788	24.6
45-64	2,373,629	20	2,836,657	23.1	3,427,763	27.3	3,562,748	28.0
65-84	1,657,270	13.9	1,681,598	13.7	1,628,092	13.0	1,653,631	13.0
85 & up	171,836	1.4	237,567	1.9	297,534	2.4	305,676	2.4
Total	11,881,643	100	12,281,054	100	12,564,556	100.0	12,702,379	100

United States

Age	1990	% of Total	2000	% of Total	2007 – 2009	% of Total	2010	% of Total
0-24	90,342,198	36.3	99,437,266	35.3	104,507,545	34.3	103,699,067	34.1
25-44	80,754,835	32.5	85,040,251	30.2	83,150,108	27.3	83,432,695	27.4
45-64	46,371,009	18.6	61,952,636	22	77,943,353	25.6	78,058,246	25.7
65-84	28,161,666	11.3	30,752,166	11	33,370,213	11.0	33,147,948	10.9
85 & up	3,080,165	1.2	4,239,587	1.5	5,349,246	1.8	5,721,768	1.9
Total	248,709,873	100	281,421,906	100	304,320,465	100	304,059,724	100

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

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The Economy

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

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

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Table 25
Office Rental Rates in Cities
Throughout the United States
(In $ Per Square Foot)

	May 2006	November 2006	May 2007	May 2008	November 2008	May 2009	November 2009	May 2010	November 2010
Atlanta	20.08	20.56	20.16	21.76	21.23	21.29	21.03	23.25	22.50
Chicago	23.77	22.97	22.44	24.75	24.78	24.56	24.82	23.95	23.70
Dallas	17.43	16.47	17.20	22.96	23.72	23.71	23.12	22.72	22.16
Denver	19.03	20.37	22.17	27.15	27.55	26.53	25.96	25.07	24.65
Houston	19.15	19.52	21.53	28.92	26.83	24.91	26.35	27.00	27.35
Los Angeles	23.12	22.59	23.74	30.52	30.51	29.92	28.72	28.74	28.80
New York	55.15	62.07	69.44	103.43	98.08	68.63	68.93	64.51	66.59
Philadelphia	22.42	22.96	22.60	24.35	25.26	25.24	24.09	25.36	25.91
Phoenix	24.29	26.19	27.32	29.14	29.17	28.23	26.72	26.89	25.70
Portland	21.58	22.41	23.00	25.85	27.62	26.99	26.65	26.33	25.86
San Francisco	30.62	31.11	35.81	49.71	48.57	39.40	33.94	33.17	33.97
St. Louis	21.12	21.75	21.21	22.82	22.42	22.78	22.51	22.58	22.55
Tampa	20.54	21.13	22.46	25.30	26.22	26.36	26.39	25.63	25.25
Washington, D.C.	42.74	43.58	44.00	51.05	51.26	51.77	51.74	51.75	53.03

Source: CB Richard Ellis, Global Market Rents Report; Global MarketView: Office Occupancy Costs Report.

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Employment

The employment and unemployment rates and the total number of jobs within the City are reflected in Tables 26 and 27, respectively.

Overall, the employment base has undergone a gradual shift over the last decade, most notably marked by growth in leisure/hospitality and education/health services sector employment. However the overall gap between local and national unemployment remains due to market conditions brought on by the nation's financial crisis. The City's and region's economies are diversified, with strong representation in the health care, government, and education sectors but without the domination of any single employer or industry.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. Although the jobs report is mixed, Philadelphia has recovered nearly 7,000 jobs since 2009 and the City's job levels are consistent with average levels dating from 2004. As reflected in the Table 28, total employment has generally trended upwards in education/healthcare and leisure/hospitality over the entire period shown, while overall growth decreased slightly in 2009 and continues to be sluggish.

In March 2000, PAID assumed ownership of more than 1,200 acres at the site of the former Philadelphia Navy Shipyard, Naval Station, Naval Hospital and Defense Supply Center and began implementing an aggressive redevelopment campaign. To date, at least 115 companies and three Navy operations have leased or purchased in excess of 5.5 million square feet of facilities at the complex, now known as The Navy Yard. The Navy has retained more than two million square feet of facilities. Together, the private and Navy facilities employ more than 8,000 people. The Navy Yard's long-term development plans call for more than ten million square feet of developed industrial and commercial space and employment ranging between 15,000-25,000 persons.

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Table 26
Labor Force Data Annual Average
Based on Residency (not seasonally adjusted)

	2003	2004	2005	2006	2007	2008	2009	2010	2011[3]
Philadelphia (000)[1]									
Labor Force	622.6	618.3	619.0	617.2	619.1	629.5	629.9	647.4	648.4
Employment	575.7	573.1	577.5	579.2	581.9	585.0	566.6	577.0	579.2
Unemployment	46.9	45.2	41.6	38.0	37.2	44.5	63.3	70.4	69.3
Unemployment Rate (%)	7.5	7.3	6.7	6.2	6.0	7.1	10.0	10.9	10.7
Philadelphia PMSA (000)[2]									
Labor Force	2,879.2	2,888.6	2,9196	2,949.2.	2,948.3	2,986.2	2,997.6	2,982.1	2954.8
Employment	2,722.4	2,741.7	2,781.9	2,817.4	2,822.3	2,826.3	2,749.7	2,712.3	2692.8
Unemployment	156.8	146.9	137.7	131.8	126.1	159.9	248.0	269.7	262.0
Unemployment Rate (%)	5.4	5.1	4.7	4.5	4.3	5.4	8.3	9.0	8.9
Pennsylvania (000)									
Labor Force	6,145.0	6,197.0	6,270.0	6,308.0	6,329.0	6,439.0	6,383.0	6,340.0	6381.0
Employment	5,796.0	5,860.0	5,958.0	6,021.0	6,054.0	6,096.0	5,870.0	5,791.0	5869.0
Unemployment	349.0	337.0	312.0	287.0	275.0	343.0	514.0	549.0	512.0
Unemployment Rate (%)	5.7	5.4	5.0	4.5	4.3	5.3	8.0	8.7	8.0
United States (000,000)									
Labor Force	146.5	147.4	149.3	151.4	153.1	154.3	154.1	153.9	154.5
Employment	137.7	139.3	141.7	144.4	146.0	145.4	139.9	139.1	140.1
Unemployment	8.8	8.1	7.6	7.0	7.1	8.9	14.3	14.8	14.4
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	9.3

(1) Philadelphia County
(2) The Philadelphia PMSA includes Philadelphia-Camden-Wilmington, PA, NJ, DE, MD Metro Stat Area.
(3) For June2011.
Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2011.

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Table 27
Philadelphia County
Total Monthly Employment and Monthly Unemployment Rates
Based on Residency (Seasonally Adjusted)
2004 – 2010

	Total Employment in 000's							Unemployment Rate Percent						
Month	2004	2005	2006	2007	2008	2009	2010	2004	2005	2006	2007	2008	2009	2010
January	573.7	574.8	574.9	578.9	583.4	577.8	580.4	7.5	6.9	6.1	6.0	6.4	8.7	10.7
February	573.4	573.5	576.3	579.8	582.0	575.6	577.5	7.3	7.2	6.4	5.8	6.4	9.2	10.8
March	572.0	572.2	576.4	579.2	582.7	572.4	577.4	7.7	6.9	6.2	5.7	6.6	9.2	10.8
April	572.4	574.4	576.4	576.2	586.0	572.1	578.6	7.4	6.8	6.4	6.0	6.5	9.3	11.0
May	569.7	576.2	576.5	575.4	584.4	569.2	579.4	7.5	6.7	6.2	6.0	6.8	9.6	10.7
June	570.7	574.7	577.7	578.3	583.3	567.3	577.4	7.6	6.6	6.2	6.0	6.9	10.0	10.8
July	573.6	577.2	575.6	579.4	582.4	565.3	574.1	7.4	6.4	6.3	6.1	7.1	10.2	10.9
August	572.8	575.8	577.0	578.9	582.6	563.2	577.5	7.3	6.5	6.2	6.0	7.5	10.5	10.8
September	573.4	576.6	576.8	579.2	582.0	560.7	577.4	7.2	6.7	6.1	6.1	7.5	10.8	10.8
October	574.0	576.0	577.8	578.6	582.2	559.2	574.7	7.1	6.5	5.9	6.2	7.8	11.0	11.0
November	575.3	575.7	577.2	581.8	579.1	559.0	574.6	7.0	6.8	6.1	6.1	8.0	11.0	11.3
December	576.5	578.8	578.5	580.4	578.3	557.9	575.2	6.9	6.4	5.9	6.3	8.4	11.1	10.9

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, December 2010 (monthly) Seasonally Adjusted Labor Force, Philadelphia County.

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Table 28
Philadelphia City
Non-Farm Payroll Employment[1]
(Amounts in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[2]	Change from 2001 (%)	Average Annual % Change (%)
Construction & Mining	13.5	12.9	12.3	11.4	12.0	12.4	11.9	12.1	10.1	10.1	9.7	-27.85	-3.21
Manufacturing	40.2	37.7	34.0	32.6	31.2	29.9	28.5	27.8	25.7	24.8	24.3	-39.55	-4.91
Trade, Transportation, & Utilities	99.6	98.5	95.8	90.9	90.0	88.5	87.7	87.8	85.9	86.8	85.9	-13.78	-1.47
Information	17.1	17.0	15.9	13.6	13.2	12.8	12.6	12.5	12.6	12.3	12.3	-28.19	-3.26
Financial Activities	52.6	52.3	507	49.0	48.2	47.7	47.1	45.5	44.9	42.8	42.2	-19.73	-2.17
Professional & Business services	83.7	825.9	80.9	80.3	82.4	84.2	85.8	85.3	80.1	81.3	80.4	-3.97	-0.40
Education & Health Services	177.9	181.0	185.3	184.1	186.8	192.2	197.1	201.6	204.8	207.5	213.6	20.6	1.84
Leisure & Hospitality	56.5	54.2	52.9	54.6	56.6	58.0	58.0	57.9	56.9	58.4	59.7	5.66	.55
Other Services	29.2	29.9	29.0	28.5	28.5	28.2	28.0	27.8	26.6	26.5	26.7	-8.63	-0.90
Government	118.0	117.1	114.7	113.0	111.4	108.6	105.9	104.3	105.1	106.3	105.0	--11.05	-1.16
Total	688.3	683.5	671.5	658.0	660.3	662.5	662.6	662.6	652.7	656.7	659.7	-4.15	-0.42

Source: Bureau of Labor Statistics (BLS).2011
[1] Includes persons employed within the City, without regard to residency.
[2] *Preliminary average employment estimates through May, 2011.*

Table 29
Principal Employers in Philadelphia
as of June 30, 2010
(Listed Alphabetically)

Albert Einstein Medical
Children's Hospital of Philadelphia
City of Philadelphia
School District of Philadelphia
Southeastern Pennsylvania Transportation Authority
Temple University
Thomas Jefferson University Hospitals
United States Postal Service
University of Pennsylvania
University of Pennsylvania Hospital

Source: Philadelphia Department of Revenue.

Table 30
Fortune 500
Largest Corporations
With Headquarters in Philadelphia

(Amounts In Millions of USD)

Corporation	Type of Industry	Ranking	Revenues
Comcast	Telecommunications	66	37,937.0
Sunoco	Petroleum Refining	68	35,453.0
Cigna	Health Care/Insurance	122	21,253.0
ARAMARK	Diversified Outsourcing Services	194	12,571.7
Crown Holdings	Metal Products	301	7,941.0

Source: Fortune Magazine website, May 2011

Income

The following tables present data relating to per-capita income for the City, the PMSA, and the United States.

Table 31
Consumer Price Indices and Median Household Effective Buying Income

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPIU United States [1]	172.2	179.9	184.0	188.9	195.3	201.6	207.3	215.3	214.5	218.1
CPIU Philadelphia PMSA[1]	176.5	184.9	188.8	196.5	204.2	212.1	216.7	224.1	225.1	228.0
Buying Income[2]										
Philadelphia	$31,621	$29,995	$28,015	$28,150	$29,269	$30,748	$31,292	$30,746	$31,110	N/A
Philadelphia Metro Area[3]	$47,152	$43,800	$41,820	$42,852	$44,060	$45,395	$46,413	$46,900	$47,580	N/A
United States	$37,233	$38,365	$38,035	$38,201	$39,324	$39,324	$40,710	$41,792	$42,303	N/A

[1] Source: Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.
[2] Source: Sales & Marketing Management's 2009 Survey of Buying Power.
[3] Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area.

Table 32
Number of Households by Income Range in Philadelphia County

	Number of Households[1]			Percentage of Households[1]		
Income	1990	2000	November 2007-2009[2]	1990	2000	2007-2009[2]
Under $ 9,999	136,335	109,237	82,818	22.6	18.5	14.5
$10,000-14,999	59,331	49,035	48,093	9.9	8.3	8.4
$15,000-24,999	108,405	89,059	76,005	18.1	15.0	13.3
$25,000-49,999	190,237	171,215	148,851	31.7	29.0	26.1
$50,000 and over	106,432	171,737	213,845	17.6	29.1	37.5
Total	600,740	590,283	569,612	100.0	100.0	100.0

[1] A household includes all the persons who occupy a housing unit.
[2] 2007-2009 American Community Survey 3 year estimates.
Source: U.S. Department of Commerce, Bureau of the Census.

Table 33
Number of Households by Income Range in United States

	Number of Households (000's)			Percentage of Households		
Income	1990	2000	2007 - 2009[1]	1990	2000	2007 - 2009[1]
Under $9,999	14,214	10,067	8,347	15.5	9.5	7.4
$10,000-14,999	8,133	6,657	6,313	8.8	6.3	5.6
$15,000-24,999	16,124	13,536	12,281	17.5	12.8	10.9
$25,000-49,999	31,003	30,965	28,141	33.7	29.3	24.9
$50,000 and over	22,519	44,312	58,022	24.5	42.1	51.3
Total	91,994	105,537	113,104	100.0%	100.0%	100.0%

[1] 2007-2009 American Community Survey 3 year estimates.
Source: U.S. Department of Commerce, Economics and Statistics Administration, 2000 Census of Population.
Figures may not add up due to rounding.

Retail Sales

The following table reflects taxable sales for the City from Fiscal Years 1997 to 2010.

Table 34
Taxable Retail Sales 1997-2010
(Amounts in Thousands of USD)

Fiscal Year	Taxable Sales
1997	9,637,833
1998	8,276,083
1999	9,604,970
2000	10,432,800
2001	11,107,100
2002	10,980,914
2003	10,933,524
2004	11,172,231
2005	12,001,439
2006	12,839,137
2007	13,643,582
2008	13,704,958
2009	13,211,446
2010	13,050,202

Source: Figures determined by dividing the City's local sales tax reported by the Pennsylvania Department of Revenue by the applicable local sales tax rate.

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the airport and to the surrounding counties. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system

was the opening of the airport high speed line between Center City and the Philadelphia International Airport ("PHL") in 1985. The line places PHL less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center, which opened in June 1993. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

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

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

The City operates PHL and Northeast Philadelphia Airport ("PNE") through its Division of Aviation. PHL is situated over 2,300 acres of land and is located approximately 7.2 miles from Center City Philadelphia. It is adjacent to I 95 and is served by a SEPTA commuter rail line with direct service to Center City Philadelphia. PHL serves residents of and visitors to a broad geographic area that includes portions of four states: Pennsylvania, New Jersey, Delaware and Maryland. In 2010, PHL handled approximately 30.8 million passengers, including 4.2 million international passengers. PHL is served by 30 different airlines and handles 621 daily departures to 124 cities, including 62 non-stop flights to 36 international destinations. PNE, a smaller reliever airport, is located on 1,150 acres situated within the City limits, 10 miles northeast of Center City Philadelphia. PNE provides for general aviation, air taxi, corporate, and occasional military use. The airport currently has no scheduled commercial service.

Water and Wastewater Systems

The water and wastewater systems of the City are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area), to Aqua Pennsylvania, Inc., formerly Philadelphia Suburban Water Company, and to the Bucks County Water and Sewer Authority. The City obtains approximately 58% of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 482,000 retail customer accounts through 3,159 miles of mains, three water treatment plants, 15 pumping stations and provides fire protection through more than 28,000 fire hydrants. The water treatment plants continue to meet and /or exceed their Safe Drinking Water Act as well as partnership for Safe Water standards.

The wastewater system services a total of 360 square miles of which 130 square miles are within the City and 230 square miles are in suburban areas. The total number of retail customer accounts is approximately 480,000 excluding approximately 46,000 stormwater only accounts. The wastewater and stormwater systems contain three water pollution control plants, a biosolids processing facility, 21 pumping stations, and approximately 3,663 miles of sewers. The wastewater treatment plants continue to meet and/or exceed their National Pollutant Discharge Elimination System permit limits.

Municipal Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2,400 tons of solid waste per day are collected by the City. Municipal solid waste is disposed of through a combination of recycling processing facilities, private and City transfer stations within the City limits, and at various landfills

operated outside the City limits. The City significantly reduced its waste disposal costs over the last decade. The current disposal contract, which began July 1, 2005, continues this trend. With three one-year City options, the contract can be extended through Fiscal Year 2012. Disposal rates escalate at a relatively low rate of approximately 3% per year over the contract term, and multiple vendors maximize operational flexibility and efficiencies.

Housing

The table below shows details related to Philadelphia County and the Commonwealth's housing markets:

Table 35
Characteristics of Housing Units

	1990	2000	2007-2009[1]	2010
Total Housing Units				
Philadelphia County	674,899	661,958	661,575	670,171
Pennsylvania	4,938,140	5,249,750	5,518,558	5,018,904
Percent Owner-Occupied				
Philadelphia County	62.0%	59.3%	56.8%	54.1%
Pennsylvania	70.6%	71.3%	71.5%	69.6%
Median Value of Owner-Occupied Housing				
Philadelphia County	$49,400	$59,700	$128,900	N/A
Pennsylvania	$69,700	$97,000	$152,300	N/A
Number/Average Persons per Housing Unit				
Philadelphia County	2.56	2.65	2.60	2.45
Pennsylvania	2.72	2.62	2.46	2.45

[1] 2007-2009 American Community Survey 3 year estimates.
Source: U.S. Department of Commerce, Bureau of the Census.

Promoting Economic Development

Mission

The goal of the City's economic development strategy is to create, maintain, and develop: (1) jobs by fostering an improved business environment; (2) increases in population; and (3) enhanced quality of life within the City—all in order to grow the City's tax base.

Background

In 2010 and early 2011, while the nation endured a slow economic recovery, the City of Philadelphia continued to capitalize on its assets to push economic priorities. Philadelphia's competitive advantages as a business location are based on size, strategic location, relative affordability, cultural and recreational amenities, and its growing strength in key industries. The City of Philadelphia is the fifth-largest city in the nation (2010 U.S. Census Data) with the third largest residential downtown and is at the center of the sixth largest metropolitan region. The Philadelphia region includes the fourth largest retail sales market in the nation, as well as a diverse network of business suppliers and complementary industries. The City's priorities include attraction and retention of knowledge workers, increasing

educational attainment among Philadelphians, attracting development and promoting Philadelphia as a smart location for business in knowledge industries.

Strategic Location

The City is within a day's drive of 50 percent of the nation's population and is in key position to access regional and international markets, due to the transportation infrastructure centered here, including PHL, AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the Port of Philadelphia. Although the capacity of the Port of Philadelphia and PHL are currently limited, the Port of Philadelphia processed 3,644,919 metric tons of cargo and the airport processed 419,702 metric tons in 2010, both entities are in the midst of expansion projects which will ultimately increase cargo capacity in the region. The Port of Philadelphia is serviced by three Class I railroads and lies adjacent to the I-95 and I-76 highway routes, encompassing 4 million square feet of warehousing. PHL is similarly well located near these resources. As a passenger facility, PHL accommodated over 30 million passengers in 2010, a slight increase from 2009. PHL's passenger terminal expansion projects, scheduled to be completed in 2012, will increase passenger capacity and improve traveler experiences within the airport.

Beyond business, Philadelphians also benefit from this transportation infrastructure. For example, City's median commuting time is 19 percent lower than the national metropolitan average. Thirty-seven percent of residents do not drive their car to work, including 25 percent utilizing public transit, compared to just 10 percent nationally (2005-2009 American Community Survey). Access to public and alternative transportation also contributes to the affordability of the city.

Affordability

The City remains affordable when compared to its peers, as reflected in the chart below. The City's cost of living provides a competitive advantage over neighboring cities. In 2008, Forbes Magazine listed the City among the twenty best cities for young professionals to live, noting that college graduates are increasingly choosing the City over traditionally higher priced northeastern markets like Boston and New York.

Table 36
Cost of Living
2011 (First Quarter)[1]

Index	Philadelphia, PA	Washington-Arlington – Arlington, DC-VA	Boston, MA	New York (Manhattan), NY	National Average
Composite (100%)	126.5	140.5	133.9	217.4	100.0

[1] The Council for Community and Economic Research determines "Cost of Living" by weighing various living expenses including: cost of groceries, housing, utilities, transportation and health. The national average cost for each index area is set at "100," with the indices for each place calculated based upon their relation to that average.

Source: Council for Community and Economic Research ACCRA Cost of Living Index 2011

Arts, Culture, Recreation, and Sports

As a major urban center with a rich historic legacy, the City boasts of nationally recognized cultural amenities and entertainment opportunities, including landmarks such as Independence National Historical Park, the Philadelphia Art Museum, and the Kimmel Center for the Performing Arts, as well as recent developments, such as the construction of the Barnes Foundation Museum and the newly completed National Museum of American Jewish History. Additionally, the City is home to the nation's

first "Percent for Art" Public Art Program, and the award winning Mural Arts Program, allowing arts access to all residents. Philadelphia is also home to the nation's largest urban park, 9,200 acre Fairmount Park. The City continues to add green space as it embarks on redevelopment of trails and recreational areas along the Delaware and Schuylkill rivers.

Beyond recreation, the City offers a robust nightlife. The central business district ("CBD") has experienced a 234 percent increase in fine dining restaurants since 1992 with 217 locations, and offers nearly as many outdoor cafes. The success of first-class sports facilities in South Philadelphia adds to the many recreation and entertainment options open to Philadelphians, regional residents and visitors.

Educational Attainment

The City captures a significant portion of the region's educational employment and enrollment because of its major colleges and universities. Among a much larger regional network of universities representing approximately 300,000 students, 18 institutions of higher education have campuses in the City. Forty percent of those students live in the City during their studies. More recently, the Philadelphia region has retained a stronger share of native graduates than in previous years, with 71% retained in 2010 versus 64% in 2004. Also, among students not from the area, 48% stayed in the region in 2010 while only 29% stayed in 2004. On average, the region's workforce over age 25 is better educated (with four-year college degrees) than those in other metropolitan areas across the U.S. (32%, compared to 27%).

Real Estate Market

Despite challenges in the national economy, the City's central business district (the "CBD"), which encompasses 43.7 million rentable square feet, shows stable office market conditions. In the first quarter of 2011, the CBD posted a modest 21,000 square feet of positive net absorption during the first quarter, while the vacancy rate stayed flat at 12.5 percent, and average asking rental rates for class A space remain at $27.64 per-square-foot. While overall leasing velocity is below historical norms, the CBD has enjoyed two consecutive quarters of increases in overall occupancy, albeit modest increases.

Additional real estate opportunities will become available in the CBD in the upcoming year as GlaxoSmithKline relocates its 1,300-person Center City workforce to a 205,000 square-foot build-to-suit project in the Navy Yard in late 2012. The former GlaxoSmithKline site, among others, is under consideration for new hotel capacity for the City's recently expanded Pennsylvania Convention Center. Other future development activity in the CBD includes a 125,000 square-foot tower near East Market Street, slated to be developed for the University of Pennsylvania Health System. Leasing activities are also underway for two additional projects in University City, the 90,000 square-foot 2.0 University Place project and the Science Center's next planned development, 3737 Market.

Major Industry Sectors

When compared to the average sector concentration in Pennsylvania counties, the City has a higher concentration of employment in six sectors, as noted in the chart below.

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Table 37
Philadelphia Industry Concentrations
Compared to Pennsylvania

Industry	Pennsylvania	Philadelphia County
Educational Services	1.65	4.75
Health Care and Social Assistance	1.23	1.72
Management of Companies and Enterprises	1.42	1.40
Finance and Insurance	1.03	1.23
Professional and Technical Services	0.91	1.14
Transportation and Warehousing	1.13	1.10
Arts, Entertainment, and Recreation	1.05	1.05

Source BLS: 2011 Location Quotient, Quarterly Census of Employment and Wages Data. Ratio of analysis-industry employment in the analysis area to base-industry employment in the analysis area divided by the ratio of analysis-industry employment in the base area to base-industry employment in the base area.

Knowledge Industry: Poised for Growth

The sector of the City's economy which has remained most insulated from the recent recession has been Education and Health Services, capturing a 20.6% growth rate since 2001. The City, in its strategic plan for economic development and job growth, has identified the "Eds and Meds," along with Professional and Business Services, and Leisure and Hospitality, as targeted growth sectors that will drive the City's recovery process and position it for continued long-term growth.

The Education sector not only provides stable support to the local economy, but also generates a steady supply of potential "Knowledge Industry" workers. In the knowledge industry, which relies on the supply of new college graduates, companies apply emerging technologies to deliver high-quality, knowledge-based services. The knowledge industry includes sectors as diverse as financial services, engineering, health care, insurance, law, life sciences, printing, publishing, and academia. In a 2009 report published by the Milken Institute, the Greater Philadelphia region's life sciences industry earned the number one ranking of the study's "current impact" category by directly employing 94,400 workers and generating $7.7 billion in direct revenue in 2008. These advantages equip the City and the region to continue to build its knowledge industries.

While the City has a strong core of knowledge-based industries, the City must capitalize on these advantages to ensure future growth and dynamism. Within the knowledge economy is another sector of great importance to the City and the region, the life sciences, which includes health care, research, biotechnology, and pharmaceuticals. The City is capitalizing on the region's opportunity to become an incubator for research generated by life sciences and educational institutions. Several sites now foster incubator opportunities, including the Philadelphia Navy Yard, the Science Center in West Philadelphia, and the west bank of the Schuylkill River bordered by the University of Pennsylvania, Children's Hospital of Pennsylvania and Drexel University.

The City's economy enjoys a large market share of for-profit creative industry companies which are technology-driven, known as businesses representing the "creative economy." A subset of the knowledge industry, the sector includes architecture, communications, design and merchandising, digital media, engineering, fashion design, graphic arts, information technology, interior and industrial design, marketing, music, film and video production, multimedia design, photography, planning product design and software development. The City supports several initiatives with the goal of increasing employment

in this sector and fostering population growth in the City as a result. The City's population has increased 0.6% since 2000 according to the U.S. Census Bureau's 2010 figures. The City's official population is now recorded as 1,526,006.

Notably in the 2010 Census, several neighborhoods in the City experienced a significant increase of residents in their 20s and 30s. Six neighborhoods are now majority "young adult." This residential shift is also responsible for increasing wealth within those neighborhoods. For example, average household income increased 61 percent in Southeast Center City, and 57 percent in Northern Liberties.

Philadelphia International Airport

PHL is situated on over 2,300 acres of land located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, about 7.2 miles southwest of Center City Philadelphia. PHL has four runways and seven terminal buildings, is served by 30 different airlines and handles 621 daily departures to 124 cities, including 62 non-stop flights to 36 international destinations. Currently, PHL accounts for over 141,000 jobs within the region and has a regional economic impact of $14.4 billion annually.

In calendar year 2010, PHL served 30.8 million passengers, including 4.2 million international travelers. PHL is ranked the ninth busiest airport in the nation and eleventh busiest in the world for aircraft operations (take-offs and landings). Since 2001, PHL has added two new terminals, one regional and one international, to its complex. This development, along with other terminal expansion, has more than doubled the size of the Airport terminal complex from 1.4 million to 3.1 million square feet and expanded the number of boarding gates by 94% from 65 to 126. Demand for air travel, spurred by low-fare competition with the entrance of Southwest Airlines in 2004, increased passenger traffic from 24.9 million in 2000 to 30.8 million in 2010. In addition, PHL serves as a key-connecting hub for US Airways.

Airport system capital improvements have been financed primarily through Federal and Commonwealth grants-in-aid, Passenger Facility Charge (PFC) revenues, general obligation bonds and Airport Revenue Bonds. The City currently has $1,470,385,000 of Airport Revenue Bonds outstanding. No general obligation bonds of the City issued to finance capital improvements to the Airport System are currently outstanding or contemplated. In November 2010, the City completed the sale of its Series 2010A Airport Revenue Bonds and 2010B, C, and D Airport Revenue Refunding Bonds totaling approximately $625 million in principal amount. The 2010A Airport Revenue Bonds financed several new capital projects, including expansion of the commuter terminal, Terminal B/C expansion design, taxiway design and construction, runway resurfacing, and infrastructure and terminal improvements. The 2010B, 2010C and 2010D Airport Revenue Bonds refunded the City's Series 1997B Airport Revenue Bonds, a portion of the 1998A Airport Revenue Bonds, and a portion of the 1998B Airport Revenue Bonds respectively.

PHL recently culminated a 10-year planning process and a 7-year environmental review process in January 2011 with the Federal Aviation Administration (the "FAA") issuing a Record of Decision approving the Airport's Capacity Enhancement Program (the "CEP"). Receipt of this final document enables PHL to proceed with the next steps required to expand and make critically needed improvements. The preferred alternative, as selected by the FAA, and known as "Alternative A," provides for a new runway, which will allow independent simultaneous aircraft operations in all weather conditions, to significantly reduce delays; two runway extensions (one of which will provide the necessary runway length to accommodate non-stop, long haul flights to reach around the world); enlarging and reconfiguring the existing terminal complex; relocating several off-airport facilities; developing a centralized ground transportation center; constructing an automated people mover for transport of passengers between terminals; and additional parking facilities that would also interface with the existing

SEPTA rail line. The cost of the CEP is estimated to be $6.4 billion in 2010 dollars and the total period for the phased construction would be approximately 13 calendar years, or between 2013 and 2025. The funding of this longer-term capital program will require the issuance of additional airport revenue bonds.

PHL's four-year Airport-Airline Use and Lease Agreement (the "Airline Agreement") expired on June 30, 2011. It established procedures for the annual review and adjustment of airlines rentals, fees and charges for airlines operating at PHL. PHL and the airlines have agreed upon a two-year extension to the Airline Agreement. As part of the extension, the airlines granted approval to PHL to proceed with projects totaling approximately $250 million. During the two-year extension, PHL and tenant airlines will discuss a longer-term agreement to cover the CEP period. It is anticipated that the PHL will issue bonds in October 2011 to initially fund a portion of the approved projects.

Philadelphia Industrial Development Corporation

PIDC is a private, not-for-profit Pennsylvania corporation, founded in 1958 as a joint venture between the City and the Greater Philadelphia Chamber of Commerce, with the mission of implementing the City's economic development initiatives. PIDC is governed by a 30-member Board of Directors appointed by the Mayor and the President of the Greater Philadelphia Chamber of Commerce. PIDC provides financing programs and real estate services to business and not-for-profit corporations throughout the City as well as coordinates workforce development and developer assistance programs offered by the City and the Commonwealth. PIDC manages the PAID, which serves as a conduit for the issuance of tax-exempt debt and other economic development initiatives. PIDC also is responsible for the redevelopment of the former Philadelphia Naval Shipyard and Naval Station, now collectively known as The Navy Yard, described further below under the section titled "The Navy Yard."

Financing Programs

PIDC offers a variety of financing programs, including direct loans, grants and tax-exempt financing, designed to encourage economic growth in the City.

PIDC Loan Programs: Largely funded by federal, state, and local government sources, PIDC loan programs generally offer subordinated financing and below-market interest rates. Eligible uses of PIDC loans include infrastructure costs, land acquisition, building construction, machinery/equipment purchase, or working capital. During 2010, PIDC settled seventy loan transactions and provided in excess of $50 million of funding to projects valued at approximately $416 million. During the first half of 2011, PIDC settled 31 loans totaling approximately $20 million.

PIDC and PAID Grant Programs: PIDC and PAID administer a number of federal, state and local grant programs, targeted to non-profit organizations in the City. The Commonwealth's Redevelopment Assistance Capital Program and the City's Cultural and Commercial Corridors grant program are important sources of capital funding to local cultural institutions, health-care organizations, universities and community development corporations. During 2010, 85 grant transactions totaling $167.3 million were closed through PIDC and PAID. During the first half of 2011, forty three grants totaling $200 million closed through PIDC and PAID.

PAID Tax-Exempt Programs: PAID issues, as a conduit, tax-exempt bonds for qualified manufacturing and not-for-profit organizations. PAID is also a conduit for taxable issues. During calendar year 2010, PAID settled ten tax-exempt financings for approximately $120 million for project costs totaling $147.5 million. During the first half of 2011, PAID has settled three tax-exempt bonds totaling $36 million.

Real Estate Services

On behalf of the City, PIDC is responsible for managing the City's industrial land inventory by acquiring, improving and selling industrial and commercial land throughout the City. Over the years, PIDC has successfully acquired, improved and sold more than 2,800 acres of such land in 18 industrial parks in the City.

- Industrial Land: PIDC's parcels are competitively priced, zoned and ready for development, as well as fully improved with roads and utilities. Many of these sites are located in established Northeast, West, and Southwest Philadelphia industrial parks with excellent access to transportation and workforce. The other industrial sites are situated in redeveloping commercial neighborhood corridors.

  Most of PIDC's properties are in designated incentive areas, which include specific entitlements to tax abatements, low interest loans and other benefits. Of particular note are the Keystone Opportunity Zones (KOZs), which abate business taxes for varying terms.

  PIDC is seeking opportunities to replenish the City's inventory of industrial land by purchasing distressed or underutilized industrially-zoned sites to improve and sell on behalf of the City. During the first half of 2011, there have been no industrial land sales. This reflects the impact of the overall slowdown in the national and regional economy and the shortage of quality industrial sites in the City. PIDC is negotiating two acquisitions of industrially-zoned sites, which if successful, will settle in 2011 or early 2012.

  In September 2010, PIDC published the Industrial Land and Marketing Strategy, along with the City Commerce Department and the City Planning Commission, which provides a comprehensive review of the City's industrial land inventory, and develops a new industrial land policy to serve as a guide for the nature, location and scale of industrial land acquisition and development for the foreseeable future. PIDC along with the City's Commerce Department and the Planning Commission will commence a comprehensive planning study of the Lower Schuylkill River, with the objective of revitalizing this heavily industrial portion of the City.

- Public Property Sales: In 2005, PIDC entered into an agreement with the City's Department of Public Property to market the City's surplus real estate. Since this effort began, PIDC has completed the sale of 34 properties resulting in approximately $17 million for the City's General Fund. PIDC completed five transactions in 2010 totaling $1,993,800 in sales. There have not been any property sales during the first half of 2011.
- Developer Selection: PIDC also manages developer selection and sales of key real estate assets in the City utilizing conventional RFQ/RFP methodology. PIDC recently selected a developer for development of a location on the Avenue of the Arts at Broad a& South Streets and expects to settle on this property during the last quarter of 2012.

The Navy Yard

During the past decade, the United States Department of Defense has downsized significantly in the Philadelphia area, resulting in substantial excess real estate in the City. PIDC is responsible for converting the former military property at The Navy Yard to civilian use. The Navy Yard, the largest former Defense Department asset with 1,200 acres and 6.5 million square feet of existing industrial and office space, is located on the Delaware River at the south end of Broad Street.

Since the ownership transfer in March 2000, PIDC has been responsible for planning, operations and development of this massive property. Initial development emphasis was on infrastructure and $25 million was invested on upgrades to the roads and utilities systems. The development of the Aker Philadelphia Shipyard, a $300 million state-of-the-art facility, was funded by federal, state, and local sources. To-date more than 115 companies and three Navy operations occupy in excess of 5.5 million square feet of space and employ more than 8,000 people.

In September 2004, PIDC and the City released an updated Navy Yard Master Plan, which focuses on mixed use development on 400 acres east of Broad Street and envisions over $2 billion of private investment in office, research, retail, residential, and recreational projects. To date, major progress has been achieved in implementation of the Master Plan:

- Industrial Anchors: The Navy Yard continues to be a vital industrial and manufacturing center, with the Aker Philadelphia Shipyard as a major anchor. Aker employs in excess of 600 persons in its commercial shipbuilding operation and has completed $2 billion worth of ship orders. During February of 2011, the Commonwealth announced the investment of $42 million (subject to various conditions) to allow Aker to compete for future orders of commercial ships.

  There are also a number of supplier and related industrial and manufacturing companies located at The Navy Yard. The US Navy also retains significant industrial facilities to support its foundry and propeller shop with nearly 800 employees. Building on the skilled workforce and range of industrial supplier companies located at The Navy Yard, Philadelphia Ship Repair and Rhoads Industries each lease a dry-dock, pier and related facilities to support commercial and military ship repair activity. Tasty Baking Company opened a 350,000 SF bakery and distribution center at The Navy Yard in 2010. This facility, along with an additional 200,000 square feet of speculative flex and industrial space, is being developed in the Navy Yard Commerce Center by Liberty Property Trust and Synterra Partners.

- Navy Yard Corporate Center: In 2003, PIDC selected a team led by Liberty Property Trust and Synterra Partners to develop 72 acres with 1.4 million square feet of Class A office space. Liberty/Synterra has developed three buildings, all of which are fully leased: (i) a 77,000-square-foot, multi-tenant speculative building, (ii) a 47,000 square foot build-to-suit headquarters for Unique Industries and (iii) a 95,000 square foot office building completed in the second quarter of 2009. PIDC and Liberty/Synterra are in pre-development for the next phase of speculative office construction.

- Additional Corporate Office Activity: The Navy Yard's shift from a federal, industrial property to a private sector business park is underscored by the number of headquarter relocations including the relocations of Vitetta Architects and Engineers, Unique Industries, and Barthco International. In 2006, Urban Outfitters ("Urban"), a major retailer of clothing, furnishings and accessories completed its $115 million corporate campus, an award-winning historic conversion of approximately 300,000 square feet of former industrial facilities. Urban has grown their headquarters workforce to more than 1,200 employees since relocating to The Navy Yard and completed work on a $20 million, 50,000 square feet expansion in June 2010. Urban exercised their options on additional space with the announcement of expansion plans which will add an additional 1,000 employees once completed in three years. In 2011, the pharmaceutical company GlaxoSmithKline announced the relocation of its operations and 1,300 employees from Center City Philadelphia to The Navy Yard. The brand new, 205,000 square foot, Class A office space facility represents $80 million dollars of private investment. The relocation of GlaxoSmithKline is currently anticipated to occur between fourth quarter 2012 and first quarter 2013.

- Research and Development: In addition to the development of general corporate office facilities, The Navy Yard has established an important market segment in technology and R&D activity. This activity is anchored by the Naval Ship Systems Engineering Station, an 1,800 person federal research lab that houses the Navy's premier research organization focusing on power, energy, fuel cells, propulsion, IT and systems integration. In order to complement and expand this research base, the Commonwealth designated the Navy Yard as a Keystone Innovation Zone (KIZ), providing access to a variety of state incentives for technology development. The KIZ team led by PIDC includes the U.S. Navy, Penn State University, the Delaware Valley Industrial Resource Center (DVIRC), the City of Philadelphia and the Ben Franklin Technology Partners of Southeastern Pennsylvania.

- Green Technology: In 2009, PIDC established the Navy Yard Clean Energy Campus as the identity of Navy Yard R&D activity. Early initiatives of the Clean Energy Campus have resulted in Penn State establishing a Navy Yard location for its graduate level engineering program; the relocation of Ben Franklin Technology Partners' Corporate Office to The Navy Yard; the development of the Building 100 Innovation Center by Ben Franklin, DVIRC and PIDC to house early stage technology companies focused on power and energy related research; and a cadre of twelve related companies with offices at The Navy Yard.

  PIDC and its Navy Yard Clean Energy Campus partners also continue to pursue significant federal funding for research, education and commercialization facilities. The Navy has commenced development on a new, $20 million energy test center. Penn State University was recently awarded $10 million in grants from the Department of Energy ("DOE") to establish regional, Mid Atlantic Centers at The Navy Yard for Solar Training and Resources, Clean Energy Applications and Smart Grid Development. These activities commenced in 2011. PIDC, Penn State University and nearly 100 partners have been awarded a $130 million grant from the Department of Energy to study new technology around energy efficient buildings at The Navy Yard.

  In 2009, significant private investments in the Clean Energy Campus were announced. The first was the development of a seven-acre, 1.5 mega watt solar array to be developed by a partnership of Conergy and Exelon Power Generation. This facility is expected to be under construction in 2011. The second project is the development of a 350,000 square feet, $400 million thin film, solar panel manufacturing facility by Heliospehra USA. This facility is proposed for a start of construction during 2011.

- Life Sciences: The Navy Yard also supports a significant and growing life sciences community. In 2004, AppTec Laboratory Services, a Minneapolis based provider of contract testing and manufacturing services to the pharmaceutical sector, developed a new, 75,000 square feet office and lab facility at The Navy Yard. AppTec, which started with 40 employees, was subsequently acquired by WuXi Pharmaceuticals and now the resultant firm employs 150 persons at The Navy Yard. This facility was recently acquired by Charles River Laboratories, North America's largest contract manufacturing operation. Phoenix IP Ventures, an intellectual property Merchant Bank focused in the life sciences area, established its corporate headquarters at The Navy Yard.

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Additional Projects under Construction

The following table lists additional projects currently under construction in the City for the City/Public sector.

Table 38
Projects under Construction

Project	Estimated Cost
City Hall Exterior Renovation Project	$90,000,000
Robin Hood Dell Restoration	$5,500,000
Emergency Standby Generators	$4,600,000
Philadelphia Industrial Correctional Center Security Upgrade Project	$2,100,000
Fire Point Source Capture	$11,000,000
Waterworks Esplanade Bulkhead Reconstruction	$1,100,000
New Youth Study Center	$93,000,000
Fire Department - New Engine 38	$7,000.000
The Police SWAT/Bomb Squad/K9 Facility	$10,500,000

Source: Office of Budget and Program Evaluation.

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APPENDIX D

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

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APPENDIX D

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

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

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

General Authorization; Definitions; Bonds to be Special Obligations

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

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

Project Revenues is defined as, in respect of a Project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the Project to the

ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by federal, state or local governments or governmental agencies on account of the cost of operation of, or the payment of the principal of or interest on moneys borrowed to finance the cost of the Project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

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

Estimate of Future Revenues in Ordinance

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

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

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall state the aggregate amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the segregation, custody, investment and disbursement of construction funds, the imposition, collection, custody and disbursement of Project Revenues, the operation,

maintenance, replacement and insurance of the Project, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and other special funds, accounts and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds, the rights and remedies of obligees upon default, and such other provisions as the City deems necessary or desirable in the interest of or for the protection of the City or of such bondholders. Under the Act, such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification (with such limitations as may be specified in the bond ordinance) by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

Sinking Fund

The Act requires that the bond ordinance shall provide for the establishment and maintenance of a sinking fund or shall designate a previously established sinking fund for the payment of the principal of and interest on the Bonds as same become due and payable or upon redemption and for the payment of State taxes, if any, assumed by the City to be paid on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments commencing not later than one year subsequent to the completion of the Project in respect to the Bonds issued for construction or acquisition of the Project, and in all other cases, not later than one year subsequent to the date of the Bonds, and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established and all State taxes, if any, assumed by the City to be paid on such Bonds, as and when the same shall become due and payable. The sinking fund and any other funds or accounts established by the bond ordinance shall be managed by the chief fiscal officer of the City and moneys therein, to the extent not currently required, shall be invested, subject to limitations established by the bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund and other funds shall be added to such fund and may be applied in reduction of or to complete required deposits to the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or as otherwise provided in the bond ordinance. All moneys deposited in the sinking fund are subject to a perfected security interest for the Bonds for which the sinking fund is established until properly disbursed.

Refunding

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

are sufficient to effect, and are irrevocably pledged to, the redemption or payment of such bonds and, (ii) when the City shall have duly called the Bonds for redemption and shall have met all notice requirements or given irrevocable instruction to give such notice.

Validity of Proceedings; Suits and Limitations Thereon

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

Negotiable Instruments

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

Exemption from State Taxation

The Commonwealth pledges with the Holders from time to time of Bonds issued under the Act that such Bonds and the interest thereon shall at all times be free from taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds the receipt of income therefrom or the realization of gains on the sale therefrom. Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania.

Defaults and Remedies

If the City should fail to pay or cause to be paid the principal of or interest on any Bond as the same shall become due, the Act permits the Holder of any such Bond, subject to the limitations described below, to recover the amount due in an action in assumpsit in the court of common pleas of the county. However, a judgment rendered in favor of the bondholder in such an action is limited to assessments, revenues, rates, rents, tolls and charges from the Project which are pledged for the payment of such Bond. The Holders of 25% in aggregate principal amount of any series of Bonds then outstanding which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance may appoint a trustee to represent the Holders of all such Bonds, and such representation shall be exclusive for the purposes provided in the Act. Such trustee may and, upon written request of the Holders of 25% in aggregate principal amount of such Bonds then outstanding, and on being furnished with indemnity satisfactory to it, shall take one or more of the following actions which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual Holders of Bonds: (1) enforce, by proceedings at law or in equity, all rights of the Holders of the Bonds, including the

right to require the City to impose and collect pledged rents, rates, tolls and charges or to require the City to carry out any other agreements with the Holders of such Bonds; (2) bring suit on the Bonds with the same effect as a suit by any Holder of the Bonds; (3) bring suit in equity to require the City to account as if it were a trustee of an express trust for the holders of such Bonds for all pledged Project Revenues received and/or to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of any Bonds; and (4) after 30 days' written notice to the City and subject to any limitations in the bond ordinance, declare the unpaid principal of all Bonds issued pursuant to the 1998 General Ordinance to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and, upon the curing of all defaults, to annul such declaration and its consequences. The court, in cases of extreme hardship, may provide for the payment of sums levied in five or less annual installments with interest at a rate sufficient to cover the interest accruing on the Bonds. In any suit, action or proceeding by or on behalf of Holders of defaulted Bonds, the fees and expenses of a trustee, including operating costs of a Project and reasonable counsel fees, which are allowed by the court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the Holders of the Bonds. (The 1998 General Ordinance limits any such recovery to Project Revenues.) The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

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

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

Pursuant to the authorization contained in the Act; the City has enacted the 1975 General Ordinance. The City has made a pledge of, and has granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the 1975 General Ordinance.

Definitions Under the 1975 General Ordinance

Act means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in the 1975 General Ordinance.

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

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

City means the City of Philadelphia, Pennsylvania.

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

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

Fiscal Agent means the bank named as such in the 1975 General Ordinance.

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

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

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

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

Operating Expenses are defined to be all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year including, without limitation, the manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or capital project related to the Gas Works which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally acceptable municipal

accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

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

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

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

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

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

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

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

Security

The City has pledged, pursuant to the 1975 General Ordinance, for the security and payment of all Bonds issued under the 1975 General Ordinance and has granted a lien on and security interest in, all Project Revenues.

Priority in Application of Project Revenues

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

(a) to Net Operating Expenses;

(b) to required payments into the Sinking Fund established under the 1975 General Ordinance to pay the principal of and interest on all Bonds issued under the 1975 General Ordinance and to accumulate, or to restore any deficiency in the Sinking Fund Reserve;

(c) to the payment of general obligation bonds, which have been adjudged to be self-liquidating on the basis of expected revenues from the Gas Works:

(d) to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and

(e) to the payment of City Charges, including any Base Payment due to the City.

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

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

Rate Covenant

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

First: The sum of:

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

(B) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all Bonds issued and outstanding under the 1975 General Ordinance which will become due and payable during such Fiscal Year; and

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

Second: The sum of:

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

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

Additional Covenants

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

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the manager of the Gas Works that the Gas Works are in good operating condition and a certificate of the Director of Finance that, as of the date of such report, the City has complied with all covenants and requirements of the 1975 General Ordinance and Supplemental Ordinances. Copies of such reports will be available, for a period of ten (10) years, to bondholders and may be inspected and copied at all reasonable times by bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

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

Conditions of Issuing Bonds

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

Prior to the issuance of any series of Bonds under the 1975 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such series of Bonds which shall include (i) a certified copy of the 1975 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an executed copy of the Engineer's report required pursuant to the terms of the 1975 General Ordinance; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve meet the requirements of the 1975 General Ordinance with respect thereto, that the report for the latest completed Fiscal Year

of the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in the 1975 General Ordinance and all Supplemental Ordinances; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

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

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

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

Transfer of Income on Sinking Fund Reserve

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

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

Remedies; Limitations on Liabilities of City

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

Amendments

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

Amendments Not Affecting Outstanding Bonds

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

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

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

Definitions Under the 1998 General Ordinance

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

Act means The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. § 15901 to 15224), as from time to time amended. The words and phrases which are defined in the Act shall have such defined meanings when used in the 1998 General Ordinance.

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

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

Bondholder or Holder means the registered owner of any Bond.

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

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

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

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

City means The City of Philadelphia, Pennsylvania.

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

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

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

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

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

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

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

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

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

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

Fiscal Year means the fiscal year of the Gas Works.

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

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

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

Gas Works Revenues means all operating and nonoperating revenues of the Gas Works derived from its activities and assets involved in the supply, manufacture, storage and distribution of gas, including all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom and all other income derived by the City from the Gas Works. Revenues derived from activities unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto shall not be included in Gas Works Revenues, provided that the Gas Works receives fair payment for the use of gas related assets and personnel of the Gas Works used in such activities, which payments shall be included in Gas Works

Revenues. In particular, Gas Works Revenues shall not include revenues from enterprises or functions not related to gas activities (e.g., activities involving the supply, generation or distribution of electricity). Gas Works Revenues shall not include those portions of the Gas Works' rents, rates and charges which are securitized and sold pursuant to Section 4.03(b) of the 1998 General Ordinance. Gas Works Revenues may be divided into separate components in one or more Supplemental Ordinances and any Series of Bonds issued thereafter may be limited as to source of payment to one or more of such components as provided in the Supplemental Ordinance authorizing the particular Series of Bonds.

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

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

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

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

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

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

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

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

Mayor means the Mayor of the City.

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

Net Operating Expenses means Operating Expenses exclusive of City Charges.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

mature or are payable at the option of the Holder at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to the disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Concerning the Bonds

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

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

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

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

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council supported by appropriate schedules and summaries, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying, the sources from which the pledged revenues are to be derived; (3) a statement that, on the basis of actual, if appropriate, and estimated future annual financial operations of the project or projects from which the pledged project revenues are to be derived, the project or projects will, in the opinion of the engineers, yield pledged project revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of all expenses of operation, maintenance, repair and replacement of the Project, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged, any State taxes assumed by the City to be paid on such Bonds and surplus requirements fixed by the 1998 General Ordinance or the Supplemental Ordinance authorizing the issuance of any Series of Bonds, and (4) that the project revenues upon which the preceding statements are based comply

with the definition of "Project Revenues" contained in the Act. The 1998 General Ordinance also requires that the engineering report state that the Gas Works rents, rates and charges on the basis of which the foregoing statements are made are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

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

Security

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

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

Priority in Application of Gas Works Revenues

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

First: to Net Operating Expenses then payable;

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

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

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

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

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

Seventh: to required payments of the Rebate Amount to the United States;

Eighth: to replenishment of any deficiency in the Sinking Fund Reserve;

Ninth: to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues;

Tenth: to debt service on other general obligation bonds issued for the Gas Works; and

Eleventh: to the payment of City charges and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements) except Unrelated Expenses.

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

Rate Covenant

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

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

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

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

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

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

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

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

(B) The sum of:

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

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

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

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

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

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

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

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

Additional Covenants

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

Report Requirements

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

available to Bondholders for a period of ten (10) years and may be inspected and copied at all reasonable times by Bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

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

Conditions of Issuing Bonds

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

Prior to the issuance of any Series of Bonds under the 1998 General Ordinance, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of the 1998 General Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; and (v) an opinion of Bond Counsel to the effect that (1) the Series of Bonds has been duly issued for a permitted purpose under the Act and under the 1998 General Ordinance, (2) all conditions precedent to the issuance of the Series of Bonds pursuant to the Act and the 1998 General Ordinance have been satisfied, (3) the Series of Bonds has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the City and (4) if the interest on the Series of Bonds is intended to be excluded from gross income for Federal income tax purposes, interest on the Series of Bonds will be so excluded; and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

Sinking Fund and Sinking Fund Reserve

The Sinking Fund was established for the benefit and security of the Holders of all Bonds issued under the 1998 General Ordinance. The Sinking Fund shall be held in an account or accounts separate and apart from all other accounts of the City. The City covenants and the Director of Finance is directed to deposit in the Sinking Fund from Gas Works Revenues in each Fiscal Year such amounts as will, together with interest and profits on investments held therein, be sufficient to accumulate therein (exclusive of amounts in the Sinking Fund Reserve), on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then becoming due and payable. The 1998 General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more

banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depositary for that series. The moneys in the Sinking Fund are required to be secured, and invested and reinvested under management of the Director of Finance.

The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason s/he should fail to give such direction, on the direction of the Fiscal Agent, liquidate investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of Bonds. Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve, shall be transferred to the operating accounts of the Gas Works.

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

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

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of, and premium, if any, and interest on, any Bond or Bonds secured by the Sinking Fund Reserve, the Sinking Fund Depositary is authorized pursuant to the 1998 General Ordinance and directed to withdraw from the Sinking Fund Reserve and to draw on Credit Facilities held for the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of

such withdrawal (including draws on any Credit Facilities held to satisfy the Sinking Fund Reserve Requirement) or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants pursuant to the 1998 General Ordinance to restore such deficiency (either by a deposit of funds or the reinstatement of the cash limits of Credit Facilities) within twelve months. The Sinking Fund Reserve shall be valued by the Sinking Fund Depositary promptly after any withdrawal from the Sinking Fund Reserve or any other event indicating a possible deficiency in the Sinking Fund Reserve and on August 31 of each Fiscal Year.

The Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time Outstanding under the 1998 General Ordinance and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated pro rata for the Series of Bonds or the specific Bonds in respect of which such investments were made without distinction or priority, but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest (including capitalized interest) or premium in respect of particular Bonds shall be held and applied exclusively to the payment of such particular principal, interest or premium.

Remedies; Limitations on Liabilities of City

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

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

Amendments

The 1998 General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission

therein; (b) to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (c) to grant to or confer upon Bondholders or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted or conferred; (d) to incorporate modifications requested by any Rating Agency to obtain or maintain a credit rating on any Series of Bonds; (e) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds, but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (f) except as aforesaid, in such other respect as may be authorized in writing by the Holders of a majority in principal amount (using Accreted Value in the case of Capital Appreciation Bonds) of the Bonds Outstanding and affected. The written authorization of Bondholders of any supplement to or modification or amendment of the 1998 General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof.

Closure of the 1975 Ordinance

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

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

Deposit of Funds for Payment of Bonds

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

If the City deposits with the Fiscal Agent moneys or Qualified Escrow Securities sufficient to pay the principal or redemption price of any particular Bond or Bonds becoming

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

Moneys deposited with the Fiscal Agent pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent (the Fiscal Agent having no responsibility to independently investigate) in default with respect to any covenant in the 1998 General Ordinance or the Bonds, be paid to the City, and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent shall, at the expense of the City, publish in a newspaper of general circulation published in the City, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

THE NINTH SUPPLEMENTAL ORDINANCE
Ordinance of City Council
Approved June 3, 2009
Bill No. 090322
(the "Ninth Supplemental Ordinance")

The Ninth Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, on behalf of the City, to borrow, by the issuance and sale of Gas Works Revenue Bonds, Eighth Series (1998 General Ordinance) of the City (the "Eighth Series Bonds"), which may be issued in one or more subseries, designated "Eighth Series Bonds" and consecutively thereafter by letter designation and in one or more subseries within each such subseries, and with such relative priorities as the Bond Committee may deem desirable, pursuant to the Act and the 1998 General Ordinance, a sum or sums which shall not exceed the aggregate principal amount of $450,000,000. The Eighth Series Bonds shall be sold at public or private sale and shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interests of the City and are not inconsistent with the provisions of the Ninth Supplemental Ordinance, the Act, the 1998 General Ordinance or any applicable law.

If a majority of the Bond Committee determines it to be in the best interests of the City, the Eighth Series Bonds may be issued in book-entry form; and in such event a majority of the Bond Committee shall also select a securities depository (the "Depository") for the Eighth Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City, the City may obtain Credit Facilities in the form of credit enhancement and liquidity for all or a portion of the Eighth Series Bonds. If a majority of the Bond Committee determines that the entry by the City into one or more Qualified Swap Agreements or the modification of an existing

Qualified Swap Agreement will assist the City in more effectively managing its interest costs or interest rate exposure, the City may enter into one or more Qualified Swap Agreements with respect to all or a portion of the Eighth Series Bonds, or one or more amendments to an existing Qualified Swap Agreement with respect to the Eighth Series Bonds and/or the Bonds to which such Qualified Swap Agreement to be amended relates, or may enter into one or more amendments to an existing Qualified Swap Agreement to relate to all or a portion thereof and/or to all or a portion of a different series of outstanding Gas Works Revenue Bonds and designate in writing to the Fiscal Agent that such Qualified Swap Agreements constitute Qualified Swaps, in accordance with the requirements of the 1998 General Ordinance and the Ninth Supplemental Ordinance. The Eighth Series Bonds shall mature or be subject to mandatory redemption in such principal amounts and on such date or dates and at such rate or rates (including, without limitation, variable, adjustable or convertible rates), as shall be determined by a majority of the Bond Committee. A majority of the Bond Committee is authorized to take any and all other actions as may be necessary or appropriate in connection with the consummation of the transactions contemplated herein.

The Eighth Series Bonds are authorized to be issued under the Ninth Supplemental Ordinance in an aggregate principal amount up to Four Hundred Fifty Million Dollars ($450,000,000.00); provided that, if any of the Eighth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of the Eighth Series Bonds which may be issued under the Ninth Supplemental Ordinance shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Eighth Series Bonds shall not exceed Four Hundred Fifty Million_Dollars ($450,000,000.00), plus accrued interest, if any; provided further, that the Eighth Series Bonds, or an portion thereof, may be sold at a premium so long as the aggregate principal amount of the Eighth Series Bonds does not exceed Four Hundred Fifty Million Dollars ($450,000,000.00).

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

The Ninth Supplemental Ordinance provides that the Eighth Series Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) the refunding or redeeming of all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act). The City covenants in the Ninth Supplemental Ordinance that the proceeds of the Eighth Series Bonds which remain available for the payment of the costs of refunding of the Sixth Series Bonds, after payment of the Termination Payment, the financing costs, and the required payment into the Sinking Fund Reserve, shall be deposited, held in and disbursed from a special account of the Sinking Fund or the escrow fund to be established pursuant to the Escrow Agreement (defined below).

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

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

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

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

The Ninth Supplemental Ordinance authorizes the Director of Finance to make such elections under the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder with respect to the Eighth Series Bonds and to take such

actions on behalf of the City with respect to the investment of the proceeds of the Eighth Series Bonds as is deemed advisable, and the Director of Finance or any member of the Bond Committee is authorized to make such covenants as may be necessary or advisable in order that the Eighth Series Bonds shall not be "arbitrage bonds" as defined in the Code.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Ninth Supplemental Ordinance authorizes the Director of Finance to enter into an amendment to the Sixth Series Swap Agreement, provided that the Sixty Series Swap Agreement, as so amended, shall continue to constitute a Qualified Swap Agreement, as such term is defined in the 1998 General Ordinance, with respect to the Sixth Series Bonds under the Eighth Series Bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

Subject to the determination by a majority of the Bond Committee and as required by the 1998 General Ordinance, the Director of Finance is hereby authorized to enter into one or more interest rate swap transactions consisting of a Master Agreement, Schedule and one or more Confirmations (collectively, the "Eighth Series Swap"), collectively constituting a Qualified Swap Agreement, with respect to the Eighth Series Bonds, and/or the Sixth Series bonds and/or relate to all or a portion of the outstanding Gas Works Revenue Bonds Fifth Series A-2, as authorized and permitted pursuant to the 1998 General Ordinance.

In accordance with and as permitted by the 1998 General Ordinance, the pledge and grant of a lien on and security interest in, all Gas Works Revenues, all accounts, contract rights and general intangibles representing the Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and the Sinking Fund Reserve), and in each case, the proceeds of the foregoing, shall be for the benefit of the provider of the Sixth Series Swap, the provider of the Eighth Series Swap and the provider of a Credit Facility securing any payments of the City to be made pursuant to the Sixth Series Swap and/or the Eighth Series Swap (collectively, "Swap Credit Facilities"), all to the extent and in the manner as provided therein.

All of the provisions of the 1998 General Ordinance relating to Qualified Swaps, except to the extent limited to the Ninth Supplemental Ordinance, with respect to the Sinking Fund and the Sinking Fund Reserve, shall apply to the Sixth Series Swap, as amended, the Eighth Series Reserve, and to payments due from the City to the providers of the Sixth Series Swap, as amended, the Eighth Series Swap and the Swap Credit Facilities.

APPENDIX E
CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement ("Disclosure Agreement") is executed and delivered as of August 20, 2009 by and between The City of Philadelphia, Pennsylvania ("City") and Digital Assurance Certification, L.L.C., as dissemination agent (the "Dissemination Agent"), in connection with the issuance by the City of four series ("Series") of bonds to be designated: City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series (1998 General Ordinance) in the aggregate principal amount of $255,000,000 consisting of: $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) (the "Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) (the "Eighth Series C Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) (the "Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) (the "Eighth Series E Bonds" and together with the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Bonds").

The Bonds are being issued by the City under the provisions of The First Class City Revenue Bond Act, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972, P.L. 955, as amended (the "Act"), and the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved May 30, 1998) ("1998 General Ordinance"), as amended and supplemented from time to time and, in particular, as supplemented by the Ninth Supplemental Ordinance (Bill No. 090322, approved June 3, 2009) (collectively, the "1998 General Ordinance"). Certain matters concerning the Bonds have been determined pursuant to the 1998 General Ordinance by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor ("Bond Committee"), and acting by at least a majority thereof, in an authorization dated August 13, 2009 ("Bond Authorization").

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

Section 1. Definitions

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

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

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

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

"EMMA" shall mean the Electronic Municipal Market Access System maintained by the MSRB.

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement dated August 13, 2009, relating to the Bonds.

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

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

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

"Repository" shall mean each nationally recognized municipal securities information repository under the Rule. The Securities and Exchange Commission has designated EMMA as the sole Repository effective as of July 1, 2009. Any information filed in connection with this Disclosure Agreement shall be filed with EMMA at http://emma.msb.org/, and any future Repository as may be required under the Rule.

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

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

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

Section 2. Authorization and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the City pursuant to Section 15 of the Bond Authorization in order to assist the Participating Underwriters in complying with the requirements of the Rule.

Section 3. Provision of Annual Financial Information

(a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2009, the Disclosure Representative shall file with the Dissemination Agent, Annual Financial Information for such fiscal year. The Dissemination Agent shall promptly upon receipt thereof file the Annual Financial Information with each Repository. The Annual Financial Information will be in the form of the City's Comprehensive Annual Financial Report and, to the extent such information is not included therein, will include the other information set forth on Appendix A, and will contain unaudited financial statements if audited financial statements are not available.

(b) As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2009, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall promptly upon receipt thereof file the audited financial statements with each Repository.

Section 4. Material Events

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

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers or their failure to perform;

(6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(7) Modifications to the rights of the Holders of the Bond Holders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution or sale of property securing repayment of the Bonds; and

(11) Rating changes.

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

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

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

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

(e) The Dissemination Agent shall request the return from each Repository, of written acknowledgment or receipt of any notice delivered to each Repository. Upon the return of all completed acknowledgments of a notice, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be

delivered to the City no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

Section 5. Amendment; Waiver

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

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

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

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

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

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

Section 6. Other Information; Duties Under the General Ordinances or the Bond Authorizations

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

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

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

Section 7. Default

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

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

Section 8. Concerning the Dissemination Agent

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

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

governmental immunity by the City. The provisions of this paragraph shall survive termination of this Disclosure Agreement.

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

(d) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Section shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Section 9. Term of Disclosure Agreement

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

Section 10. Beneficiaries

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

Section 11. Notices

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

(a) To the Dissemination Agent at:

DAC, Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801

Attention: Jenny Emami
Fax: (407) 515-6513

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

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

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

(c) To the MSRB at:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314
Attention: CDI
Fax: (703) 683-1930

(d) To the Repository at http://emma.msrb.org/

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

Section 12. No Personal Recourse

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

Section 13. Controlling Law

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

Section 14. Removal and Resignation of the Dissemination Agent

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

Section 15. Successors and Assigns

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

Section 16. Headings for Convenience Only

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

Section 17. Counterparts

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

Section 18. Entire Agreement

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

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

THE CITY OF PHILADELPHIA,
PENNSYLVANIA

By: _____
Rob Dubow
Director of Finance

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

By: _____
Authorized Officer

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

THE CITY OF PHILADELPHIA,
PENNSYLVANIA

By: _____
Rob Dubow
Director of Finance

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

By: _____
Authorized Officer

APPENDIX "A"

1. Commencing with the fiscal year ending June 30, 2009, a copy of the Comprehensive Annual Financial Report ("CAFR") which contains the audited combined financial statements of the City prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units, and

2. Commencing with the Fiscal Year of the Philadelphia Gas Words ending August 31, 2009, to the extent such information is not contained in the CAFR, an update of the information set forth in the financial statements of the Philadelphia Gas Works for the Fiscal Years ended August 31, 2007 and August 31, 2008, included in Appendix A to the Official Statement.

APPENDIX F
OPINIONS OF CO-BOND COUNSEL

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BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $105,000,000 City of Philadelphia, Pennsylvania
Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series B Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series B Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and

in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series B Bonds and to issue the Eighth Series B Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series B Bonds.

3. The Eighth Series B Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series B Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series B Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series B Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series B Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series B Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series B Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series B Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series B Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series B Bonds.

We call to your attention that the Eighth Series B Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the

Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance. The Eighth Series B Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien against property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series B Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Blank Rome LLP

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August 20, 2009

Re: $105,000,000 City of Philadelphia, Pennsylvania
Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series B Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series B Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and

in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series B Bonds and to issue the Eighth Series B Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series B Bonds.

3. The Eighth Series B Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series B Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series B Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series B Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series B Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series B Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series B Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series B Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series B Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series B Bonds.

We call to your attention that the Eighth Series B Bonds are special obligations of the City payable solely from and secured solely by the Gas Works Revenues and amounts in the

Sinking Fund, including the Sinking Fund Reserve established under the 1998 General Ordinance. The Eighth Series B Bonds are not general obligations of the City and do not pledge the full faith, credit or taxing power of the City or create any debt or charge against the general revenues of the City or create a lien against property of the City other than Gas Works Revenues.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series B Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Andre C Dasent, P.C.

ANDRE C. DASENT, P.C.

BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series C Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series C Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series C Bonds and to issue the Eighth Series C Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series C Bonds.

3. The Eighth Series C Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series C Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series C Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series C Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series C Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series C Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series C Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series C Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series C Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series C Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Blank Rome LLP

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August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series C Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series C Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series C Bonds and to issue the Eighth Series C Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series C Bonds.

3. The Eighth Series C Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series C Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series C Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series C Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series C Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series C Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series C Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series C Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series C Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series C Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Andre C Dasent, P.C.

ANDRE C. DASENT, P.C.

BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series D Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series D Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series D Bonds and to issue the Eighth Series D Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series D Bonds.

3. The Eighth Series D Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series D Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series D Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series D Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

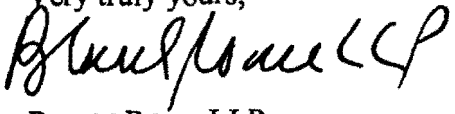
In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series D Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series D Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series D Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series D Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series D Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series D Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,



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andredasent@earthlink.net

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series D Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series D Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series D Bonds and to issue the Eighth Series D Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series D Bonds.

3. The Eighth Series D Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series D Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series D Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series D Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series D Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series D Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series D Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series D Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series D Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series D Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Andre C Dasent, P.C.

ANDRE C. DASENT, P.C.

BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series E Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series E Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds, and the Eighth Series E Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series E Bonds and to issue the Eighth Series E Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series E Bonds.

3. The Eighth Series E Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series E Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series E Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series E Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series E Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series E Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series E Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series B Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series E Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series E Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series E Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Blank Rome LLP

BLANK ROME LLP

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August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series E Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series E Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds, and the Eighth Series E Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series E Bonds and to issue the Eighth Series E Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series E Bonds.

3. The Eighth Series E Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series E Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series E Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series E Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series E Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series E Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series E Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series B Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series E Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series E Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series E Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

André C. Dasent, P.C.

ANDRE C. DASENT, P.C.

APPENDIX G
FORM OF "NO ADVERSE EFFECT" OPINIONS OF CO-BOND COUNSEL

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September 1, 2011

U.S. Bank National Association, as Fiscal Agent
123 South Broad Street
Philadelphia, Pennsylvania 19107

Re: $50,260,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the extension of the irrevocable, direct-pay letter of credit ("Letter of Credit") issued by Wells Fargo Bank, National Association, as successor to Wachovia Bank, National Association ("Credit Provider"), relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) ("Eighth Series B Bonds"). The Letter of Credit was issued pursuant to a Reimbursement, Credit and Security Agreement between the City and the Credit Provider, dated as of August 20, 2009, as previously amended, and as amended by the Second Amendment to Reimbursement, Credit and Security Agreement, dated as of September 1, 2011, by and between the City and the Credit Provider.

The Letter of Credit was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series C ("Eighth Series C Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series D ("Eighth Series D Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series E ("Eighth Series E Bonds," and together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series D Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series for the sole purpose of having each series correspond to the principal amount of the respective letter of credit which initially related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof ("Bond Committee"), dated August 29, 2011, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds are being reallocated among each series so that the principal amount of each series will correspond to the principal portion of the stated amount of the letter of credit relating to such series. Other than the reallocation of principal, there is no change in the terms and provisions of the Eighth Series Bonds or the security therefor.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series B Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series B Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series B Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement to Bond Authorization; (g) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (h) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in

connection with the extension of the Letter of Credit and the reallocation of the Eighth Series Bonds.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the extension of the Letter of Credit, the accompanying reallocation of principal and the related remarketing of the Eighth Series B Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series B Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series B Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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September 1, 2011

U.S. Bank National Association, as Fiscal Agent
123 South Broad Street
Philadelphia, Pennsylvania 19107

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the extension of the irrevocable, direct-pay letter of credit ("Letter of Credit") issued by The Bank of Nova Scotia, acting through its New York Agency ("Credit Provider"), relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"). The Letter of Credit was issued pursuant to a Reimbursement, Credit and Security Agreement between the City and the Credit Provider, dated as of August 20, 2009, as amended by the First Amendment to Reimbursement, Credit and Security Agreement, dated as September 1, 2011, by and between the City and the Credit Provider.

The Letter of Credit was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series D ("Eighth Series D Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series E ("Eighth Series E Bonds," and together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series D Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series

for the sole purpose of having each series correspond to the principal amount of the respective letter of credit initially which related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof ("Bond Committee"), dated August 29, 2011, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds are being reallocated among each series so that the principal amount of each series will correspond to the principal portion of the stated amount of the letter of credit relating to such series. Other than the reallocation of principal, there is no change in the terms and provisions of the Eighth Series Bonds or the security therefor.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series C Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series C Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement to Bond Authorization; (g) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (h) certain statements, certifications, affidavits and

other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in connection with the extension of the Letter of Credit and the reallocation of the Eighth Series Bonds.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the extension of the Letter of Credit, the accompanying reallocation of principal and the related remarketing of the Eighth Series C Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series C Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series C Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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September 1, 2011

U.S. Bank National Association, as Fiscal Agent
123 South Broad Street
Philadelphia, Pennsylvania 19107

Re: $75,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the extension of the irrevocable, direct-pay letter of credit ("Letter of Credit") issued by Bank of America, N.A. ("Credit Provider") relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds"). The Letter of Credit was issued pursuant to a Reimbursement, Credit and Security Agreement between the City and the Credit Provider, dated as of August 20, 2009, as previously amended, and as amended by the Second Amendment to Reimbursement, Credit and Security Agreement, dated September 1, 2011, by and between the City and the Credit Provider.

The Letter of Credit was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series C ("Eighth Series C Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series E ("Eighth Series E Bonds," and together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series D Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series for the sole purpose of having each series correspond to the principal amount of the respective letter of credit which initially related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof ("Bond Committee"), dated August 29, 2011, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds are being reallocated among each series so that the principal amount of each series will correspond to the principal portion of the stated amount of the letter of credit relating to such series. Other than the reallocation of principal, there is no change in the terms and provisions of the Eighth Series Bonds or the security therefor.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series D Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series D Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement to Bond Authorization; (g) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (h) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in

connection with the extension of the Letter of Credit and the reallocation of the Eighth Series Bonds.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the extension of the Letter of Credit, the accompanying reallocation of principal and the related remarketing of the Eighth Series D Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series D Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series D Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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September 1, 2011

U.S. Bank National Association, as Fiscal Agent
123 South Broad Street
Philadelphia, Pennsylvania 19107

Re: $50,260,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the issuance of an irrevocable, direct-pay letter of credit ("Letter of Credit") by PNC Bank, National Association, as an Alternate Credit Provider (as such term is defined in the Bond Authorization (hereinafter defined)) ("Credit Provider") relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds") pursuant to a Reimbursement Agreement between the City and the Credit Provider, dated as of September 1, 2011 ("Reimbursement Agreement").

The initial letter of credit relating to the Eighth Series E Bonds was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series C ("Eighth Series C Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series D ("Eighth Series D Bonds," and together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series E Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series, for the sole purpose of having each series correspond to the principal amount of the respective letter of credit which initially related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof ("Bond Committee"), dated August 29, 2011, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds are being reallocated among each series so that the principal amount of each series will correspond to the principal portion of the stated amount of the letter of credit relating to such series. Other than the reallocation of principal, there is no change in the terms and provisions of the Eighth Series Bonds or the security therefor.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series E Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series E Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series E Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement to Bond Authorization; (g) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (h) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in

connection with the execution and delivery of the Reimbursement Agreement and the reallocation of the Eighth Series Bonds.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the replacement of the original letter of credit relating to the Eighth Series E Bonds with the Letter of Credit, the accompanying reallocation of principal and the related remarketing of the Eighth Series E Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series E Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series E Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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APPENDIX “B”

OPINIONS OF CO-BOND COUNSEL

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BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series C Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series C Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series C Bonds and to issue the Eighth Series C Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series C Bonds.

3. The Eighth Series C Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series C Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series C Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series C Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series C Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series C Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series C Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series C Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series C Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series C Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

Blank Rome LLP

BLANK ROME LLP

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August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series C Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series C Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B (1998 General Ordinance) ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds") and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series C Bonds and to issue the Eighth Series C Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series C Bonds.

3. The Eighth Series C Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series C Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series C Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series C Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series C Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series C Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series C Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series C Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series C Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series C Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

André C Dasent, P.C.

ANDRE C. DASENT, P.C.

BLANK ROME LLP
COUNSELORS AT LAW

August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series D Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series D Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series D Bonds and to issue the Eighth Series D Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series D Bonds.

3. The Eighth Series D Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series D Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series D Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series D Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series D Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series D Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series D Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series D Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series D Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series D Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

BLANK ROME LLP

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August 20, 2009

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

To The Purchasers of the Within-Described Bonds:

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

The Eighth Series D Bonds are issued under and pursuant to provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Commonwealth"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City ("City Council") on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee of the City, comprised of the Mayor, the City Controller and the City Solicitor, acting by a majority thereof ("Bond Committee"), dated August 13, 2009 ("Bond Authorization"). This opinion is being rendered pursuant to Section 4.06 of the 1998 General Ordinance. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

Concurrently with the issuance of the Eighth Series D Bonds, the City is issuing its $58,285,000 Gas Works Revenue Refunding Bonds, Eighth Series A (1998 General Ordinance) ("Eighth Series A Bonds"), $105,000,000 Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"), and $50,000,000 Gas Works Revenue Refunding Bonds, Eighth Series E (1998 General Ordinance) ("Eighth Series E Bonds" and, together with the Eighth Series A Bonds, the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds, the "Eighth Series Bonds").

The Eighth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) redeeming all or any portion of the outstanding City of Philadelphia, Pennsylvania, Gas Works Revenue Bonds, Sixth Series (1998 Ordinance), upon such terms and in such amounts as shall be determined by the Director of Finance (the "Sixth Series Bonds"); (ii) providing the funds in order to make a payment (the "Termination Payment") to terminate, in whole or in part, the Qualified Swap (the "Sixth Series Swap") entered into with respect to the Sixth Series Bonds pursuant to a Qualified Swap Agreement (the "Sixth Series Swap Agreement"); and (iii) paying the costs of issuing the Eighth Series Bonds and any required deposits to the Sinking Fund Reserve.

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

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

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

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

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

1. The City is authorized under the provisions of the Constitution and laws of the Commonwealth to perform its obligations under the 1998 General Ordinance, the Ninth Supplemental Ordinance and the Eighth Series D Bonds and to issue the Eighth Series D Bonds for the purposes set forth in the Ninth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Eighth Series D Bonds.

3. The Eighth Series D Bonds have been duly executed, authenticated, issued and delivered, and are the legal, valid and binding obligations of the City, enforceable in accordance with the terms thereof, except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights.

4. Under the laws of the Commonwealth as presently enacted and construed, interest on the Eighth Series D Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Eighth Series D Bonds are exempt from personal property taxes in Pennsylvania; however, any profits, gains or income derived from the sale, exchange or other disposition of the Eighth Series D Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, assuming that the City complies with its covenants relating to certain requirements of the Code, interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT.

In rendering this opinion, we have assumed compliance by the City with its covenants contained in the 1998 General Ordinance, the Ninth Supplemental Ordinance, the Bond Authorization and the Tax Compliance Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the City in respect of the Eighth Series D Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Eighth Series D Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Eighth Series D Bonds

and the rebate to the United States Treasury of specified arbitrage earnings, if required. Failure to comply with such representations and covenants could result in the interest on the Eighth Series D Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Eighth Series D Bonds.

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

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the Eighth Series D Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

André C Dasent, P.C.

ANDRE C. DASENT, P.C.

APPENDIX “C”

FORM OF “NO ADVERSE EFFECT” OPINIONS OF CO-BOND COUNSEL

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August 1, 2013

U.S. Bank National Association, as Fiscal Agent
50 South 16th Street
Philadelphia, Pennsylvania 19102

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the issuance of an irrevocable, direct-pay letter of credit ("Letter of Credit") by Barclays Bank PLC, as an Alternate Credit Provider (as such term is defined in the Bond Authorization (hereinafter defined)) ("Credit Provider") relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series C (1998 General Ordinance) ("Eighth Series C Bonds"). The Letter of Credit is being issued pursuant to a Letter of Credit and Reimbursement Agreement between the City and the Credit Provider, dated as of August 1, 2013 ("Reimbursement Agreement").

The initial letter of credit relating to the Eighth Series C Bonds was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series D ("Eighth Series D Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series E ("Eighth Series E Bonds" and, together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series D Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series for the sole purpose of having each series correspond to the principal amount of the respective letter of credit which initially related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority

thereof ("Bond Committee"), dated August 29, 2011 ("First Supplement"), on September 1, 2011, the letters of credit relating to the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds were extended by the respective letter of credit banks and an Alternate Credit Facility was provided with respect to the Eighth Series E Bonds and, in connection therewith, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were reallocated among each series so that the principal amount of each series corresponded to the principal portion of the letter of credit which related to such series.

Pursuant to a Second Supplement to Bond Authorization of the Bond Committee, dated July __, 2013 ("Second Supplement"), the City, inter alia, authorized the extension of the letters of credit relating to the Eighth Series B Bonds and the Eighth Series E Bonds, the provision of Alternate Credit Facilities for the Eighth Series C Bonds and the Eighth Series D Bonds and the execution and delivery of the Reimbursement Agreement pursuant to which the Letter of Credit is being issued.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series C Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series C Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series C Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement; (g) the Second Supplement, (h) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (i) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in connection with the execution and delivery of the Reimbursement Agreement.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the replacement of the original letter of credit relating to the Eighth Series C Bonds with the Letter of Credit, and the related remarketing of the Eighth Series C Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series C Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series C Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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August 1, 2013

U.S. Bank National Association, as Fiscal Agent
50 South 16th Street
Philadelphia, Pennsylvania 19102

Re: $50,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance)

Ladies and Gentlemen:

We are serving as Co-Bond Counsel to the City of Philadelphia, Pennsylvania ("City") in connection with the issuance of an irrevocable, direct-pay letter of credit ("Letter of Credit") by Royal Bank of Canada, as an Alternate Credit Provider (as such term is defined in the Bond Authorization (hereinafter defined)) ("Credit Provider") relating to the City's Gas Works Revenue Refunding Bonds, Eighth Series D (1998 General Ordinance) ("Eighth Series D Bonds"). The Letter of Credit is being issued pursuant to a Reimbursement Agreement between the City and the Credit Provider, dated as of August 1, 2013 ("Reimbursement Agreement").

The initial letter of credit relating to the Eighth Series D Bonds was issued on August 20, 2009, simultaneously with the issuance of the respective letters of credit related to the City's Gas Works Revenue Refunding Bonds, Eighth Series B ("Eighth Series B Bonds"), Gas Works Revenue Refunding Bonds, Eighth Series C ("Eighth Series C Bonds") and Gas Works Revenue Refunding Bonds, Eighth Series E ("Eighth Series E Bonds" and, together with the Eighth Series B Bonds, Eighth Series C Bonds and Eighth Series D Bonds, the "Eighth Series Bonds"). The aggregate principal amount of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds was $255,000,000, which was allocated among the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds. The Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were issued as separate series for the sole purpose of having each series correspond to the principal amount of the respective letter of credit which initially related to such series.

Pursuant to a First Supplement to Bond Authorization of the Bond Committee of the City comprised of the Mayor, the City Controller and the City Solicitor, acting by at least a majority thereof ("Bond Committee"), dated August 29, 2011 ("First Supplement"), on September 1, 2011, the letters of credit relating to the Eighth Series B Bonds, the Eighth Series C Bonds and the Eighth Series D Bonds were extended by the respective letter of credit banks and an Alternate Credit Facility was provided with respect to the Eighth Series E Bonds and, in connection therewith, the aggregate outstanding principal amounts of the Eighth Series B Bonds, Eighth Series C Bonds, Eighth Series D Bonds and Eighth Series E Bonds were reallocated among each series so that the principal amount of each series corresponded to the principal portion of the letter of credit which related to such series.

Pursuant to a Second Supplement to Bond Authorization of the Bond Committee, dated July __, 2013 ("Second Supplement"), the City, inter alia, authorized the extension of the letters of credit relating to the Eighth Series B Bonds and the Eighth Series E Bonds, the provision of Alternate Credit Facilities for the Eighth Series C Bonds and the Eighth Series D Bonds and the execution and delivery of the Reimbursement Agreement pursuant to which the Letter of Credit is being issued.

The Eighth Series Bonds were issued under and pursuant to the provisions of: (i) the Constitution of the Commonwealth of Pennsylvania ("Constitution"); (ii) the First Class City Revenue Bond Act, approved October 18, 1972 (P.L. 955), Act No. 234 ("Act"); (iii) the City of Philadelphia General Gas Works Revenue Bond Ordinance of 1998, as amended (Bill No. 980232) ("1998 General Ordinance"); (iv) the Ninth Supplemental Ordinance to the General Ordinance (Bill No. 090322), enacted by the Council of the City on May 21, 2009 and approved by the Mayor of the City on June 3, 2009 ("Ninth Supplemental Ordinance"); and (v) a Bond Authorization of the Bond Committee, dated August 13, 2009 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Ninth Supplemental Ordinance.

On August 20, 2009, in connection with the original issuance of the Eighth Series D Bonds, Co-Bond Counsel rendered an opinion to the effect, inter alia, that interest on the Eighth Series D Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes, is exempt from individual and corporate federal alternative minimum tax ("AMT"), and is not includible in adjusted current earnings for purposes of corporate AMT ("Bond Opinion"). For purposes of providing this opinion, we have assumed, without independent investigation, that interest on the Eighth Series D Bonds has been and has continued to remain excludible from gross income of the holders thereof for federal income tax purposes as set forth in the Bond Opinion since the date of the Bond Opinion. Nothing contained herein shall be deemed to be a confirmation or reaffirmation of the Bond Opinion.

As Co-Bond Counsel, we have examined: (a) the relevant provisions of the Constitution; (b) the Act; (c) the 1998 General Ordinance; (d) the Ninth Supplemental Ordinance; (e) the Bond Authorization; (f) the First Supplement; (g) the Second Supplement, (h) the applicable provisions of the Internal Revenue Code of 1986, as amended ("Code") and the applicable regulations, rulings and notices promulgated under the Code; and (i) certain statements, certifications, affidavits and other documents and matters of law as we have deemed necessary to enable us to render the opinion set forth below, and the other documents and instruments listed on the Index of Closing Documents filed with U.S. Bank National Association, as Fiscal Agent, on the date hereof in connection with the execution and delivery of the Reimbursement Agreement.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments examined including, without limitation, the authenticity of all signatures appearing thereon. We have also relied upon the opinion of the City Solicitor as to all matters of fact and law set forth therein. We have not made any independent examination in rendering this opinion other than the examination referred to above. Our opinion is therefore qualified in all respects by the scope of that examination.

This opinion is given only with respect to federal income tax law as enacted and construed on the date hereof.

Based upon and subject to the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the replacement of the original letter of credit relating to the Eighth Series D Bonds with the Letter of Credit, and the related remarketing of the Eighth Series D Bonds do not, in and of themselves, adversely affect the exclusion from gross income of the interest on the Eighth Series D Bonds for federal income tax purposes.

We express no opinion as to any matter not set forth in the immediately preceding paragraph. This opinion is given as of the date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion herein with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the Remarketing Circular prepared in connection with, inter alia, the remarketing of the Eighth Series D Bonds and make no representation that we have independently verified the contents thereof.

Very truly yours,

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