

Philadelphia, PA, Gas Works Bonds Upgraded To 'BBB+' From 'BBB-' On Improving Collections

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NEW YORK (Standard & Poor's) Aug. 3, 2010--Standard & Poor's Rating Services has raised its rating on Philadelphia, Pa.'s closed senior-lien debt issued by Philadelphia Gas Works (PGW) under its 1975 ordinance to 'BBB+' from 'BBB-', its rating on the subordinate -lien debt issued under its 1998 ordinance to 'BBB+' from 'BBB-', and its rating on PGW's junior subordinate bonds to 'BBB' from 'BB+'. At the same time, Standard & Poor's raised its rating on PGW's revenue refunding bonds (1998 general ordinance) series 8D to 'AAA/A-1' from 'AA/A-1', the rating revision reflecting the application of our joint support criteria. Standard & Poor's also assigned its 'BBB+' rating to Philadelphia's gas works revenue bonds (1998 general ordinance), ninth series, issued by PGW. The outlook is stable.

"The upgrade reflects our opinion of PGW's trend of improving collections," said Standard & Poor's credit analyst Jeffrey Panger. Although partially due to above-average temperatures which make bills more affordable but cannot necessarily be counted on, the improved collections are also a function of lower and more stable gas prices, as well as the utility's enhanced billing and collection procedures, both of which we expect will continue during the next five years.

The upgrade also reflects our view of the Pennsylvania Utility Commission's recent approval of PGW's base rate case, coupled with management's expectation that it will not need to seek another such increase during the next five years; improving financial metrics; and management's expectation that it will not add additional debt over in that period, enabling PGW to reduce leverage.

In addition, the ratings reflect what we consider to be PGW's strong management team, and a credit-supportive rate structure that insulates margins from weather variability and automatically passes on gas costs to ratepayers through quarterly adjustments.

The utility is using the ninth series bonds for general improvements.

PGW is a supplier of last resort to a service area exhibiting what we consider to be weak demographics. We believe that this has contributed to historically low collection of billed revenue and sensitivity to rates. PGW has approximately 495,000 customers within the city limits, and the service area covers 129 square miles. Residential customers make up about 74% of revenue, while the commercial and industrial sectors are about 24%.

The stable outlook reflects our opinion of improved collection levels and financial metrics enabling PGW to manage potential fluctuation in these areas, while providing a cushion should the city seek to suspend the dividend grant-back.

RELATED CRITERIA AND RESEARCH

- USPF Criteria: Electric Utility Ratings, June 15, 2007
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

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