New Issue **(See "RATINGS" herein)**
Book-Entry Only

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes assuming that the City complies with its covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended. Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania. See "Tax Matters" herein.

$150,000,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE BONDS
NINTH SERIES
(1998 GENERAL ORDINANCE)

Dated: Date of Delivery **Due**: August 1, as shown on the inside cover page

The City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Ninth Series (1998 General Ordinance) in the original aggregate principal amount of $150,000,000 (the "Bonds") are issued pursuant to the Act, the 1998 General Ordinance, the Tenth Supplemental Ordinance and the Bond Authorization (as such terms are defined herein). The Bonds are issuable as fully registered bonds in denominations of $5,000 or any integral multiple thereof, and will mature in the aggregate principal amounts and bear interest at the rates set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), which will act 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."

The principal of the Bonds is 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. Interest on the Bonds is payable semiannually on: (i) each February 1 and August 1, commencing February 1, 2011 by check mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the fifteenth day of the month preceding such 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 redemption prior to maturity as described herein under the heading "Description of the Bonds."

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 SHALL BE ISSUED ON A PARITY WITH OTHER SENIOR 1998 ORDINANCE BONDS ISSUED UNDER THE 1998 GENERAL ORDINANCE BUT SHALL BE 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 OFFICIAL STATEMENT.

The proceeds of the Bonds are being used for the purpose of providing funds for any or all of the following purposes: (i) financing capital projects for the Gas Works, and (ii) paying the costs of issuing the Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2010 Project").

The scheduled payment of principal of and interest on the Bonds maturing on August 1 of the years 2016 through 2025, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by **ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)**

ASSURED GUARANTY®
MUNICIPAL

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the Bonds 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 Underwriters by Saul Ewing LLP and the Law Office of Denise Joy Smyler both of Philadelphia, Pennsylvania, Co-Counsel to the Underwriters. Certain legal matters will be passed upon for the City of Philadelphia by the City of Philadelphia Law Department. 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. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 26, 2010.

J.P. MORGAN

BofA MERRILL LYNCH **RAMIREZ & CO., INC.** **WELLS FARGO SECURITIES**

CABRERA CAPITAL MARKETS, LLC **GOLDMAN, SACHS & CO.** **JANNEY MONTGOMERY SCOTT** **SIEBERT BRANDFORD SHANK & CO., LLC**

Dated: August 12, 2010

MATURITY SCHEDULE

$150,000,000
City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds
Ninth Series
(1998 General Ordinance)

CONSISTING OF:

Uninsured Serial Bonds

Due (August 1)	Amount	Rate	Yield	Price	CUSIP No.*
2011	$2,535,000	2.00%	1.35%	100.598%	7178234Q8
2012	2,775,000	3.00	1.61	102.631	7178234R6
2013	2,855,000	3.00	1.96	102.947	7178234S4
2014	2,940,000	4.00	2.24	106.585	7178234T2
2015	3,060,000	5.00	2.80	110.064	7178234U9

Insured Serial Bonds

Due (August 1)	Amount	Rate	Yield	Price	CUSIP No.*
2016	$3,210,000	3.00%	3.00%	100.000%	7178234V7
2017	1,810,000	3.25	3.31	99.629	7178234W5
2017	1,500,000	5.00	3.31	110.387	7178235H7
2018	2,445,000	3.50	3.51	99.929	7178234X3
2018	1,000,000	5.00	3.51	110.234	7178235J3
2019	3,580,000	5.00	3.72	109.648	7178234Y1
2020	3,755,000	5.00	3.91	108.896	7178234Z8
2021	3,945,000	4.00	4.05	99.559	7178235C8
2022	4,105,000	5.00	4.19*	106.522	7178235D6
2023	4,310,000	4.25	4.31	99.407	7178235E4
2024	2,490,000	5.00	4.41*	104.700	7178235F1
2024	2,000,000	4.25	4.41	98.345	7178235K0
2025	4,700,000	4.50	4.51	99.889	7178235G9

*Yield to first optional call date of August 1, 2020.

Uninsured Term Bonds

$27,140,000 5.00% Term Bond due August 1, 2030, priced at 99.372% to yield 5.05% CUSIP No. 7178235A2

$69,845,000 5.25% Term Bond due August 1, 2040, priced at 99.547% to yield 5.28% CUSIP No. 7178235B0

* 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 CHIEF OF STAFF
CLARENCE D. ARMBRISTER

MAYOR'S CABINET

Richard Negrin .... Deputy Mayor for Administration and Coordination/Managing Director
Rob Dubow .... Director of Finance
Shelley R. Smith .... 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
Suzanne Biemiller .... Director of Policy, Planning and Coordination
Michael DiBerardinis .... Parks and Recreation Commissioner
Allan R. Frank .... Chief Information Officer
Katherine Gajewski .... Director of Sustainability
Teresa A. Gillen .... Executive Director, Redevelopment Authority
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 Steuer .... Chief Cultural Officer
David G. Wilson .... First Deputy Managing Director

City Treasurer
Rebecca Rhynhart

City Controller
Alan L. Butkovitz

PHILADELPHIA GAS WORKS

800 W. Montgomery Avenue
Philadelphia, Pennsylvania 19122

Thomas E. Knudsen .... President and Chief Executive Officer
Craig E. White .... Executive Vice President and Acting Chief Operating Officer
Joseph R. Bogdonavage .... Senior Vice President — Finance
Randall J. Gyory .... Senior Vice President — Operations and Customer Affairs
Thomas L. Kuczynski .... Senior Vice President — Office of Business Transformation and Information Services
Douglas A. Moser .... Senior Vice President — Gas Management
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 & 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 Sales
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

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

No dealer, broker, salesperson or other person has been authorized by the City, PGW or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement 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 Official Statement 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 Official Statement 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement 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 Underwriters 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 Official Statement 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 2008 and 2009 Operating Budgets," since August 31, 2009.

This Official Statement 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 Official Statement is submitted in connection with the sale of the Bonds referred to herein 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 Official Statement, 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 Official Statement. 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.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix G - Specimen Municipal Bond Insurance Policy".

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

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APPENDICES:

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OFFICIAL STATEMENT

$150,000,000
CITY OF PHILADELPHIA, PENNSYLVANIA
GAS WORKS REVENUE BONDS
NINTH SERIES
(1998 GENERAL ORDINANCE)

INTRODUCTION

General

This Official Statement, including the cover page, inside front cover page, table of contents, tables and appendices, sets forth information with respect to the issuance by the City of Philadelphia, Pennsylvania (the "City") of $150,000,000 aggregate principal amount of its Gas Works Revenue Bonds, Ninth Series (1998 General Ordinance) (the "Bonds"). The Bonds maturing August 1, 2016 through August 1, 2025, inclusive, are insured by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) and are referred to herein as the "Insured Bonds." The Bonds are being issued as Senior 1998 Ordinance Bonds, as defined in this Official Statement, 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 Tenth Supplemental Ordinance, approved June 3, 2009, Bill No. 090323 (the "Tenth Supplemental Ordinance") (collectively, the "1998 General Ordinance") and (iii) the Bond Authorization adopted by the Bond Committee of the City (consisting of the Mayor, City Solicitor and City Controller and acting by a majority thereof) on August 12, 2010 (the "Bond Authorization").

The Bonds shall be issued on a parity with other Senior 1998 Ordinance Bonds issued under the 1998 General Ordinance but shall be 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 shall also be issued on a parity with the obligation of the City to make periodic payments (but not termination payments) due under any Qualified Swaps (as defined in the 1998 General Ordinance) provided, however, any qualified swap provider shall have no lien on and security interest in the Sinking Fund or the Sinking Fund Reserve.

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 Official Statement 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 Official Statement and is qualified by reference to the entire Official Statement. Prospective purchasers of any of the Bonds should read this Official Statement, 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 Official Statement, 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 Official Statement. 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 1, 2010, PGW served approximately 508,000 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 (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, 2009 and 2008 (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 (collectively, together with any bonds issued under the 1975 General Ordinance to refund any such bonds, the "1975 Ordinance Bonds"), all pursuant to the Act and the 1975 General Ordinance. As of July 1, 2010, $239,532,000 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, as amended and supplemented. 1975 Ordinance Bonds of all series 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.

Pursuant to the 1998 General Ordinance, all 1998 Ordinance Bonds (as defined below) 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 and to payments due to issuers of Credit Facilities related to Senior 1998 Ordinance Bonds. 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."

Since 1998, the City has issued eight (8) separate series of Gas Works Revenue Bonds (collectively, together with any bonds heretofore or hereafter issued under the 1998 General Ordinance including the Bonds, the "1998 Ordinance Bonds") pursuant to the Act and the 1998 General Ordinance. As of July 1, 2010, $866,620,000 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.

Authorization to Issue the Bonds

The Bonds are being issued as Senior 1998 Ordinance Bonds pursuant to the Act, the 1998 General Ordinance, the Tenth Supplemental Ordinance and the Bond Authorization.

The Bonds

The Bonds will be dated the date of delivery, and will bear interest from such date. Interest on the Bonds will be payable on each February 1 and August 1, commencing February 1, 2011. The Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the inside cover page hereof in denominations of $5,000 or any integral multiple thereof. The principal of the Bonds will be payable at the corporate trust office of U.S. Bank National Association (the "Fiscal Agent") in Philadelphia, Pennsylvania. Interest on the Bonds will be paid by check mailed by the Fiscal Agent to the person in whose names the Bonds are registered on the fifteenth day of the month preceding such interest payment date; except in the case of any default by the City in payment of interest due, interest 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 the 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.

Initially the Bonds will be available in book-entry form only. See "DESCRIPTION OF THE BONDS — Book-Entry Only System" herein.

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

Purpose of the Bonds

The proceeds of the Bonds are being used for the purpose of providing funds for any or all of the following purposes: (i) financing certain capital projects of the Gas Works; and (ii) paying the costs of issuing the Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance (collectively, the "2010 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 Tenth 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 periodic payments (but not termination payments) due from the City under any Qualified Agreement (except that the Swap Provider 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 Tenth 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. 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.

Independent Consultant's Engineering Report

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 a report dated May 4, 2009 upon which the chief fiscal officer relied in submitting his report to City Council in connection with adoption of the Tenth Supplemental Ordinance. In connection with the issuance of the Bonds, Black & Veatch has prepared a report dated August 3, 2010 which is appended hereto as APPENDIX B (the "Independent Consultant's Engineering Report" or the "2010 Report"). In its 2010 Report, 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 that Black & Veatch believes to be reasonable, and on the basis of actual and estimated future annual financial operations of the System (including the projects to be financed with the proceeds of the Bonds), the System will yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) 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 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 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, 2010 through August 31, 2015, should, along with continued good operation and maintenance practices, enable PGW to maintain its 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, are adequate to meet PGW's projected demand on a day of maximum demand, in an hour of maximum demand, and during a year of maximum demand.

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 2006 through 2010, inclusive, the City made a grant to PGW equal to the annual payment received from PGW in such fiscal years, and 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.

Continuing Disclosure

The City will enter 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 the form of Continuing Disclosure Agreement attached hereto as APPENDIX E.

Miscellaneous

Any quotation from, and summaries and explanations of, the Constitution and laws of the Commonwealth 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.

PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS

Plan of Finance

The proceeds of the Bonds are being used for the purpose of providing funds for any or all of the following purposes: (i) financing certain capital projects of the Gas Works, and (ii) paying the costs of issuing the Bonds and any required deposits to the Sinking Fund Reserve established under the 1998 General Ordinance.

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Estimated Sources and Uses of Funds

The sources and uses of funds are estimated to be as follows:

Estimated Sources:	
Principal Amount of the Bonds	$150,000,000.00
Net Original Issue Premium	1,419,649.25
Total Sources	**$151,419,649.25**
Estimated Uses:	
Deposit to Capital Improvement Fund	$149,057,324.38
Deposit to 1998 Sinking Fund Reserve	195,700.51
Costs of Issuance[1]	2,166,624.36
Total Uses	**$151,419,649.25**

[1]Includes the fees and expenses of various counsel and the Fiscal Agent, consultant's fees, fees of accountants, fees of financial advisors, rating agency fees, bond insurance premium for the Insured Bonds, printing and publication costs, contingency, Underwriters' discount, and other expenses related to the issuance of the Bonds.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery and will bear interest from such date payable on each February 1 and August 1, commencing February 1, 2011. The Bonds will be issued as fully registered bonds in the aggregate principal amounts set forth on the inside front cover page hereof. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), one bond for each maturity of the Bonds. Purchases of beneficial interests in the Bonds will be made in book entry only form (without certificates) in the denomination of $5,000 or any integral multiple thereof.

The principal of, and premium, if any, on the Bonds will be payable at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania. Interest on the Bonds, when due, will be paid by checks, mailed by the Fiscal Agent to the persons in whose names the Bonds are registered on the fifteenth day of the month preceding each interest payment date. So long as the Bonds are 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 (as defined herein) and in turn to Indirect Participants (as defined herein) or Beneficial Owners (as defined herein) 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 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.

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 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 3,500,000 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"). 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.

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).

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 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 OFFICIAL STATEMENT. 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 1998 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 Tenth 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

The Bonds maturing on or after August 1, 2021 are subject to optional redemption, at the direction of the City, in whole or in part at any time on or after August 1, 2020, and in any order of maturity as may be designated by the City, at a redemption price equal to 100% of the principal amount of Bonds so redeemed, plus accrued interest to the redemption date.

Mandatory Redemption

The Bonds maturing on August 1, 2030, are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Bonds being redeemed, plus accrued interest to the date of redemption:

Year	Principal Amount
2026	$4,910,000
2027	5,160,000
2028	5,415,000
2029	5,685,000
2030*	5,970,000

*Maturity

The Bonds maturing on August 1, 2040, are subject to mandatory redemption prior to maturity, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Bonds being redeemed, plus accrued interest to the date of redemption:

Year	Principal Amount
2031	$6,270,000
2032	6,600,000
2033	6,945,000
2034	7,310,000
2036	7,695,000
2037	8,095,000
2038	8,520,000
2039	8,970,000
2040*	9,440,000

*Maturity

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 the Bonds are to be redeemed, the particular Bonds to be called for redemption shall be selected by lot or by such other method as the Fiscal Agent deems fair and appropriate.

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. A notice with respect to an optional redemption of the Bonds may state that it is conditioned upon the deposit of moneys 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 moneys 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 respective General Ordinance or any rights thereunder, except to receive payment of the redemption price.

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 Tenth Supplemental Ordinance. The Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Bonds during the period five (5) days prior to any interest payment date for such Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

Pledge of Revenues and Funds

The Bonds are being 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 Tenth 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 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 July 1, 2010, $239,532,000 aggregate principal amount of 1975 Ordinance Bonds remained outstanding under the 1975 General Ordinance, $866,620,000 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. 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 Ordinance and the Tenth Supplemental Ordinance that so long as any of the 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;[1]

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.[2]

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

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 2006-2009, City Charges (exclusive of the $18,000,000 Base Payment and of rate hearing charges) have averaged approximately $1,300,000 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 2005 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 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;

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 Sinking Fund Reserve;

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[2] 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.

Ninth, to payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works Revenues[3];

Tenth, to debt service on other general obligation bonds issued for the Gas Works[3] and

Eleventh, to City Charges[4] and any other proper purpose of the Gas Works (including any termination payments to issuers of Qualified Swaps and Exchange Agreements), except Unrelated Expenses.

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 all Net Operating Expenses payable during such Fiscal Year plus (i) 150% of the debt service requirements for such year on all outstanding 1975 Ordinance Bonds and (ii) the amount, if any, required to be paid into the 1975 Sinking Fund Reserve during such year, or (b) the sum of all Net Operating Expenses payable during such Fiscal Year plus (i) 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 (ii) all amounts, if any, required during such year to be paid into the 1975 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:

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

4 City Charges include charges for services performed for PGW by various City departments, including the expenses of the Gas Commission. During PGW's Fiscal Years 2006 through 2009, City Charges (exclusive of the $18,000,000 Base Payment and of rate hearing charges) have averaged approximately $1,300,000 per year.

(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 Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) 150% of the amount required to pay 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 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 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 Sinking Fund Reserve under the 1975 General Ordinance during such Fiscal Year;

(iii) all 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 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 Fund

<u>*1975 Ordinance Sinking Fund*</u>

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. Neither Holders of 1998 Ordinance Bonds, including the Bonds, nor a Qualified Swap Provider of Qualified Swaps, shall have any claim to amounts in the 1975 Ordinance Sinking Fund.*

<u>*1998 Ordinance Sinking Fund*</u>

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 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 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 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 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

<u>*1975 Ordinance Sinking Fund Reserve*</u>

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, 2010, the value of the funds and investments on deposit in the 1975 Sinking Fund Reserve was required to be at least $32,100,000, 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. Neither holders of 1998 Ordinance Bonds, including the Holders of the 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 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. Upon the issuance of the Bonds, the City shall deposit an amount of cash into the 1998 Ordinance Sinking Fund Reserve and/or purchase one or more surety bonds, or letters of credit such that the aggregate of such cash and/or surety bonds or letters of credit shall be equal to the Sinking Fund Reserve Requirement for the Outstanding Bonds under the 1998 Ordinance.

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 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 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, 2010, the value of the funds and investments on deposit in the 1998 Ordinance Sinking Fund Reserve was required to be at least $65,500,000 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 Bonds. Neither Holders of 1975 Ordinance Bonds nor Qualified Swap Providers shall have any claim on amounts in the 1998 Ordinance Sinking Fund Reserve.*

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 they 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 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 Mayor, the City Controller and the City Solicitor or any two of them (the "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"). There are currently no sums payable under 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 are initially being 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.

Payment of principal of and interest on Series F-1 Notes outstanding is secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on June 1, 2012. Payment of principal of and interest on the Series F-2 Notes outstanding is secured by a letter of credit issued by the Bank of Nova Scotia, acting through its New York Agency, which expires on June 1, 2012. Payment of principal of and interest on the Series F-3 Notes outstanding is secured by a letter of credit issued by Wells Fargo Bank, National Association, which expires on June 1, 2012. Each of the letters of credit are issued in the Stated Amount of $40,000,000 in order to provide liquidity for the applicable sub-series of Series F Notes and liquidity in the event the City determines to issue notes in excess of $45,000,000. The City may only issue Notes in excess of $45,000,000 upon satisfaction of certain conditions. Under no circumstances will the City issue notes, together with interest thereon, in excess of $120,000,000, 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. It is PGW's practice 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 anticipates that it will reimburse such accounts as revenues are received by the end of each Fiscal Year during which such withdrawals were made. As of July 1, 2010, no such interfund loans are outstanding.

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DEBT SERVICE SCHEDULE FOR ALL OBLIGATIONS

	1975 Ordinance Bonds	1998 Ordinance Bonds		1998 Ordinance Ninth Series		1975 & 1998 Ordinances
Fiscal Year Ending August 31	Existing Debt Service	Existing Debt Service	Principal Ninth Series Bonds	Interest Ninth Series Bonds	Total Ninth Series Debt Service	Combined Total Debt Service
2010	23,954,000.00	33,177,274.00	0	0	0	57,131,274.00
2011	30,690,806.00	65,543,380.00	2,535,000.00	6,712,783.50	9,247,783.50	105,481,969.50
2012	32,109,844.00	61,813,773.00	2,775,000.00	7,163,037.50	9,938,037.50	103,861,654.50
2013	30,520,781.00	60,817,350.00	2,855,000.00	7,079,787.50	9,934,787.50	101,272,918.50
2014	28,952,588.00	62,071,206.00	2,940,000.00	6,994,137.50	9,934,137.50	100,957,931.50
2015	27,261,263.00	62,487,419.00	3,060,000.00	6,876,537.50	9,936,537.50	99,685,219.50
2016	22,653,038.00	62,257,100.00	3,210,000.00	6,723,537.50	9,933,537.50	94,843,675.50
2017	21,125,125.00	62,152,600.00	3,310,000.00	6,627,237.50	9,937,237.50	93,214,962.50
2018	19,598,438.00	60,655,210.00	3,445,000.00	6,493,412.50	9,938,412.50	90,192,060.50
2019	18,069,869.00	60,687,666.00	3,580,000.00	6,357,837.50	9,937,837.50	88,695,372.50
2020	16,531,588.00	60,727,694.00	3,755,000.00	6,178,837.50	9,933,837.50	87,193,119.50
2021	15,006,281.00	60,762,858.00	3,945,000.00	5,991,087.50	9,936,087.50	85,705,226.50
2022	13,518,963.00	60,818,079.00	4,105,000.00	5,833,287.50	9,938,287.50	84,275,329.50
2023	12,733,125.00	60,858,899.00	4,310,000.00	5,628,037.50	9,938,037.50	83,530,061.50
2024	11,171,750.00	61,180,521.00	4,490,000.00	5,444,862.50	9,934,862.50	82,287,133.50
2025	4,159,000.00	61,352,512.00	4,700,000.00	5,235,362.50	9,935,362.50	75,446,874.50
2026	3,769,500.00	61,511,866.00	4,910,000.00	5,023,862.50	9,933,862.50	75,215,228.50
2027		61,624,831.00	5,160,000.00	4,778,362.50	9,938,362.50	71,563,193.50
2028		61,853,860.00	5,415,000.00	4,520,362.50	9,935,362.50	71,789,222.50
2029		46,683,743.00	5,685,000.00	4,249,612.50	9,934,612.50	56,618,355.50
2030		38,484,514.00	5,970,000.00	3,965,362.50	9,935,362.50	48,419,876.50
2031		38,497,769.00	6,270,000.00	3,666,862.50	9,936,862.50	48,434,631.50
2032		30,197,250.00	6,600,000.00	3,337,687.50	9,937,687.50	40,134,937.50
2033		21,800,125.00	6,945,000.00	2,991,187.50	9,936,187.50	31,736,312.50
2034		21,803,750.00	7,310,000.00	2,626,575.00	9,936,575.00	31,740,325.00
2035		42,900,125.00	0	2,242,800.00	2,242,800.00	45,142,925.00
2036		12,857,250.00	7,695,000.00	2,242,800.00	9,937,800.00	22,795,050.00
2037		12,855,250.00	8,095,000.00	1,838,812.50	9,933,812.50	22,789,062.50
2038		12,853,500.00	8,520,000.00	1,413,825.00	9,933,825.00	22,787,325.00
2039			8,970,000.00	966,525.00	9,936,525.00	9,936,525.00
2040			9,440,000.00	495,600.00	9,935,600.00	9,935,600.00
Total	**331,825,959.00**	**1,421,287,374.00**	**150,000,000.00**	**139,700,021.00**	**289,700,021.00**	**2,042,813,354.00**

* Interest on the Fifth Series (98) bonds calculated at 1.77%
** Interest on the Eighth Series calculated at the 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 and remedies under the Act and the 1998 General Ordinance available to Holders of 1998 Ordinance Bonds, including Holders of the 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 respective Sinking Funds; including the respective Sinking Fund Reserves. 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 Tenth Supplemental Ordinance, the Bond Authorization and the Bonds will depend upon the application of remedies provided in the Act, the 1975 General Ordinance, the 1998 General Ordinance, the Tenth Supplemental Ordinance, the Bond Authorization, 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 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 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 1998 General Ordinance and the Tenth Supplemental Ordinance in favor of Holders of the 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.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds maturing on August 1 of the years 2016 through 2025, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as APPENDIX G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of AGM

At June 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,264,680,337 and its total net unearned premium reserve was approximately $2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010)

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

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, 2009, approximately 73.5% were derived from residential customers, approximately 23.5% were derived from commercial and industrial customers and approximately 3.0% 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" and APPENDIX B. See also the table entitled "Historical Revenues and Debt Service Coverage" below for future debt service payments.

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 463,369 service lines serving approximately 508,000 customers. 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*

	2005	2006	2007	2008	2009
Residential	70.3	70.9	71.7	74.3	76.6
Commercial and Industrial	26.9	25.7	25.0	22.9	20.5
Municipal and Housing Authority	2.8	3.4	3.3	2.8	2.9
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 depending on the type of service required and represented 97.6% of total gas sales by volume in Fiscal Year 2009. 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 2.4% of total gas sales in Fiscal Year 2009.

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 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 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 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 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.

Gas Sales in Fiscal Year 2005 totaled 58.3 Bcf, a reduction of 2.0 Bcf from the 2004 period. Temperatures during the 2005 beating season were warmer than normal but slightly colder than the prior year resulting in 4,327 degree days, an increase of 40 degree days or 0.9% greater than experienced in the previous fiscal period. Sales to firm customers of 53.8 Bcf were 2.4 Bcf less than in the Fiscal Year 2004. Associated interruptible revenues rose by 37.9% or $12,274,000 to $44,678,000 reflecting a 0.4 Bcf or 9.9% increase in sales.

Natural Gas

In Fiscal Year 2009 natural gas costs increased by $33,922,000 or 6.6% from the prior year to a level of $545,859,000. Natural Gas utilization requirements increased by 2.0 Bcf. The increased natural gas utilized volume 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 a level of $511,938,000. Natural Gas utilization requirements declined by 4.6 Bcf reflecting a migration of gas sales customers towards transportation gas. The reduced natural gas utilized volume 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 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 a level of $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 a level of $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.

In Fiscal Year 2005, natural gas costs increased dramatically by $58,833,000 or 13.0% from the prior year to a level of $509,701,000. Sendout requirements declined by 3.6 Bcf reflecting continued customer conservation. The heating season was slightly colder than the Fiscal Year 2004 period, resulting in a $20,211,000 decrease when compared to the 2004 Fiscal Year. Also, continued escalating prices for natural gas totaling $73,347,000 per Mcf more than offset the lower volume of gas utilized for sendout. Pipeline demand charges increased by $6,150,000, while the level of natural gas refunds received from pipeline supplier settlements rose by $453,000 compared to the Fiscal Year 2004 period.

Accounts Receivable

In Fiscal Year 2009 accounts receivable (net) of $105,496,000 increased by $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 in Fiscal Year 2009.

Accounts receivable (net) of $99,304,000 increased by $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 Customer Responsibility Program (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 2005	**Actual 2006**	**Actual 2007**	**Actual 2008**	**Actual 2009**
Billed Gas Revenues During the Year	$846,729	$899,174	$868,586	$842,287	$902,729
Accounts Receivable	295,114	243,249	238,849	239,739	228,505
Reserve for Bad Debt	(207,480)	(168,889)	(150,231)	(140,435)	(123,009)
Net Accounts Receivable at 8/31	$87,634	$74,360	$88,618	$99,304	$105,496
Reserve for Bad Debt as a Percentage of Accounts Receivable	70.3%	69.4%	62.9%	58.6%	53.8%
Net Write-Offs	$93,160	$78,732	$58,658	$46,796	$59,425
Receivable as a Percentage of Billed Gas Revenues	34.9%	27.1%	27.5%	28.5%	25.3%
Bad Debt Expense:	$70,424	$40,132	$40,000	$37,000	$42,000
As a Percentage of Billed Gas Revenues	8.3%	4.5%	4.6%	4.4%	4.7%
As a Percentage of Accounts Receivable	23.9%	16.5%	16.7%	15.4%	18.4%
Delinquent Customers at 8/31	165,479	162,202	149,721	147,010	144,919

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 95.5% 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 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 93.8% in Fiscal Year 2009, 95.5% in Fiscal Year 2008 and 95.8% in Fiscal Year 2007, respectively. As of July 31, 2010, the twelve-month rolling average for collection rates was 98.5%.

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 a commercial attorney in Sunoco, Inc.'s Legal Department. Ms. Mahdavi was previously Senior Attorney in the Legal Department of PGW. 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:

Thomas E. Knudsen, President and Chief Executive Officer. Mr. Knudsen joined PGW as Interim Chief Financial Officer in March 2000. He served in that capacity until July 2001 when he was appointed Interim President and Chief Executive Officer. Mr. Knudsen was appointed to his present position by PFMC in June 2002. Prior to joining PGW, Mr. Knudsen was the founding partner of The Woodside Group, a management consulting firm located in Stamford, Connecticut specializing in utility economics and regulation. For over 25 years, Mr. Knudsen advised industrial, commercial and residential customers and groups, as well as regulatory commissions, regarding appropriate utility operations, budgeting, pricing and rate design issues. Mr. Knudsen's involvement with PGW dates from 1986, having served as a consultant to the Public Advocate in all rate and budget proceedings of

PGW before the Gas Commission from 1986 until 2000. His prior experience includes management consulting with Touche Ross & Co. (now Deloitte & Touche), Assistant to the Finance Administrator of the City of New York and the United States Navy Supply Corp. Mr. Knudsen received his Master of Business Administration degree in Finance from Columbia University in 1968 and a Bachelor of Arts degree in Economics from Northwestern University in 1964. He presently serves on the Energy Association of Pennsylvania's Board of Directors and until recently on the Board of Directors of the American Gas Association.

Craig E. White, Executive Vice President and Acting Chief Operating Officer. Mr. White was appointed Acting Chief Operating Officer in July 2001. He is responsible for Field Operations, Customer Service, Sales and Marketing, Corporate Preparedness, Information Services, and Gas Management issues. His previous positions at PGW include: Senior Vice President, Marketing and Supply Services; Vice President, Marketing and New Business Development; Manager, Gas Planning & Federal Regulatory Affairs; Administrator, Federal Regulatory Affairs; Federal Regulatory Specialist; Planning Analyst; Demand Analyst; and Accounting Specialist. Mr. White received his Bachelor of Science degree in Business Administration from Kutztown University in Kutztown, Pennsylvania, and Master of Business Administration degree in Financial Management from Drexel University. Mr. White has been a member of PGW's management team since January 1980. He also serves on the following: American Public Gas Association's Board, the American Gas Association's Leadership Council and the Energy Association of Pennsylvania's Executive Gas Board.

Joseph R. Bogdonavage, Senior Vice President – Finance. Mr. Bogdonavage was appointed Senior Vice President, Finance in November 2000. His responsibilities include the oversight of PGW's Operating & Capital Budget, Accounting & Reporting, and Treasury functions. Mr. Bogdonavage has over 36 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, Senior Vice President – Operations & Customer Affairs. Mr. Gyory was appointed Senior Vice President of Operations & Customer Affairs in August 2007. His responsibilities include overseeing the Distribution and Field Services Operations, Call Center Operations, Credit and Collections, Regulatory Compliance, Account Management, Bill Processing, Universal Service Programs, Customer Service Center Operations, and Billing System Operations and Support. Prior to his current position, Mr. Gyory served as Vice President of Customer Affairs. He also managed PGW's Program Management Office and led a team of functional and business analysts in correcting and improving the billing system software issues associated with the transition from their legacy billing system to a client server system. In his thirty 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 Bachelor of Science degree in civil engineering from the University of Pittsburgh.

Thomas L. Kuczynski, Senior Vice President – Office of Business Transformation & Information 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 30 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 & 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.

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 & 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 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 31 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, as well as the development and implementation of operational changes and best practices. 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 (OSRAC), and the Distribution and Transmission Engineering Committee (DTE). 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 August 2007. 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 28 years experience of utility management in Philadelphia, Pennsylvania. Areas of responsibility include project management, local, state and federal regulatory work, advocacy, information technology, 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 & Sales. Mr. Smith was appointed Vice President, Marketing & Sales in May 2005. Mr. Smith oversees the operations of Major Accounts, Sales and Customer Support, and Business Development/Technical Support. He previously held the position of Director, Major Accounts; Manager, Major Accounts as well as other positions within the Marketing Department. In addition, he has held several positions in PGW's Field Operations Department. Mr. Smith received his Bachelor Degree in Business Administration in 2004. Mr. Smith has served as the President of the Association of Energy Engineers (AEE), in which he now serves as a Board member. He is currently a member of the American Public Gas Association's Marketing Committee and the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE). He is also on the Board of Directors of the APGA Research Foundation.

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

Thomas E. Knudsen was appointed as President and Chief Executive Officer in 2002. PGW's permanent 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. The RFP states that the City is seeking an advisor 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 provides 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.

On July 8, 2010, the City provided notice of its intent to contract with Lazard Freres as strategic alternatives advisor (the "Advisor"). The City expects that the Advisor will present its Assessment on or about October 15, 2010. 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 Authorization provides, 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 April 30, 2010, PGW employed 1,659 people. Presently, approximately 70% 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 December 10, 2009, a new one-year Collective Bargaining Agreement was ratified by the Gas Works Employees' Union, Local 686 and the UWUA. The one-year contract went into effect on May 16, 2010 and will be valid through May 15, 2011. The Collective Bargaining Agreement includes no incremental wage increase.

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 ("Spectra") 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 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 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. In early 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.

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 $10,301,000 over the next six 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 $22,990,000 through Fiscal Year 2040 at the end of Fiscal Year 2009 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 special $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.

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. The Pension Plan currently has an unfunded actuarial accrued liability. In recent years, payments to beneficiaries under the Pension Plan have exceeded PGW's annual required pension contribution. The annual required contribution is determined using the most recent actuarial update of the Pension Plan. Based on the updated actuarial valuation completed in October 2009, the Pension Plan had an estimated unfunded actuarial accrued liability of $152,600,000 at the end of Fiscal Year 2009. The unfunded actuarial accrued liability is presently being amortized over 20 years. In Fiscal Year 2009, PGW's annual required contribution to the Pension Plan was $15,400,000; such contribution consisted of $8,100,000 of normal cost and $7,300,000 representing partial amortization of the unfunded balance of the Pension Plan assets. PGW's annual required contribution for Fiscal Year 2010 is projected to be and budgeted at $23,300,000 (consisting of $8,200,000 of normal cost and $15,100,000 representing partial amortization of the unfunded balance of Pension Plan assets). See APPENDIX A – "Notes to Financial Statements (10) Pension Costs."

Other Postemployment Benefits. PGW provides certain post-employment health care and life insurance benefits to approximately 1,936 and 1,920 participating retirees and their beneficiaries and dependents, for Fiscal Years 2009 and 2008, respectively. 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 2009, expenditures for such purposes were approximately $20,000,000 and are projected to be approximately $24,400,000 in Fiscal Year 2010. PGW adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* as of September 1, 2006 and had a zero net Other Postemployment Benefits (OPEB) obligation at transition. PGW adopted the provisions of GASB 45 a year earlier than required by GASB because PGW is a component unit of the City of Philadelphia for financial reporting purposes, and its Fiscal Year 2007 financial statements were consolidated into the City's financial statements for the Fiscal Year ended June 30, 2008. The difference between the Fiscal Year 2008 annual required contribution (ARC) of $44,100,000 and the expenses paid by the company of $18,300,000 resulted in an additional liability of $25,800,000, bringing the cumulative OPEB liability at the end of Fiscal Year 2008 to $52,200,000, which is recorded in other liabilities and deferred credits.

PGW engaged actuarial consultants to provide an actuarial valuation of PGW's other postemployment benefits ("OPEB") obligations for current retirees and active employees as of August 31, 2007. The report, issued in September 2007, estimated that PGW's total OPEB actuarial accrued liability as of August 31, 2008 was $591,599,000 (assuming a 5% discount rate) if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. The report further estimated that PGW's actuarial accrued liability would be reduced to $380,000,000 (assuming an 8.25% discount rate) if PGW adopted a policy of funding its Annual Required Contribution ("ARC"). Based on these estimates, PGW's annual OPEB cost for the then current and estimated future retirees (taking into consideration projected increases in health care costs) was projected to increase from $46,291,000 in 2008 (inclusive of the $22,350,000 actually paid) to $70,210,000 per annum over the ensuing approximate 18-year period on a pay-as-you-go basis and from $39,000,000 (inclusive of the $22,350,000 actually paid) in 2008 to $49,767,000 per annum over the ensuing approximate 18-year period if PGW adopted a policy of funding its ARC based on a 20-year amortization of the unfunded actuarial accrued liability.

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. See "PHILADELPHIA GAS WORKS — Litigation Relating to the Gas Choice Act" below.

Effects of the Natural Gas Choice and Competition Act

n June 1999, the 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. PGW customers now have the option of choice among natural gas suppliers effective September 1, 2003 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 May 1, 2010, 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 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 34,200 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 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 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.

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 are 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 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, to enable PGW to recover a normal level of expenses and annual obligations, together with an allowance for cash working capital or liquidity. In PGW's most recent rate proceedings, the PUC authorized rates that produced debt service coverages that complied with PGW's 1998 General Ordinance and 1975 General Ordinance requirements and produced revenues sufficient to provide coverage of all obligations including the Base Payment. Any resulting rate increase is then recovered by increases in the customer or volumetric charges of the various classes of customers taking service from PGW.

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 accepted: 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, 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 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 37.6% of the rate increase as originally requested by PGW. The Settlement is expected to result in an improvement in PGW's projected, test year projected financial performance compared to its projected financial performance without the Settlement, 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.

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 and 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 34,200 "grandfathered senior citizen discount participants." 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. For use of the proceeds of the Bonds, see "PLAN OF FINANCE AND ESTIMATED SOURCES AND USES OF FUNDS." 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 2009 AND 2010 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 2005-2009 as well as unaudited information for the periods September 1 through April 30 for Fiscal Years 2009 and 2010, respectively:

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

	FISCAL YEARS ENDED AUGUST 31					PERIOD SEPTEMBER 1 THROUGH APRIL 30 (UNAUDITED)	
	2005	**2006**	**2007**	**2008**	**2009**	**2009**	**2010**
Gas Processing	$ 5,008	$ 3,615	$ 3,332	$ 2,515	$ 1,048	$ 1,160	$ 4,422
Distribution	43,572	44,583	48,549	47,748	42,104	29,746	24,551
Field Services	5,288	5,221	6,621	5,813	5,673	3,354	2,129
Information Technology	1,928	1,819	1,228	1,139	626	356	441
Other Departments[1]	11,114	6,075	10,288	4,527	5,412	4,641	2,263
Total [2]	66,910	61,313	70,018	61,742	54,863	39,257	33,806
Capital Fund Drawdowns	(68,000)	(60,295)	(65,000)	(70,000)	(45,000)	0	(31,064)
Other Funding Sources (Uses) for Capital Expenditures	(1,090)	1,018	5,018	(8,258)	9,863	39,257	2,742

* This information was obtained from PGW's historical records.
(1) Includes Approved and Budgeted Programs for Fleet Operations, Building Services, Customer Affairs and Systems Technology
(2) 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 2010 and 2011 Operating Budgets

On June 23, 2010, PGW filed its fiscal 2011 Operating Budget. The PGC will conduct informal discovery concerning the budget and public hearings during the period July through September 2010. An Order approving interim spending is expected in September 2010. Final budget approval is expected by November 2010.

On June 16, 2009, the Company filed its Fiscal Year 2010 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2009 and public hearings in September 2009. Briefs were filed concerning the overall budget on September 22, 2009, a motion reflecting Total Non-Fuel Operating Expenses of $258,412,000 was approved by the PGC on November 17, 2009, and an order to this effect was signed on December 8, 2009.

On May 29, 2008, the Company filed its Fiscal Year 2009 Operating Budget. The PGC conducted hearings concerning this budget in September 2008. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and final budget approval was granted by the PGC on December 2, 2008.

Fiscal Year 2010 and 2011 Capital Budgets and Forecasts

On January 4, 2010, PGW filed a proposed Fiscal Year 2011 Capital Budget in the amount of $67,729,000. On April 26, 2010, the Philadelphia Gas Commission, after review and evaluation, approved a recommendation to City Council for a budget of $67,689,000. City Council Committee on Finance approved the budget out of Committee on June 9, 2010, with full City Council approval on June 17, 2010, with the Mayor signing the ordinance on June 23, 2010.

On January 6, 2010, PGW submitted a request to the Philadelphia Gas Commission to amend the Fiscal Year 2010 Capital Budget to "Install a 200kW Microturbine and a 40 ton Chiller at 800 W. Montgomery". On March 16, 2010, the Gas Commission 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 Fiscal Year 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 Gas Commission endorse a proposal to amend the Fiscal Year 2010 Capital Budget in the amount of $2,552,000 for a project to Consolidate Fire Protection System – Richmond Plant. On September 9, 2009, the Gas Commission staff issued a recommended decision approving PGW's request. The Philadelphia Gas Commission approved the staff recommendation on September 22, 2009. City Council approved an ordinance amending the Fiscal Year 2010 Capital Budget on October 29, 2009, with the Mayor signing the ordinance on November 6, 2009

On January 2, 2009 the Company filed a proposed Fiscal Year 2010 Capital Budget in the amount of $74,407,000. After review and evaluation, the Philadelphia Gas Commission approved a recommendation to City Council for a budget of $72,215,000 on April 13, 2009. The Gas Commission's recommendation was approved by City Council on May 21, 2009 and the ordinance was signed by the Mayor.

Over the six year forecast period, approximately 90.4% 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 APRIL 30 (UNAUDITED)	
	2005	2006	2007	2008	2009	2009	2010
Summary of Customers at End of Period							
Residential	470,758	459,842	479,553	478,716	478,179	486,072	483,152
Industrial and Commercial:							
Firm	25,990	25,718	25,970	25,919	25,642	26,189	26,170
Interruptible	397	312	105	68	140	141	144
Municipal and PHA	2	2	2	2	2	2	2
Total Customers	497,147	485,874	505,630	504,705	503,963	512,404	509,468
Gas Sales By Classification (Mmcf)							
Residential:							
Heating	39,033	32,980	35,245	34,357	36,927	33,039	30,763
Non-Heating	1,955	1,521	1,040	802	755	583	511
Industrial and Commercial:							
Firm	11,156	10,104	10,491	10,202	10,579	8,732	8,573
Interruptible	4,510	2,426	2,704	1,791	1,170	1,089	969
Other	1,573	1,755	1,580	1,833	1,845	2,807	2,684
Total Gas Sales & Transport	58,227	48,786	51,060	48,985	51,276	46,250	43,500
Supply & Disposition of Gas (Mmcf)							
Natural Gas Purchased	65,695	53,886	55,905	53,380	53,029	39,700	32,837
Liquefied Natural Gas	2,199	1,084	1,948	1,280	1,545	1,291	879
Total Gas Supply	67,894	54,970	57,853	54,660	54,574	40,991	33,716
Deduct:							
Additions to (Withdrawals) from Gas Storage	2,457	(166)	(261)	1,088	(897)	(8,568)	(7,327)
PGW's Use and Other	7,210	6,350	7,054	4,587	4,195	3,309	(2,457)
Total Gas Sales	58,227	48,786	51,060	48,985	51,276	46,250	43,500
Average Monthly Usage of Residential Customers (Mcf):							
Heating	7.6	6.6	7.0	6.6	7.2	9.3	8.7
Non-Heating	2.7	2.7	1.9	1.7	1.6	2.0	2.0
Average Monthly Bill of Residential Customers:							
Heating	$110.68	$139.66	$136.70	$131.01	$149.24	$192.75	$149.98
Non-Heating	$49.09	$61.55	$44.22	$41.48	$40.34	$50.46	$42.22
Degree Days	4,327	3,819	3,773	3,746	4,181	4,114	3,668
Normal Degree Days	4,555	4,555	4,525	4,510	4,464	4,361	4,311
Percentage of Normal Degree Days	95%	84%	83%	83%	94%	94%	85%
Maximum 24-Hour Sendout (Mcf)	591,133	490,923	589,588	533,349	574,126	574,126	543,835
Peak-day Average Temperature (Degrees)	15	21	14	23	15	15	20

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 APRIL 30 (UNAUDITED)**	
	2005	**2006**	**2007**	**2008**	**2009**	**2009**	**2010**
Operating Revenues							
Residential:							
Heating	$565,533	$593,797	$587,648	$588,536	$649,967	$554,600	$433,289
Non-Heating	35,537	34,182	24,439	20,040	19,072	14,556	10,987
Industrial and Commercial:							
Firm	171,838	200,313	187,076	173,080	179,830	156,056	119,201
Interruptible	44,678	33,509	31,439	26,679	16,493	15,589	11,488
Gas Transportation	4,679	6,459	8,850	8,575	9,731	6,923	7,474
Other Gas Revenues (Municipal, Philadelphia Housing Authority ("PHA"), Unbilled Revenues and GCR Adjustment)	8,285	61,701	653	14,518	35,364	53,245	39,785
Appliance & Other	10,895	10,482	9,398	8,607	9,311	5,821	5,970
Total Gas Revenues	841,445	940,443	849,503	840,035	919,768	806,790	628,194
Other Operating Revenues	21,912	13,525	9,848	9,592	9,673	6,762	5,211
Total Operating Revenues	863,357	953,968	859,351	849,627	929,441	813,552	633,405
Operating Expenses							
Natural Gas & Raw Material	509,704	625,093	539,300	511,976	545,846	518,317	318,989
Gas Processing	18,584	15,234	16,240	14,436	16,779	10,542	9,535
Field Services	28,455	35,667	36,100	37,126	37,727	26,269	23,708
Distribution	15,115	15,179	17,119	17,319	21,059	12,816	15,667
Customer Activities	104,194	70,971	69,422	67,380	74,581	58,494	54,057
Administrative & General	60,995	59,484	83,240[2]	86,550[2]	89,772[2]	62,674[2]	62,524[2]
Pensions	14,702	17,563	15,217	14,258	15,425	9,498	14,393
Taxes, other than income	6,218	6,124	6,730	5,677	6,588	4,374	4,848
Depreciation	35,045	34,725	36,380	39,524	37,781	24,990	24,639
Total Operating Expenses	793,012	880,040	819,748	794,246	845,558	727,974	528,360
Operating Income	70,345	73,928	39,603	55,381	83,883	85,578	105,045
Interest and Other Income	4,778	8,518	13,073	15,732	12,240	8,102	3,894
Income before Interest Expense	75,123	82,446	52,676	71,113	96,123	93,680	108,939
Interest Expense	63,851	65,687	68,780	68,006	78,912	46,271	48,216
Net Income (Loss) [1]	$11,272	$16,759	($16,104)	$3,107	$17,211	$47,409	$60,723

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

	2005	2006	2007	2008	2009
Operating Revenues	$863,357	$953,968	$859,351	$849,627	$929,441
Interest and Other Income	22,126	25,866	30,448	33,107	29,615
AFUDC (Interest)	907	981	408	338	248
Total Funds	886,390	980,815	890,207	883,072	959,304
Adjustments	(3,109)	3,451	(6,650)	(11,851)	194
Project Revenues	883,281	984,266	883,557	871,221	959,498
Operating Expenses	793,012	880,040	819,748	794,246	845,558
Less:					
Depreciation	39,547	37,955	39,708	42,868	42,200
Other Adjustments	443	894	27,163(2)	26,655(2)	26,322(2)
Net Operating Expenses	753,022	841,191	752,877	724,723	777,036
Funds Available To Cover Debt Service	130,259	143,075	130,680	146,498	182,462
Debt Service Requirements:					
Revenue Bonds 1975	38,806	41,949	35,359	34,225	32,313
PMA/Capital Leasing	1,998	-	-	-	-
Revenue Bonds 1998	45,999(1)	32,838(1)	47,611	59,695	70,569
Subordinate Revenue Bonds 1998	1,987	1,986	1,987	1,986	1,990
Commercial Paper Notes	2,864	5,968	8,098	4,099	3,007
Total Debt Service	91,654	82,741	93,055	100,005	107,879
Net Funds Available for Other Purposes:	38,605	60,334	37,625	46,493	74,583
Debt Service Coverage:					
Senior Revenue Bonds 1975	3.36	3.41	3.70	4.28	5.65
Senior Revenue Bonds 1998	1.94	3.08	2.00	1.88	2.13
Subordinate Revenue Bonds 1998	21.87	34.38	24.01	26.47	39.99
Coverage of Debt Service & City Payment	1.18	1.41	1.17	1.23	1.45

(1) Capitalized Interest of $2,283,000 and $6,000,000 excluded from the 1998 Ordinance Coverage Calculation in Fiscal Year 2005 and 2006, respectively.
(2) Other adjustments include non-cash Postemployment Benefits for Fiscal Year 2007, 2008 and 2009 totaling $26,421,000, $25,834,000 and $25,952,000 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE EIGHT MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

The narrative overview and analysis of the financial statements of Philadelphia Gas Works for the eight months ended April 30, 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 audited financial statements as of and for the years ended August 31, 2009 and 2008 attached hereto in APPENDIX A.

Financial Highlights

- The eight-month period ended April 30, 2010 reflected a 14.9% warmer than normal winter. The eight-month period ending April 31, 2010 was 10.8% warmer than the prior comparative period and firm gas sales decreased by 2.8 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2009 through March 2010, resulted in heating customers receiving charges totaling $12,100,000 as a result of the temperatures experienced during the period. The period ended April 30, 2009 reflected a 5.7% warmer than normal winter. The eight-month period ended April 30, 2009 was 13.0% cooler than the same period the prior year and firm gas sales increased by 2.5 Bcf. In addition, the Weather Normalization Adjustment (WNA), which was in effect from October 2008 through May 2009, resulted in heating customers receiving credits totaling $900,000 as a result of the temperatures experienced during the period.

- PGW achieved a collection rate of 100.2% during the rolling twelve months ended April 30, 2010, as compared to 92.8% for the comparable period ended April 30, 2009. The collection rate of 100.2% 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 April 30, 2009.

Condensed Statements of Revenues and Expenses
(Thousands of Dollars)

	Eight Months Ended April 30	
	2010	**2009**
Total gas revenues	$628,194	$806,790
Other revenues	5,211	6,762
Total operating revenues	633,405	813,552
Total operating expenses	528,360	727,974
Operating income	105,045	85,578
Interest and other income	3,894	8,102
Total interest expense	48,216	46,271
Excess (deficiency) of revenues over (under) expenses	60,723	47,409

Operating Revenues

Operating revenues for the period ended April 30, 2010 were $633,400,000, a decrease of $180,100,000 or 22.1% from same period ended April 30, 2009. The decrease for the period ended April 30, 2010 was due to a warmer heating season and lower commodity gas costs. Operating revenues for the period ended April 30, 2009 were $813,600,000, an increase of $76,000,000 or 10.3% from the same period ended April 30, 2008.

Total sales volumes, including gas transportation deliveries, for the period ended April 30, 2010 decreased by 2.5 Bcf to 58.2 Bcf or 4.1% from the same period ended April 30, 2009. For the period ended April 30, 2009 total sales volumes, including gas transportation deliveries, increased by 4.1 Bcf to 60.8 Bcf or 7.2% from the same period ended April 30, 2008.

The number of customers served by PGW as of April 30, 2010 and April 30, 2009 were approximately 509,500 and 512,400, respectively. Commercial accounts were approximately 25,500, a slight increase from April 30, 2009. Industrial accounts decreased by 4.1% from the prior period's level to 800. Residential customers decreased to 483,100 customers, a decrease of 2,900 from the prior year.

Operating Expenses

Total operating and maintenance expenses, including fuel costs, for the eight month period ended April 30, 2010 were $528,400,000 (net of depreciation), a decrease of $199,600,000 or 27.4% from the same period ended April 30, 2009. The decrease for the April 30, 2010 period is a result of lower natural gas commodity prices and decreased utilization of natural gas as compared to the same period ended April 30, 2009. Total expenses increased by $79,800,000 or 12.3% for the period ended April 30, 2009 compared to the same period ended April 30, 2008. The increase for the April 30, 2009 period reflects an increase in the commodity price of gas as well as increased demand for natural gas.

Cost of Fuel – The cost of natural gas utilized decreased by $199,300,000 or 38.5% to $319,000,000 for the eight-month period ended April 30, 2010 compared with $518,300,000 in the same period ended April 30, 2009. The average commodity price per Thousand cubic feet (Mcf) decreased by $2.90 or $119,200,000, while the volume of gas utilized decreased by 8.5 Bcf, 17.2% or $77,600,000. Demand charges decreased by $2,600,000, as compared to the period ended April 30, 2009.

The cost of natural gas utilized increased by $60,400,000 or 13.2% to $518,300,000 for the period ended April 30, 2009 compared with $457,900,000 for the same period ended April 30, 2008. The average commodity price per Mcf increased by $0.92 or $45,800,000, while the volume of gas utilized increased by 1.7 Bcf, or $14,300,000. Demand charges increased by $300,000 compared to the same period ended April 30, 2008. 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 eight-month periods ended April 30, 2010 and 2009 were $6.20 and $9.11 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations for the eight-month period ended April 30, 2010 totaled $48,900,000 compared to $49,600,000 for the comparative period ended April 30, 2009. This is a result of lower labor costs. In addition, the cost for customer services, collections, account management, marketing and the administrative area increased by $500,000 or 0.8% in the eight-month period ended April 30, 2010 primarily due to costs related to health care.

Provision for Uncollectible Accounts – The provision for uncollectible accounts for the eight-month period ended April 30, 2010 totaled $33,400,000, a decrease of $4,500,000 or 12.0% over the comparative period ended April 30, 2009, which totaled $37,900,000, based on the most recent accounts receivable collectibility evaluation. The accumulated provision for uncollectible accounts at April 30, 2010 reflects a balance of $119,000,000, compared to the $146,300,000 balance as of April 30, 2009. 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)

	April 30	
Assets	**2010**	**2009**
Utility plant, net	$1,082,972	1,074,843
Restricted investment funds	147,712	226,057
Current assets:		
Accounts receivable (net of accumulated provision for uncollectible accounts of $118,991 and $146,339 for 2010 and 2009, respectively)	166,162	204,309
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials and supplies	187,396	220,019
Total current assets	353,558	424,328
Other assets and deferred debits	123,121	114,377
Total assets	$1,707,363	$1,839,605
Fund Equity and Liabilities		
Fund equity	292,342	261,816
Total long-term debt	1,108,306	1,123,762
Current liabilities:		
Note payable	-	148,000
Current portion of long-term debt	48,343	75,977
Other current liabilities and deferred credits	102,077	115,677
Total current liabilities	150,420	339,654
Other liabilities and deferred credits	156,295	114,373
Total fund equity and liabilities	$1,707,363	$1,839,605

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,083,000,000 as of April 30, 2010, an increase of $8,200,000 or 0.8% compared with the April 30, 2009 balance of $1,074,800,000. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $33,800,000 for the eight month period ended April 30, 2010 compared to $39,200,000 for the period ended April 30, 2009. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $31,100,000 and $0 at April 30, 2010 and April 30, 2009, 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 decreased by $78,300,000 as of April 30, 2010 from April 30, 2009 primarily due to drawdown from the Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $20,800,000 for the period ended April 30, 2010 and $22,900,000 for the period ended April 30, 2009.

Accounts Receivable – At April 30, 2010 accounts receivable (net) totaled $166,200,000, a decrease of $38,100,000, or 18.6% from April 30, 2009. Accounts receivable (net) of $204,300,000 increased by $20,200,000, or 11.0% from April 30, 2008. The accumulated provision for uncollectible accounts, totaling $119,000,000 decreased by $27,300,000 for April 30, 2010 as compared to April 30, 2009. The accumulated provision for uncollectible accounts totaled $146,300,000 on April 30, 2009.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – As of April 30, 2010 cash and cash equivalents were $104,600,000, a decrease of $8,800,000 from April 30, 2009. As of April 30, 2010, gas storage decreased by $20,100,000 or 24.7% as compared to April 30, 2009. The decrease in gas inventory reflects a decrease in the gas commodity cost per Mcf of natural gas. Materials and supplies of $68,700,000, which principally include gas inventory, maintenance spare parts, and material, decreased by $20,800,000 as compared to April 30, 2009. Other current assets and deferred debits totaled $14,100,000 at April 30, 2010 down $3,100,000 from the same period the prior year.

Other Assets and Deferred Debits – At April 30, 2010 other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $123,100,000. This represents an increase of $8,600,000 from April 30, 2009, mainly due to an increase in unamortized loss on reacquired debt.

Liabilities

Long-Term Debt – Long-term debt, including the current portion and unamortized discount and premium, totaled $1,156,600,000 for the period ended April 30, 2010, $43,200,000 less than the previous period ended April 30, 2009. The decrease is primarily the result of normal debt principal payments. This represents 79.8% of total capitalization in Fiscal Year 2010.

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. On June 1, 2010, the City issued the Series F Notes. There are currently no sums payable under the Series F Notes. Payment of principal of and interest on Series F-1 Notes outstanding is secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires on June 1, 2012. Payment of principal of and interest on all of the Series F-2 Notes outstanding is secured by a letter of credit issued by the Bank of Nova Scotia, acting through its New York Agency, which expires on June 1, 2012. Payment of principal of and interest on all of the Series F-3 Notes outstanding is secured by a letter of credit issued by Wells Fargo Bank, National Association, which expires on June 1, 2012. Each of the letters of credit are issued in the Stated Amount of $40,000,000 in order to provide liquidity for the applicable sub-series of Series F Notes and liquidity in the event the City determines to issue notes in excess of $45,000,000. The City may only issue Notes in excess of $45,000,000 upon satisfaction of certain conditions. Under no circumstances will the City issue notes, together with interest thereon, in excess of $120,000,000, unless the Stated Amounts of the respective letter of Credit is increased by the applicable bank

Accounts Payable – In the period ended April 30, 2010 accounts payable decreased $3,600,000 or 8.7% compared with the period ended April 30, 2009.

Other Liabilities and Deferred Credits – At April 30, 2010 other liabilities and deferred credits totaling $156,300,000 increased $41,900,000 compared to April 30, 2009. The increase in the period ended April 30, 2010 is the recording of the change in the Swap (defined herein).

Other Financial Information

Liquidity/Cash Flow – PGW had no commercial paper outstanding at July 1, 2010, resulting in the full availability of all $120,000,000 of the Commercial Paper Program. Additionally, PGW had $31,900,000 available in its Capital Improvement Fund to be utilized for construction expenditures. These funding sources may be utilized to provide liquidity. The Operating Fund cash balance at April 30, 2010 was $104,600,000. Additionally, the City has granted back PGW's annual $18,000,000 payment, in each of the last four fiscal years, thereby improving PGW's overall liquidity position.

PGW's net OPEB obligation as of April 30, 2010 was $94,700,000. PGW's actuarial accrued liability is projected to be approximately $455,500,000 at August 31, 2010 if PGW continued to provide for its OPEB obligations on a pay-as-you-go basis. 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 excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust. The annual OPEB cost was $16,500,000 for the period ended April 30, 2010 and is projected to increase to $70,000,000 per year over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was $17,000,000 for the period ended April 30, 2009.

In November 2008, PGW filed for an extraordinary or emergency base rate increase of approximately $60,000,000 or 5.2% and simultaneously requested an $85,000,000 or 7.4% decrease in the GCR for a net 2.2% overall rate decrease of approximately $25,000,000. The proposed base rate increase will serve several purposes. First, the increase will cover the additional financing costs that PGW anticipates it will incur in the next few months. Second, the increase will improve PGW's financial position so as to enhance its ability to access the financial markets and maintain its bond rating. Third, the increase will provide 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 are effective as of January 1, 2009.

On December 18, 2009 PGW submitted a base rate case filing with the PUC. 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 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, 2009, the Swap 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; 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 July 31, 2010, the Swap had a combined negative fair value for all series of $46,000,000.

Fiscal Year 2011 PGW Payment to City - PGW has agreed to make a payment of $16,300,000 to the City in the City's Fiscal Year 2011. The City and PGW have agreed that such payment will be made prior to June 30, 2011: (1) from interest and profits on the 1975 Ordinance Sinking Fund Reserve for the 1975 Ordinance Bonds in excess of the Sinking Fund Reserve Requirement, to which the City is entitled to pursuant to the Act; and (2) from the sale of surplus City-owned real property currently occupied by PGW which will become available due to the consolidation of certain PGW operations. The terms of any real estate sale must be approved by the City administration, the Gas Commission and City Council. PGW has agreed to make the balance of the payment (net of Sinking Fund Reserve earnings and profits) from its available funds if the property sale is not completed prior to June 15, 2011, or if the property sale proceeds are not sufficient to cover the full payment. 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.

UNDERWRITING

The underwriters for the Bonds have agreed to purchase such Bonds from the City, subject to the terms of the Purchase Agreement between the City and underwriters for the Bonds, at a purchase price of $150,509,829.67 (which is equal to the par amount of $150,000,000, plus net original issue premium of $1,419,649.25, less the underwriter's discount of $909,819.58).

The underwriters may offer and sell the Bonds to certain dealers and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by one or more of the underwriters) at prices lower than the public offering prices stated on the inside cover page hereof. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, N.A.

J.P.Morgan Securities Inc. ("JPMSI"), one of the underwriters of the Bonds has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

RATINGS

Moody's, S&P and Fitch have assigned the Bonds an underlying rating of "Baa2" with a stable outlook, "BBB+" and "BBB-" with a stable outlook, respectively.

Moody's and S&P are expected to assign the ratings of "Aa3" (negative outlook) and "AAA" (negative outlook), respectively, to the Insured Bonds, based upon the understanding that, concurrently with the issuance of the Bonds, the Policy will be issued by AGM, with respect to the Insured Bonds.

A rating, including any related outlook with respect to potential changes in such ratings, reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

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

Federal

Exclusion of Interest From Gross Income. In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in the gross income of the holders thereof for federal income tax purposes assuming that the City complies with its covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended. Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax imposed on individuals and corporations.

In rendering its opinion, Co-Bond Counsel has assumed compliance by the City with its covenants contained in the 1998 General Ordinance and the Bond Authorization, and the representations in the Tax Compliance Certificate relating to actions to be taken by the City after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of the interest on the Bonds for federal income tax purposes. These representations and covenants relate to, *inter alia*, the use of and investment of proceeds of the Bonds, and rebate to the United States Department of Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

Other Federal Tax Matters. Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, holders of an interest in a financial asset securitization investment trust, property and casualty insurance companies, individuals who otherwise qualify for the earned income credit and taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits and taxpayers, including banks, thrift institutions and other financial institutions, subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

Co-Bond Counsel is not rendering any opinion regarding any federal tax matters other than those described under the caption "Exclusion of Interest from Gross Income" and expressly stated in the form of Co-Bond Counsel opinion included as APPENDIX F. Purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.

State

Pennsylvania. In the opinion of Co-Bond Counsel, under the laws of the Commonwealth as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania; however, under the laws of the Commonwealth, as enacted and construed on the date hereof, any profits, gains, or income derived from the sale, exchange, or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

Other. The Bonds and interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth of Pennsylvania under applicable state and local tax laws.

Purchasers of the Bonds should consult their independent tax advisors with regard to all state and local tax matters.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of the legality of the issuance of the Bonds by Blank Rome LLP and Andre C. Dasent, P.C., both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed forms of such opinions are included herein as APPENDIX F. Certain legal matters will be passed upon for the Underwriters by Saul Ewing LLP and the Law Office of Denise Joy Smyler Co-Counsel to the Underwriters, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the City of Philadelphia Law Department. Certain legal matters will be passed upon for PGW by the Office of General Counsel of Philadelphia Gas Works and by Eckert Seamans Cherin and Mellott, LLC of Harrisburg, Pennsylvania.

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 sale of the Bonds. The Financial Advisors assisted in the preparation of this Official Statement, and in other matters relating to the planning, structuring and issuance 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 underwriting 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, 2009 and August 31, 2008 included in APPENDIX A to this Official Statement have been audited by KPMG LLP, as stated in their report appearing therein.

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

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. Saul Ewing LLP provides certain legal services to the City. The Law Office of Denise Joy Smyler 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 the opinion described in (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 issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery 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.

Upon delivery of the Bonds, the City Solicitor shall furnish a written confirmation, to the effect, among other things, that except for litigation which is disclosed in this Official Statement, 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 or enjoin the issuance, sale, execution or delivery of the Bonds, (B) which contests the validity or enforceability of the Bonds or any proceedings of the City taken with respect to the issuance, sale, execution or delivery 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.

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 Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Agreement with Digital Assurance Certification, L.L.C. with respect to the Bonds, which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the Bonds. The proposed form of Continuing Disclosure Agreement is attached to this Official Statement 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, 2009, and the audited combined financial statements of the City for the Fiscal Year ended June 30, 2009, 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., Moody's Investors Service and Fitch Ratings 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 Official Statement 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

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APPENDIX A

FINANCIAL STATEMENTS OF PGW FOR FISCAL YEARS ENDED AUGUST 31, 2009 AND 2008

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PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Basic Financial Statements and Supplementary Information

August 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Table of Contents

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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in note 1(t), the Company changed its method of accounting for derivative instruments in 2008 and 2009 due to the adoption of Governmental Accounting Standards Board Statement (GASB) No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The required supplementary information of management's discussion and analysis on pages 3 to 12 and the schedules of pension funding progress and other postemployment benefits funding progress on pages 59 and 60 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.

(Continued)

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 61 to 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 18, 2009

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2009 and 2008 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) 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 Billion cubic feet (Bcf). In addition, the Weather Normalization Adjustment (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. The FY 2008 reflected a 16.9% warmer than normal winter. The FY 2008 period was 0.7% warmer than the prior year and firm gas sales decreased by 2.4 Bcf. In addition, the WNA, which was in effect from October 2007 through May 2008, resulted in heating customers receiving charges totaling $12.2 million as a result of the temperatures experienced during the period.

- PGW achieved a collection rate of 93.8% in the current period, 95.5% in FY 2008 and 95.8% in FY 2007. The collection rate is calculated by dividing the total gas receipts collected in FY 2009 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 2008 and FY 2007, respectively.

- PGW implemented a $60.0 million extraordinary rate increase granted by the Pennsylvania Public Utility Commission (PUC) effective December 1, 2008. In addition to this rate increase, 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 2009, had no tax exempt commercial paper outstanding and a cash balance of $13.8 million. This compares favorably to the FY 2008 balance of $90.0 million of tax exempt commercial paper outstanding and a cash balance of $49.3 million. This resulted in an overall improvement of $54.5 million in PGW's liquidity.

- The Company adopted the provisions of 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 of Philadelphia (the City) for financial reporting requirements and the Company's FY 2009 financial statements will be included in the City's financial statements for the year ended June 30, 2010.

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

  The Company's only derivative instrument is an interest rate swap entered into to hedge the interest payments on its variable rate Sixth Series Bonds. The Company determined the hedging relationship between the Sixth Series Bonds and related interest rate swap to be effective at August 31, 2008. Therefore, the adoption of the provisions of GASB 53 had no impact on beginning net assets at September 1, 2007. The Company's August 31, 2008 balance sheet has been restated to reflect an interest rate swap liability and an offsetting deferred outflow of resources of $13.8 million, representing the fair value of the interest rate swap hedging the Sixth Series Bonds at August 31, 2008. These offsetting amounts are included in other liabilities and deferred credits, and other assets and deferred debits.

- On August 20, 2009, the Company issued $313.3 million of Eighth Series Bonds 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 Bonds 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 Bonds also consists of four serial bonds totaling $255.0 million that have variable rates set through a weekly reset mode, are paid monthly, and are secured with a letter of credit that expires 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, was deferred and will be amortized over the life of the refunding bond issue.

  As part of the Eighth Series Bond issuance, the Company paid a swap termination payment of $3.8 million to the counterparty to partially terminate the swap. The remaining swap was amended and restated to hedge the variable rate portions of the Eighth Series Bonds. The Company determined the hedging relationship between the amended swap and the Eighth Series Bonds to be effective at August 31, 2009. The fair value of the swap is recorded as an interest rate swap liability of $27.6 million. The Company also recognized a deferred outflow of resources asset, which is included in other assets and deferred debits, of $1.2 million which represents the change in the fair value of the interest rate swap from the inception of the new hedging relationship on August 20, 2009 to August 31, 2009. Under GASB 53, the Company will reevaluate the effectiveness of the hedge at each reporting period. Should the hedge be determined to be ineffective in the future, the cumulative balance of the deferred outflow of resources will be recognized in the statement of revenues and expenses as a gain or loss, and future changes in fair value of the interest rate swap will be recorded in the statement of revenues and expenses as they occur.

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.

(Continued)

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		
		2009	2008	2007
Total gas revenues	$	910,457	831,428	840,105
Other revenues		18,984	18,199	19,246
Total operating revenues		929,441	849,627	859,351
Total operating expenses		845,558	794,246	819,748
Operating income		83,883	55,381	39,603
Interest and other income		12,240	15,732	13,073
Total interest expense		(78,912)	(68,006)	(68,780)
Excess (deficiency) of revenues over (under) expenses	$	17,211	3,107	(16,104)

Operating Revenues

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. Operating revenues in FY 2008 were $849.6 million, a decrease of $9.8 million or 1.1% from the FY 2007 level. The decrease in FY 2008 was due to a milder winter. Please see the discussion of the cost of fuel in the Operating Expenses section below.

(Continued)

Total sales volumes, including gas transportation deliveries, in FY 2009 increased by 5.5 Bcf to 71.8 Bcf or 8.3% from FY 2008 sales volumes of 66.3 Bcf. In FY 2008 total sales volumes, including gas transportation deliveries, increased by 2.5 Bcf to 66.3 Bcf or 3.9% from FY 2007 sales volumes of 63.8 Bcf. Firm gas sales of 48.0 Bcf were 2.5 Bcf or 5.5% higher than FY 2008 firm gas sales of 45.5 Bcf which were 2.4 Bcf or 5.0% lower than FY 2007. Interruptible customer sales decreased by 0.6 Bcf compared to FY 2008 which decreased by 0.9 Bcf compared to FY 2007. Gas transportation sales in FY 2009 increased by 3.6 Bcf to 22.6 Bcf from the 19.0 Bcf level experienced in FY 2008. In FY 2008, the volume increased by 5.9 Bcf to 19.0 Bcf from the 13.1 Bcf level experienced in FY 2007.

In FY 2009, customers served by PGW decreased by 0.2% from the previous year to approximately 504,000 customers. The number of customers served by PGW at the end of FY 2008 and FY 2007 were approximately 505,000 and 506,000, respectively. Commercial accounts were approximately 25,000, reflecting no change from the previous two fiscal years. Industrial accounts reflected no change from the prior year's level of 800. Industrial accounts were 800 and 900 customers in FY 2008 and FY 2007, respectively. Residential customers decreased to 478,000 customers, a decrease of 1,000 from the prior year. The number of residential customers in FY 2008 decreased to approximately 479,000 customers, a decrease of 1,000 from the FY 2007 level.

Operating Expenses

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. Total operating expenses in FY 2008 of $794.2 million decreased by $25.5 million or 3.1% from FY 2007. The decrease for FY 2008 reflects substantially lower natural gas utilization and an increase in refunds received from pipeline suppliers.

Cost of Fuel – The cost of natural gas utilized increased by $33.9 million or 6.6% to $545.8 million in FY 2009 compared with $512.0 million in FY 2008. The average commodity price per Thousand cubic feet (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.

The cost of natural gas utilized decreased by $27.3 million or 5.1% to $512.0 million in FY 2008 compared with $539.3 million in FY 2007. The average commodity price per Mcf increased by $0.25 or $13.5 million, while the volume of gas utilized decreased by 4.6 Bcf, 7.9% or $37.6 million. In addition, pipeline supplier refunds in FY 2008 increased by $10.0 million while demand charges increased by $6.8 million, compared to FY 2007.

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 2009, FY 2008, and FY 2007 were $8.55, $8.48, and $8.23 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2009 were $75.6 million, an increase from the FY 2008 total of $68.9 million as a result of higher labor costs. The FY 2008 total of $68.9 million was $0.6 million lower than the FY 2007 total of $69.5 million. Additionally, expenses related to customer services, collection and account management, marketing, and the administrative area 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. This category decreased by $4.9 million or 5.7% in FY 2008, which was offset somewhat by higher premiums for active and retired employee health insurance coverage. Pension costs increased by $1.2 million to $15.4 million in FY 2009 as compared to FY 2008. Pension costs were $1.0 million lower in FY 2008 as compared to FY 2007.

Provision for Uncollectible Accounts – 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 provision for uncollectible accounts in FY 2008 totaled $37.0 million, a decrease of $3.0 million or 7.5% compared to FY 2007. The accumulated provision for uncollectible accounts at August 31, 2009 reflects a balance of $123.0 million, compared to the $140.4 million balance in FY 2008 and $150.2 million in FY 2007. 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 decreased by $1.7 million in FY 2009 compared with FY 2008. Depreciation expense increased by $3.1 million in FY 2008 compared with FY 2007. The effective composite depreciation rates for FY 2009, FY 2008, and FY 2007 were 2.3%, 2.4%, and 2.3%, respectively. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income was $3.5 million lower than FY 2008 as a result of a decline in interest rates coupled with lower restricted fund balances. Interest and other income in FY 2008 was $2.7 million greater than FY 2007 as a result of increased earnings rates on higher restricted fund balances.

Interest Expense – Total interest expense increased by $10.9 million or 16.0% in FY 2009 compared with FY 2008 and decreased by $0.8 million or 1.1% in FY 2008 compared with FY 2007. Interest on long-term debt was $7.5 million higher in FY 2009 due to the increased interest cost associated with the Sixth Series Bonds and increased $3.9 in FY 2008 as a result of the full year effect of the issuance of the Seventh Series Bonds in May 2007. Other interest costs increased by $3.3 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. Other interest costs decreased by $4.8 million or 28.0% in FY 2008 principally due to the reduction in the borrowing cost of the commercial paper program.

Excess (Deficiency) of Revenues Over (Under) Expenses – In FY 2009, the Company's excess of revenues over expenses was $17.2 million, an increase of $14.1 million from FY 2008. The Company had an excess of revenues over expenses of $3.1 million in FY 2008, an increase of $13.0 million from FY 2007.

Condensed Balance Sheets

(Thousands of dollars)

		August 31		
Assets		**2009**	**2008**	**2007**
Utility plant, net	$	1,076,467	1,062,095	1,040,373
Restricted investment funds		175,534	219,788	277,139
Current assets:				
Accounts receivable (net of accumulated provision for uncollectible accounts of $123,009, $140,435, and $150,231 for 2009, 2008, and 2007, respectively)		105,496	99,304	88,618
Other current assets and deferred debits, cash and cash equivalents, gas inventories, materials, and supplies		143,668	242,503	205,083
Total current assets		249,164	341,807	293,701
Other assets and deferred debits		130,926	119,765	103,727
Total assets	$	1,632,091	1,743,455	1,714,940
Fund Equity and Liabilities				
Fund equity	$	243,619	226,408	223,301
Total long-term debt		1,114,488	1,127,163	1,201,792
Current liabilities:				
Note payable		—	90,000	51,600
Current portion of long-term debt		48,175	76,030	86,995
Other current liabilities and deferred credits		85,580	126,235	103,276
Total current liabilities		133,755	292,265	241,871
Other liabilities and deferred credits		140,229	97,619	47,976
Total fund equity and liabilities	$	1,632,091	1,743,455	1,714,940

(Continued)

Assets

Utility Plant – Utility plant, net of depreciation, totaled $1,076.5 million in FY 2009, an increase of $14.4 million or 1.4% compared with the FY 2008 balance of $1,062.1 million. The FY 2008 balance of $1,062.1 million, increased by $21.7 million or 2.1% compared with the FY 2007 balance of $1,040.4 million. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $52.2 million in FY 2009 compared to $61.2 million in FY 2008 and $69.1 million in FY 2007. PGW funded capital expenditures through drawdowns from the Capital Improvement Fund in the amounts of $48.5 million, $60.9 million, and $60.7 million in FY 2009, FY 2008, and FY 2007, 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 decreased by $44.3 million in FY 2009 primarily due to the drawdown from the Capital Improvement Fund offset by interest income. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $4.8 million in FY 2009, $11.7 million in FY 2008, and $6.8 million in FY 2007. 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 2008. A drawdown from the Sinking Fund's capitalized interest account in the amount of $0.1 million was utilized to offset the debt service payment in FY 2007.

Accounts Receivable – 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). Accounts receivable (net) of $99.3 million increased by $10.7 million, or 12.1% in FY 2008 compared to FY 2007. The accumulated provision for uncollectible accounts, totaling $123.0 million decreased by $17.4 million in FY 2009 and totaled $140.4 million in FY 2008 and $150.2 million in FY 2007.

Other Current Assets and Deferred Debits, Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies – In FY 2009, cash and cash equivalents were $13.8 million, a decrease of $35.6 million from FY 2008, and totaled $51.7 million in FY 2007. 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 cost per Mcf plus a decrease in the amount of storage at year end. In FY 2008, gas storage increased by $41.4 million or 29.9%. The increase in gas inventory reflects an increase in the gas cost per Mcf plus an increase in the amount of storage at year end. Materials and supplies of $125.0 million, which principally include gas inventory, maintenance spare parts, and material, decreased by $62.5 million and were $187.5 million in FY 2008 and $147.8 million in FY 2007. Other current assets and deferred debits totaled $4.9 million in FY 2009, down $0.7 million from FY 2008. In FY 2008, other current assets and deferred debits totaled $5.6 million, up $0.1 million from FY 2007, primarily due to the recovery of under-recovered GCR amounts from the prior year.

Other Assets and Deferred Debits – In FY 2009, other assets and deferred debits including unamortized bond issuance costs, unamortized loss on reacquired debt, and a deferred regulatory asset for environmental expenses totaled $130.9 million, an increase of $11.1 million from FY 2008, mainly due to the increase in the interest rate swap liability. In FY 2008, the total was $119.8 million and reflected an increase of $16.0 million from FY 2007.

Liabilities

Long-Term Debt – 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 represents 82.7% of total capitalization in FY 2009. Long-term debt, including the current portion and unamortized discount and premium, totaled $1,203.2 million in FY 2008, $85.6 million less than the previous year as a result of the Company repaying the City Loan and normal debt principal payments. This represented 84.2% of total capitalization in FY 2008. This represented 85.2% of total capitalization in FY 2007.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on the 1975 Ordinance Bonds and the 1998 Ordinance Bonds, respectively. In FY 2009, the debt service coverage was at 5.65 times debt service on the outstanding 1975 Ordinance Bonds and 2.13 times debt service on the Senior 1998 Ordinance Bonds compared to debt service coverage ratios of 4.28 and 1.88 times, respectively, in FY 2008 and 3.70 and 2.00 times, respectively, in FY 2007. 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.

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 $200.0 million outstanding at any one time. The letter of credit supporting PGW's commercial paper program fixed the maximum level of outstanding notes plus interest at $150.0 million in FY 2009 and FY 2008, respectively. These notes are intended to provide additional working capital and are supported by an irrevocable letter of credit and a security interest in PGW's revenues. There were no notes outstanding at August 31, 2009. The principal amount outstanding at August 31, 2008 was $90.0 million. In addition, the City provided PGW with a $45.0 million, 0.0% interest loan in FY 2001. In FY 2007, PGW paid $2.0 million of the loan leaving an outstanding balance of $43.0 million. In FY 2008, PGW paid $20.5 million and $22.5 million in December 2007 and August 2008, respectively to completely repay the remaining balance of the loan.

Liquidity/Cash Flow – At December 15, 2009, $150.0 million was available from the commercial paper program. Additionally, PGW had $42.0 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, 2009 was $13.3 million.

Accounts Payable – 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. In FY 2008, accounts payable increased $6.9 million or 11.4% compared with FY 2007 primarily due to an increase in natural gas payables.

Other Liabilities and Deferred Credits – 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. In FY 2008, other liabilities and deferred credits totaling $97.6 million increased $49.6 million compared to FY 2007. The increase in FY 2008 is primarily due to the effect of recording the change in the liability for OPEB in the amount of $25.8 million, an increase in the injuries and damages reserve, an increase in the environmental remediation liability and the recording of the initial fair value of the swap in the amount of $13.8 million.

Other Financial Factors

The City has made a major commitment to PGW by granting back its annual $18.0 million payment, in each of the last three fiscal years, thereby improving PGW's overall liquidity position. PGW must continue to focus its efforts on becoming a competitive utility in the deregulated marketplace. PGW remains committed to achieving its tradition of providing high-quality service to customers, while continuing as a valuable enterprise of the City.

The Company's total OPEB actuarial accrued liability as of August 31, 2009 was $635.8 million if the Company continued to provide for its OPEB obligations on a pay-as-you-go basis. The Company's actuarial accrued liability would be reduced to $439.1 million if the Company adopted a policy of funding its Annual Required Contribution (ARC). 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 excess) over a period of 30 years. The actuarial valuation utilized a discount rate of 8.25% for purposes of developing the liabilities and ARC to demonstrate the effect of funding the Plan. This rate is based on the investment return expected on investments segregated in a funded trust.

The net OPEB obligation was $78.2 million for the fiscal year ended August 31, 2009 and is projected to increase to $458.8 million over the ensuing 20-year period on a pay-as-you-go basis. The annual OPEB cost was $52.3 million for the fiscal year ended August 31, 2008.

On December 22, 2006, PGW filed for a $100.0 million base rate increase with the PUC. On September 28, 2007, the PUC approved a rate increase of $25.0 million. PGW appealed this decision to Commonwealth Court on or about October 18, 2007 and the Commonwealth Court denied PGW's appeal by order entered February 4, 2009. PGW thereupon, submitted a Petition for Allowance of Appeal to the Pennsylvania Supreme Court and, by order dated December 2, 2009, the Supreme Court denied PGW's Petition. The $25.0 million rate increase was implemented in November 2007.

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. PGW anticipates a PUC decision in September 2010.

The Company had no commercial paper outstanding at August 31, 2009. Prior to year end, all outstanding commercial paper matured and no additional commercial paper was issued.

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, 2009 and 2008

(Thousands of dollars)

Assets		**2009**	**2008**
Utility plant, at original cost:			
In service	$	1,754,297	1,685,593
Under construction		30,953	46,969
Total		1,785,250	1,732,562
Less accumulated depreciation		708,783	670,467
Utility plant, net		1,076,467	1,062,095
Restricted investment funds:			
Sinking fund, revenue bonds		110,227	106,198
Capital improvement fund		62,714	111,207
Workers' compensation escrow fund		2,593	2,383
Total restricted investment funds		175,534	219,788
Current assets:			
Cash and cash equivalents		13,750	49,338
Accounts receivable (net of provision for uncollectible accounts of $123,009 and $140,435 for 2009 and 2008, respectively)		105,496	99,304
Gas inventories, materials, and supplies		125,023	187,539
Other current assets and deferred debits		4,895	5,626
Total current assets		249,164	341,807
Unamortized bond issuance costs		27,516	38,738
Unamortized losses on reacquired debt		79,945	47,902
Other assets and deferred debits		23,465	33,125
Total assets	$	1,632,091	1,743,455

See accompanying notes to financial statements.

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

Balance Sheets

August 31, 2009 and 2008

(Thousands of dollars)

Fund Equity and Liabilities		**2009**	**2008**
Fund equity:			
Excess (deficiency) of capital assets, net of related debt	$	1,019	(4,466)
Restricted		112,820	108,581
Unrestricted		129,780	122,293
Total fund equity		243,619	226,408
Long-term debt:			
Revenue bonds		1,114,488	1,127,163
Current liabilities:			
Note payable		—	90,000
Current portion of revenue bonds		48,175	76,030
Accounts payable		46,205	67,508
Customer deposits		4,224	7,325
Other current liabilities and deferred credits		16,203	32,581
Accrued accounts:			
Interest, taxes, and wages		15,948	15,821
Distribution to the City		3,000	3,000
Total current liabilities		133,755	292,265
Other liabilities and deferred credits		140,229	97,619
Total fund equity and liabilities	$	1,632,091	1,743,455

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, 2009 and 2008

(Thousands of dollars)

		2009	2008
Operating revenues:			
Gas revenues:			
Nonheating	$	67,295	78,687
Gas transport service		24,913	19,215
Heating		818,249	733,526
Total gas revenues		910,457	831,428
Appliance and other revenues		9,311	8,607
Other operating revenues		9,673	9,592
Total operating revenues		929,441	849,627
Operating expenses:			
Natural gas		545,846	511,976
Gas processing		16,779	14,436
Field services		37,727	37,126
Distribution		21,059	17,319
Collection and account management		16,248	15,447
Provision for uncollectible accounts		42,000	37,000
Customer services		12,897	12,305
Marketing		3,436	2,628
Administrative and general		63,820	60,716
Pensions		15,425	14,258
Other postemployment benefits		25,952	25,834
Taxes		6,588	5,677
Total operating expenses before depreciation		807,777	754,722
Depreciation		42,200	42,868
Less depreciation expense included in operating expenses above		4,419	3,344
Total depreciation		37,781	39,524
Total operating expenses		845,558	794,246
Operating income		83,883	55,381
Interest and other income		12,240	15,732
Income before interest expense		96,123	71,113
Interest expense:			
Long-term debt		63,602	56,075
Other		15,558	12,269
Allowance for funds used during construction		(248)	(338)
Total interest expense		78,912	68,006
Excess of revenues over expenses	$	17,211	3,107

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, 2009 and 2008

(Thousands of dollars)

		2009	2008
Cash flows from operating activities:			
Receipts from customers	$	878,000	834,000
Payments to suppliers		(608,180)	(659,969)
Payments to employees		(107,918)	(105,596)
Claims paid		(3,591)	(2,691)
Other receipts		8,900	24,500
Net cash provided by operating activities		167,211	90,244
Cash flows from noncapital financing activities:			
Interest		2,160	3,548
Interest payments on notes payable		(3,007)	(4,099)
Net repayments of notes payable		(90,000)	38,400
Loan from City of Philadelphia		—	(43,000)
Restricted, City Loan deposit		—	643
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		(90,847)	(4,508)
Cash flows from capital and related financing activities:			
Proceeds from long-term debt issued		313,285	—
Redemption of long-term debt		(311,615)	—
Long-term debt issuance costs		(2,312)	—
Swap termination payment		(3,791)	—
Purchases of capital assets		(52,154)	(61,244)
Principal paid on long-term debt		(42,780)	(41,830)
Interest paid on long-term debt		(62,092)	(54,076)
Drawdowns on capital improvement fund		48,493	60,926
Interest income on capital improvement fund		1,499	8,089
Interest income on sinking fund		3,296	3,460
Sinking fund (deposits)		(4,029)	(3,759)
Other		248	338
Net cash used in capital and related financing activities		(111,952)	(88,096)
Net decrease in cash and cash equivalents		(35,588)	(2,360)
Cash and cash equivalents at the beginning of the year		49,338	51,698
Cash and cash equivalents at the end of the year	$	13,750	49,338
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	83,883	55,381
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		37,781	39,812
Change in assets and liabilities:			
Receivables, net		(6,693)	(11,215)
Inventories		62,516	(39,769)
Other current assets and deferred debits		731	(11)
Other assets and deferred debits		(2,886)	(11,053)
Accounts payable		(21,303)	6,893
Customer deposits		(3,101)	(1,724)
Other current liabilities and deferred credits		(16,378)	17,057
Other liabilities and deferred credits		32,661	34,873
Net cash provided by operating activities	$	167,211	90,244

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, 2009 and 2008

(Thousands of dollars)

		2009	2008
Fund equity balance, beginning of the year	$	226,408	223,301
Excess of revenues over expenses		17,211	3,107
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	$	243,619	226,408

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 Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, is applicable to the Company. Under FASB Statement No. 71, 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 December 2, 2009 PGW filed its fiscal year (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.

On June 16, 2009, the Company filed its FY 2010 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2009 and public hearings in September 2009. The PGC authorized interim spending authority of $64,163,000 for the period September 1, 2009 through November 30, 2009, pursuant to a Motion, dated September 22, 2009. Briefs were filed concerning the overall budget on September 22, 2009, a motion approving the FY 2010 Operating Budget was approved by the PGC on November 17, 2009 reflecting total non-fuel operating expenses of $258,412,000.

On May 29, 2008, the Company filed its FY 2009 Operating Budget. The PGC conducted informal discovery concerning this budget in July and August 2008 and public hearings in September 2008. The PGC authorized interim spending authority of $88,140,000 for the period September 1, 2008 through December 31, 2008, pursuant to a Motion, dated September 23, 2008. A final Order approving interim spending was approved by the PGC at its September 23, 2008 meeting. Briefs were filed on October 15, 2008, a Recommended Decision was received on October 27, 2008 and a final budget approval was granted by the PGC on December 2, 2008.

On July 13, 2007, the Company filed its FY 2008 Operating Budget. The PGC conducted hearings concerning this budget in August 2007 and approved the Company's proposed operating revenues and expenses with net adjustments of $4,197,000.

(c) Capital Budget

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.

On January 2, 2009, the Company filed a proposed FY 2010 Capital Budget in the amount of $74,407,000. After review and evaluation, the PGC on April 13, 2009 approved a recommendation to City Council for a budget of $72,215,000. The PGC's recommendation was approved by City Council on May 21, 2009 and the ordinance was signed by the Mayor on May 27, 2009.

On April 21, 2008, the Philadelphia Facilities Management Corporation (PFMC) Board approved the Company's Request to file an amendment to the FY 2008 budget in the amount of $2,300,000 for funding to support the Risk-Based Collections and Field operations projects. These projects are critical efforts in support of the Company's Business Transformation effort. The PGC, after review and evaluation, approved a recommendation to City Council supporting the Company's amendment on July 2, 2008. City Council approved the PGC's recommendation on October 23, 2008 and the Mayor signed the ordinance on November 5, 2008.

On January 2, 2008, the Company filed a proposed FY 2009 Capital Budget in the amount of $73,436,000. After review and evaluation, the PGC on April 30, 2008 approved a recommendation to City Council for a budget of $71,956,000. The PGC's recommendation was approved by City Council on June 19, 2008 and the ordinance was signed by the Mayor on July 2, 2008.

On September 27, 2007, the Company filed with the PGC a proposal to amend the approved FY 2008 Capital Budget for two new line items totaling $1,433,000. These line items were: Supplemental Funding – Consolidate Fire Protection System – Richmond Plant for $1,171,000 and Disaster Recovery for Richmond and Passyunk Plants for $262,000. On October 23, 2007, the Company filed a proposal to further amend the budget by adding another new line item: Partial Reauthorization – Customer Service Data Warehouse for $169,000. Concurrently, the Company proposed a reduction of $1,523,000 in FY 2008 budget authorization to compensate for the additional funding requested. The PGC, after review and evaluation, recommended that City Council approve an amended budget for FY 2008 in the amount of $70,727,000. Subsequently, City Council approved the PGC's recommendation on March 6, 2008, with the Mayor signing the budget ordinance on March 12, 2008.

On January 2, 2007, the Company filed with the PGC its FY 2008 Capital Budget requesting spending authority in the amount of $118,243,000. This budget request was amended by the Company to reflect the deferral of two projects, Construction of Phase II Liquefied Natural Gas (LNG) Replacement and Implementation of Billing Collection Customer Service (BCCS) for a reduction of $47,300,000. The PGC conducted hearings concerning this budget in February 2007. Briefs were filed on March 13, 2007. The Hearing Examiner issued a Recommended Decision on March 27, 2007 for consideration by the Commissioners further reducing the budget by $295,000. The PGC's Resolution and Order recommending approval of the FY 2008 Capital Budget to City Council was passed on April 25, 2007. This recommendation of $70,648,000 was approved by City Council on June 15, 2007. The Mayor of the City signed the ordinance approving the FY 2008 Capital Budget on September 20, 2007.

(d) Base Rates

In November 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.

On December 22, 2006, the Company filed for a $100,000,000 base rate increase with the PUC. The funds provided by this increase in base rates were to be used to pay increased operating and maintenance costs, establish an adequate level of working capital, repay the $45,000,000 City Loan, reduce the outstanding level of short-term commercial paper, provide a source of internal funds for capital expenditures, meet bond covenant requirements in each fiscal year, and provide funds for long-term debt reduction. On September 28, 2007, the PUC approved a rate increase of $25,000,000 which was effective in November 2007. The Company appealed this decision to Commonwealth Court on or about October 18, 2007 and the Commonwealth Court denied PGW's appeal by order entered February 4, 2009. PGW thereupon submitted a Petition for Allowance of Appeal to the Pennsylvania Supreme Court and, by order dated December 2, 2009, the Supreme Court denied PGW's Petition. The $25,000,000 rate increase was implemented in November 2007.

The previous increase in base rates of $36,000,000 was approved by the PUC on April 12, 2002.

(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, 2009. The adjustments for the years ended August 31, 2009 and 2008 were an increase in billings of $505,000 and $12,238,000, 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, 2009 deferred approximately $5,873,000 for GCR over-recovery and $15,494,000 for GCR under-recovery at August 31, 2009 and 2008, respectively.

GCR effective dates and rates

Effective date		GCR rate per Mcf*	Change
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)
June 1, 2008		13.0236	2.3010
March 1, 2008		10.7226	0.1447
December 1, 2007		10.5779	0.4671
September 1, 2007		10.1108	(0.6143)

* 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 $1,710,000, and $2,847,000 was charged to expense as incurred in FY 2009 and FY 2008, 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 FY 2009 and FY 2008 was 2.3% and 2.4%, respectively. The composite rates are supported by a depreciation study of utility plant as of August 31, 2004. The effective composite depreciation rates, as a percentage of cost, for FY 2009 were as follows:

Production plant	0.14% – 4.39%
Transmission, distribution, and storage	0.18% – 4.08%
General plant	1.46% – 10.80%

(Continued)

The next depreciation study is scheduled to be completed in FY 2010.

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 4.72% and 4.96% in FY 2009 and FY 2008, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2009 and 2008, respectively (thousands of dollars):

	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.

	August 31, 2008			
	Beginning balance	**Additions and transfers**	**Retirements and transfers**	**Ending balance**
Land	$ 5,267	328	—	5,595
Distribution and collection systems	1,221,067	52,803	(2,474)	1,271,396
Buildings and equipment	406,966	9,792	(8,156)	408,602
Total utility plant, at historical cost	1,633,300	62,923	(10,630)	1,685,593
Under construction	48,013	61,879	(62,923)	46,969
Less accumulated depreciation for:				
Distribution and collection systems	(556,620)	(28,609) *	2,768	(582,461)
Buildings and equipment	(84,320)	(11,412) *	7,726	(88,006)
Utility plant, net	$ 1,040,373	84,781	(63,059)	1,062,095

* Cost of removal in the amount of $2,847 was charged to expense as incurred in FY 2008 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 504,000 customers at August 31, 2009 and 505,000 at August 31, 2008, 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 August 31, 2009 and 2008 was approximately 82,000 and 77,000, respectively.

The Senior Citizen Discount also provides customers with a discounted payment plan. The total number of customers receiving the discount as of August 31, 2009 and 2008 was approximately 36,000 and 40,000, 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 2009 and FY 2008, 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 $14,143,000 and $19,014,000 for FY 2009 and FY 2008, 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, 2009 and 2008, as follows (thousands of dollars):

		2009	2008
Gas inventory	$	117,889	179,751
Material and supplies		7,134	7,788
Total	$	125,023	187,539

(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.

(Continued)

(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 1,936 and 1,920 participating retirees and their beneficiaries and dependents for FY 2009 and FY 2008, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,702 and 1,699 active employees and their dependents for FY 2009 and FY 2008, respectively, by charging the annual insurance premiums to expense.

The difference between the annual other postemployment benefits (OPEB) expense and the expenses 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 nonrestricted highly liquid investments with original maturities of three months or less are considered cash equivalents.

(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

GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for the Company's fiscal year beginning September 1, 2008; however, the Company chose to implement the provisions of GASB 49 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 2008 financial statements will be included in the City's financial statements for the year ended June 30, 2009. This statement establishes a framework for the recognition and measurement of pollution remediation liabilities. A pollution remediation obligation addresses the current or potential detrimental effects of existing pollution by participation in pollution remediation activities.

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 of 2004 and a total of four Public Involvement Plan meetings were conducted at multiple City Recreation Centers throughout Philadelphia during February and March of 2005. In March of 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.

In accordance with GASB 49, the Company revised its methodology for estimating 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.

In FY 2009, the Company recorded an additional $1,390,000 liability for pollution remediation obligations. The implementation of GASB 49 resulted in an additional $8,300,000 liability in FY 2008. The pollution remediation liability is reflected in other liabilities and deferred credits and in other current liabilities and deferred credits. Although GASB 49 requires pollution remediation liabilities to be measured at the beginning of the first period presented in the financial statements,

(Continued)

because the increase in the liability related to the implementation of GASB 49 is not material, the Company did not restate prior periods and instead recognized the effect of GASB 49 implementation in FY 2008.

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. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51) and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), for the year ended August 31, 2009. This was a year earlier than required implementation, because the Company is a component unit of the City for financial reporting requirements and the Company's FY 2009 financial statements will be included in the City's financial statements for the year ended June 30, 2010. Retroactive application of both standards is required, if practical, for all prior periods presented, with certain exceptions as discussed below.

Intangible Assets

GASB 51 establishes a framework for the recognition and measurement of intangible assets, including computer software. The Company's primary intangible asset relates to utility easements for its distribution system. Because GASB 51 does not require retroactive application for intangible assets with indefinite useful lives, the Company has elected not to record its historical utility easements. The Company also has internal use software, for which retroactive application is not required. Should the Company obtain future easements or internal use software, it will account for them in accordance with the provisions of GASB 51.

There was no impact of the implementation of GASB 51 on the financial statements as of and for the years ended August 31, 2009 and 2008.

Derivative Instruments

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

The Company's only derivative instrument is an interest rate swap entered into to hedge the interest payments on its variable rate Sixth Series Bonds. The Company determined the hedging relationship between the Sixth Series Bonds and related interest rate swap to be effective at August 31, 2008. Therefore, the adoption of the provisions of GASB 53 had no impact on beginning net assets at September 1, 2007. The Company's August 31, 2008 balance sheet has been restated to reflect an interest rate swap liability and an offsetting deferred outflow of resources of $13,800,000, representing the fair value of the interest rate swap hedging the Sixth Series Bonds at August 31, 2008. These offsetting amounts are included in other liabilities and deferred credits, and other assets and deferred debits.

Required disclosures related to the Company's swap are located at 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 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 2009, the applicable maximum amount was calculated to be $1,008,600. In FY 2008, the applicable maximum amount was calculated to be $1,011,000. The agreement requires the Company to make annual payments of $18,000,000 to the City. In FY 2009 and FY 2008, 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 $13,739,000 and $13,914,000 in FY 2009 and FY 2008, respectively, relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled $395,000 and $616,000 in FY 2009 and FY 2008, respectively. Net amounts receivable from the City were $139,000 and $375,000 at August 31, 2009 and 2008, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $711,000 and $788,000 in FY 2009 and FY 2008, 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 repurchase agreements. Bank balances of such deposits and accounts at August 31, 2009 and 2008 were $16,732,000 and $52,504,000, respectively. Book balances of such deposits and accounts at August 31, 2009 and 2008 were $13,750,000 and $49,338,000, respectively. Federal depository insurance on these balances at August 31, 2009 and 2008 was $534,000 and $158,000, respectively. The remaining balances are not insured.

For the Company's cash equivalents, the Company's cash balances fluctuate significantly during the year. Excess cash balances are usually invested in money market accounts and repurchase agreements.

The highest balance of money market accounts during the fiscal years ended August 31, 2009 and 2008 were $143,800,000 and $135,200,000, respectively. Money market accounts with a carrying amount (at fair value) of $13,700,000 and $51,200,000 at August 31, 2009 and 2008, respectively, are included in the balances presented above.

There were no repurchase agreements outstanding at August 31, 2009 and 2008.

(b) Restricted Investment Funds

The investments in the Company's Sinking Fund, Capital Improvement Fund, Workers' Compensation Escrow Fund, and City Loan Escrow Account 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, 2009 and 2008 was $62,714,000 and $111,207,000, respectively. The unexpended Capital Improvement Fund proceeds are restricted to the purchase of utility plant. In FY 2009 and FY 2008, 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. The adjustment to market value for the Capital Improvement Fund resulted in a gain of $5,000 at August 31, 2009. The adjustment to market value for the Capital Improvement Fund resulted in a loss of $72,000 at August 31, 2008. The adjustment to market value for the Sinking Fund resulted in gains of $734,000 and $242,000 at August 31, 2009 and 2008, respectively.

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, 2009 and 2008, the trust account balances were $2,593,000 and $2,383,000, respectively.

The following is a schedule that details the Company's investments in the Capital Improvement Fund (thousands of dollars):

	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		N/A/A-1+	S&P
Total fair value of investments	6,674		P1/A-1+	Moody's/S&P
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			

(Continued)

	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		

	August 31, 2008				
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	$	32,244	0.4608	Aaa/AAA	Moody's/S&P
Federal Home Loan Mortgage gold partner certificate		491	1.6694	N/A	
Federal National Mortgage Association global benchmark notes		7,129	0.2794	Aaa/AAA	Moody's/S&P
Federal National Mortgage Association medium term notes		1,248	1.8506	Aaa/AAA	Moody's/S&P
Federal Home Loan Banks		9,405	0.8250	Aaa/AAA	Moody's/S&P
Total U.S. government agencies and instrumentalities		50,517			
Corporate obligations:					
Goldman Sachs Group senior unsubordinate		968	0.7083	Aa-/AA3	Moody's/S&P
Prioca Global		997	0.2917	Aa/AA3	Moody's/S&P
Societe Generale National Association commercial paper		4,950	1.6694	N/A/A-1+	S&P
HSBC Finance Corporation commercial paper		985	0.2403	P1/A-1+	Moody's/S&P
American Express commercial paper		985	0.2403	P1/A-1+	Moody's/S&P
Banco Santander PR San Juan certificate of deposit		98	0.0280	FDIC Insured	
Bank of Florida certificate of deposit		99	0.1043	FDIC Insured	

	August 31, 2008			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Bridgewater Savings Bank certificate of deposit	$ 98	0.0208	FDIC Insured	
Countrywide Bank certificate of deposit	99	0.0180	FDIC Insured	
Eurobank Hato Rey certificate of deposit	99	0.0205	FDIC Insured	
First Suburban National Bank certificate of deposit	98	0.1876	FDIC Insured	
Ironstone Bank certificate of deposit	98	0.1298	FDIC Insured	
Mutual Bank certificate of deposit	99	0.0745	FDIC Insured	
Ravenswood Bank certificate of deposit	97	0.1835	FDIC Insured	
Total corporate obligations	9,770			
Total fair value of investments	60,287			
Cash and cash equivalents:				
Citigroup Funding Inc. commercial paper	4,966	0.1474	N/A/A-1+	S&P
UBS Finance Delaware LLC commercial paper	2,988	0.0595	N/A/A-1+	S&P
Total cash and cash equivalents	7,954			

	August 31, 2008			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
Morgan Stanley Prime Portfolio Institutional Class Funds	$ 21,772	N/A	N/A	
First American Government Obligations Fund Class Z	13,884	N/A	N/A	
First American Prime Obligations Class Z	6,847	N/A	N/A	
Total money market	42,503			
Accrued interest	463			
Total fair value of investments, including cash deposits	$ 111,207			
Portfolio weighted modified duration		0.5898		

The following is a schedule that details the Company's investments in the Sinking Fund (thousands of dollars):

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Guaranteed investment contracts	$ 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		
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			

(Continued)

	August 31, 2009				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:					
U.S. Treasury bills	$	239	0.7778	Aaa/AAA	Moody's/S&P
Money market:				N/A	N/A
Fidelity Institutional Government Portfolio Class II		2,507			
Total fair value of investments, including cash deposits	$	110,227			
Portfolio weighted modified duration			1.9628		

* The credit rating of this investment is unrated.

Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
	August 31, 2008			
Guaranteed investment contracts	$ 48,129	12.5000	*	*
U.S. government obligations:				
U.S. Treasury notes	16,806	2.5158	Aaa/AAA	Moody’s/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	10,176	2.0177	Aaa/AAA	Moody’s/S&P
Federal National Mortgage Association medium term notes	5,152	2.1446	Aaa/AAA	Moody’s/S&P
Federal Home Loan Banks	16,514	1.9511	Aaa/AAA	Moody’s/S&P
Total U.S. government agencies and instrumentalities	31,842			
Corporate obligations:				
Wells Fargo note	2,688	0.5861	Aa1/AA+	Moody’s/S&P
Associates Corp National Association	2,610	0.1694	Aa3/AA-	Moody’s/S&P
Procter & Gamble Company	1,293	0.2917	Aa3/AA-	Moody’s/S&P
Total corporate obligations	6,591			
Total fair value of investments	103,368			
Cash and cash equivalents:				
U.S. Treasury bills	1,860	0.0111	Aaa/AAA	Moody’s/S&P

	August 31, 2008			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:			N/A	N/A
Fidelity Institutional Government Portfolio Class II	$ 970			
Total fair value of investments, including cash deposits	$ 106,198			
Portfolio weighted modified duration		1.9002		

* The credit rating of this investment is unrated.

The following is a schedule that details the Company's investments in the Workers' Compensation Fund (thousands of dollars):

	August 31, 2009			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
First American Treasury Obligations Fund	$ 2,593	N/A	N/A	N/A
Total fair value of investments, including cash deposits	$ 2,593			

	August 31, 2008			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
First American Treasury Obligations Fund	$ 2,383	N/A	N/A	N/A
Total fair value of investments, including cash deposits	$ 2,383			

(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 Investor Services or Standard & Poor's; (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 Investor Services and Standard & Poor's, respectively; (7) general obligation bonds of corporations rated AA or better by Moody's Investor Services or Standard & Poor's, 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 Investor Services or Standard & Poor's 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. 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%
Commonwealth of PA	25%	10%	10%

More than 5.0% of the Company's investments are in the Federal Home Loan Banks, U.S. Treasury Notes, Morgan Stanley Governmental Portfolio Institutional Class Fund, and the GIC with Financial Security Assurance Inc. (FSA) Capital Markets Services, LLC. These investments represent 9.80%, 13.10%, 19.95%, and 26.42%, respectively, of the Company's total investments, which is in accordance with the City's investment policy. In addition, the GIC with FSA 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 2009, there were costs of $236,000 incurred for rate case expenses that will be amortized over a five-year period. The unamortized costs included in other assets and deferred debits were $538,000 and $607,000 as of August 31, 2009 and 2008, respectively. The unamortized costs included in other current assets and deferred debits were $257,000 and $210,000 as of August 31, 2009 and 2008, 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. As a result of settlements during FY 2009 by the Company's insurance carriers associated with environmental remediation costs, the Company received $179,000. Environmental remediation costs of approximately $370,000 in FY 2009 were offset by these insurance settlements, and the remainder was deferred. The Company estimates additional expenditures to be approximately $22,990,000.

(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 $337,000 and $361,000 for the years ended August 31, 2009 and 2008, 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 $200,000,000 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 $150,000,000 under the current credit agreement. The expiration of the credit agreement is May 29, 2010.

The principal amount of notes outstanding at August 31, 2009 and 2008 was $0 and $90,000,000, respectively. The notes outstanding at August 31, 2008 had a weighted average interest rate of 1.63% and remaining weighted average time to maturity of 61 days.

Commercial paper activity for the years ended August 31, 2009 and 2008 was as follows (thousands of dollars):

		Year ended August 31, 2009			
		Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$	90,000	58,000	148,000	—

		Year ended August 31, 2008			
		Beginning balance	Additions	Deletions	Ending balance
Commercial paper	$	51,600	87,900	49,500	90,000

(7) GCR Tariff Reconciliation

During the fiscal years ended August 31, 2009, 2008, and 2007, the Company's actual gas costs were below its billed gas costs by approximately $24,636,000, $30,503,000, and $24,904,000, respectively.

Natural Gas Pipeline Supplier Refund

The Company received refunds including interest in FY 2009 in the amount of $174,000 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 2009.

The Company received refunds including interest in FY 2008 in the amount of $10,956,000 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 2008.

(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, 2009 and 2008 (thousands of dollars):

		August 31, 2009			August 31, 2008		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	46,045	1,092,117	1,138,162	73,941	1,103,828	1,177,769
Unamortized discount		(396)	(3,324)	(3,720)	(482)	(4,469)	(4,951)
Unamortized premium		2,526	25,695	28,221	2,571	27,804	30,375
Total revenue bonds	$	48,175	1,114,488	1,162,663	76,030	1,127,163	1,203,193

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, 2009 and 2008 (thousands of dollars):

	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:					
Forward rate agreement	$	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

	Year ended August 31, 2008				
		Beginning balance	**Additions**	**Reductions**	**Ending balance**
Revenue bonds	$	1,218,198	—	(40,429)	1,177,769
Other liabilities and deferred credits:					
Forward rate agreement	$	8,431	—	(624)	7,807
Claims and judgments		3,111	2,966	—	6,077
Environmental clean-up		10,013	7,677	—	17,690
Other postemployment benefits		26,421	25,834	—	52,255
Interest rate swap liability		—	13,790	—	13,790
Total other liabilities and deferred credits	$	47,976	50,267	(624)	97,619

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 swap are as follows (thousands of dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2010	$ 46,045	43,055	8,192	97,292
2011	46,622	40,935	8,677	96,234
2012*	42,926	39,182	8,677	90,785
2013	45,135	37,526	8,677	91,338
2014	47,095	35,252	8,677	91,024
2015 – 2019	234,120	140,018	42,810	416,948
2020 – 2024	247,395	93,572	32,343	373,310
2025 – 2029	229,825	57,156	13,974	300,955
2030 – 2034	122,385	27,591	807	150,783
2035 – 2038	76,614	5,072	—	81,686
Total	$ 1,138,162	519,359	132,834	1,790,355

* Tax Exempt Capital Accumulator (TECA) accretions for the 11 "C" Series in the amount of $3,139,000 are not included in the principal amount in FY 2012.

Future debt service is calculated using rates in effect at August 31, 2009 for variable rate bonds. The net swap payments were calculated by subtracting interest payments based on the lesser of the bond rate, SIFMA rate, or 70.0% of the LIBOR rate subject to swap agreements from the synthetic fixed rate achieved by the swap.

(a) Bond Issuances

2009 Ordinance

On June 3, 2009, the Mayor signed a bill into law authorizing the City to issue revenue bonds. The bill signed by the Mayor constituted the Ninth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998 (the 1998 General Ordinance). This ordinance authorizes the City to issue revenue bonds for the following purposes: (a) to pay the cost of refunding or redeeming all or a portion of the outstanding Gas Works Revenue Bonds, Sixth Series (1998 Ordinance) and other Project Costs; (b) authorizing the City to obtain credit enhancement and liquidity for all or a portion of the Eighth Series Bonds, enter into or amend one or more Qualified Swap Agreements or to relate all or a portion of an existing Qualified Swap Agreement to all or a portion of a different series of outstanding Gas Works Revenue Bonds, and authorizing covenants and actions in order that the Eighth Series Bonds shall not be arbitrage bonds; and (c) making certain determinations and covenants relating to Gas Works Revenues and payment of interest and principal.

1998 Ordinance Eighth Series Bonds

On August 20, 2009, the Company issued $313,285,000 of Eighth Series Bonds 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 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 an interest rate that ranges 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, are paid monthly, and are secured with a letter of credit which expires 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):

Description	Interest rates	Maturity date (fiscal year)	Balance outstanding August 31, 2009	Balance outstanding August 31, 2008
Series 11C	6.80%	2012	$ 21,882	20,379
1st Series A	4.50% – 5.50%	2026	84,995	95,815
1st Series C	3.85% – 5.00%	2014	8,615	10,115
16th Series	4.00% – 5.50%	2015	16,915	25,905
2nd Series	4.63% – 5.38%	2012	8,370	10,905
3rd Series	4.25% – 5.50%	2012	8,515	11,105
4th Series	4.00% – 5.25%	2032	92,585	95,125
17th Series	4.00% – 5.38%	2026	140,225	148,875
5th Series	4.00% – 5.25%	2034	120,000	120,000
5th Series A-2	Variable	2035	30,000	30,000
18th Series	5.00% – 5.25%	2021	50,470	52,580
6th Series	Variable	2031	—	311,615
19th Series	5.00%	2024	14,450	14,450
7th Series	4.00% – 5.00%	2038	196,955	200,000
7th Series Refunding	5.00%	2029	30,900	30,900
8th Series A	4.00% – 5.25%	2017	58,285	—
8th Series B	Variable	2031	105,000	—
8th Series C	Variable	2031	50,000	—
8th Series D	Variable	2031	50,000	—
8th Series E	Variable	2031	50,000	—
			$ 1,138,162	1,177,769

(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.

Monies in the Sinking Fund reserves are to be applied to the payment of debt service if, for any reason, other monies 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 Agreement

Objective and Terms – In January 2006, the City entered into a swap to create a synthetic fixed rate for the Sixth Series Bonds. 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 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 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 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. Separate trade confirmations with the same terms as the original swap were executed with the counterparty for the Eighth Series C through E.

As of August 31, 2009, the swap 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 is on August 1, 2031.

Fair value – As of August 31, 2009, the swaps had a combined negative fair value for all series of $27,555,000. 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, 2009, the City is not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include an additional termination event 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 FSA, as long as FSA is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed.

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 would be

(Continued)

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 swap on the financial statements for the year ended August 31, 2009 is as follows (thousands of dollars):

		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 and deferred debits on the balance sheet.

(d) Forward Rate Agreement and Guaranteed Investment Contracts

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 Forward Rate Agreement is 18½ years, with 11½ years remaining at August 31, 2009.

The GICs are recorded at fair value in the Sinking Fund and had fair values of $46,351,000 and $48,129,000 at August 31, 2009 and 2008, respectively.

The Company also paid $1,650,000 to terminate an existing Forward Rate 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 $7,183,000 and $7,807,000 at August 31, 2009 and 2008, respectively.

(e) Note Payable – City Loan

On November 15, 2000, the Mayor signed an ordinance authorizing the City to advance in whole or in part, up to $45,000,000 to the Company, to provide liquidity in the winter of 2000-2001. The loan from the City carried no interest. The loan repayment period was extended to August 2008.

The loan from the City was subordinate to the Company's other repayment obligations on its revenue bonds and commercial paper program. The outstanding balance of the City Loan was $43,000,000 at August 31, 2007. The remaining balance of the City Loan was remitted to the City in payments of $20,500,000 and $22,500,000 in December 2007 and August 2008, respectively.

(f) Authorized and Unissued Financing

On June 3, 2009, the Mayor of the City of Philadelphia signed into law the Tenth Supplemental Ordinance to the 1998 General Ordinance; authorizing the City to sell, either at public or private sale, Gas Works Revenue Bonds, Ninth Series, in an amount not to exceed $150,000,000, plus accrued interest, to pay the costs of certain capital projects and other Project Costs; authorizing the City to obtain Credit Facilities for the Ninth Series Bonds; making certain determinations and covenants relating to Gas Works Revenues and the payment of interest and principal; and authorizing covenants and actions in order that the Ninth Series Bonds shall not be arbitrage bonds.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2009 was as follows (thousands of dollars):

	Latest date maturing to	Interest rate		Bonds outstanding
7th Series	3/15/13	6.00%	$	10,675
12th Series B	5/15/20	7.00		45,230
3rd Series	8/1/31	5.50		99,445
4th Series	8/1/32	5.25		20,005

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

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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 $187,854,000 at August 31, 2009, bearing interest on face value from 4.30% to 5.89%.

The Company issued $313,285,000 of Eighth Series Bonds during FY 2009. The Eighth Series A fixed rate bonds were issued in the amount of $58,285,000 and the Eighth Series B, Eighth Series C, Eighth Series D and the Eighth Series E variable rates bonds were issued in the amounts of $105,000,000, $50,000,000, $50,000,000 and $50,000,000, respectively. The proceeds of the sale were utilized to currently refund Sixth Series variable rate bonds in the amount of $311,615,000. The refunding of this existing debt resulted in an accounting loss of $29,033,000. This loss is being deferred and amortized as interest expense over the life of the new bond.

(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 $107,918,000 and $105,596,000 at August 31, 2009 and 2008, respectively.

At September 1, 2007, 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	2,151
Current employees:	
Vested	1,395
Nonvested	270
Total current employees	1,665
Total membership	3,816

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 2009 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:				
2009	$	8,125	7,300	15,425
2008		8,085	6,173	14,258
2007		7,693	7,524	15,217

Withdrawals from pension assets of $18,528,000 and $18,564,000 in FY 2009 and FY 2008, respectively, 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.

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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 Pension Plan had an actuarial value of assets of $430,390,000 and an actuarial accrued liability of $495,155,000 resulting in a funded ratio of 86.92% based on a biennial actuarial valuation of the pension fund as of September 1, 2007, updated for contributions and accrued benefits in the subsequent year. The resulting unfunded actuarial accrued liability of $64,765,000 was 60.01% of covered payroll of $107,918,000.

(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 1,936 and 1,920 participating retirees and their beneficiaries and dependents for FY 2009 and FY 2008, respectively, in accordance with their retiree medical program. The Company also provides such benefits to approximately 1,702 and 1,699 active employees and their dependents for FY 2009 and FY 2008, respectively, by charging the annual insurance premiums to expense. The annual covered payroll (which was substantially equal to total payroll) was $107,918,000 and $105,596,000 at August 31, 2009 and 2008, 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 $37,064,000 and $34,226,000 in FY 2009 and FY 2008, respectively, of which approximately 50.7% and 48.1%, respectively, represents payments on behalf of retired employees and their dependents. Employees and retirees contributed $1,329,000 and $1,477,000 in FY 2009 and FY 2008, 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 $1,832,000 and $2,103,000 in FY 2009 and FY 2008, respectively. The amount attributed to retirees was approximately 76.0% and 71.0% in FY 2009 and FY 2008, 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.

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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, 2009. 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 2009.

	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 2009 was $20,057,000, consisting of $18,785,000 of healthcare expenses and $1,272,000 of life insurance expenses. The difference between the ARC and the expenses paid resulted in an increase in the OPEB liability of $25,952,000 and $25,834,000 recorded in other liabilities and deferred credits and expensed in FY 2009 and FY 2008, respectively. As of August 31, 2009, the actuarial accrued liability for benefits was $635,792,000, all of which was unfunded and the ratio of the unfunded actuarial accrued liability to the covered payroll was 589.1%. 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 2009, the amount actually contributed to the plan, and the Company's net OPEB obligation (thousands of dollars):

Annual required contribution	$	46,795
Interest on net OPEB obligation		2,613
Adjustment to the annual required contribution		(3,399)
Annual OPEB cost		46,009
Contributions made		(20,057)
Net OPEB obligation as of August 31, 2008		52,255
Net OPEB obligation as of August 31, 2009	$	78,207

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2009 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:					
2009	$	46,009	43.59%	$	78,207
2008		44,114	41.44		52,255
2007		45,237	41.60		26,421

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.

(d) Other Coverage Information

Also, 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, 2009 and 2008 are $22,990,000 and $21,600,000 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:						
2009	$	13,534	1,938	(3,591)	11,881	5,236
2008		8,468	7,757	(2,691)	13,534	7,457
2007		8,059	3,367	(2,958)	8,468	5,357

(14) Commitments and Contingencies

Commitments for major construction and maintenance contracts were approximately $5,312,000 as of August 31, 2009.

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:		
2010	$	359
2011		43
2012		6

Rent expense for the fiscal years ended August 31, 2009 and 2008 amounted to $1,520,000 and $910,000, 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 $6,285,000 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 2010 Capital Budget was approved by City Council in the amount of $72,215,000. Within this approval, funding is provided to continue the implementation of an 18-mile Cast Iron Main Replacement Program. Main replacement cost for this program in FY 2010 is expected to be $17,445,000. The total six-year cost of the Cast Iron Main Replacement Program is forecasted to be approximately $110,033,000.

The FY 2010 Capital Budget also includes $2,474,000 for the purchase of replacement Automatic Meter Reading (AMR) units. The total six-year cost of this program to replace AMR units is approximately $5,534,000.

(15) Subsequent Events

December Rate Case

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 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. PGW anticipates a PUC decision in September 2010.

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, 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
September 1, 2003++++	356,000	427,006	71,006	83.37	101,200	70.16

* 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.

++++ 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.

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, 2009	$ —	635,792	635,792	—%	$ 107,918	589.14%
August 31, 2008	—	591,599	591,599	—	105,596	560.25
August 31, 2007	—	573,734	573,734	—	106,018	541.17

See accompanying independent auditors' report.

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

Supplemental Statements of Net Assets (City Format)

August 31, 2009 and 2008

(Thousands of dollars)

		2009	2008
Assets:			
Cash on deposit and on hold	$	13,744	49,332
Equity in pooled cash and investments		—	—
Equity in treasurer's account		—	—
Investments		—	—
Internal balances		—	—
Amounts held by fiscal agent		6	6
Notes receivable		—	—
Taxes receivable		—	—
Accounts receivable – net		105,496	99,304
Interest and dividends receivable		—	—
Due from other governments		—	—
Restricted assets		175,534	219,788
Inventories		125,023	187,539
Unamortized loss and discount		57,451	52,852
Other assets		23,465	63,699
Property, plant, and equipment		1,785,250	1,732,562
Accumulated depreciation		(708,783)	(670,467)
Total assets	$	1,577,186	1,734,615
Liabilities:			
Notes payable	$	—	90,000
Vouchers and accounts payable		46,205	67,508
Salaries and wages payable		3,719	3,430
Accrued expenses		133,902	107,484
Funds held in escrow		—	—
Due to other governments		—	—
Deferred revenue		14,427	31,641
Current portion of long-term obligations		46,045	73,942
Noncurrent portion of long-term obligations		1,092,117	1,103,827
Unamortized gain and premium		28,221	30,375
Total liabilities	$	1,364,636	1,508,207
Net assets:			
Invested in (deficiency in) capital assets, net of related debt	$	1,019	(4,466)
Restricted for:			
Capital projects		—	—
Debt service		112,820	108,581
Community development projects		—	—
Behavioral health programs		—	—
Intergovernmental financing		—	—
Emergency phone system		—	—
Rate stabilization		—	—
Unrestricted		129,780	122,293
Total net assets	$	243,619	226,408

See accompanying independent auditors' report.

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

Supplemental Statements of Activities (City Format)

Years ended August 31, 2009 and 2008

(Thousands of dollars)

		August 31, 2009				
		Expenses	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Total**
Gas services	$	(797,135)	919,768	21,913*	—	144,546
Interest on debt		(63,602)	—	—	—	(63,602)
Unallocated depreciation		(37,781)	—	—	—	(37,781)
Other postemployment benefits		(25,952)	—	—	—	(25,952)
Total	$	(924,470)	919,768	21,913*	—	17,211

* Includes $12,240 of interest and other income and $9,673 of other operating revenues.

		August 31, 2008				
		Expenses	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Total**
Gas services	$	(740,819)	840,035	25,324*	—	124,540
Interest on debt		(56,075)	—	—	—	(56,075)
Unallocated depreciation		(39,524)	—	—	—	(39,524)
Other postemployment benefits		(25,834)	—	—	—	(25,834)
Total	$	(862,252)	840,035	25,324*	—	3,107

* Includes $15,732 of interest and other income and $9,592 of other operating revenues.

See accompanying independent auditors' report.

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

Supplemental Statements of Revenues, Expenses, and Changes in Fund Net Assets (City Format)

Years ended August 31, 2009 and 2008

(Thousands of dollars)

		2009	2008
Operating revenues:			
Charges for goods and services	$	910,457	831,428
Sales of land and improvements		—	—
Rentals and concessions		—	—
Miscellaneous operating revenues		18,984	18,199
Total operating revenues		929,441	849,627
Operating expenses:			
Personal services		77,486	73,351
Purchase of services		86,106	75,640
Material and supplies		7,064	6,216
Employee benefits		43,500	41,488
Indemnities and taxes		—	—
Depreciation and amortization		42,200	42,868
Cost of goods sold		545,846	511,976
Other		—	—
Total operating expenses		802,202	751,539
Operating income		127,239	98,088
Nonoperating revenues (expenses):			
Operating grants		—	—
Passenger facility charges		—	—
Other income		5,530	1,834
Interest income		6,710	13,897
Debt service – interest		(63,602)	(56,075)
Other expenses		(58,666)	(54,637)
Total nonoperating expenses		(110,028)	(94,981)
Income before transfers		17,211	3,107
Transfer in		18,000	18,000
Transfer out		(18,000)	(18,000)
Capital contributions		—	—
Change in net assets		17,211	3,107
Net assets – beginning of year		226,408	223,301
Net assets – end of year	$	243,619	226,408

See accompanying independent auditors' report.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Supplemental Schedule of Interfund Transfers

Year ended August 31, 2009

(Thousands of dollars)

Due to the City, September 1, 2008	$	3,000
Accrued distributions		18,000
Payments to the City		(18,000)
Due to the City, August 31, 2009	$	3,000

See accompanying independent auditors’ report.

APPENDIX B

INDEPENDENT CONSULTANT'S ENGINEERING REPORT DATED AUGUST 3, 2010

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Independent Consultant's Engineering Report

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds
Consisting of:

Gas Works Revenue Bonds
$150,000,000 Ninth Series
(1998 General Ordinance)
Philadelphia Gas Works
Philadelphia, Pennsylvania

BLACK & VEATCH
Building a world of difference.

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August 3, 2010

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 Statement") prepared by PGW in connection with the City's issuance of $150,000,000 in Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds"). The Ninth Series Bonds will be issued to finance various elements of PGW's on-going capital improvement program.

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 Ninth Series Bonds. This Report is based on our analysis of the records and capital improvement programs of PGW, discussions with key PGW personnel in April 2010, physical inspections of predominately above-ground facilities conducted in March 2009, and such other investigations as we have deemed necessary. This report assumes the general condition of facilities inspected in March 2009 has not changed.

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 2010 through 2015, is presented in the first part of the Report. The second part of the Report contains financial feasibility information including analyses of gas rates and rate methodology; projection of future operation and maintenance expenses; CIP financing plans; projection of revenue requirements as a determinant of future revenues; and assessing the ability of PGW to satisfy the covenants in the City Ordinances (the 1975 General Ordinance and 1998 General Ordinance) authorizing the issuance of the Prior Bonds and the Ninth Series Bonds. "Prior Bonds" are defined as the outstanding bonds issued under the General Gas Works Revenue Bond Ordinance of 1975 (the "1975 General Ordinance") and the General Gas Works Revenue Bond Ordinance of 1998 (the "1998 General Ordinance"). Together, the Prior and Ninth 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 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.

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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 9,000 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 Statement 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. 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.

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 Ninth 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 (including the projects to be established with the proceeds of the Ninth Series Bonds), the System should yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) 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 Ninth 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 forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of 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, 2010, through August 31, 2015, 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 couple of years, and are addressed more fully in the text of this Report:

1. Projected gas supply costs have dropped significantly, over 20 percent for 2010 and over 10 percent for 2014.
2. On December 18, 2009, PGW submitted a base rate case filing with the PUC to make the $60 million increase that the PUC granted in 2008 permanent. 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. In addition to the $60 million base rate increase, PGW will receive an additional $16 million per year to fund Other Post-Employment Benefits (“OPEB”).
3. PGW’s project capital improvements for 2011 and 2012 have decreased by approximately $22 million.
4. Operation and maintenance expenses (excluding gas supply expenses) are about $72 million higher over the 2010 through 2014 period than previously projected.
5. PGW’s debt service payments over the 2010-2014 period are approximately $67 million lower.
6. PGW’s debt service coverage (S&P calculation) is significantly higher due to the combination of lower debt service payments and greater funds available to service debt.

Very truly yours,

BLACK & VEATCH CORPORATION

Thomas J. Sullivan

Thomas J. Sullivan, P.E.
Managing Director
B&V Management Consulting Division

Enclosure

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Listing of Acronyms

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

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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 the $150,000,000 Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds").

The Ninth Series Bonds will be issued to finance various elements of PGW's on-going capital improvement program.

"Prior Bonds" are defined as the outstanding bonds issued under the 1975 Ordinance and the 1998 Ordinance. Together, the Prior and Ninth 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 systems. Black & Veatch performed inspections of PGW's facilities in March 2009. 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 relatively short period of time. Therefore, this Report is relying upon the inspections conducted in March 2009. This Report provides a review of the proposed capital improvement program ("CIP") for fiscal years 2010 through 2015 and includes the results of engineering studies regarding the financial requirements of the System. Evaluation of the projected financing of future operating and 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 2010 through 2015. The financial feasibility of the issuance of the Ninth Series Bonds should be evaluated recognizing 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 issued in 2002, 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 issued in 2006, the Independent Consultant's Engineering Report ("2007 Report") for PGW's (1998 General Ordinance) Seventh Series Bonds issued in 2007 and the Independent Consultant's Engineering Report ("2009 Report") for PGW's (1998 General Ordinance) Eighth Series Bonds issued in 2009. 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, including PGW's city gate stations and liquefied natural gas facilities. We also interviewed key members of PGW's management team in March 2009 and April 2010 regarding operations and maintenance issues and practices.

The financial feasibility review has been performed by personnel assigned to the Management Consulting Division of Black & Veatch, 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.

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.

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[1] Act of June 22, 1999, P.L. 122, No. 21, §3 (66 Pa. C.S.A. §2201 et seq.).

[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.).

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 170 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 is summarized below. As described later in this Report, as of July 1, 2000, the Gas Choice Act confers the responsibility of regulating PGW's rates and services to the PUC. *(See Pennsylvania Public Utility Commission and Regulation)*.

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].
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.

[3] As of July 1, 2000, the PUC became responsible for regulating rates pursuant to the Gas Choice Act.

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.

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).*

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.

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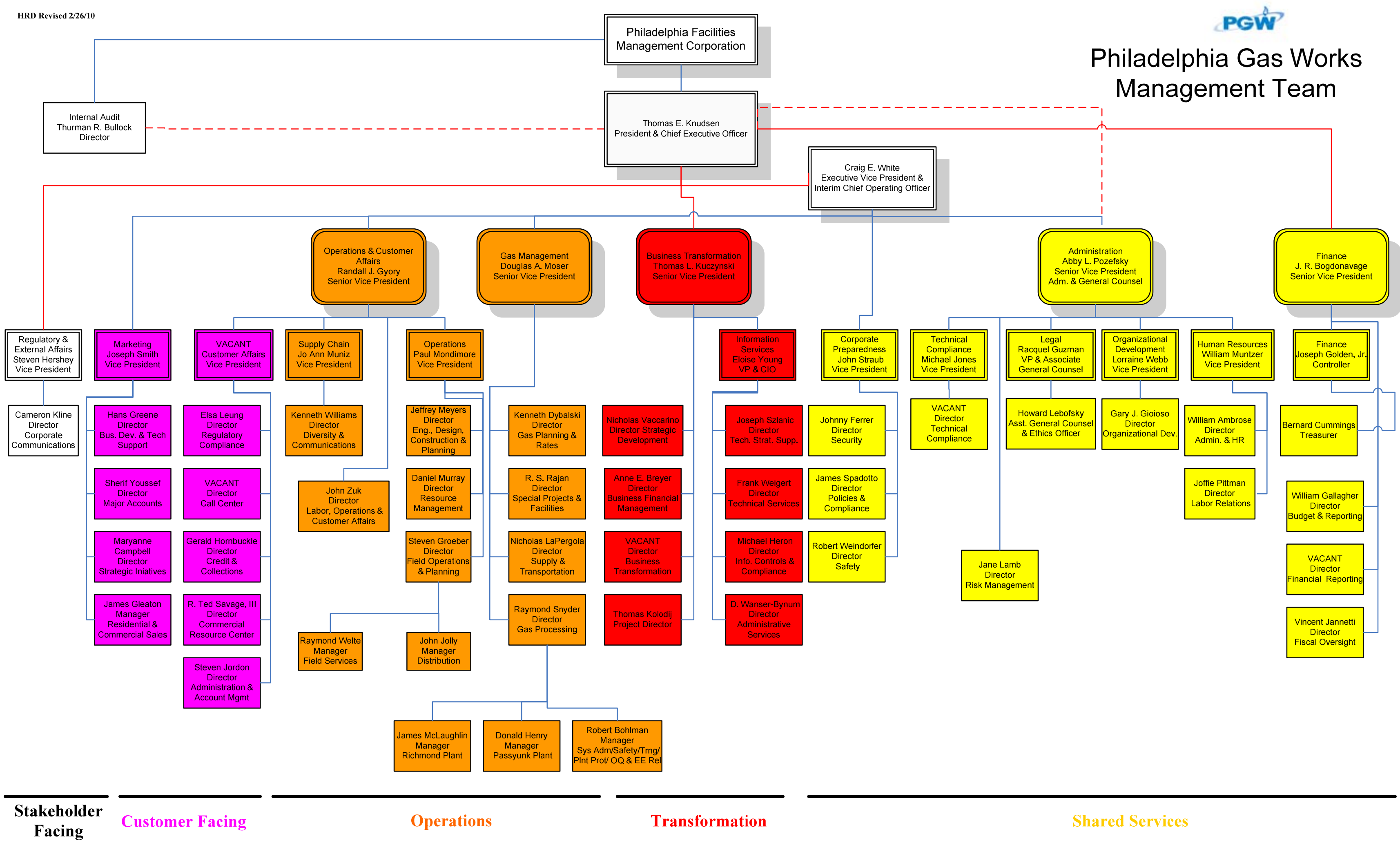
[4] Ibid.

[5] For the purpose of this report, PGW officers and management include individuals provided by PFMC.

As of March 2010, PGW employed 1,662 people. Presently, approximately 69 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. The two-year extension went into effect on May 15, 2008 and will be valid through May 15, 2010. In December 2009 a further one-year extension of the contract was signed and will be effective May 16, 2010 to May 15, 2011. There will be no wage increase during the term of the extension and medical benefits will remain unchanged.

Figure 1
Philadelphia Gas Works Organization Chart



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.

Pennsylvania Public Utility Commission

The PUC regulates the rates and supervises the 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 Ninth 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 Ninth 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 Ninth 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 Ninth 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 and 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, 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 463,369 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 2000 United States Census, Philadelphia has a population of approximately 1,500,000 inhabitants, a decrease of about 4 percent since 1990.[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.

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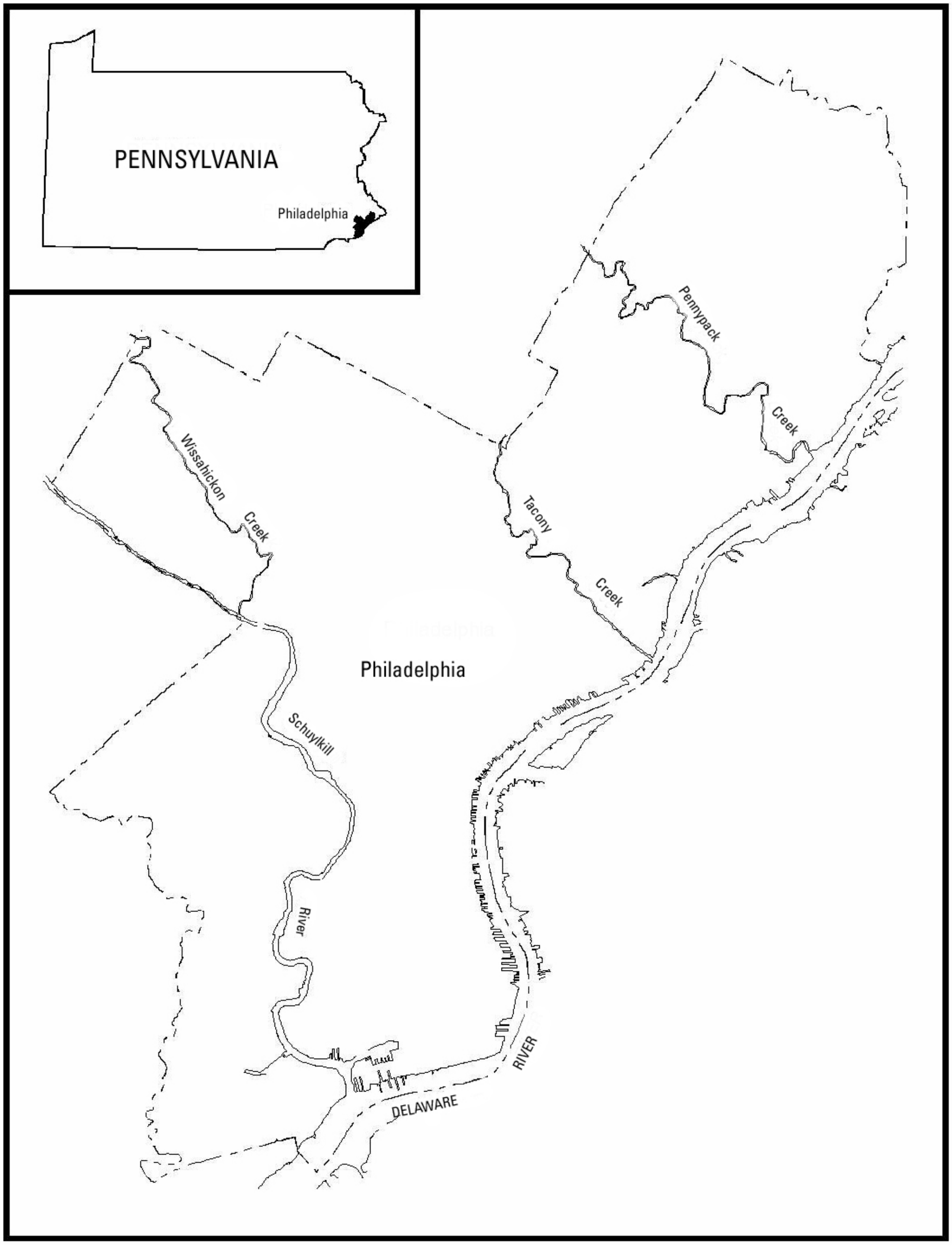
[6] The City of Philadelphia and Philadelphia County are coextensive. *United States Census Bureau, Census 2000 Redistricting Data (P.L. 94-171) Summary File, Table PL1 and 1990 Census.*

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 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 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.

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, 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 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 694 vehicles, 100 portable compressors, and 42 trailers. PGW also maintains three minor automobile repair facilities, bulk fuel dispensing equipment, and materials and supplies.

Condition of Facilities

In March 2009, 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	Distribution Facilities
Liquefied Natural Gas Facilities	***Meter Setting***
Richmond & Passyunk Plants	Commercial
	5230 Chestnut (in West District Office)
City Gate Stations	1337 West Erie Ave. (in North District Office)
034	Industrial/Commercial
Ashmead	University Village (Temple), intersection of 10th and Montgomery
Penrose	
Richmond	***Construction Sites***
Somerton	150 Gay St. - Replace cast iron main with 4" PE and renew services.
060	Baldwin St., Wilde to Silverwood - Block renewal of cast iron with 4" PE and transfer services.

Other Facilities	
Field Offices/On-Site Facilities	***District Offices***
Montgomery	Center City - Leased
Porter	Frankford - Leased
Tioga	Germantown - Leased
Castor	North - Owned
Belfield	South - Owned
SCADA Control Room	West - Owned
PGW - 1800 N. 9th St.	

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, interviews conducted in April 2010, 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 2010 fiscal year, purchased gas costs are estimated to account for approximately 85 percent of the total gas supply expenses of $420 million and approximately 40 percent of total revenues of $822 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.

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 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.

Table 1
Gas Supply, Transportation, and Storage Contracts

Contract	Contract Expiration[b]	2010 - 2015 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	04/15/11	5,191	5,040	5,191	5,040
GSS	03/31/13	53,871	52,302	53,871	52,302
WSS[a][e]	03/31/11			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]	03/31/12	6,815	6,616	6,815	6,616
Dominion/GSS/FTS8[e]	03/31/12	22,495	21,840	22,495	21,840
Equitable/FTS2	03/31/11	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 2009.

(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 2009.

(e) Volumes reflect 87.5% contract limitation on maximum monthly storage withdrawal.

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 2010 fiscal year, transportation and storage capacity costs are estimated to account for approximately 15 percent of the total gas supply expenses of $420 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 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 2004 through 2009, and the supply mix that would enable PGW to meet future demand assuming design conditions over the 2010 through 2015 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 70 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 63 percent of peak day demand under design conditions would be met from pipeline supply with the remaining 37 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 2010 through 2015. PGW defines a normal year as one containing 4,412 HDD. This normal year is based on a 30-year average. PGW defines a design year as one containing

[7] This will decrease to approximately 16,000 Mcf per day in 2012 when the Title V Operating Permit expires for the cascade liquefaction

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.

Table 2
Peak Day Supply and Demand

	Fiscal Year Ending August 31,											
	Actual						Budget	Projected - Design [a]				
Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actual[b]												
Heating Degree-Days	52	50	44	51	42	50	45					
Demand - Mcf	620,413	591,133	490,923	589,588	533,349	574,126	543,835					
Supply - Mcf												
Pipeline/Storage	434,420	455,735	450,912	438,350	423,165	448,737	463,509					
LNG	185,993	135,398	40,011	151,238	110,184	125,389	80,326					
Total	620,413	591,133	490,923	589,588	533,349	574,126	543,835					
Projected - Design												
Heating Degree-Days[c]								65	65	65	65	65
Demand - Mcf[c]								706,100	706,800	707,700	708,600	709,700
Supply - Mcf												
Pipeline/Storage [d]								446,928	446,928	446,928	446,928	446,928
LNG (net)								259,172	259,872	260,772	261,672	262,772
Total								706,100	706,800	707,700	708,600	709,700

(a) Assumes no unbundling of services.

(b) For 2004-2009, SDS 7, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2009.

(c) SDS 6, Page 3 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2000.

(d) SDS 6, Page 4 of 4, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2009.

Table 3
Annual Supply and Demand

Line No.	Description	2010	2011	2012	2013	2014	2015
		dt	dt	dt	dt	dt	dt
	Normal Year - 4,412 Heating Degree-days						
	Requirements - Sales						
1	Firm Service	54,971,172	54,688,023	54,534,823	54,320,090	54,218,558	54,132,022
2	Boiler and Power Plant Service	715,641	588,667	521,569	487,662	474,968	3,875,224
3	Load Balancing Service	101,444	78,382	64,454	55,068	48,660	476,353
4	Cogeneration Service	9,976	7,784	6,441	5,530	4,919	44,309
5	Gas Transportation Service	2,968,158	3,247,553	3,470,621	3,637,022	3,761,342	4,488
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	58,766,391	58,610,409	58,597,908	58,505,372	58,508,447	58,532,396
10	Plant Use	137,061	135,621	132,403	128,900	130,033	128,848
11	Transport Fuel	3,546,193	3,562,288	3,683,510	3,602,346	3,621,477	3,600,274
12	Storage Fuel	377,155	551,270	562,984	543,739	546,421	550,681
13	Storage Return	11,417,810	17,026,461	17,488,546	16,645,307	16,741,412	16,847,988
14	Liquefaction	2,375,507	2,108,646	1,694,716	1,446,496	1,598,594	1,459,677
15	Total Demand	76,620,117	81,994,695	82,160,067	80,872,160	81,146,384	81,119,864
	Supply						
16	Spectra	23,083,828	22,270,713	22,143,541	21,620,695	21,836,170	21,568,502
17	Transco-Williams	40,456,500	40,621,124	40,370,501	39,944,686	40,383,656	40,346,969
18	Pipeline Subtotal	63,540,328	62,891,838	62,514,042	61,565,381	62,219,826	61,915,471
19	Spectra	6,089,033	9,097,589	9,168,163	9,020,916	9,125,860	9,066,412
20	Transco-Williams	5,410,958	8,551,880	8,903,655	8,725,363	8,316,800	8,603,265
21	Storage Subtotal	11,499,991	17,649,469	18,071,817	17,746,279	17,442,660	17,669,677
22	LNG	1,579,798	1,453,388	1,574,208	1,560,500	1,483,898	1,534,716
23	Total Supply	76,620,117	81,994,695	82,160,067	80,872,160	81,146,384	81,119,864
	Design Year - 5,280 Heating Degree-days						
	Requirements - Sales						
24	Firm Service	63,163,106	62,837,834	62,656,398	62,414,242	62,296,834	62,197,214
25	Boiler and Power Plant Service	833,100	683,747	604,262	563,579	547,575	547,956
26	Load Balancing Service	115,175	88,963	73,134	62,493	55,203	50,255
27	Cogeneration Service	9,976	7,784	6,441	5,530	4,919	4,488
28	Gas Transportation Service	3,337,551	3,655,328	3,908,665	4,098,249	4,239,357	4,368,890
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	67,458,908	67,273,656	67,248,899	67,144,093	67,143,888	67,168,803
33	Plant Use	147,005	145,529	139,844	137,506	138,922	137,354
34	Transport Fuel	4,060,696	4,248,151	4,255,471	4,142,787	4,173,629	4,153,758
35	Storage Fuel	450,693	449,659	449,354	477,787	489,873	490,844
36	Storage Return	13,331,894	14,463,156	15,260,152	14,976,825	15,354,017	15,381,837
37	Liquefaction	2,375,507	2,108,646	1,588,454	1,446,496	1,598,594	1,459,677
38	Total Demand	87,824,703	88,688,797	88,942,174	88,325,494	88,898,923	88,792,273
	Supply						
39	Spectra	27,864,924	27,935,598	28,461,202	26,948,310	27,460,275	27,210,554
40	Transco-Williams	43,752,702	43,354,587	42,609,247	43,067,113	43,337,095	43,290,227
41	Pipeline Subtotal	71,617,626	71,290,185	71,070,449	70,015,423	70,797,370	70,500,782
42	Spectra	7,494,388	7,317,225	6,993,608	7,704,529	7,741,078	7,734,271
43	Transco-Williams	5,874,132	7,374,013	8,208,327	7,955,678	7,751,372	7,945,697
44	Storage Subtotal	13,368,520	14,691,239	15,201,934	15,660,207	15,492,450	15,679,968
45	LNG	2,838,557	2,707,373	2,669,791	2,649,864	2,609,103	2,611,523
46	Total Supply	87,824,703	88,688,797	88,942,174	88,325,494	88,898,923	88,792,273

Reference: SDS 4A and SDS 4B, In the Matter of Proposed Operating Budget, Supporting Documentation - Gas Costs and Purchasing Plans, Volume 1, June 2009.

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 64 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[17] and 15 percent off-system storage), and 2 percent is delivered from the LNG facilities.

[17] Flowing gas represents gas that is purchased at the same time as delivered to customers.

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 2010 budget and for a five-year forecast period (2011-2015). 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 facility 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". It should be noted that the projected expenditures for 2010 reflect a management decision to return capital spending to historical levels after 2009 when management implemented a contingency spending plan that reduced spending. This action was necessary given the dislocation in the financial markets. Spending for the forecast period beyond 2010, also assumes that capital spending will resume at the previously budgeted level. However, matching future capital expenditures with the ability to fund these expenditures is a dynamic process which is constantly being reviewed.

Proposed capital expenditures over the five-year projection period, 2011 through 2015, total $357.2 million. For fiscal year 2010, PGW's estimated capital expenditure of $72.1 million (net of salvage, contributions, and reimbursement) represents a 31.4 percent increase from the 2009 capital expenditures. The majority of the 2010 capital expenditures, $51.7 million or 72 percent, is committed to Distribution Department projects. Field Services and Other Departments have planned expenditures of about $4.7 million and $8.4 million, respectively, in fiscal year 2010. Gas Processing and Transportation have planned expenditures of about $5.0 million and $2.5 million, respectively, in fiscal 2010. Over the five-year forecasted period, Distribution Department projects have planned expenditures of $278.8 million, which represents 78 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. Funding is also provided for main rehabilitation activities and to provide facilities for new load opportunities

Based on our inspections of existing facilities in March 2009 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 2010, by major department, is shown in Table 5. This table also shows the priority assigned to each project. In addition to the budgeted $62.2 million as shown in Table 5 for 2010, PGW anticipated completing $9.9 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 $5.0 million in fiscal year 2010. 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 2010 for the Distribution Department is $51.7 million, which is about $9.6 million higher than 2009 capital expenditures. Given the 2009 spending reduction and only an approximately 6 mile reduction in cast iron main, PGW's ongoing annual cast iron mains replacement program will return to 18 miles in 2010 and throughout the forecast period.

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 $19.3 million for fiscal year 2010.

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Table 4
Historical and Proposed Capital Improvement Program Expenditures
(Thousands of Dollars)

	Fiscal Year Ending August 31,[a]												
	Actual						Budget[c]	Projected					Total
Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011 - 2015
	$	$	$	$	$	$	$	$	$	$	$	$	$
Gas Processing	9,843	5,008	4,262	3,332	2,515	1,048	4,992	3,642	4,651	5,333	3,147	2,773	19,546
Distribution	40,096	43,572	45,211	48,549	47,748	42,104	51,684	53,473	54,319	55,653	56,965	58,363	278,773
Field Services	3,266	5,288	6,111	6,621	5,813	5,673	4,654	9,044	5,210	5,023	5,097	4,219	28,593
Transportation	2,649	2,918	3,685	3,080	2,128	2,455	2,383	3,824	2,079	3,340	3,953	3,401	16,597
Other Departments [b]	4,062	10,124	8,788	8,436	3,538	3,582	8,407	4,200	2,809	2,394	2,308	1,981	13,692
Subtotal	59,916	66,910	68,057	70,018	61,742	54,862	72,120	74,183	69,068	71,743	71,470	70,737	357,201

(a) All figures are net of Salvage, Reimbursements, and Contributions.

(b) Includes Approved and Budgeted Program for Field Operations, Building Services, Customer Affairs, and Information Services.

(c) Includes carryover of $9.9 million in capital improvements from prior years.

Table 5
New Capital Projects for FY2010
(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	333	0	0	0	0	333
Replace (1) M&R Station Heater	0	63	0	0	0	63
Install Platform for Boiler Deareator	0	63	0	0	0	63
Electronic Security Upgrades - Passyunk	0	211	0	0	0	211
Miscellaneous Additions	50	0	0	0	0	50
Miscellaneous Replacements	150	0	0	0	0	150
Total Gas Processing	533	337	0	0	0	870
Distribution						
Prudent Main Replacements	12,439	0	0	0	0	12,439
High Pressure Main Valves Replacements	100	0	0	0	0	100
Joint Clamping and Encapsulation	5,124	0	0	0	0	5,124
Small Service Replacements	19,355	0	0	0	0	19,355
Large Service Replacements	1,188	0	0	0	0	1,188
Small Service Installations	0	0	0	4,297	0	4,297
Large Service Installations	0	0	0	1,523	0	1,523
Customer Metering & Regulator Installation	0	0	0	59	0	59
Replace Pressure Regulating/Corrosion Control Facilities	0	100	0	0	0	100
Purchase Tools, Equipment	0	0	0	0	75	75
ReplaceTools, Equipment	75	0	0	0	0	75
Enforced Relocations For System Pressure		0	3,706	0	0	3,706
Local Mains to Supply New Houses/Increased Capacity	0	0	0	3,571	0	3,571
Total Distribution	38,281	100	3,706	9,450	75	51,612
Field Services						
Regulator Purchases	20	0	0	0	0	20
Regulator Installations	0	0	0	27	0	27
Meter Installations	0	0	0	2,164	0	2,164
Shop Equipment	0	0	0	0	100	100
Training Equipment Replacements	0	143	0	0	0	143
Meters Purchases for Automatic Meter Reading	775	0	0	0	0	775
AMR Installations	0	0	0	48	0	48
AMR Replacements	0	0	0	0	1,200	1,200
BPS Metscan & LBS Metretek	0	0	0	100	0	100
Instrumentation Purchases and Installations	77	0	0	0	0	77
Total Field Services	872	143	0	2,339	1,300	4,654
Transportation						
Conditional Funding for Vehicle Replacements	0	750	0	0	0	750
Shop Equipment Replacements	0	0	0	0	0	0
Mobile Equipment Replacements	0	0	0	0	0	0
Total Transportation	0	750	0	0	0	750
Other Departments	863	1,735	0	0	1,706	4,304
Total FY 2010 Projects	40,549	3,065	3,706	11,789	3,081	62,190
Carryover from Years Prior to FY 2010[(a)]	3,009	4,363	0	0	2,558	9,930
Total FY 2010 Expenditures (Net)	43,558	7,428	3,706	11,789	5,639	72,120

(a) The projects listed in the Table 5 are planned fiscal year 2010 capital improvements. In addition to the budgeted $62.2 million, PGW will also be completing $9.9 million of capital improvements carried over from prior years.

Field Services

The estimated capital spending for fiscal year 2010 for the Field Services Department is $4.7 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 nominally 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.

Transportation

The Transportation Department estimated capital expenditures are $2.5 million for fiscal year 2010. The majority of the estimated capital expenditures for this department not carried over from prior years are associated with vehicle replacements. There is no significant proposed capital spending for shop equipment additions and 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 Building Services, Information Services, and Customer Affairs. For fiscal year 2010, the combined spending of these departments is $8.4 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.

Rates and Tariffs

The following sections present a discussion of existing rate programs and some of the ongoing issues facing PGW due to the changes in legislation and regulation and their impact on rates and rate-making methodology.

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]

On November 14, 2008, PGW filed with the PUC for an extraordinary base rate relief of $60 million for calendar year 2009. On December 19, 2008, the PUC issued an order granting PGW's request, effective January 1, 2009. On December 18, 2009, PGW submitted a base rate case filing with the PUC to maintain the $60 million base rate increase that the PUC granted in 2008 and to provide PGW with a rider that will fund PGW's other post-employment benefits (OPEB) liability in the amount of $105 million over the 2011-2015 period. 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.

In August 2000, PGW filed for an interim base rate relief of $52 million (annually) with the PUC. In its order dated November 22, 2000, the PUC granted $11 million of this interim increase but attached certain conditions precedent to the increase that were not acceptable to PGW. PGW and the City filed for an appeal to the PUC Order with the Commonwealth Court. On February 22, 2001, the PUC issued an order adopting a settlement of the appeal amongst the PUC Law Bureau, PGW, and the City that included the following:

1. PGW would be allowed to increase rates to provide an additional $11 million in base rate revenues by August 31, 2001.
2. PGW would be permitted to recover an additional $7 million through its GCR to account for higher than anticipated bad debt expense. PGW would be allowed to reserve any over collection of GCR up to $25 million.
3. PGW agreed to implement all of the recommendations of the PUC Management Audit (the "Audit") or explain why it believes it cannot or should not.
4. The PUC acknowledged that it is obligated to establish rates that permit PGW to meet all of its Bond Ordinance covenants.
5. The PUC and the City agreed on a timetable and process to replace interim management with permanent management.

The appeal was withdrawn following the February 22, 2001 Order approving the settlement. PGW implemented rates consistent with the order on March 1, 2001.

On January 5, 2001, PGW filed for a $65 million permanent increase in base rates. This was the first permanent base rate filing PGW submitted to the PUC for approval. On October 12, 2001, the PUC granted PGW the authority to raise base rates by $22.6 million, which together with the prior, interim increase, totaled $33.6 million.

[9] Generally, the PUC is required to rule on an application for base rate relief within nine months of the utility's application.

On February 25, 2002, PGW filed for a $60 million increase in base rates and the power to implement a weather normalization clause (Docket No. R-00017034). As part of the request for base rate relief, PGW submitted a petition for Extraordinary Rate Relief seeking to have $44 million of the total requested $60 million to be approved as extraordinary rates effective in mid-April 2002 to meet the immediate need to maintain its investment grade rating. The remaining $16 million was necessary to provide financing to pay down loans, upgrade plant security, and expand gas leak detection capabilities.

On April 11, 2002, the PUC granted PGW a $36 million extraordinary base rate increase in order for PGW to maintain its overall liquidity and access to capital markets. The increase took effect on April 16, 2002. The increase was permanently approved on August 8, 2002. The PUC also permitted PGW to implement its proposed Weather Normalization Adjustment ("WNA") clause. The WNA is discussed more fully in the section on *"Existing Rates – Weather Normalization Adjustment"*.

PGW filed a restructuring plan with the PUC on July 1, 2002, which was approved by the PUC on March 31, 2003. The restructuring plan, among other things, provides for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. PGW's Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the PUC requirements.

On December 22, 2006, PGW filed for a $100 million 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 meets its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance and to ensure that PGW has adequate long term 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 million 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 on February 4, 2009. PGW is planning to file a petition for allowance of appeal of the Commonwealth Court decision with the Pennsylvania Supreme Court.

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.

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 will be permitted to maintain virtually all of the extraordinary base rate relief, will receive an incremental rate increase of $16 million annually and will be required to fund $18.5 million of the OPEB liability in each of the years 2011 through 2015. The Order increase represents about 37.6% of the $42.5 million rate increase as originally requested by PGW.

The Order is expected to result 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 will be 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 Orders'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 will be amortized over a thirty year period. With the thirty year amortization, $3.503 million is 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 2010 fiscal year, over 99 percent of PGW's customers are estimated to be served under this rate and these customers account for 99 percent of sales volumes (and 69 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 commodity rate 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).* The commodity rate is subject to adjustment under the GCR clause.

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 $93.65 higher than the group average of $236.77. One of PGW's surcharges, Universal Service and Energy Conservation surcharge, includes the recovery of costs related to the Customer Responsibility Program, the Conservation Works Program, and the Senior Citizen Discount Program. PGW's Universal and Energy Conservation surcharge is currently $2.3683 per Mcf. For the typical peak winter month's residential bill for 20 Mcf of consumption, the Universal Service Charge amounts to $47.37 of the $330.42. 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.

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.

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	3/1/10	12.00
Commercial and Municipal Customers	3/1/10	18.00
Industrial Customers	3/1/10	50.00
Gas Cost Rate (GCR) - $/Mcf		
Residential and Public Housing Customers	3/1/10	7.3455
Commercial and Municipal Customers	3/1/10	7.3455
Industrial Customers	3/1/10	7.3455
Distribution Charge - $/Mcf [b]		
Delivery Charge		
Residential	3/1/10	6.1840
Public Housing Customers	3/1/10	5.2817
Commercial and Municipal Customers	3/1/10	5.2449
Industrial Customers	3/1/10	5.2465
Surcharges		
Universal Service and Energy Conservation	3/1/10	2.3683
Restructuring and Consumer Education	9/1/08	0.0230
Total Commodity Charge - $/Mcf		
Residential and Public Housing Customers		15.9208
Commercial and Municipal Customers		14.9817
Industrial Customers		14.9833
Municipal Service - Rate MS		
Customer Charge - $/meter per month	3/1/10	18.00
Gas Cost Rate (GCR) - $/Mcf	3/1/10	7.3455
Distribution Charge - $/Mcf [b]		
Delivery Charge	3/1/10	3.8178
Surcharges		
Universal Service and Energy Conservation	3/1/10	2.3683
Restructuring and Consumer Education	9/1/08	0.0230
Total Commodity Charge - $/Mcf		13.5546
Philadelphia Housing Authority Service - Rate PHA		
Customer Charge - $/meter per month	3/1/10	18.00
Gas Cost Rate (GCR) - $/Mcf	3/1/10	7.3455
Distribution Charge - $/Mcf [b]		
Delivery Charge	3/1/10	5.1889
Surcharges		
Universal Service and Energy Conservation	3/1/10	2.3683
Restructuring and Consumer Education	9/1/08	0.0230
Total Commodity Charge - $/Mcf		14.9257
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		14.97
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		13.14
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		12.36

Table 6 (Continued)
Existing and Proposed 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		11.49
Load Balancing Service - Large Volume - Rate LBS-L		
Customer Charge - $/meter per month	9/1/03	254.00
Commodity Charge [c] - $/Mcf		11.54
Load Balancing Service - Small Volume - Rate LBS-S		
Customer Charge - $/meter per month	9/1/03	145.00
Commodity Charge [c] - $/Mcf		11.59
Gas Transportation Service - Rate GTS		
Customer Charge - $/meter per month	9/1/03	250.00
Commodity Charge[d] - $/Mcf		0.4565
Cogeneration Service - Rate CG		
Customer Charge - $/meter per month	9/1/03	362.00
Commodity Charge[e] - $/Mcf		6.40
Developmental Natural Gas Vehicle Service, Firm Service - Rate NGVS		
Customer Charge - $/meter per month	3/1/10	35.00
Gas Cost Rate (GCR) - $/Mcf	3/1/10	7.3455
Distribution Charge - $/Mcf[b]		
Delivery Charge	3/1/10	1.3212
Surcharges		
Universal Service and Energy Conservation	3/1/10	2.3683
Restructuring and Consumer Education	9/1/08	0.0230
Total Commodity Charge - $/Mcf		11.0580
Developmental Natural Gas Vehicle Service, Interruptible Service - Rate NGVS		
Customer Charge - $/meter per month	9/1/03	35.00
Commodity Charge - $/Mcf		10.61
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 May 2009-April 2010 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 February 2009.
(e) Commodity charge based on cost of gas purchased and delivered to PGW gate stations.

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	3/1/2010	247.03
UGI Corporation	12/20/2009	257.84
National Fuel Gas	5/1/2010	169.40
Peoples Natural Gas	4/1/2010	176.98
UGI Penn Natural Gas (formerly PG Energy)	12/1/2009	250.70
Columbia Gas of Pennsylvania	4/1/2010	183.48
Equitable Gas	4/1/2010	278.29
Philadelphia Gas Works	3/1/2010	330.42

(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 $4.36/Mcf to $9.47/Mcf .

Transportation Service

PGW currently provides interruptible transportation service to approximately 2,000 customers. The increase in transportation customers is primarily due to customers transferring from sales to transportation service. During the calendar year 2009, 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 2010, approximately 22.4 million Mcf of commercial, industrial and municipal throughput, or 30 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 23.6 million Mcf, or approximately 32 percent of total throughput by 2015.

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 customers (specifically, load balancing service 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 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 and Universal Service and Energy Conservation 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.

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 2009/10 was the eighth winter season the WNA was in effect and the heating degree-days ("HDD") during the winter period were 15.5 percent lower than normal (3,730 actual HDD versus 4,412 normal HDD). Therefore, heating customers were billed approximately $13.4 million as a result of the warmer than normal weather. 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 proposed DSM Plan includes expenditures of $54 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 cost savings of $109 million in 2009 dollars by reducing usage by 1.3 trillion BTU. The Plan is expected to reach 85,000 customers and create between 600 and 1,000 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 expects to begin 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

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. <u>Comprehensive Residential Heating Retrofit</u>

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. <u>Premium Gas Appliances and Heating Equipment</u>

Target Audience: Residential and Small Commercial

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 to cover 80 percent of incremental costs for high efficiency models.

4. <u>Municipal Facilities Comprehensive Efficiency Retrofit</u>

Target Audience: Municipal Facilities

Description: Measures to be offered include energy audits and possible extended repayment, and will integrate with other programs offered by other entities.

5. <u>Commercial and Industrial Equipment Efficiency Upgrades</u>

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 to cover 80 percent of incremental costs for higher efficiency.

6. <u>High-Efficiency Construction</u>

Target Audience: Residential and Commercial Construction

Description: Promote adoption of energy efficient design in all aspects of housing construction, including incentives to cover 80 percent of incremental costs (including design), and potential integration with other parties.

7. <u>Commercial and Industrial Retrofit</u>

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

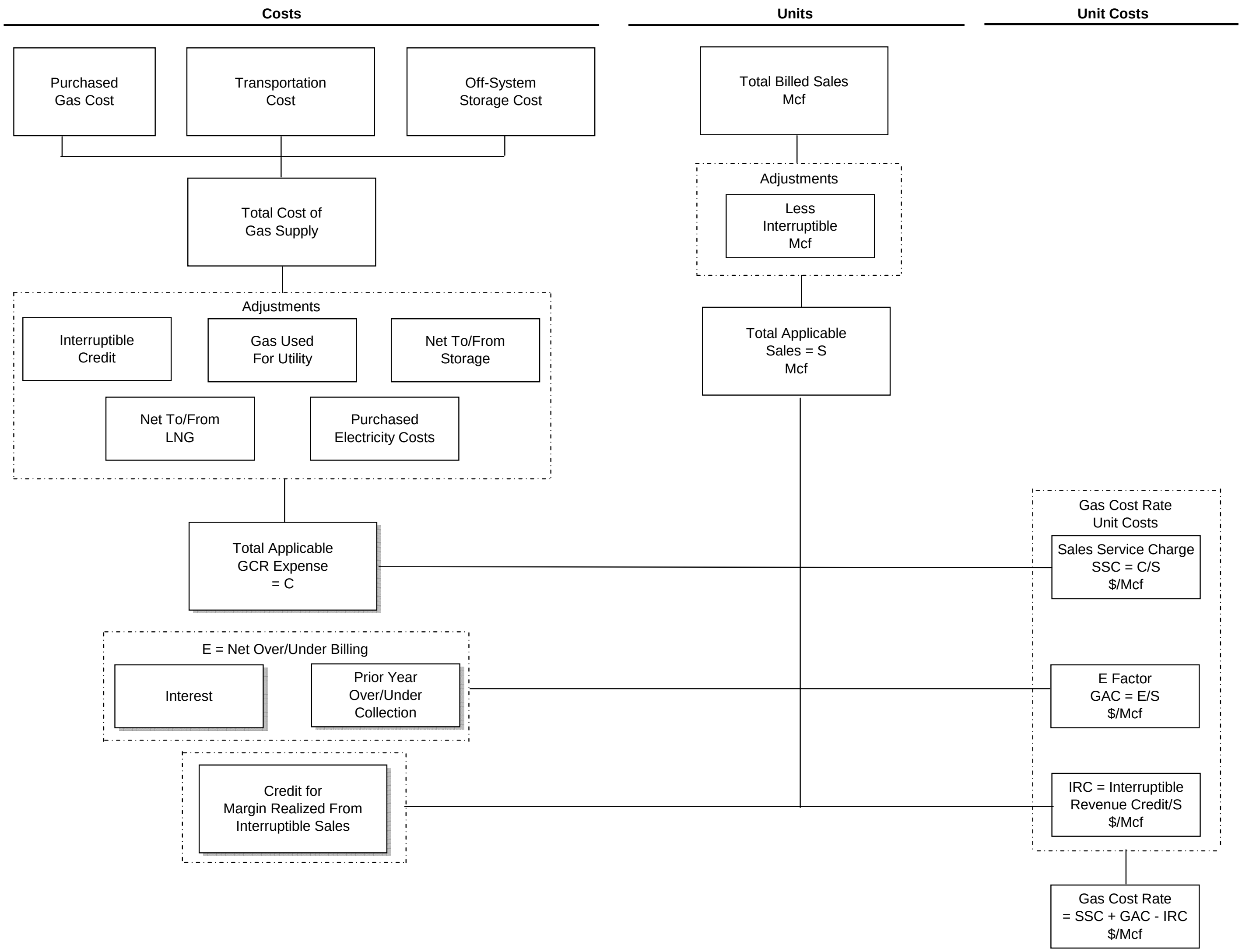
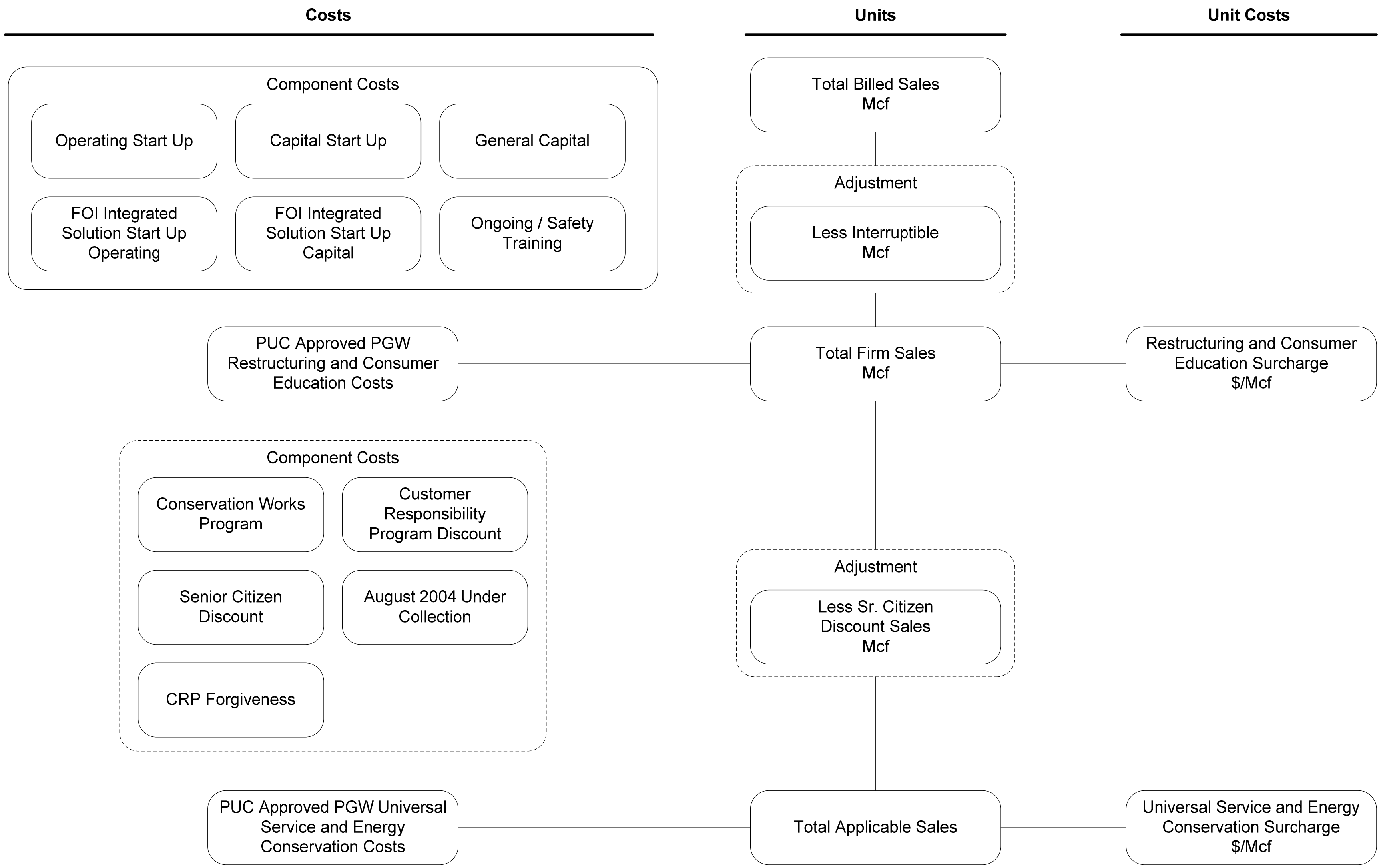


Figure 4
Components of PGW Surcharges



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.

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 Conservation Works Program;
- 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 $61.1 million in 2005, $89.9 million for 2006, $86.6 million for 2007, $85.9 million for 2008, and $101.4 million for 2009. 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 $8.4 million in 2005, $10.1 million in 2006, $9.3 million in 2007, $9 million in 2008, and $8 million in 2009.

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.

Conservation Works 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.

Generally, prior to implementation of the CWP, customer consumption levels are approximately 30 percent greater than that of the average residential customer. Most CRP customers live in row houses more than 100 years old that are in poor condition. Abandoned and vacant neighboring properties are also factors inducing high-energy usage. Average gas usage among Philadelphia's low-income population (qualifying customers) when calculated on the basis of square foot per degree-day is far above national levels.

The basic characteristics of the targeted CWP population are customers with household income at or below 150 percent of the FPL and gas usage levels that are higher than average.

The goals of the CWP program include:

- Reduce gas usage of low-income households in a cost-effective manner
- Lower gas bills and improve the payment practices of participating customers.

CWP focuses on this population of low-income customers by addressing the main factors that influence their energy usage, such as mechanical and structural systems, as well as behavior issues, such as turning down the thermostat when not at home or while sleeping. Thus far, CWP has:

- Provided energy education and basic health and safety checks for all homes,
- Installed set-back thermostats in about two-thirds of all homes,
- Installed roof insulation in about 15 percent of homes, and
- Performed blower-door guided air sealing in about 25 percent of homes.

PGW commissioned an independent evaluation of CWP that was completed in May 2009. Overall, CWP continued to produce solid energy savings at a very modest cost, producing about $2 worth of energy savings for every dollar spent on the program.

Note that, upon implementation of PGW's DSM Plan (*see*, Five-Year Demand Side Management Plan, *supra*.) the CWP will be merged into the Enhanced Low-Income Retrofit Program.

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 34,200 participants as of March 2010 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 PGW's district offices, the Department of Public Welfare, or at one of many community organizations throughout Philadelphia. 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. In 2009, the program capped eligibility at 150 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. In years past, the state reserved some LIHEAP funds for the following year, but the state did not reserve any funding in 2009 for fiscal year 2010

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 usually $250 each (for a total of $500). At times, and depending on funds available, the maximum has been $1,500 total ($750 each from UESF and PGW). 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 for 2009-2010.

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 that was installed in calendar year 1999; improving customer service in its Customer Service and Credit Collection Call Centers; and implementing its Collections Renewal Initiative ("CRI") in early fiscal year 2004.

In fiscal years 2008 and 2009, PGW budgeted approximately $20 million for a new billing system. Technology, limited functionality of the current system, and the inability to effectively upgrade the system are driving factors for pursuing the replacement of the BCCS system. In addition, PGW had

had concerns about the current vendor's commitment to support the existing BCCS system in the future. In support of this decision, PGW conducted an assessment by an independent consultant to help guide PGW's process in determining its options and selecting the most favorable alternative to address PGW's long term concerns regarding its BCCS system. The consultant's assessment focused on interviews and surveys of system users, an assessment of the current BCCS environment, development of PGW requirements, and the identification and analysis of alternative upgrades and replacement strategies. PGW has not yet replaced the BCCS system. However, several system enhancements have been accomplished to improve the functionality of the billing system and advance processes. As a result of these system improvements, PGW will re-assess the need to replace its billing system at a later date.

The ongoing CRI effort covers Customer Service operations involved in the collection of accounts receivable. The effort was initiated in response to increasing account receivables caused by two consecutive cold winters and increasing natural gas prices. The impact of the billing and collection programs has shown improving trends in Call Center performance metrics and a significant improvement in the collection rate. PGW's goal for the CRI program is to make substantial and sustainable improvements in receivable collections. The initial financial objective of the CRI was to collect at least 92 percent of fiscal year billed revenues with continued incremental percentage improvements in successive years. PGW has not only reached the original objective but has surpassed fiscal goals in each succeeding year since the implementation of the Collection Renewal Initiative.

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.

By the end of FY2010 PGW will have completed implementation of the five Business Transformation initiatives within the Customer Affairs area that include: automation of the soft-off program; landlord cooperation program; write-off reactivation; risk-based collections; and the lien re-write program. The following is a synopsis of each of these initiatives and the benefits achieved:

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. The upgraded soft-off program allows Operations to redirect field employees to other jobs - a more efficient use of resources. With new software upgrades, PGW is able to transfer a customer's closed account back to PGW and monitor the soft-off account more closely to avoid any excess usage or theft of service.

The soft-off monitoring benefits reflect the cost of having the program in place versus not having the program. For the full calendar year of 2009, actual benefits amounted to $1.44 million which is $0.19 million less than the baseline benefit of $1.63 million.

Landlord cooperation program (LCP). In apartment and rental living, often the tenant is responsible for their gas bill. In the case of delinquency, PGW had difficulty gaining access to the property and gas cannot be shut-off outside since many tenants share a common service. The LCP program allows landlords to work more collaboratively with PGW to improve PGW's ability to collect from tenants (gain access to the property) and minimize tenant delinquencies in exchange for not liening a landlord's property for a tenant's unpaid balance. The changes to LCP are designed to improve required communications and allow for liens on a property when landlords fail to cooperate.

The LCP actual benefits from September to December 2009 amounted to $1.34 million which is $2.2 million less than the baseline benefit of $3.5 million which was planned to begin in July 2009. Actual pre-lien cash receipts benefits amounted to $0.54 million and actual lien cash receipts benefits amounted to $0.80 million.

Four primary contributors to the $2.2 million shortfall in benefits were:

1. Implementation was delayed two months due to additional requirements and additional testing.
2. The pre-lien collection rate of 13.5% is lagging the baseline historical rate of 16% by 2.5%.
3. The actual liened amount of $4.0 million is lagging the baseline estimate of $7.1 million for the months of September through December 2009.
4. The number of current unregistered landlord premises with arrears of $300 or more amount to 14,850 which is lower than the baseline assumption of 23,000.

PGW expects to realize the forecasted annual benefit of this initiative in FY2010.

Write-off reactivation. Often, written-off accounts with aged balances of four years or less are not applied to a new account when the customer re-applies for service. Recent changes to the BCCS system allow prior written-off accounts to be immediately linked when the customer re-applies for service. This will help PGW's collection efforts.

The total actual benefits were generated from new accounts only and amounted to $0.88 million which exceeded the baseline benefits forecast for new accounts by $.4 million. The total actual amount reactivated for new accounts from the time of production cutover in April 2009 through year end 2009 was $5.0 million. This is 84% higher than the reactivated baseline of $2.7 million for new accounts during the same period.

On May 27, 2009, the Tenant Union Representative Network and Action Alliance of Senior Citizens of Philadelphia (collectively TURN) filed a Petition for a Declaratory Order (Petition) with the Pennsylvania Public Utility Commission in opposition to the reactivation of write-offs for current customers. On June 15, 2009, the Pennsylvania Office of Consumer Advocate (OCA) filed a Notice of Intervention in this Petition proceeding. PGW reached an agreement with TURN and OCA and will not implement the write-off reactivation program for current active customers. As a result, no actual benefits will be realized for this portion of the write-off reactivation program.

Although, PGW will not realize the forecasted benefits from the active account population, the higher than expected reactivation rate for applicants coupled with a higher collection rate for this group of accounts will offset the lost revenue from the active account population. Additionally, PGW has identified additional program changes in the application process that will serve to further increase the reactivation rate for applicants. Finally, changes to the collection process to ensure prompt collection action against previously reactivated accounts is expected to further augment the benefits from this initiative. PGW expects to meet the combined (active & applicant reactivation) benefits forecasted for FY2010 through the applicant reactivation process.

Risk-based collections. PGW is introducing a new risk-based collections system. Under the new system, PGW will analyze a customer's past payment pattern, and assign each customer a "score" – similar to a credit score. Based on a customer's score, PGW will be better able to target specific collection tools to improve collections. If a customer has a lower score, more frequent customer communications may be the only thing needed to ensure payment. Risk-based collections will also allow PGW to proactively manage new customers to avoid excessive delinquencies.

Risk-based collections baseline benefits of $0.3 million reflect a planned cutover in April 2009. Actual production cutover was on schedule and the actual benefits amounted to $.027 million for 2009.

Actual write-off occurs 90 days after the shut-off for accounts when there are no payments against the final bill; as a result benefits lag the actual implementation by a similar time period.

PGW has completed its initiation assessment of the risk-based collection process and is refining its collection program to incorporate the risk score proactively for FY2010. PGW expects to realize the forecasted benefits for FY2010 from this initiative.

Lien re-write. PGW's previous lien system processes approximately 1,000 liens per month. With new software upgrades, PGW is now able to almost triple the amount of liens processed. This approach protects receivables in the event a property is sold. This initiative will minimally impact Credit and Collection employees as they learn new computer software system.

Lien re-write has been the most successful initiative to date with a total of $5.8 million in benefits in 2009 for second liens. The composition of actual benefits includes $5.0 million in lien cash receipts and $0.8 million in pre-lien cash receipts. The original baseline benefit of $4.0 million was calculated on a calendar year basis beginning in February 2009, actual benefits started in March 2009. Actual benefits exceeded the baseline by $1.8 million or 45%.

The baseline benefit for additional one-time liens (written-off dollars) was $11.7 million and the baseline benefit for additional recurring liens was $6.4 million for a total estimated increase in liened dollars of $18.1 million. Actual incremental one time liens were $18.1 million and incremental recurring liens were $17.4 million for a total incremental lien value of $35.5 million. While the collection rate on liens lags historical averages, the actual receipts from the lien improvements exceed the historical receipts in real dollars. PGW believes that the current housing market is the primary driver for the reduction in the percentage of receipts and expects to recoup a substantial portion of the incremental liened dollars of $35.5 million as the housing market improves. PGW expects to realize the forecasted FY2010 benefits for this initiative.

Lastly, a series of incremental lien automation opportunities have been identified and are expected to be implemented during the summer of 2010 that will further enhance PGW's lien capability.

During 2009, PGW also implemented the Resource Management component of the Field Operations initiative, completed design and began development of the Field Management capabilities. PGW expects to complete the developing and implementation of the Field Operations initiative during FY2010.

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 are expected to meet expectations.

- 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 FY2010. Development of Field Management and GPS capabilities is underway and expected to be completed by August 2010.

- 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.

- The PGC approved $1.8 million operating spending authority for the Supply Chain Transformation initiative. PGW has recently entered into a contract with a consultant to design/implement this initiative.

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.

Financial Feasibility for the Ninth 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 2010 through 2015. PGW's financial statements are audited annually. The most recently available audited financial statement is for fiscal year 2009, and may be viewed at www.pgworks.com. According to that audit, PGW's financial statements are maintained in conformity with generally accepted accounting principles for gas utilities.

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 population base, the number of customers served by PGW is projected to decline slightly during fiscal years 2010 through 2015. Table 8 summarizes projected average number of customers. Historical average number of customers (for fiscal years 2004 through 2009) has been approximately 502,000. The total average number of customers served is projected to decline from approximately 494,458 in fiscal year 2010 to about 477,722 in fiscal year 2015, a total decline of about 3.5 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 31,974 customers in 2010 to 15,136 customers in 2015.

It is projected that for fiscal year 2010 approximately 2,029 commercial, industrial and municipal customers, or 0.4 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 3,176, or approximately 0.7 percent of total customers, by 2015.

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 2010	Projected[a] 2011	2012	2013	2014	2015
1	**Total Average Number of Customers**	**494,458**	**490,999**	**487,525**	**484,266**	**480,963**	**477,722**
	Gas Customers						
	Non-Heating						
	Firm						
2	Residential	31,974	28,598	25,226	21,859	18,496	15,136
3	CRP Residential	970	969	969	969	969	969
4	Commercial	5,025	5,041	5,076	5,126	5,188	5,264
5	Industrial	205	199	194	190	186	182
6	Municipal	114	114	115	115	115	115
7	Housing Authority	0	0	0	0	0	0
8	NGV	1	1	1	1	1	1
9	Total Average Firm Non-Heating	38,289	34,922	31,581	28,260	24,955	21,667
	Interruptible						
10	BPS - Small	59	46	37	32	29	27
11	BPS - Large	56	46	40	36	34	33
12	BPS - A/C	6	8	10	12	14	16
13	LBS - L Direct	0	0	0	0	0	0
14	LBS - L Indirect	1	1	1	1	1	1
15	LBS - S Indirect	4	3	3	3	2	2
16	LBS - XL Direct	0	0	0	0	0	0
17	LBS - XL Indirect	1	1	1	1	1	1
18	Cogeneration - Indirect	1	1	1	1	1	1
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	128	106	93	86	82	81
23	**Total Average Non-Heating**	**38,417**	**35,028**	**31,674**	**28,346**	**25,037**	**21,748**
	Heating						
24	Residential	351,630	351,180	350,761	350,372	350,014	349,685
25	CRP Residential	80,405	80,405	80,405	80,405	80,405	80,405
26	Commercial	18,271	18,337	18,456	18,603	18,785	19,000
27	Industrial	510	506	502	499	495	495
28	Municipal	408	416	424	432	441	450
29	Housing Authority	2,789	2,784	2,779	2,775	2,769	2,764
30	**Total Average Heating**	**454,012**	**453,628**	**453,326**	**453,086**	**452,910**	**452,798**
31	**Total Average Sales Customers**	**492,429**	**488,655**	**485,000**	**481,432**	**477,947**	**474,546**
32	**Total Average Transportation Customers[b]**	**2,029**	**2,344**	**2,525**	**2,834**	**3,016**	**3,176**

(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 2004 through 2009 fiscal years and projected throughput for the 2010 through 2015 fiscal years are summarized in Table 9. The throughput volumes for the projected period are based on 4,412 HDD for 2010 through 2015.

The decline in total residential throughput (heating and non-heating) is consistent with the projected decline in the average number of residential customers. The projection for residential and commercial throughput generally reflects a constant use per customer.

As interruptible customers continue to migrate to transportation service, sales volumes attributable to interruptible customers also decline as transportation volumes increase. Additionally, as firm transportation throughput increases from 22.4 million Mcf in 2010 to 23.6 million Mcf in 2015, sales throughput likewise declines. 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.

Sales and Transportation Revenues

Historical revenues (sales plus transportation service) for the 2004 through 2009 fiscal years and projected revenues for the 2010 through 2015 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 percent collection factor 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 granting of the 2008 rate relief,
- Provide sufficient funds available for debt service to meets its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance,
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected $150 million in financing from the Ninth Series Bonds),
- Repay short term commercial paper obligations,
- Provide additional earnings for further debt reduction, and
- Meet coverage requirements for the planned Ninth Series Bonds.

Table 9
Historical and Projected Sales and Throughput

Line		Actual[(a)]						Budget	Projected				
No.	Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
		MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf	MMcf
	Gas Sales Volumes												
	Non-heating												
	Firm												
1	Residential	1,951	1,955	1,521	969	757	699	653	584	515	446	377	308
2	CRP Residential	NA	NA	NA	71	45	47	40	40	40	40	40	40
3	Commercial	1,798	1,755	1,665	1,544	1,395	1,340	1,315	1,258	1,211	1,170	1,136	1,106
4	Industrial	389	327	305	280	235	279	215	210	206	204	202	200
5	Municipal	269	278	255	241	152	177	147	148	149	150	152	153
6	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
7	NGV Firm	0	0	1	0	0	0	0	0	0	0	0	0
8	Total Firm Non-heating	4,407	4,315	3,747	3,104	2,585	2,543	2,370	2,240	2,121	2,010	1,907	1,807
	Interruptible												
9	BPS - Small	138	205	139	132	141	123	94	72	59	50	45	41
10	BPS - Large	2,247	2,795	1,512	1,460	923	956	563	462	408	380	369	370
11	BPS - A/C	0	0	14	0	0	3	10	14	19	23	28	33
12	LBS - L Direct	262	97	13	0	0	0	0	0	0	0	0	0
13	LBS - L Indirect	552	391	148	24	1	45	9	7	5	5	4	4
14	LBS - S Indirect	649	787	375	728	535	224	63	49	40	35	31	28
15	LBS - XL Direct	112	10	6	17	22	24	0	17	14	12	11	10
16	LBS - XL Indirect	35	62	189	62	25	10	22	0	0	0	0	0
17	Cogeneration - Indirect	98	47	17	12	14	12	9	7	6	5	5	4
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	10	116	13	271	130	0	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	4,103	4,510	2,426	2,705	1,791	1,397	770	628	551	510	493	490
24	**Total Non-Heating**	**8,510**	**8,825**	**6,173**	**5,809**	**4,376**	**3,939**	**3,140**	**2,868**	**2,672**	**2,520**	**2,400**	**2,297**
	Heating												
25	Residential	40,826	39,033	32,980	26,218	25,259	28,409	28,794	28,696	28,656	28,511	28,424	28,354
26	CRP Residential	NA	NA	NA	8,805	8,891	10,473	10,354	10,354	10,358	10,354	10,354	10,354
27	Commercial	8,618	8,363	7,525	7,579	6,983	7,704	7,233	7,189	7,196	7,237	7,322	7,421
28	Industrial	738	711	610	570	421	477	455	448	444	443	442	442
29	Municipal	996	826	857	835	566	656	572	579	586	593	602	610
30	Housing Authority	584	560	526	806	820	860	803	800	796	792	789	785
31	**Total Heating**	**51,762**	**49,493**	**42,498**	**44,812**	**42,940**	**48,579**	**48,211**	**48,066**	**48,036**	**47,930**	**47,933**	**47,966**
32	**Total Sales Volumes**	**60,272**	**58,318**	**48,671**	**50,621**	**47,316**	**52,518**	**51,351**	**50,934**	**50,708**	**50,450**	**50,333**	**50,263**
33	**Total Transportation[(b)]**	8,946	11,624	10,728	13,139	19,032	20,108	22,353	22,739	23,065	23,258	23,430	23,571
34	**Total Throughput**	**69,218**	**69,943**	**59,399**	**63,760**	**66,348**	**72,626**	**73,704**	**73,673**	**73,773**	**73,708**	**73,763**	**73,834**

(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.

Table 10
Historical and Projected Revenues
(Thousands of Dollars)

Line No.	Description	Actual[a] 2004	2005	2006	2007	2008	2009	Budget 2010	Projected 2011	2012	2013	2014	2015
		$	$	$	$	$	$	$	$	$	$	$	$
	Gas Sales Revenues												
	Non-heating												
	Firm												
1	Residential	34,245	37,132	35,981	24,848	20,165	19,257	14,633	14,044	12,805	11,279	9,734	8,039
2	CRP Residential[b]	0	0	0	0	0	0	764	829	862	878	898	907
3	CRP Shortfall	(1,086)	(1,595)	(1,799)	(409)	(125)	(185)	(340)	(378)	(422)	(436)	(454)	(462)
4	Commercial	25,178	26,980	32,148	28,171	25,794	24,045	20,372	21,605	21,825	21,619	21,615	21,329
5	Industrial	5,338	5,036	5,929	5,092	4,265	4,090	3,282	3,545	3,649	3,693	3,762	3,765
6	Municipal	3,323	3,862	4,603	4,021	2,424	2,958	1,963	2,226	2,365	2,446	2,542	2,597
7	Housing Authority	0	0	0	0	0	0	0	0	0	0	0	0
8	NGV	0	0	3	6	6	7	4	4	5	5	5	5
9	Total Firm Non-heating	66,998	71,415	76,865	61,729	52,529	50,172	40,678	41,875	41,089	39,484	38,102	36,180
	Interruptible												
10	BPS - Small	1,749	2,705	2,281	2,079	2,642	2,128	1,093	1,007	855	796	758	667
11	BPS - Large	18,134	29,289	22,068	18,428	15,493	12,117	5,698	5,739	5,300	5,423	5,706	5,504
12	BPS - A/C	0	0	201	0	0	0	75	120	166	229	294	351
13	LBS - L Direct	1,866	765	157	33	0	0	0	0	0	0	0	0
14	LBS - L Indirect	4,179	3,165	1,837	205	(14)	234	101	87	83	71	65	60
15	LBS - S Indirect	4,653	6,502	4,549	7,424	6,605	1,202	733	634	603	522	470	427
16	LBS - XL Direct	777	83	70	171	264	0	0	0	0	0	0	0
17	LBS - XL Indirect	290	512	1,888	627	331	379	243	211	203	176	157	143
18	Cogeneration - Indirect	0	0	0	0	0	0	0	0	0	0	0	0
19	LNG - Direct	663	371	199	130	171	142	72	63	56	51	48	45
20	Grays Ferry	0	194	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	93	1,091	259	2,341	1,187	291	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	32,404	44,678	33,509	31,438	26,679	16,493	8,015	7,861	7,266	7,268	7,498	7,197
25	**Subtotal Non-Heating**	99,402	116,093	110,374	93,167	79,208	66,665	48,693	49,736	48,355	46,752	45,600	43,377
26	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
27	Prior Year's Gas Cost Recovery	(328)	(1,212)	2,211	(2,036)	(521)	631	1,497	0	0	0	0	0
28	**Total Non-Heating**	99,074	114,880	112,585	91,131	78,687	67,295	50,190	49,736	48,355	46,752	45,600	43,377
	Heating												
29	Residential	580,390	626,072	670,102	668,941	666,375	750,810	488,995	536,814	560,109	570,539	584,669	591,278
30	CRP Residential[c]	0	0	0	0	0	0	172,910	190,551	198,828	202,954	208,134	210,418
31	CRP Shortfall	(47,408)	(59,493)	(86,645)	(86,207)	(87,602)	(101,269)	(77,028)	(86,967)	(97,340)	(100,796)	(105,159)	(107,107)
32	Commercial	118,677	129,073	147,635	138,350	125,399	131,580	109,902	121,397	127,282	130,955	136,140	139,634
33	Industrial	10,188	11,048	12,020	10,384	7,609	7,793	6,969	7,623	7,917	8,073	8,265	8,362
34	Municipal	12,127	12,041	15,608	13,955	9,167	9,993	7,644	8,730	9,306	9,657	10,097	10,375
35	Housing Authority	7,976	8,583	10,214	10,609	10,993	11,800	12,179	13,474	14,054	14,308	14,639	14,747
36	**Subtotal Heating**	681,950	727,323	768,934	756,032	731,941	810,707	721,571	791,622	820,156	835,690	856,785	867,707
37	Cost of Gas Increase	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0
38	Prior Year's Gas Cost Recovery	(4,182)	(14,164)	24,792	(23,948)	(8,407)	8,991	20,515	0	0	0	0	0
39	**Total Heating**	677,768	713,159	793,726	732,084	723,534	819,697	742,086	791,622	820,156	835,690	856,785	867,707
40	Weather Normalization Adjustment	2,109	(1,365)	13,406	6,438	11,923	445	0	0	0	0	0	0
41	Total Adjusted Heating	679,877	711,794	807,132	738,522	735,457	820,142	742,086	791,622	820,156	835,690	856,785	867,707
42	**Total Sales Revenues**	778,951	826,674	919,717	829,653	814,144	887,437	792,276	841,358	868,511	882,442	902,385	911,084
43	**Total Transportation[d]**	**2,945**	**4,679**	**6,460**	**12,949**	**19,215**	**24,913**	**30,084**	**32,145**	**34,294**	**35,759**	**36,864**	**37,777**
44	**Total Revenues**	**781,896**	**831,353**	**926,177**	**842,602**	**833,359**	**912,350**	**822,360**	**873,503**	**902,805**	**918,201**	**939,249**	**948,861**
45	OPEB Surcharge	0	0	0	0	0	0	0	16,000	16,000	16,000	16,000	16,000
46	**Adjusted Total Revenues**	781,896	831,353	926,177	842,602	833,359	912,350	822,360	889,503	918,805	934,201	955,249	964,861

(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.

The level of revenues projected for fiscal years 2010 through 2015 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.

Other Operating Revenues

Other operating revenues are projected to remain at an annual level of approximately $20 million throughout fiscal years 2010 through 2015 (Table 16, Line 8). 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 2010. Assistance programs are forecast to contribute $40.8 million in revenues in fiscal year 2010.

Accounts Receivable

Since PGW has increased its focus on improving its billing and collection practices *(See Billing and Collections)* in the past few years, it has generally experienced a small decrease in its accounts receivable beginning in fiscal year 2005. As shown in Table 12, net accounts receivable decreased 5 percent from $93.1 million in 2004 to $88.6 million in 2007. By 2009, net receivables increased to $105.5 million. Between 2010 and 2015, net accounts receivable are projected to increase 5 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 23 percent.

The projections in Table 12 assume both the base rate increase of $60 million effective January 1, 2009 and the $16.0M increase to fund PGW OPEB liability (adjusted annually) filed on December 18, 2009, remain in effect through the forecast period. Realized bad debt expense as a percent of billed gas revenues is projected to range from 5.5 percent to 3.8 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 95.0 percent. The five-year historical average collection factor (fiscal years 2005 through 2009) is 95.5 percent. PGW's collection rate for 2008 and 2009 was 95.5 and 93.8 percent, respectively.

Table 11
Historical and Budgeted Assistance Programs

Description	Historical												Estimated	
	2004		2005(a)		2006(a)		2007(a)		2008(a)		2009		2010	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Grant Money Available	$108,384,165		$116,058,846		$154,859,009		$131,148,030		$152,021,400		$285,644,270		$272,984,869	
Cash	$78,433,307	72.4%	$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%	$209,300,000	76.7%
Crisis	$29,950,858	27.6%	$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%	$63,684,869	23.3%
Number of Grants														
State of PA														
Cash	327,279	75.2%	339,898	74.2%	385,006	71.5%	369,618	73.5%	370,873	68.6%	498,406	72.8%	550,000	76.6%
Crisis	107,705	24.8%	118,163	25.8%	153,543	28.5%	132,953	26.5%	169,980	31.4%	186,015	27.2%	167,592	23.4%
Total State of PA	434,984	100.0%	458,061	100.0%	538,549	100.0%	502,571	100.0%	540,853	100.0%	684,421	100.0%	717,592	100.0%
PGW														
Cash	63,064	19.3%	63,377	18.6%	65,301	17.0%	62,454	16.9%	57,501	15.5%	80,420	16.1%	76,000	13.8%
Crisis	9,297	8.6%	10,515	8.9%	21,515	14.0%	16,674	12.5%	12,162	7.2%	17,116	9.2%	10,900	6.5%
Total PGW	72,361	16.6%	73,892	16.1%	86,816	16.1%	79,128	15.7%	69,663	12.9%	97,536	14.3%	86,900	12.1%
Total Funding - Final														
State of PA														
Cash	$78,433,307		$82,414,865		$91,232,494		$88,708,770		$87,355,715		$171,386,562		$209,300,000	
Crisis	$29,950,858		$33,643,981		$63,626,515		$42,439,260		$64,665,685		$114,257,708		$63,684,869	
Total State of PA	$108,384,165		$116,058,846		$154,859,009		$131,148,030		$152,021,400		$285,644,270		$272,984,869	
PGW														
PGW - Cash	$16,030,238	20.4%	$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%	$37,620,000	18.0%
PGW - Crisis	$2,631,051	8.8%	$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%	$3,161,000	5.0%
Total PGW (a)	$18,661,289	17.2%	$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%	$40,781,000	14.9%
Value of Grants, per customer														
State of PA														
Cash	$240		$242		$237		$245		$239		$344		$226	
Crisis	$278		$285		$414		$319		$380		$614		$380	
PGW														
Cash	$254		$263		$236		$260		$250		$341		$495	
Crisis	$283		$296		$394		$304		$421		$437		$290	

(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

	Fiscal Year Ending August 31,														
Description	Historical									Budget	Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Billed Gas Revenues ($000) [(a)]	741,964	557,467	755,920	786,406	846,729	899,174	868,586	842,287	902,729	800,348	889,503	918,805	934,201	955,249	964,861
Accounts Receivable ($000)	280,406	254,047	321,408	323,340	295,114	243,249	238,849	239,739	228,505	245,382	232,819	225,310	221,270	220,729	221,500
Less: Reserve for Bad Debt	(184,324)	(187,461)	(228,548)	(230,216)	(207,480)	(168,889)	(150,231)	(140,435)	(123,009)	(134,103)	(128,831)	(122,639)	(116,160)	(110,017)	(104,497)
Net Accounts Receivable	96,082	66,586	92,860	93,124	87,634	74,360	88,618	99,304	105,496	111,279	103,988	102,671	105,110	110,712	117,003
Bad Debt Reserve/Accounts Receivable	65.7%	73.8%	71.1%	71.2%	70.3%	69.4%	62.9%	58.6%	53.8%	54.7%	55.3%	54.4%	52.5%	49.8%	47.2%
Net Write-Offs ($000)	12,463	48,411	43,914	69,332	93,160	78,723	58,658	46,797	59,425	47,600	46,100	45,050	44,050	43,050	42,050
Receivable/Billed Gas Revenues	37.8%	45.6%	42.5%	41.1%	34.9%	27.1%	27.5%	28.5%	25.3%	30.7%	26.2%	24.5%	23.7%	23.1%	23.0%
Bad Debt ($000)	67,633	51,548	85,000	71,000	70,424	40,132	40,000	37,000	42,000	43,883	40,828	38,858	37,571	36,907	36,530
Bad Debt/Billed Gas Revenues	9.1%	9.2%	11.2%	9.0%	8.3%	4.5%	4.6%	4.4%	4.7%	5.5%	4.6%	4.2%	4.0%	3.9%	3.8%
Bad Debt/Accounts Receivable	24.1%	20.3%	26.4%	22.0%	23.9%	16.5%	16.7%	15.4%	18.4%	17.9%	17.5%	17.2%	17.0%	16.7%	16.5%
Total Customer Receipts ($000)	677,400	575,300	690,300	756,000	846,600	905,877	863,658	833,960	877,311						
Total Customer Billings ($000)	769,100	589,600	797,400	827,000	881,800	938,066	901,677	873,424	935,536						
Collection Factor	88.08%	97.57%	86.57%	91.41%	96.01%	96.57%	95.78%	95.48%	93.78%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%
Five-Year Average Collection Factor (2005-2009)									95.52%						

(a) Adjusted Total Revenues (Table 10, Line 46) less Prior Year's Gas Cost Recovery (Table 10, Lines 27 and 38)

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.

Capital Improvement Program Financing

The Capital Improvement Program described earlier (*See Capital Improvement Program*) will be financed by PGW through funds currently available for capital projects, revenue bond issues, investment income, and system revenues.

The projected CIP expenditures for the six-year period ending August 31, 2015, are shown on Line 8 of Table 13 and total approximately $429 million. The total par amount of the Ninth Series Bonds to be issued of approximately $150 million during the projection period is designed to maximize the capital requirements financed with bond proceeds.

Lines 1 through 7 outline the sources available to meet the CIP financing requirements. Line 1 in fiscal year 2010 shows the net balance available in the Capital Improvement Fund as of August 31, 2009, 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 from other sources 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					
		2010	2011	2012	2013	2014	2015
		$	$	$	$	$	$
1	Balance from Previous Year	64,055	154,930	99,188	56,205	27,132	729
2	Bond Proceeds @ Par	150,000	0	0	0	0	0
3	Less Discount & Issuance Costs	(2,400)	0	0	0	0	0
4	Less Deposit to Sinking Fund Reserve	(11,100)	0	0	0	0	0
5	Net Bond Proceeds	136,500	0	0	0	0	0
6	Other Sources of Funds[(a)]	26,495	18,441	26,085	42,670	45,067	70,737
7	Total Sources of Funds	227,050	173,371	125,273	98,875	72,199	71,466
8	Capital Expenditures	72,120	74,183	69,068	71,743	71,470	70,737
9	Capitalized Interest	0	0	0	0	0	0
10	Total Uses of Funds	72,120	74,183	69,068	71,743	71,470	70,737
11	Net Balance - End of Year	154,930	99,188	56,205	27,132	729	729

(a) Includes PGW internally generated funds.

As presented in Table 13, the only bond issue projected during the five year period is the Ninth Series Bonds in the principal amount of $150 million. Coupled with a beginning available balance of $64.1 million and a total of $229.5 million of other funding sources, sufficient funds will 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 $8.18 per Mcf in fiscal year 2010 to $10.85 per Mcf in fiscal year 2015. 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 2009 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 at 95 percent of billed revenues through 2010-2015 fiscal years with bad debt expense forecasted to range from $34.2 million to $42.0 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 2010 operating budget filing and have been updated with the most current information from PGW for the forecast period through fiscal year 2015. The number of employees is projected to decline from 1,662 to 1,650 through the forecast period due to attrition.

Table 14
Historical and Projected Operation and Maintenance Expenses
(Thousands of Dollars)

Line		Fiscal Year Ending August 31,											
		Historical						Budget	Projected				
No.	Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
		$	$	$	$	$	$	$	$	$	$	$	$
	Operating Expenses												
1	Natural Gas	450,868	509,701	625,076	539,296	511,938	545,805	420,056	463,521	494,153	511,506	535,273	545,178
2	Other Raw Materials	0	4	17	4	38	41	20	20	20	20	20	20
3	Subtotal Fuel	450,868	509,705	625,093	539,300	511,976	545,846	420,076	463,541	494,173	511,526	535,293	545,198
4	Gas Processing	17,284	18,584	15,234	16,240	14,436	16,779	14,297	14,721	15,743	15,857	16,495	17,212
5	Field Services	29,557	28,455	35,667	36,100	37,126	37,727	34,682	35,815	36,829	37,816	38,919	39,921
6	Distribution	15,778	15,115	15,179	17,119	17,319	21,059	19,889	20,335	20,814	21,352	21,926	22,635
7	Collection	10,730	10,971	9,952	8,157	8,441	8,879	9,446	9,686	9,883	10,181	10,510	10,870
8	Customer Services	13,514	12,512	11,083	11,783	12,305	12,897	14,410	14,673	14,963	15,282	15,657	16,064
9	Customer Accounting	7,496	7,695	7,337	7,064	7,006	7,369	7,879	7,974	8,118	8,290	8,581	8,835
10	Bad Debt Expense	71,000	70,424	40,132	40,000	37,000	42,000	42,014	38,768	36,646	35,245	34,505	34,242
11	Marketing & Point-of-Sale Expenses	2,677	2,592	2,467	2,418	2,628	3,436	4,536	4,056	4,062	4,066	4,138	4,210
12	Administrative & General	41,872	43,391	39,897	38,846	44,001	46,250	51,615	50,014	50,530	51,033	51,512	52,362
13	Health Insurance	32,863	33,571	35,076	36,111	34,226	35,976	41,139	46,926	51,377	56,234	61,730	67,964
14	Capitalized Fringe Benefits	(9,053)	(10,348)	(9,797)	(10,449)	(10,331)	(10,859)	(10,572)	(12,225)	(13,024)	(13,617)	(14,266)	(15,009)
15	Capitalized Admin. Charges	(6,193)	(6,706)	(6,779)	(7,689)	(7,180)	(7,547)	(7,181)	(7,618)	(8,143)	(7,714)	(7,686)	(7,674)
16	Regulatory Asset Amortization	3,750	0	0	0	0	0	0	0	0	0	0	0
17	Amortization of Restructuring Costs	1,097	1,087	1,087	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	0	0	(155)	2,184	758	(1,979)	(2,614)	(3,251)
20	Pensions	14,973	14,702	17,563	15,217	14,258	15,425	24,062	23,805	23,533	23,279	23,022	22,692
21	Taxes	6,638	6,218	6,124	6,730	5,677	6,588	6,875	7,019	7,165	7,313	7,455	7,603
22	Other Post Employment Benefits	0	0	0	26,421	25,834	25,952	26,905	21,386	20,145	18,582	16,631	14,237
23	Environmental Expenses	334	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	(2,503)	(1,957)	(1,202)	(561)	(230)	(235)
26	**Total Other Operating Expenses**	254,317	248,263	220,222	244,068	242,746	261,931	277,338	275,562	278,197	280,659	286,285	292,678
27	**Total Operating Expenses**	**705,185**	**757,968**	**845,315**	**783,368**	**754,722**	**807,777**	**697,414**	**739,103**	**772,370**	**792,185**	**821,578**	**837,876**
28	Depreciation	35,607	35,904	35,389	37,166	40,021	39,397	40,409	41,907	43,506	44,858	46,088	47,188
29	Cost of Removal	3,261	3,643	2,566	2,542	2,847	2,803	3,000	3,000	3,000	3,000	3,000	3,000
30	Less: Clearing Account Depreciation	(4,902)	(4,502)	(3,230)	(3,328)	(3,344)	(4,419)	(4,802)	(5,398)	(5,631)	(5,808)	(5,872)	(6,254)
31	Net Depreciation	33,966	35,045	34,725	36,380	39,524	37,781	38,607	39,509	40,875	42,050	43,216	43,934
32	**Total Operating Expense & Dep'n.**	**739,151**	**793,013**	**880,040**	**819,748**	**794,246**	**845,558**	**736,021**	**778,612**	**813,245**	**834,235**	**864,794**	**881,810**

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 Ninth Series Bonds are assumed to be issued on or after August 1, 2010. Debt service on this issue assumes a 30-year amortization schedule and a 6.02 percent all-in true interest cost. The Ninth Series Bonds are being issued to fund forecasted capital expenditures.

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. The City's current plan also provides for payment and grant back of the $18 million for fiscal years 2010 through 2015. In fiscal years 2005 through 2009, the $18 million payment was made and was granted back.

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 2010 through 2015. 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 Ninth 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, including the $60 million extraordinary rate increase effective January 1, 2009, which is assumed to be permanent. Revenues from Other Sales, primarily unbilled gas adjustments, are shown on Line 4 of Table 16. An Other Post Employee Benefits (OPEB) surcharge is included on Line 6 (Line 45 on Table 10) in fiscal years 2011 through 2015. These amounts, coupled with the projected $150 million Ninth Series Bonds, (Table 13, Line 2) represent, in our opinion, the minimum level of increase needed to:

- Cover the increase in non-gas operating expenses and interest expense since granting of the 2008 rate relief,
- Provide sufficient funds available for debt service to meets its rate covenants under the 1975 General Ordinance and the 1998 General Ordinance,
- Provide PGW with adequate liquidity when used to supplement internally generated funds without having to continually resort to borrowing funds externally for capital improvements (other than the projected $150 million in financing from the Ninth Series Bonds),
- Repay short term commercial paper obligations,
- Provide additional earnings for further debt reduction, and
- Meet coverage requirements for the planned Ninth Series Bonds.

Table 15
Projected Long Term Debt Service Requirements
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, Projected 2010	2011	2012	2013	2014	2015
		$	$	$	$	$	$
	Revenue Bonds under 1975 Ordinance						
1	Series 11C	0	11,017	14,005	0	0	0
2	Series 16	930	930	930	7,695	7,683	3,191
3	Series 17	14,934	13,121	11,560	17,217	15,672	14,127
4	Series 18	13,514	4,900	4,892	4,886	4,874	9,221
5	Series 19	723	723	723	723	723	723
6	Total 1975 Ordinance Debt	30,101	30,691	32,110	30,521	28,953	27,261
	Revenue Bonds under 1998 Ordinance						
	Senior Debt						
7	First Series A	15,054	12,779	9,048	8,301	7,563	6,830
8	Second Series	3,084	3,087	3,082	0	0	0
9	Third Series	3,141	3,141	3,144	0	0	0
10	Fourth Series	7,348	7,349	7,349	7,347	7,344	7,349
11	Fifth Series	8,418	8,416	8,418	8,417	8,420	8,416
12	A-2 Fifth Series Variable [a]	766	766	766	766	766	766
13	Seventh Series	14,400	14,401	14,401	16,850	14,297	14,297
14	Eighth Series [b]	11,633	13,853	13,857	17,382	21,931	25,065
15	Ninth Series - New Bond Issue - 2011	0	10,075	10,761	10,762	10,758	10,762
16	Senior Debt	63,844	73,865	70,826	69,824	71,079	73,484
	Subordinate Debt						
17	First Series C	1,986	1,988	1,984	1,990	1,985	0
18	Total Subordinate Debt	1,986	1,988	1,984	1,990	1,985	0
19	Total 1998 Ordinance Debt	65,831	75,853	72,810	71,813	73,064	73,484
20	Total Long-Term Debt Service	95,931	106,543	104,920	102,334	102,017	100,745

(a) Assumes a 2.55 percent annual interest rate as budgeted by PGW.

(b) Refunded the Sixth Series.

Table 16
Projected Statement of Income
(Thousands of Dollars)

Line No.	Description	2010	2011	2012	2013	2014	2015
		Fiscal Year Ending August 31,					
		$	$	$	$	$	$
	Projected Revenues						
1	Non-Heating	50,190	49,736	48,355	46,752	45,600	43,377
2	Gas Transport Service	30,084	32,145	34,294	35,759	36,864	37,777
3	Heating	742,086	791,622	820,156	835,690	856,785	867,707
4	Other Sales	(860)	931	328	166	231	(99)
5	Total Gas Revenues - Existing Rates	821,500	874,434	903,133	918,367	939,480	948,762
6	OPEB Surcharge	0	16,000	16,000	16,000	16,000	16,000
7	Total Gas Revenues	821,500	890,434	919,133	934,367	955,480	964,762
8	Other Operating Revenues	18,269	19,281	19,797	20,160	20,590	20,894
9	**Total Operating Revenues**	839,769	909,715	938,930	954,527	976,070	985,656
	Operating Expenses						
10	Natural Gas	420,056	463,521	494,153	511,506	535,273	545,178
11	Other Raw Materials	20	20	20	20	20	20
12	Total Fuel	420,076	463,541	494,173	511,526	535,293	545,198
13	Gas Processing	14,297	14,721	15,743	15,857	16,495	17,212
14	Field Services	34,682	35,815	36,829	37,816	38,919	39,921
15	Distribution	19,889	20,335	20,814	21,352	21,926	22,635
16	Collection	9,446	9,686	9,883	10,181	10,510	10,870
17	Customer Services	14,410	14,673	14,963	15,282	15,657	16,064
18	Customer Accounting	7,879	7,974	8,118	8,290	8,581	8,835
19	Bad Debt Expense	42,014	38,768	36,646	35,245	34,505	34,242
20	Other Post Employee Benefits	26,905	21,386	20,145	18,582	16,631	14,237
21	A&G and Other Expenses	107,816	112,204	115,056	118,054	123,061	128,662
22	Total Non-Fuel O&M	277,338	275,562	278,197	280,659	286,285	292,678
23	Depreciation	40,409	41,907	43,506	44,858	46,088	47,188
24	Cost of Removal	3,000	3,000	3,000	3,000	3,000	3,000
25	Less: Clearing Accounts	(4,802)	(5,398)	(5,631)	(5,808)	(5,872)	(6,254)
26	**Net Depreciation**	38,607	39,509	40,875	42,050	43,216	43,934
27	**Total Operating Expenses**	**736,021**	**778,612**	**813,245**	**834,235**	**864,794**	**881,810**
28	**Net Operating Income**	**103,748**	**131,103**	**125,685**	**120,292**	**111,276**	**103,846**
29	Other Income	12,769	12,049	12,255	11,362	11,099	10,432
30	**Net Income Before Interest Charges**	**116,517**	**143,152**	**137,940**	**131,654**	**122,375**	**114,278**
	Interest						
31	Long Term Debt	52,771	58,747	56,635	54,413	52,061	49,503
32	Other	11,622	14,928	15,638	15,563	15,546	15,528
33	Loss From Refunded Debt	5,734	5,495	5,238	5,001	4,603	4,148
34	AFUDC	(865)	(925)	(984)	(825)	(822)	(813)
35	Total Interest	69,262	78,245	76,527	74,152	71,388	68,366
36	**Net Income**	**47,255**	**64,907**	**61,413**	**57,502**	**50,987**	**45,912**
	(a) Net OPEB Reserve Funding, Line 6 - Line 20 + $2.5 Million from Base Rates	(24,405)	(2,886)	(1,645)	(82)	1,869	4,263

Table 17
Projected Statement of Cash Flows
(Thousands of Dollars)

Line No.	Description	2010	2011	2012	2013	2014	2015
		Fiscal Year Ending August 31,					
		$	$	$	$	$	$
1	**Beginning Cash Balance**	**13,750**	**45,743**	**106,199**	**144,581**	**159,052**	**151,031**
	Sources of Funds						
	Internal Sources						
2	Net Income	47,255	64,907	61,413	57,502	50,987	45,912
3	Depreciation	40,409	41,907	43,506	44,858	46,088	47,188
4	Amortized Costs[a]	6,175	5,898	5,607	5,294	4,879	4,407
5	Earnings on Restricted Funds	(8,086)	5,409	5,503	6,696	1,750	227
6	Increase/(Decrease) OPEB Liability[c]	24,405	2,886	1,645	82	(1,869)	(4,263)
7	Increased/(Decreased) Other Liabilities	(3,171)	(9,611)	(11,947)	(1,030)	(1,235)	(692)
8	Total Internal Sources	106,987	111,396	105,727	113,402	100,600	92,779
	External Sources						
9	Revenue Bond Proceeds	136,500	0	0	0	0	0
10	Capital Improvement Fund Drawdown	45,625	55,742	42,983	29,073	26,403	0
11	Release of Sinking Fund Asset	0	0	0	0	0	0
12	Grant Back from City	18,000	18,000	18,000	18,000	18,000	18,000
13	Temporary Borrowings	5,000	0	0	0	0	0
14	Total External Sources	205,125	73,742	60,983	47,073	44,403	18,000
15	**Total Sources of Funds**	**312,112**	**185,138**	**166,710**	**160,475**	**145,003**	**110,779**
	Uses of Funds						
16	Debt Reduction on all Bonds	42,885	38,329	35,335	45,665	47,630	50,830
17	PMA Bond Debt Reduction	1,565	1,640	1,715	1,805	1,890	0
18	Debt Reduction Funding	0	0	0	0	0	15,000
19	CIP Requirements	72,120	74,183	69,068	71,743	71,470	70,737
20	Payment to City/Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000
21	Deposit to CIP Fund	136,500	0	0	0	0	0
22	Repayment of Commercial Paper	5,000	0	0	0	0	0
23	Payment to City[d]	0	16,300	0	0	0	0
24	Change in Non-Cash Working Capital[b]	4,049	(23,770)	4,210	8,791	14,034	11,705
25	**Total Uses of Funds**	**280,119**	**124,682**	**128,328**	**146,004**	**153,024**	**166,272**
26	Increase/(Decrease) in Cash	31,993	60,456	38,382	14,471	(8,021)	(55,493)
27	**Ending Cash Balance**	**45,743**	**106,199**	**144,581**	**159,052**	**151,031**	**95,538**

(a) Includes amortization on bond issuance costs and extraordinary losses.

(b) Includes changes in Accounts Payable, Accounts Receivable, and Materials and Supplies.

(c) See Footnote (a) Table 16

(d) PGW expects to offset this payment by the sale in 2012 of surplus City owned real property currently occupied by PGW.

Other operating revenues presented on Table 16, Line 8 include revenues from sales of energy-related appliance services and field collection charges. Projected Other Income for the System (Table 16, Line 29) includes interest earnings from the different reserve funds.

The projected operation and maintenance expenses shown on Table 16, Lines 10 through 27 are from Table 14. PGW's projected net operating income before interest is summarized on Line 30 of Table 16. Interest expense on existing bonds, proposed bonds, and capital leases is presented on Line 31. Other interest costs including loss from refunded debt and the allowance for funds used during construction ("AFUDC") are shown on Lines 32 through 34. PGW's projected net income is shown on Line 36 of the table is $47.3 million in fiscal year 2010, increases to $64.9 million in fiscal year 2011, and decreases to $45.9 million in fiscal year 2015.

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, drawdowns on the capital improvement fund, and the payment and grant back of the $18 million for fiscal years 2010 through 2015. The total for all sources of funds is shown on Line 15 of Table 17.

Uses of funds are summarized on Lines 16 through 24 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, 22 and 23. 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 24.

The net increase or decrease in available cash for each fiscal year is shown on Line 26 of Table 17. The ending cash balance for the year, which is the sum of Lines 1 and 26, is shown on Line 27. The ending cash balance for 2011 represents approximately 20 weeks of operations and maintenance expenses (excluding the cost of gas) and the ending cash balances for fiscal years 2012 through 2015 represent approximately 29 to 17 weeks, respectively, of operations and maintenance expense (excluding the cost of gas). These projected year-end cash balances for fiscal years 2011 through 2015 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 and 1998 General Ordinances 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 and 1998 General Ordinances for all years in the projection period.

Table 18
Projected Debt Service Coverage
(Thousands of Dollars)

Line No.	Description	Fiscal Year Ending August 31, 2010	2011	2012	2013	2014	2015
		$	$	$	$	$	$
	SOURCES OF FUNDS						
1	Total Gas Revenues	821,500	890,434	919,133	934,367	955,480	964,762
2	Other Operating Revenues	18,269	19,281	19,797	20,160	20,590	20,894
3	Total Operating Revenues	839,769	909,715	938,930	954,527	976,070	985,656
4	Other Income [(a)]	23,548	36,383	36,742	36,883	31,671	29,472
5	Restricted OPEB Funding Revenues [(d)]	24,405	2,886	1,645	82	(1,869)	(4,263)
6	**Total Sources of Funds**	887,722	948,984	977,317	991,492	1,005,872	1,010,865
	USES OF FUNDS						
7	Fuel Costs	420,076	463,541	494,173	511,526	535,293	545,198
8	Other Operating Costs	315,945	315,071	319,072	322,709	329,501	336,612
9	Total Operating Expenses	736,021	778,612	813,245	834,235	864,794	881,810
10	Less: Non-Cash Expenses	(70,499)	(50,414)	(50,772)	(50,571)	(49,881)	(50,326)
11	**Total Uses of Funds**	665,522	728,198	762,473	783,664	814,913	831,484
12	**Funds Available for Debt Service**	222,200	220,786	214,844	207,828	190,959	179,381
13	1975 Ordinance Bonds Debt Service	30,101	30,691	32,110	30,521	28,953	27,261
14	**Debt Service Coverage - 1975 Ordinance**	**7.38**	**7.19**	**6.69**	**6.81**	**6.60**	**6.58**
15	Net Available after Prior Bond Debt Service	192,099	190,095	182,734	177,307	162,006	152,120
16	1998 Ordinance Bonds Debt Service	63,844	73,865	70,826	69,824	71,079	73,484
17	**Debt Service Coverage - 1998 Ordinance**	**3.01**	**2.57**	**2.58**	**2.54**	**2.28**	**2.07**
18	Net Available after Prior Debt Service	128,255	116,230	111,908	107,483	90,927	78,636
19	1998 Ordinance Subordinate Debt Service	1,986	1,988	1,984	1,990	1,985	0
20	**Debt Service Coverage on Subordinate Debt**	**64.58**	**58.48**	**56.41**	**54.02**	**45.82**	**-**
	Standard & Poor's Fixed Coverage Charge Calculations						
21	Net Available to Service Aggregate Debt Service [(b)]	155,989	183,586	179,799	174,529	166,413	159,025
22	Aggregate Debt Service[(c)]	95,931	106,543	104,920	102,334	102,017	100,745
23	**Fixed Coverage Charge on Long-Term Debt**	1.63	1.72	1.71	1.71	1.63	1.58

(a) Includes the City's grant back of the $18 million payment in fiscal years 2010 through 2015.

(b) S&P's Definition: Net Available for Debt Service = Line 9, Table 16 - Line 34, Table 16 - (Line 27 - Line 26, Table 16) + Line 29, Table 16

(c) Line 13 + Line 16 + Line 19

(d) See Footnote (a) Table 16

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 (4,412 HDD for 2010). 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/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 base rate increases.

Operating Expenses

1. PGW's annual bad debt expense will range from $34.2 to $42.0 million and PGW's collection factor on billed revenues will be 95.0 percent during the projected 2010-2015 period.

Capital Improvement Program

1. The planned capital improvements are assumed to be sufficient to maintain the System and meet regulatory requirements.
2. Projected levels of cash-financed capital improvements are assumed to comply with PGW's internal policies for financing capital improvements with other funding sources.

City of Philadelphia

1. The $18 million annual payment to the City will be granted back to PGW by the City in fiscal years 2010 through 2015.
2. The City of Philadelphia is undertaking an evaluation of strategic options for PGW. The City has 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 advisor will provide a final written report to the City on or about October 15, 2010. 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.

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 Ninth 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 (including the projects to be established with the proceeds of the Ninth Series Bonds), the System should yield Project Revenues (which are pledged under the 1975 General Ordinance and the 1998 General Ordinance) 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 Ninth 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 forming the basis of this opinion comply with the requirements of the definition of Project Revenues contained in Section 2 of 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, 2010, through August 31, 2015, 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 couple of years, and are addressed more fully in the text of this Report:

1. Projected gas supply costs have dropped significantly, over 20 percent for 2010 and over 10 percent for 2014.

2. On December 18, 2009, PGW submitted a base rate case filing with the PUC to make the $60 million increase that the PUC granted in 2008 permanent. 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 on July 29, 2010. In addition to the $60 million base rate increase, PGW will receive an additional $16 million per year to fund Other Post-Employment Benefits ("OPEB")

3. PGW's project capital improvements for 2011 and 2012 have decreased by approximately $22 million.

4. Operation and maintenance expenses (excluding gas supply expenses) are about $72 million higher over the 2010 through 2014 period than previously projected.

5. PGW's debt service payments over the 2010-2014 period are approximately $67 million lower.

6. PGW's debt service coverage (S&P calculation) is significantly higher due to the combination

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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, 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 (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 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 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 the 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 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.

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 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 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 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 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.

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. 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. The Convention Center Authority is currently undertaking an expansion 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.

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 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. 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. 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 "Source of Payment of PICA Bonds" below.

PICA has previously issued eleven series of bonds. 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 and (ii) Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2010 in the original principal amount of $206,960,000.

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.

As of the close of business on June 30, 2010, the principal amount of PICA bonds outstanding was $533,945,000.

Source of Payment of PICA Bonds

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.

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 2009, the current estimate for Fiscal Year 2010 and the adopted budget for Fiscal Year 2011, are set forth below:

Year	Amount
2001	$ 273.6 million
2002	278.0 million
2003	281.5 million
2004	285.0 million
2005	300.2 million
2006	309.9 million
2007	327.9 million
2008	341.8 million
2009	348.5 million
2010 (Current Estimate)	354.3 million
2011 (Adopted Budget)	361.9 million

PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

Five-Year Plans of the City

One of the conditions precedent to the issuance of bonds by PICA was the development by the City and approval by PICA of a five-year financial plan. 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 adopted by City Council, signed by the Mayor and approved by PICA.

The Mayor presented the Seventeenth Five-Year Plan (the "Seventeenth Five-Year Plan") to City Council on February 14, 2008. City Council approved the Fiscal Year 2009 Budget and the revised Fiscal Years 2009-2013 Five-Year Plan on May 22, 2008. The Mayor signed the budget into law on May 22, 2008. The Seventeenth Five-Year Plan was approved by PICA on June 17, 2008.

The Mayor presented the Eighteenth Five-Year Plan (the "Eighteenth Five-Year Plan") to City Council on March 19, 2009. City Council reviewed the Fiscal Year 2010 Operating Budget and Eighteenth Five-Year Plan on March 25, 2009. City Council approved the Fiscal Year 2010 Budget on May 21, 2009, and the Mayor signed it on May 27, 2009. The City submitted the revised Eighteenth Five-Year Plan to PICA in June 2009 for PICA's approval. The Eighteenth Five-Year Plan included a one percent City Sales Tax increase through Fiscal Year 2014. Additionally, the Eighteenth Five-Year Plan assumed 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 by Fiscal Year 2014. In addition to the deferral, the City changed the amortization period from 20 years to 30 years and lowered the interest rate assumption from 8.75 percent to 8.25 percent.

PICA's Board approved the City's Eighteenth Five-Year Plan on July 21, 2009 with several conditions, including that the Eighteenth Five-Year Plan would be deemed disapproved if (i) the General Assembly of the Commonwealth failed to enact legislation authorizing the City to increase the City's sales tax and change the City's pension fund payments by August 15, 2009 or such earlier date that the General Assembly recessed for the summer, or (ii) the City failed to provide PICA by August 20, 2009 with a list of items that could generate at least $25 million in additional savings or recurring revenues in each year of the Eighteenth Five-Year Plan. If either of the conditions referred to above were not met, the City would be required to submit a revised Eighteenth Five-Year Plan within 15 days of the deemed disapproval. The City prepared the information required in clause (ii) and submitted it to PICA on August 20, 2009. In addition, on September 1, 2009, the City formally submitted a revised Five-Year Plan for Fiscal Years 2010 through 2014. 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 reviewed the Fiscal Year 2011 Operating Budget and Nineteenth Five-Year Plan on March 10, 2010. City Council approved the Fiscal Year 2011 Budget on May 20, 2010, and the Mayor signed it on June 1, 2010. The City submitted a revised Nineteenth Five-Year Plan to PICA on July 14, 2010, for PICA's approval. The Nineteenth Five-Year Plan includes a 9.9 percent Real Estate Tax increase through Fiscal Year 2012, which is estimated to generate $86 million in Fiscal Year 2011, and a new tax on smokeless tobacco products, which is estimated to generate $4 million in Fiscal Year 2011.

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, 2009 (the "Fiscal Year 2009 Comprehensive Annual Financial Report").

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2009 Comprehensive Annual Financial Report.

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.

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, 2009), 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, 2009), 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 councilmanic 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 11 for a summary of the City's capital improvement program for the Fiscal Years 2011 through 2016.

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 twenty-ninth consecutive year, the Government Finance Officers Association of the United States and Canada awarded its prestigious Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. 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.

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. 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 April 2001. 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). Revisions to the Policy are currently being considered.

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, Collateralized Certificates of Deposit, Bankers Acceptance Notes, Eurodollar Deposits, Euro Certificates of Deposit, Commercial Paper, Corporate Bonds, Money Market Mutual Funds, Repurchase Agreements and Commonwealth of Pennsylvania securities, all of investment grade rating or better. Each category of instruments, excluding U.S. Government Treasury and Agency securities which carry no limitation, is limited to investment of no more than 25% of the total portfolio, and no more than 10% of the total portfolio per institutional or corporate 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, the City Treasurer and the Deputy City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, Philadelphia Gas Works and Philadelphia Municipal Authority. 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 whose yield or market value does not follow the normal swings in interest rates. Investment in derivatives such as "inverse floaters," leveraged variable rate debt and interest-only or principal-only Collateralized Mortgage Obligations are specifically forbidden. The use of any other derivative investment products is restricted to identified "core cash" in any fund but never to exceed 25% of any fund's balance at the time of purchase. 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 Commonwealth Fiscal Year 2011 budget recently passed, and the City is currently analyzing the Commonwealth's budget to determine how it will affect the City's Fiscal Year 2011 budget as adopted. See "REVENUES OF THE CITY - Major Revenue Sources - Revenue from Other Governments".

The City issued $275 million of Tax and Revenue Anticipation Notes in November 2009. These notes were repaid on June 30, 2010.

DISCUSSION OF FINANCIAL OPERATIONS

Fiscal Year 2010 Adopted 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 1 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.

Fiscal Year 2010 Current Estimate

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. The revised Fiscal Year 2010 estimate projects revenues of $3.789 billion, obligations of $3.727 billion and an ending fund balance on the legally enacted basis of negative $51.7 million.

Fiscal Year 2011 Adopted 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 percent Real Estate Tax increase which is estimated to yield $86 million and a new tax on smokeless tobacco products which is estimated to generate $4.0 million in Fiscal Year 2011. The City submitted a revised Nineteenth Five-Year Plan to PICA on July 14, 2010 for PICA's approval.

Fiscal Year 2011 Current Estimate

Revenues continue to be variable since the Fiscal Year 2011 budget was adopted. Currently, Fiscal Year 2010 tax collections are running below March 2010 estimates. The primary drivers are lower than anticipated collections for Real Estate Taxes, Real Property Transfer Taxes, and Business Privilege Taxes. These lower collections are partially off-set by higher than projected tax collections for Sales Taxes and Wage Taxes. The Administration will be reducing Fiscal Year 2011 departmental spending by $47.0 million to ensure healthy cash and fund balances. The revised estimate projects revenues of $3.849 billion, obligations of $3.789 billion, an operating surplus of $85.6 million, and an ending fund balance of $34.0 million after discharging the Fiscal Year 2010 fund balance deficit on the legally enacted basis.

The Fiscal Year 2011 budget included $30 million in anticipated collections from the Tax Amnesty Program. The Tax Amnesty results are still being processed, but it is estimated to result in approximately $42 million additional in the General Fund.

Table 1
City of Philadelphia General Fund
Summary of Operations
(Legal Basis) (Amounts In Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Estimate 2010	Adopted Budget 2011
REVENUES								
Real Property Taxes[a]	377.7	392.7	395.8	397.5	402.8	400.1	398.9	497.5
Wage and Earnings Tax	1,049.6	1,073.6	1,111.2	1,167.4	1,184.8	1,117.0	1,122.6	1,124.8
Net Profits Tax	13.0	13.7	14.6	15.3	12.5	12.2	13.7	12.7
Business Privilege Tax	309.2	379.5	415.5	436.4	398.8	386.0	358.2	369.2
Sales Tax[b]	108.0	119.9	127.8	132.6	137.3	128.2	205.3	241.9
Other Taxes[c]	202.2	250.9	304.1	286.7	260.3	209.3	236.4	225.8
Total Taxes	2,059.7	2,230.3	2,369.0	2,435.9	2,396.5	2,252.8	2,335.1	2,471.9
Locally Generated Non-Tax Revenue	207.4	200.9	235.9	247.9	265.8	256.3	247.3	268.3
Revenue from Other Governments	801.1	1,054.6	924.5	1,032.9	1,033.4	993.4	1,169.7	1,115.6
Receipts from Other City Funds	24.7	26.3	24.9	27.4	27.2	135.4	36.5	53.3
Total Revenue	3,092.9	3,512.1	3,554.3	3,744.1	3,722.8	3,637.9	3,788.6	3,909.1
OBLIGATIONS/ APPROPRIATIONS								
Personnel Services	1,278.3	1,243.5	1,250.2	1,327.6	1,390.7	1,406.3	1,381.3	1,369.2
Purchase of Services	1,050.3	1,090.1	1,065.7	1,151.6	1,188.7	1,174.2	1,133.2	1,153.8
Materials, Supplies and Equipment	70.6	71.5	82.1	89.1	92.1	82.7	75.4	80.1
Employee Benefits	598.9	704.7	760.2	890.3	983.0	973.2	848.2	964.9
Indemnities, Contributions and Grants	95.1	113.5	110.9	119.0	120.9	130.0	128.1	135.8
City Debt Service	93.7	89.7	82.9	89.1	87.2	100.9	107.9	121.4
Other	32.0	36.7	38.6	31.2	32.3	22.7	25.0	0.0
Payments to Other City Funds	29.1	36.6	35.4	38.7	24.8	25.3	28.5	27.9
Total Obligations/Appropriations	3,248.0	3,386.3	3,426.0	3,736.6	3,919.8	3,915.3	3,727.6	3,853.1
Operating Surplus (Deficit) for the Year	(155.4)	125.8	128.2	7.5	(197.0)	(277.4)	61.0	56.0
Net Adjustments – Prior Year	17.3	17.2	30.1	35.9	18.6	20.7	24.5	24.5
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	91.3	(46.8)	96.2	254.5	297.9	119.5	(137.2)	(37.9)
Cumulative Adjusted Year End Fund Balance (Deficit)	(46.8)	96.2	254.5	297.9	119.5	(137.2)	(51.7)	42.6

(a) Adopted Budget 2011 reflects a 9.9 percent increase.
(b) Reflects one percent increase effective October 8, 2009.
(c) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.

FIGURES MAY NOT ADD UP DUE TO ROUNDING.

Table 2
City of Philadelphia
Principal Operating Funds (Debt Related)
Summary of Operations (Legal Basis)
(Amounts in Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Estimate 2010	Adopted Budget 2011
REVENUES								
General Fund	3,092.8	3,512.1	3,554.3	3,744.1	3,722.8	3,637.9	3,788.6	3,909.1
Water Fund[a]	438.3	451.4	490.3	519.7	589.7	543.5	574.7	610.9
Aviation Fund[b]	241.4	249.0	271.5	268.6	287.9	294.1	296.7	370.2
Other Operating Funds[c]	39.0	38.6	41.9	44.9	113.2	49.5	49.6	51.9
Total Revenue	3,811.5	4,251.1	4,358.0	4,577.3	4,713.6	4,525.0	4,709.6	4,942.1
OBLIGATIONS/APPROPRIATIONS								
Personnel Services	1,444.7	1,409.0	1,412.9	1,498.2	1,568.9	1,579.0	1,556.9	1,552.4
Purchase of Services	1,197.0	1,250.0	1,233.5	1,328.5	1,441.4	1,369.2	1,359.2	1,409.1
Materials, Supplies and Equipment	119.2	121.9	136.2	145.9	151.1	140.7	145.6	158.9
Employee Benefits	662.1	784.9	845.3	990.1	1,095.8	1,091.4	941.0	1,086.7
Indemnities, Contributions and Taxes	99.7	117.3	116.5	122.6	127.1	135.9	153.2	148.4
Debt Service[d]	344.6	336.8	337.6	348.8	346.7	384.8	401.4	437.7
Other	32.0	36.7	38.6	31.2	32.3	22.7	25.0	0.0
Payments to Other City Funds	95.5	97.0	119.4	144.9	154.7	88.1	122.1	124.9
Total Obligations/Appropriations	3,994.8	4,153.6	4,240.0	4,610.2	4,917.9	4,811.8	4,704.4	4,918.2
Operating Surplus (Deficit) for the Year	(183.4)	97.5	118.0	(32.8)	(204.3)	(286.8)	5.2	23.8
Net Adjustments Prior Year	41.0	45.8	60.6	69.6	51.0	41.8	56.7	53.7
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	132.0	(10.4)	132.9	311.5	348.3	236.8	(50.0)	25.8
Cumulative Adjusted Year End Fund Balance (Deficit)	(10.4)	132.9	311.5	348.3	195.0	(50.0)	11.9	103.3

(a) 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. The current estimate for Fiscal Year 2010 is $2,025,000. The adopted Budget amount for Fiscal Year 2011 is $3,004,000.
(b) Airport revenues are not available for other City purposes.
(c) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.
(d) Excludes PICA bonds.

FIGURES MAY NOT ADD UP DUE TO ROUNDING.

Quarterly Reporting to PICA

On November 16, 1992, the City submitted the first of its quarterly reports to PICA. This reporting is required under the PICA Act 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 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 such previous quarterly or monthly period 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.

On February 20, 2009, based on results as reported in the December 31, 2008 Quarterly City Managers Report for December 31, 2008, PICA informed the City that a variance had been declared as defined in Section 4.10(a) of the Intergovernmental Cooperation Agreement. The City provided monthly information to PICA as requested. PICA agreed to accept the submission of the Eighteenth Five-Year Plan as the City's proposed remedial action to address the variance. The City revised the Eighteenth Five-Year Plan and submitted it to PICA on September 1, 2009. On September 16, 2009, PICA approved the plan. The variance has been removed.

REVENUES OF THE CITY

General

In 1932, the Pennsylvania General Assembly 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 property 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 for revenues by major source for Fiscal Years 2001-2011 and Table 4 for General Fund tax revenues for Fiscal Years 2004-2011. The following description does not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 2000 through 2009 are contained in the Fiscal Year 2009 Comprehensive Annual Financial Report.

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. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

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. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 2001-2011, and the annual wage and earnings tax receipts in Fiscal Years 2001-2009 and the estimated receipts in Fiscal Year 2010 and the adopted budget for Fiscal Year 2011.

Fiscal Year	Resident Wage and Earnings Tax Rates*	Non-Resident Wage and Earnings Tax Rates	Annual Wage and Earnings Tax Receipts (including PICA Tax) (Amounts in Millions)
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	4.3310	3.8197	1,387.5
2006	4.3010	3.7716	1,435.6
2007	4.2600	3.7557	1,510.6
2008	4.2190	3.7242	1,527.5
2009**	3.9800 (July 1)	3.5392 (July 1)	1,488.7
	3.9300 (January 1)	3.5000 (January 1)	
2010	3.9296	3.4997	1,485.7 (Current Estimate)
2011	3.9280	3.4985	1,499.3 (Adopted Budget)

* Includes PICA Tax.
** There were two rate decreases during Fiscal Year 2009.

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 its current 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 through tax reduction funding provided by the Commonwealth of Pennsylvania 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; however, the proposed Nineteenth Five-Year Plan suspends 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.

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. The tax rates for tax years 2001-2011 are set forth below.

Tax Year	Business Privilege Tax Rates
2001	2.525 mills
2002	2.400 mills
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

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; however, the proposed Nineteenth Five-Year Plan suspends future City rate reductions until Fiscal Year 2014.

All business activity is also assessed a one-time $200 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 percent 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.

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 percent from the then-current 1 percent rate. The Pennsylvania General Assembly 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. The table below sets forth the City Sales Tax collected in Fiscal Years 2001 through 2009, the estimated collections for Fiscal Year 2010 and the adopted budget for Fiscal Year 2011.

Fiscal Year	**City Sales Tax Collections**
2001	$ 111.3 million
2002	108.1 million
2003	108.0 million
2004	108.0 million
2005	119.9 million
2006	127.8 million
2007	132.6 million
2008	137.3 million
2009	128.0 million
2010 (Current Estimate)	205.3 million
2011 (Adopted Budget)	241.9 million

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 current estimate projects that approximately 30.8% of General Fund revenues will be received from other governmental jurisdictions, including: (1) $610.1 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $192.2 million from the Federal government; and (3) $74.5 million from other governments, in which revenues are primarily rental and payments from the Philadelphia

Gas Works and parking fines and fees from the Philadelphia Parking Authority. In addition, the projected net collections of the PICA Tax of $288.2 million are included in "Revenue from Other Governments."

The City's Fiscal Year 2011 General Fund adopted budget projects that approximately 28.5% of General Fund revenues will be received from other governmental jurisdictions, including: (1) $575.0 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $166.5 million from the Federal government; and (3) $50.2 million from other governments, in which revenues are primarily rentals and payments from the Philadelphia Gas Works and parking fines and fees from the Philadelphia Parking Authority. In addition, the projected net collections of the PICA Tax of $299.5 million are included in "Revenue from Other Governments."

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 Year 2009, the transferred amount was $4,185,463. In Fiscal Year 2010, the budgeted amount was $4,994,000 and the current estimate is $2,025,000. In Fiscal Year 2011, the budgeted amount is $3,004,000.

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 and 2009, the City budgeted the receipt of the $18,000,000 payment and the grant back of such amount to PGW. The City's Eighteenth Five-Year Plan assumed that the $18,000,000 payment would be made in each of Fiscal Years 2010 through 2014 and that the City would grant back such payment to PGW in each such Fiscal Year, and the City's proposed Nineteenth Five-Year Plan contemplates the same for each of the Fiscal Years 2011 through 2015. See also "EXPENDITURES OF THE CITY -- Fiscal Year 2011 PGW Payment to City."

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"), 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 2003 through 2009 that totaled $11,629,311, $14,539,053, $27,239,000, $30,186,642, $33,184,918, $33,570,037, and $31,239,909 respectively. The Fiscal Year 2010 current estimate is projected to be $26,000,000 and the Fiscal Year 2011 budgeted transfer amount is $28,000,000.

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.

Assessment and Collection of Real and Personal Property Taxes

In December 2009, the Board of the Revision of Taxes (the "BRT") ratified a Memorandum of Understanding (the "MOU") separating the assessment and appeals functions for property valuation and transferring day-to-day authority for oversight of assessments to the Finance Department. The BRT did not extend the MOU which expired in April 2010. 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.

The BRT will cease to exist at the end of September 2010 and the changes described in this paragraph will take effect. Beginning October 1, 2010, the newly created Office of Property Assessment will take over the annual assessment of all real estate located within the City. The new Board of Appeals will be comprised of seven members appointed by the Mayor after recommendations by an independent panel. City Council will have the right to approve or disprove the Mayor's selections. As with the existing appeals mechanism, the Board of Appeals may 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 will be 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 2009 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City decided to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City realized no Personal Property Tax revenues in Fiscal Year 1998 or in subsequent years. The Personal Property Tax had been levied on the value of certain personal property of the residents of the City.

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Table 3
City of Philadelphia
Summary of Principal Operating Funds (Debt Related)
Revenues by Major Source
Fiscal Years 2001-2011 (Legal Basis)
(Amounts in Millions of USD)

Fiscal Year	Real Property Taxes[a]	Wage Earnings & Net Profits Taxes[a]	Business Privilege Tax[a]	Sales and Use Tax[a]	Other Taxes[b]	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[c]	314.0[c]	111.3	130.0[c]	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 [d]	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 [e]	4,525.0
2010 (Current Estimate)	398.9	1,136.3	358.2	205.3[f]	236.4	2,335.1	513.0	293.7	249.3	3,391.1	1,203.2	115.3 [g])	4,709.6
2011 (Adopted Budget)	497.5[h]	1,137.4	369.2	241.9	225.9	2,471.9	542.9	363.2	268.8	3,646.8	1,152.3	143.0	4,942.1

(a) See Table 7 in the Fiscal Year 2009 Comprehensive Annual Financial Report for Tax Rates.
(b) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(c) 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).
(d) In Fiscal Year 2008, there was an increase of $73 million in payment from Water Fund to Water Residual Fund.
(e) In Fiscal Year 2009, there was an $86 million payment from the Wage Tax Reduction Fund.
(f) Reflects one percent increase effective October 8, 2009.
(g) In Fiscal Year 2010, the Wage Tax Reduction payment is shown in the Revenue from Other Governments column.
(h) Reflects a Real Estate Property Tax increase of 9.9%.

FIGURES MAY NOT ADD UP DUE TO ROUNDING.

Table 4
City of Philadelphia General Fund
Tax Revenues (a)
Fiscal Years 2004-2011
(Amounts in Millions of USD)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Estimate 2010	Adopted Budget 2011
REAL PROPERTY TAXES								
Current	332.6	353.2	354.1	367.2	366.5	365.6	356.9	457.5[(d)]
Prior	45.1	39.5	41.7	30.3	36.3	34.4	42.0	40.0
Total	377.7	392.7	395.8	397.5	402.8	400.0	398.9	497.5
WAGE AND EARNINGS TAX[(b)]								
Current	1,034.5	1,066.0	1,104.0	1,162.4	1,176.5	1,105.9	1,098.6	1,112.8
Delinquent	15.1	7.6	7.2	5.1	8.3	11.1	24.0	12.0
Total	1,049.6	1,073.6	1,111.2	1,167.5	1,184.8	1,117.0	1,122.6	1,124.8
BUSINESS TAXES								
Business Privilege								
Current	269.9	326.7	390.5	401.9	376.1	367.1	331.2	350.2
Delinquent	39.2	52.8	25.0	34.5	22.7	18.9	27.0	19.0
Sub-Total Business Privilege	309.1	379.5	415.5	436.4	398.8	386.0	358.2	369.2
Net Profits Tax								
Current	11.3	12.0	11.8	10.9	9.1	9.5	7.7	8.7
Delinquent	1.7	1.7	2.8	4.3	3.4	2.7	6.0	4.0
Sub-Total Net Profits Tax	13.0	13.7	14.6	15.3	12.5	12.2	13.7	12.7
Total Business Taxes	322.1	393.2	430.1	451.6	411.3	398.2	371.9	381.8
OTHER TAXES								
Sales and Use Tax	108.0	119.9	127.8	132.6	137.3	128.3	205.3[(c)]	241.9
Amusement Tax	18.3	13.5	17.0	16.4	18.0	21.4	20.9	21.1
Real Property Transfer Tax	141.3	192.3	236.4	217.3	184.0	115.1	114.7	125.2
Parking Taxes	42.5	45.0	48.4	50.3	55.5	70.4	70.7	72.5
Other Taxes	0.1	0.1	2.3	2.6	2.8	2.4	30.1[(e)]	7.1
Sub-Total Other Taxes	310.2	370.8	431.9	419.2	397.6	337.6	441.7	467.8
TOTAL TAXES	2,059.6	2,230.3	2,369.0	2,435.9	2,396.5	2,252.8	2,335.1	2,471.9

(a) See Table 7 in the Fiscal Year 2009 Comprehensive Annual Financial Report for Tax Rates.

(b) 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.

(c) Effective October 8, 2009, there was a one percent increase to the City Sales tax.

(d) Reflects a Real Estate Property Tax increase of 9.9%.

(e) This amount includes revenues from the Tax Amnesty Program.

FIGURES MAY NOT ADD UP DUE TO ROUNDING

Table 5
Ten Largest Certified Market and Assessment Values
of Tax-Abated Properties
Certified Values for 2010

Location	2010 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment
1701 John F Kennedy Blvd.	$181,500,000	$58,080,000	$2,897,184	$ 55,182,816
2929L Arch Street	117,000,000	37,440,000	0	37,440,000
1500 Spring Garden Street	50,000,000	16,000,000	2,944,000	13,056,000
2201 Park Towne Place	48,000,000	15,360,000	13,452,400	1,907,600
819 Chestnut Street	45,200,000	14,464,000	5,440,000	9,024,000
4300 S 26th Street	41,486,500	13,275,680	0	13,275,680
3711 Market Street	40,994,900	13,118,368	0	13,118,368
2760 Red Lion Rd.	39,820,000	12,742,400	480,006	12,262,394
3401 Chestnut Street	35,261,800	11,283,776	718,000	10,565,776
1327-29 Chestnut Street	35,000,000	11,200,000	10,880,000	320,000

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, 2009, the City employed 27,482 full-time employees with the salaries of 22,912 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.

Table 6
City of Philadelphia
Filled, Full Time Positions — All Operating Funds
at June 30 (Actual)

	2004	2005	2006	2007	2008	2009	2010*	2011*
General Fund								
Police	7,668	7,368	7,287	7,424	7,367	7,443	7,478	7,480
Streets	1,946	1,788	1,858	1,814	1,839	1,724	1,797	1,826
Fire	2,337	2,248	2,270	2,399	2,326	2,252	2,328	2,327
Health	745	667	662	664	665	662	739	742
Courts	2,046	2,004	1,936	1,928	1,970	1,889	1,965	1,776
Prisons	2,033	2,152	2,225	2,176	2,131	2,294	2,360	2,360
Human Services	1,815	1,743	1,703	1,721	1,784	1,743	1,858	1,828
All Other	5,170	4,995	4,878	4,941	5,029	4,905	4,982	5,010
Total General Fund	23,760	22,965	22,819	23,067	23,111	22,912	23,507	23,339
Other Funds	4,659	4,649	4,616	4,598	4,642	4,570	5,044	5,359
TOTAL	28,419	27,614	27,435	27,665	27,753	27,482	28,551	28,698

* Adopted Budget includes vacant positions.

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.

In September 2004, a collective bargaining agreement was reached with District Council 47. This four-year contract includes a $750 payment to each member with no general wage increase in Fiscal Year 2005 and wage increases of 2, 3 and 4 percent effective July 1 of each succeeding year, respectively. In December 2004, a collective bargaining agreement was reached with District Council 33, which mirrored the agreement previously reached with District Council 47. Each of the collective bargaining agreements included a health benefit reopener provision for the final two years of the agreement. The City concluded negotiations with District Councils 33 and 47 and agreed to increase the per member per month contributions to the unions by fourteen percent in Fiscal Year 2007 and an additional fourteen percent in Fiscal Year 2008.

On June 28, 2006, an arbitration panel issued a 3-year award to the IAFF Local 22. The award granted wage increases of 3.0% effective July 1, 2005, 3.0% effective July 1, 2006, and 4.0% effective July 1, 2007. In addition, the panel granted Local 22 health medical increases of 11.3% effective July 1, 2005, 14.1% effective July 1, 2006, and 14.0% effective July 1, 2007. The arbitration panel also addressed management issues believed by the City to be outside its jurisdiction. On August 24, 2007, the Commonwealth Court issued an opinion affirming in part and revising in part. The Court upheld the medical increases granted by the arbitrators and revised the decision that limited the City's management rights.

The FOP contract contained a 3% increase in wages effective July 1, 2004, 3% effective July 1, 2005, 3% effective July 1, 2006 and a 4% increase effective July 1, 2007. The award also called for a re-opener for health medical coverage for Fiscal Year 2006 and Fiscal Year 2007.

At the re-opener in August of Fiscal Year 2006, the arbitrators ordered the City to increase FOP healthcare contributions by 15.7 percent and 10 percent in Fiscal Year 2006 and Fiscal Year 2007, respectively. After a City appeal, the Court of Common Pleas remanded the ruling back to arbitration, but the panel reissued its original ruling with no change. The City appealed the ruling to Common Pleas Court on February 13, 2006, and lost. The City appealed that ruling in Commonwealth Court which ruled in favor of the City. The FOP petitioned the Pennsylvania Supreme Court asking the Court to review the matter, which the Court declined to do. The Mayor and the FOP reached a settlement in which the City agreed to pay the amounts awarded by the arbitrator. Accordingly, the matter was withdrawn as moot.

On July 10, 2008 the arbitration panel awarded a one-year contract to the FOP effective July 1, 2008. The award called for a 2 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009 and a 1 percent 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.

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 percent wage increase effective July 1, 2008, a 2 percent wage increase effective January 1, 2009, and a 1 percent 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 City also 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 union memberships have ratified the agreements.

Contracts for the four major bargaining units representing City employees expired on 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% increase in pension contributions over the amount current employees pay or entering a 401(k) type retirement plan for the first time.

Negotiations are currently underway with District Councils 33 and 47, and the contract with the IAFF Local 22 is in arbitration.

The following table presents employee wage increases for the Fiscal Years 1998 through 2011.

Table 7
City of Philadelphia
Employee Wage Increases
Fiscal Years 1998-2011

Fiscal Year	District Council No. 33	District Council No. 47	Fraternal Order of Police	International Association of Fire Fighters
1998	3.0% (a)	3.0% (a)	4.0% (b)	4.0% (c)
1999	3.0% (a)	3.0% (a)	3.0% (b)	3.0% (c)
2000	4.0% (d)	4.0% (d)	4.0% (e)	4.0% (f)
2001	No increase (g)	No increase (g)	3.0%	3.0%
2002	3.0% (h)	3.0% (h)	4.0%	4.0%
2003	3.0% (i)	3.0% (i)	3.0%	3.0%
2004	3.0%	3.0%	3.5%	3.5%
2005	No increase (j)	No increase (j)	3.0%	3.0%
2006	2.0%	2.0%	3.0%	3.0%
2007	3.0% (k)	3.0% (k)	3.0%	3.0%
2008	4.0% (l)	4.0% (l)	4.0%	4.0%
2009	No increase (m)	No increase (m)	4.0% (n)	4.0% (n)
2010	(o)	(o)	0.0% (p)	(q)
2011	(o)	(o)	3.0% (p)	(q)

(a) Third year of a four year contract: 3% effective December 15, 1998.
(b) First year of a two year contract: 3% effective September 15, 1998.
(c) Third year of a four year contract: 3% effective September 15, 1998.
(d) Fourth year of a four year contract: 4% effective March 15, 2000.
(e) Second year of a two year contract: 4% effective September 15, 1999.
(f) Fourth year of a four year contract: 4% effective September 15, 1999.
(g) First year of a four year contract: cash bonus of $1,500 paid in August 2000.
(h) Second year of a four year contract: 3% effective December 15, 2001.
(i) Third year of a four year contract: 3% effective December 15, 2002.
(j) First year of a four year contract: cash bonus of $750 paid in October 2004 to District Council 47 members and in December 2004 to District Council 33 members.
(k) Third year of a four year contract: 3% effective July 1, 2006.
(l) Fourth year of a four year contract: 4% effective July 1, 2007.
(m) Cash bonus of $1,100 paid 15 days after ratification.
(n) One year contract: 2% effective July 1, 2008 and 2% effective January 1, 2009.
(o) Contract expired on June 30, 2009, negotiations are currently underway.
(p) 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.
(q) Existing contract expired on June 30, 2009, arbitration proceedings are currently underway.

Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2005 through 2011 are shown in the following table.

Table 8
City of Philadelphia
General Fund Employee Benefit Expenditures
Fiscal Years 2005-2011
(Amounts in Millions of USD)

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Estimate 2010	Adopted Budget 2011
Pension Contribution*	315.5	346.5	436.8	430.8	459.0	350.1	480.0
Health/Medical/Dental	285.9	291.8	331.5	421.0	377.0	381.8	370.0
Social Security	59.9	60.8	64.1	69.7	68.8	69.2	70.2
Other	43.4	61.1	57.9	61.5	68.4	47.1	47.1
Total	704.7	760.2	890.3	983.0	973.2	848.2	964.9

* The Pension Contribution amount includes debt service on the Pension Obligation Bonds, Series 1999.

Municipal Pension Fund (Related to All Funds)

The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system covering all officers and employees of the City. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs.

B. Amortization of the unfunded actuarial accrued liability ("UAAL") determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.

C. Amortization in level percent of pay of the changes in the July 1, 1985 liability due to: nonactive member's benefit modifications (10 years); experience gains and losses (15 years); changes in actuarial assumptions (20 years); and active members' benefit modifications (20 years).

The pension fund was actuarially valued every two years through 1984, and beginning with the July 1, 1985 valuation report, is required to be actuarially valued each year.

The July 1, 1980 unfunded liability, as amended by subsequent reports, will be amortized over 38 years through annual contributions which will closely approximate a level percent of payroll. The Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, enacted December 18, 1984 adopted changes in funding of municipal pensions that have been reflected in the valuation report for July 1, 1985. In particular, this act generally requires that unfunded actuarial accrued liability be funded in annual level dollar payments. The City is permitted to amortize the July 1, 1985 UAAL over 40 years as a level percentage of pay of each year's aggregate payroll ending in 2025.

A July 2004 amendment to Act 205 allowed for 2001 and 2002 calendar year investment losses to be amortized over 30 years, rather than the usual 15.

Based on the City's most recent actuarial report dated as of July 1, 2009, the unfunded accrued liability was $4.933 billion which equals a funding ratio of 45%.

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. 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 one of two Municipal Pensions Plans, Plan 67 or Plan 87, 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.

Effective January 1, 1987, the City adopted a new plan ("Plan 87") to cover employees hired after January 8, 1987, as well as members in the previous Plan who elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost of the increase in pension payments. Police and Fire personnel became eligible for Plan 87 on July 1, 1988. Because of Court challenges, members of District Council 33 and Locals 2186 and 2187 of District Council 47 were not eligible for Plan 87 until October 2, 1992.

The Eighteenth Five-Year Plan assumed several changes to the pension system. The City changed the amortization period from 20 to 30 years and lowered the assumed rate of interest from 8.75 percent to 8.25 percent. Additionally, the Eighteenth Five-Year Plan assumed a partial deferral of the pension payment in Fiscal Year 2010 ($150 million) and Fiscal Year 2011 ($90 million) to be paid back by Fiscal Year 2014. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly.

A comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 2000 through 2009 is contained in the Fiscal Year 2009 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 2004 through 2011.

Table 9
City of Philadelphia
Purchase of Service in the General Fund
Fiscal Years 2004-2011
(Amounts in Millions of USD)

	Actual						Current Estimate	Adopted Budget
	2004	2005	2006	2007	2008	2009	2010	2011
Human Services (a)	493.7	511.8	467.9	495.3	515.3	499.0	465.5	478.4
Public Health	69.1	60.7	61.1	65.5	65.1	67.9	68.6	69.3
Public Property (b)	132.4	133.3	137.6	156.3	139.5	142.6	136.5	136.1
Streets (c)	53.9	54.6	54.8	58.3	58.4	51.0	50.4	41.4
Sinking Fund – Lease Debt (d)	70.8	70.7	77.0	84.3	85.1	86.1	93.7	89.6
Legal Services (e)	33.4	33.5	33.6	35.4	37.3	37.3	35.9	35.9
First Judicial District	23.0	28.3	24.4	24.8	25.6	23.6	23.0	20.9
Licenses & Inspections (f)	6.0	3.1	11.5	11.4	11.9	9.6	8.4	8.0
Emergency (g)	12.0	22.1	28.6	31.3	33.9	32.3	31.7	31.7
Prisons	80.8	84.9	82.8	87.5	93.6	110.7	110.2	108.0
All Other (h)	75.2	87.1	86.4	101.5	123.0	114.1	109.3	134.5
Total	1,050.3	1,090.1	1,065.7	1,151.6	1,188.7	1,174.2	1,133.2	1,153.8

(a) Includes payments for care of dependent and delinquent children.
(b) 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."
(c) Includes solid waste disposal costs.
(d) Includes, among other things, Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
(e) Includes payments to the Defender Association to provide legal representation for indigents.
(f) Includes payments for demolition in Fiscal Year 2006 through Fiscal Year 2010.
(g) Includes homeless shelter and boarding home payments.
(h) Includes payment for Convention Center Subsidy.

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, and the Fiscal Year 2011 budget includes a $38.6 million contribution.

City Loan to PGW

The City made a loan of $45 million to PGW during Fiscal Year 2001 to assist PGW in meeting its cash flow requirements. This loan was scheduled to mature in Fiscal Year 2007; however, PGW did not make the $45 million payment. PGW repaid $2 million to the City on August 31, 2007. PGW remitted a payment for $20.5 million before December 28, 2007; and PGW remitted a payment for the balance of $22.5 million on August 29, 2008. In addition, 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 proposed 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."

Fiscal Year 2011 PGW Payment to City

PGW has agreed to make a payment of $16,300,000 to the City in the City's Fiscal Year 2011. The City and PGW have agreed that such payment will be made prior to June 30, 2011: (1) from interest and profits on the 1975 Ordinance Sinking Fund Reserve for the 1975 Ordinance Bonds in excess of the Sinking Fund Reserve Requirement, to which the City is entitled to pursuant to the Act; and (2) from the sale of surplus City-owned real property currently occupied by PGW which will become available due to the consolidation of certain PGW operations. The terms of any real estate sale must be approved by the City administration, the Gas Commission and City Council. PGW has agreed to make the balance of the payment (net of Sinking Fund Reserve earnings and profits) from its available funds if the property sale is not completed prior to June 15, 2011, or if the property sale proceeds are not sufficient to cover the full payment. 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" contained in this Official Statement.

City Payments to SEPTA

The City's Fiscal Year 2008 operating subsidy payment to SEPTA was $61.3 million. The City's Fiscal Year 2009 operating subsidy payment to SEPTA was $62.9 million. The Fiscal Year 2010 budget projects operating subsidy payments to SEPTA of $64.2 million. The Fiscal Year 2011 budget projects operating subsidy payments to SEPTA of $64.9 million. The Eighteenth Five-Year Plan provided that the City's contribution to SEPTA would increase to $70.9 million by Fiscal Year 2014. The proposed Nineteenth Five-Year Plan provides that the City's contribution to SEPTA would increase to $72.9 million by Fiscal Year 2015.

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 June 30, 2009, the Constitutional debt limitation for tax-supported general obligation debt was approximately $1,469,376,000 (based upon a formula of 13.5% of the assessed value of taxable real estate within the City on a 10 year rolling average). As of June 30, 2009, the City's total amount of authorized general obligation debt was $1,710,551,000 which includes approximately $358,305,000 of self-supporting debt, which does not count against the Constitutional debt limit. As of June 30, 2009, $1,352,246,000 of general obligation debt subject to the constitutional debt limit was authorized, and of this authorized amount, $1,278,621,000 was issued and outstanding. As of June 30, 2009, a balance of $73,625,000 remained authorized and unissued, and after legally authorized deductions for appropriations of approximately $34,255,000 for Fiscal Year 2010 maturing serial bonds, there remained a balance of $151,385,000 available for future authorization and issuance.

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 $275 million of Tax and Revenue Anticipation Notes on November 5, 2009. These notes were repaid on June 30, 2010.

Long-Term Debt

Table 10 presents a synopsis of the bonded debt of the City and its component units at the close of Fiscal Year 2009. 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, 2009, see the Fiscal Year 2009 Comprehensive Annual Financial Report.

Of the total balance of City tax-supported general obligation bonds issued and outstanding at June 30, 2009, approximately 16% is scheduled to mature within 5 years and approximately 37% is scheduled to mature within 10 years.

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Table 10
City of Philadelphia
City-related Bond Indebtedness
June 30, 2009
(Amounts in Millions of USD)

	Governmental Fund Types				Enterprise Funds			
	General Fund	Municipal Authority Fund	PICA	Total	Water Fund	Aviation Fund	Total	All Funds Total
Bonded Debt Outstanding, July 1, 2008	1,147.0	185.9	572.1	1,905.0	1,669.8	1,302.8	2,972.6	4,877.6
Increases:								
Par Value of Bonds Issued:								
General Obligation	165.0	97.9	354.9	617.8	-	-	-	617.8
Revenue	-	-	-	-	140.0	45.7	185.7	185.7
Total Bonds Sold	165.0	97.9	354.9	617.8	140.0	45.7	185.7	803.5
Decreases:								
Matured Bonds:								
General Obligation	31.0	14.2	42.4	87.6	1.2	-	1.2	88.8
General Obligation Refunded	-		326.9	326.9	-	-	-	326.9
Revenue	-	-	-	-	90.0	36.3	126.3	126.3
Revenue Refunded	-	-	-	-	-	41.0	41.0	41.0
			-					
Total Decrease	31.0	14.2	369.3	414.5	91.2	77.3	168.5	583.0
Bonded Debt Outstanding, June 30, 2009	1,281.0	269.6	557.7	2,108.3	1,718.6	1,271.2	2,989.8	5,098.1

Source: Office of Director of Finance.

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 of June 30, 2009, the principal amounts of the outstanding bonds of each of these authorities relating to the City's contract and lease obligations were as follows:

PMA	$269.3 million
PAID*	$1,973.1 million
Parking Authority	$16.4 million
Redevelopment Authority	$259.3 million
Convention Center Authority**	$201.8 million

Source: Office of the Director of Finance
* This includes 100% of Pension Bonds, only 86% applicable to the General Fund.
** These bonds were defeased in Fiscal Year 2010 by the Pennsylvania Economic Development Financing Authority.

The bonds of the Parking Authority included in the previous table are payable from project revenues, and by the City only if and to the extent that net revenues are inadequate for this purpose. The City paid $2.3 million in Fiscal Year 2006, $1.2 million in Fiscal Year 2007, $2.0 million in Fiscal Year 2008 and $1.2 million in Fiscal Year 2009 toward the repayment of these bonds. The budgeted amount in Fiscal Year 2010 was $1,335,650 and in Fiscal Year 2011 is $1,336,900. See "REVENUES OF THE CITY – Philadelphia Parking Authority."

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 the college, 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. The budgeted amount in Fiscal Year 2011 is $26,467,924. 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.

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Swap Information

The City has entered into various swaps related to its outstanding General Fund supported bonds as detailed in the following chart:

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]	($7,227,528)	($8,585,429)	($20,739,264)	($6,910,109)

Notes:

(1) On July 23, 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 payment of $3,049,000.

(3) Fair values are as of May 31, 2010 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 and the Airport, see the City's 2009 Comprehensive Annual Financial Report, and for more information related to certain swaps entered into in connection with revenue bonds issued for the Water and Wastewater Systems, see "SWAP AGREEMENTS" in the forepart of this Official Statement. In addition, PICA has entered into swaps which are detailed in the City's 2009 Comprehensive Annual Financial Report.

Recent and Upcoming Financings

The following is a list of financings that the City has entered into since the close of Fiscal Year 2009.

The City and the Water Department restructured $83.6 million of its outstanding Water and Wastewater Revenue Refunding Bonds, Series 2005B on July 1, 2009. The City replaced the Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") insurance policy with a letter of credit from Bank of America, N.A.

The City executed a $31 million, four-year tax-exempt lease to finance an upgrade to its municipal radio communications system for emergency and normal public safety purposes. This financing closed on July 7, 2009.

The City also had outstanding variable rate debt consisting of $313.5 million of General Obligation Bonds, Series 2007B insured by AGM with Dexia as the liquidity provider. AGM's financial difficulties negatively impacted these bonds and the City refunded the 2007B Bonds with the proceeds of the 2009A Bonds and the 2009B Bonds and terminated a portion of the swap related to the 2007B Bonds. The City closed this transaction on August 13, 2009.

The PGW 6th Series Revenue Bonds were insured by AGM and had liquidity provided by J.P. Morgan, Wachovia Bank N.A., and Scotia Bank. The liquidity expired in January 2009. All of the 6th Series Revenue Bonds were owned by the banks. The City, together with PGW, refunded the 6th Series Revenue Bonds with the Eighth Series Bonds. The variable rate bonds (Eighth Series B, C, D & E) in the amount of $255 million are secured by letters of credit from Bank of America, N.A., Wachovia Bank, N.A., Scotia Bank and J.P. Morgan. The remaining bonds were refunded as fixed rate bonds (Series A) and a portion of the swap related to the 6th Series Revenue Bonds was terminated. The City and PGW closed this transaction on August 20, 2009.

In September 2009, the City issued the Series A, Tax and Revenue Anticipation Note ("TRAN") in the maximum principal amount of $275 million to J.P. Morgan Securities, Inc ("JP Morgan"). The City drew $270 million under the JP Morgan private placement. The City issued a publicly offered TRAN, Series B and repaid the principal of and accrued interest on the Series A TRAN with a portion of the proceeds of the TRAN, Series B, together with other available funds of the City. This transaction closed on November 5, 2009. These notes were repaid on June 30, 2010.

In December 2009, PAID in conjunction with the City terminated the portion of the swap related to the $104,965,000 million constant maturity swap on PAID's 2001 Stadium financing. The swap counterparty paid a termination payment of $3,049,000 to the City/PAID.

The City's 2003 Variable Rate Series, Water and Wastewater Revenue Refunding Bonds were insured by AGM with Dexia as the liquidity provider. The City refunded the variable rate bonds to fixed rate bonds and terminated the swap related to those bonds. The refunding and related swap termination closed April 15, 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, together with the Water Department, will issue $185 million of new money water and wastewater bonds for capital projects. This transaction closed August 5, 2010.

Pursuant to this Official Statement, the City, along with PGW, will issue $150 million of PGW Revenue Bonds in August 2010.

The City, in conjunction with the Philadelphia International Airport, plans to issue new money Airport Revenue Bonds as well as refunding bonds (depending on market conditions). This transaction is expected to close in September/October 2010.

The City plans to issue General Obligation new money bonds for certain capital projects in late 2010 or early 2011.

CITY CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program for Fiscal Years 2011-2016 contemplates a total budget of $7,960,188,000 of which $2,133,504,000 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 2011-2016 on May 20, 2010.

Table 11
City of Philadelphia
Fiscal Years 2011-2016
Capital Improvement Program
(Amounts in Thousands of USD)

CITY FUNDS – TAX SUPPORTED	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2011-2016**
Carried-forward Loans	220,108	0	0	0	0	0	220,108
Operating Revenue	21,929	14,029	10,329	9,529	6,029	6,029	67,874
New Loans	102,581	100,323	105,781	82,951	82,105	81,814	555,555
Pre-financed Loans	1,202	1,000	1,000	1,000	1,000	1,000	6,202
PICA Pre-financed Loans	32,602	0	0	0	0	0	32,602
Tax-supported Subtotal	378,422	115,352	117,110	93,480	89,134	88,843	882,341
CITY FUNDS – SELF-SUSTAINING							
Carried-forward Loans	731,981	0	0	0	0	0	731,981
Operating	154,828	41,353	41,743	44,134	46,525	48,916	377,499
New Loans	436,094	439,916	514,533	666,160	861,507	898,653	3,816,863
Self-Sustaining Subtotal	1,322,903	481,269	556,276	710,294	908,032	947,569	4,926,343
REVOLVING FUNDS	18,000	0	0	0	0	0	18,000
OTHER THAN CITY FUNDS							
Carried-Forward Other Government	12,043	0	0	0	0	0	12,043
Other Governments Off Budget	832	894	919	977	956	964	5,542
Other Governments	8,345	0	0	0	0	0	8,345
Carried-Forward State	63,316	0	0	0	0	0	63,316
State Off Budget	107,718	118,773	121,872	121,053	122,166	119,540	711,122
State	16,912	6,959	4,332	5,188	5,377	5,777	44,545
Carried-Forward Private	17,826	0	0	0	0	0	17,826
Private	74,370	26,020	25,020	25,020	25,020	25,020	200,470
Carried-Forward Federal	236,511	0	0	0	0	0	236,511
Federal Off Budget	31,723	43,271	53,129	62,400	84,096	97,664	372,283
Federal	164,447	65,994	59,138	63,816	55,828	52,278	461,501
Other Than City Funds Subtotal	734,043	261,911	264,410	278,454	293,443	301,243	2,133,504
TOTAL	2,453,368	858,532	937,796	1,082,228	1,290,609	1,337,655	7,960,188

LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Aviation Division, 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 Aviation Division, 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 and $24.74 million after the first three quarters of Fiscal Year 2010. Estimates of settlements and judgments from the General Fund are $34.5 million, $42 million, $34.5 million, $34.5 million, and $34.5 million for Fiscal Years 2010 through 2014, respectively (based on the proposed Nineteenth 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 the first three quarters of Fiscal Year 2010, payments for claims arising from labor settlements in the General Fund were $733,000 of which $701,000 were paid from the Indemnities account, and $32,000 from the Operating budgets of the affected departments. For Fiscal Year 2009, payments for claims arising from labor settlements in the General Fund were $1.74 million of which $1.7 million was paid from the Indemnities account, and $40,000 from the operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged $28.3 million per year over the five years from Fiscal Year 2005 through Fiscal Year 2009.

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 2003 which resulted from these claims and lawsuits was $3.9 million, $2.9 million for Fiscal Year 2004, $2.4 million for Fiscal Year 2005 $4.2 million for Fiscal Year 2006, $2.5 million in Fiscal Year 2007, $4.6 million in Fiscal Year 2008, $5.0 million in Fiscal Year 2009 and $ 3.2 million in the first three quarters of Fiscal Year 2010. The Water Fund's budgets for Fiscal Year 2010 and Fiscal Year 2011 contain 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 $4.0 million in Fiscal Year 2010. 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 Aviation Division and in some cases lawsuits have been instituted. Many of these Aviation Division claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Aviation Division. The aggregate loss for Fiscal Year 2008 which resulted from these claims and lawsuits was $1.3 million and $430,000 for Fiscal Year 2009. The aggregate loss for the first three quarters of Fiscal Year 2010 was $733,000. The Indemnities budgets for Aviation Fund claims for Fiscal Year 2010 and Fiscal Year 2011 contain an appropriation in the amount of $2.5 million, although the current estimate, based on the prior three fiscal years' expenditures, is only $700,000 in Fiscal Year 2010. The Aviation Division is the first source of payment for any of the claims against the Aviation Division.

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 1, 2010, the Office of the City Controller had 124 employees, including 77 auditors, 27 of whom were certified public accountants.

The City Controller post-audits and reports on the City's combined financial statements, federal assistance received by the City, the performance of City departments and the finances of the School District. 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 the Pennsylvania Intergovernmental Cooperation Authority 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 Philadelphia'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 Councilmanic District for nearly fifteen years. During his time in 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.

Clarence D. Armbrister, Chief of Staff, was appointed on January 7, 2008. Prior to his appointment, Mr. Armbrister was Executive Vice President and Chief Operating Officer of Temple University. Mr. Armbrister began his career at Temple in April 2003 when he was named Senior Vice President. He was elevated to the position of Executive Vice President and Chief Operating Officer in January 2007. Prior to joining Temple, Mr. Armbrister was a Director in the UBS Financial Services Municipal Securities Group in Philadelphia and had served as Managing Director of the School District of Philadelphia, Treasurer of the City of Philadelphia, and was a partner in the law firm of Saul Ewing LLP. Mr. Armbrister holds a J.D. from the University of Michigan Law School and a B.A. degree in political science and economics from the University of Pennsylvania.

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 the Pennsylvania Intergovernmental Cooperation Authority (PICA), which is a financial oversight board established by the Commonwealth in 1991. He served as Chief Financial Officer of the Commonwealth of Pennsylvania from 2004 to 2005. From 2000 to 2004, he served as Budget Director for the City of Philadelphia, 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 of Philadelphia'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, Acting 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 Philadelphia 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 Philadelphia 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.

Alan L. Butkovitz is serving his second term as Philadelphia'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 Philadelphia. 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.

Rebecca Rhynhart was appointed the City Treasurer of the City of Philadelphia in July 2008. 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. Ms. Rhynhart previously served as the Deputy Finance Director for Debt Management from February 2008 to July 2008. Prior to joining the City, Ms. Rhynhart headed up the Tax-Exempt Group in Bear Stearns' Global Credit Department, assessing the creditworthiness of municipalities and not-for-profit organizations for derivative trading. From 2001 to 2005, she worked as a credit analyst for Fitch Ratings. Ms. Rhynhart received her Masters of Public Administration from Columbia University and her Bachelor of Arts from Middlebury College.

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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, 2009 was deposited with the MSRB on February 25, 2010. 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, 2009. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1300, 1401 John F. Kennedy Boulevard, Philadelphia, PA 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.

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CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.54 million according to the U.S. Census Bureau, 2008 Population Estimates. The City is in the heart of a nine-county metropolitan area with approximately 5.5 million residents. Air, rail, highway, and water routes provide easy access to the City.

The City 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 in the retail market with over 2,400 retail stores.

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 (which had over 1 million people in attendance in 2007), 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, the Wachovia Spectrum and the Wachovia 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 (ranked number one in U.S. children's hospitals) has recently completed the construction of a new $100 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.

Hospitals and Medical Centers: The following table presents the most recent published data regarding hospitals and medical centers in Philadelphia. 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 12
City of Philadelphia
Hospitals and Medical Centers
(As of July 2009)

Institution	Beds
Albert Einstein Medical Center	511
Aria Health System [(1)]	477
Belmont Center for Comprehensive Treatment	147
Chestnut Hill Hospital	119
Department of Veterans Affairs Medical Center - Philadelphia	145
Fairmount Behavioral Health System	185
Fox Chase Cancer Center	100
Friends Hospital	192
Girard Medical Center/Continuing Care Hospital of Philadelphia	106
Hahnemann University Hospital	497
Hospital of the University of Pennsylvania	760
Jeanes Hospital	160
Kensington Hospital	35
Kindred Healthcare-Philadelphia	52
Magee Rehabilitation Hospital	96
Mercy Hospital of Philadelphia	180
Methodist Hospital Division - TJUH	199
Nazareth Hospital	195
Penn Presbyterian Medical Center	223
Pennsylvania Hospital	410
Roxborough Memorial Hospital	137
Shriners Hospitals for Children - Philadelphia	39
St. Agnes Continuing Care Center	58
St. Christopher's Hospital for Children	175
St. Joseph's Hospital	146
Temple University Hospital [(2)]	746
The Children's Hospital of Philadelphia	456
Thomas Jefferson University Hospital	666

Source: Delaware Valley Healthcare Council of HAP, Monthly Utilization Report, July 2009

(1) Aria (formerly Frankford Health Care Systems) includes data for all three divisions — Frankford, Torresdale and Bucks County.

(2) Temple includes data for Episcopal Hospital.

Children's Hospital Expansion. The Children's Hospital of Philadelphia is expanding its research facilities in West Philadelphia. The $400 million first phase of the new complex was completed in the Fall of 2009; the $500 million second phase has been put on hold for the time being due to market conditions. CHOP recently 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. The construction schedule is not yet known.

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 is estimated to be completed in 2010 at a cost of $370 million and is currently under construction.

The Fox Chase Cancer Center. The Center is a non-profit institution, which is expanding its campus in the northeast section of the City. The area of expansion is called Burholme Park and it is adjacent to the main campus. The Center's 25-year Master Plan is over $1 billion, providing over 2.7 million sq. ft. of space dedicated to research and patient care. The Burholme Park portion of the expansion has been delayed for some time due to litigation. With a recent Commonwealth Court ruling, Fox Chase will be unable to expand into Burholme Park as planned. Throughout the litigation process, however, they have been actively pursuing other development sites within the City to expand, and have completed construction on and opened a $100 million Cancer Research Pavilion on their main campus in July 2009. Also slated for construction on the main campus is a 25,000 sq. ft. comparative research facility to enhance and expand the capabilities of the Center's current research efforts.

Demographics

During the ten-year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of Pennsylvania increased by 3.4%, less than one-third the national rate of increase.

Table 13
Population
City, Pennsylvania & Nation

	1990	2000	2009 (est.)	% Change 1990-2000	% Change 2000-2009
Philadelphia	1,585,577	1,517,550	1,540,351*	-4.3%	1.5%**
Pennsylvania	11,881,643	12,281,054	12,604,767	3.4%	2.5%
United States	248,709,873	281,421,906	307,006,550	13.2%	8.3%

Source: U.S. Census Bureau, 2009 Population Estimates, Census 2000, 1990 Census.

* 2008 Population Estimates (revised population estimate from challenge).
** Reflects % change from 2000-2008.

Table 14
Population Age Distribution

Philadelphia County

Age	1990	% of Total	2000	% of Total	2006-2008* (est)	% of Total
0-24	563,816	35.6	551,308	36.3	522,829	36.1
25-44	490,224	30.9	444,774	29.3	394,939	27.3
45-64	290,803	18.3	307,746	20.2	344,260	23.8
65-84	217,913	13.7	186,383	12.3	158,546	10.9
85 & up	22,801	1.4	27,339	1.8	28,337	2.0
Total	1,585,577	100	1,517,550	100	1,448,911	100

Pennsylvania

Age	1990	% of Total	2000	% of Total	2006-2008* (est)	% of Total
0-24	4,021,585	33.8	4,016,670	32.6	3,978,821	32
25-44	3,657,323	30.8	3,508,562	28.6	3,178,976	25.6
45-64	2,373,629	20	2,836,657	23.1	3,367,265	27.1
65-84	1,657,270	13.9	1,681,598	13.7	1,611,816	13
85 & up	171,836	1.4	237,567	1.9	281,878	2.3
Total	11,881,643	100	12,281,054	100	12,418,756	100

United States

Age	1990	% of Total	2000	% of Total	2006-2008* (est)	% of Total
0-24	90,342,198	36.3	99,437,266	35.3	103,443,127	34.3
25-44	80,754,835	32.5	85,040,251	30.2	83,266,651	27.6
45-64	46,371,009	18.6	61,952,636	22	76,547,789	25.4
65-84	28,161,666	11.3	30,752,166	11	32,801,763	10.9
85 & up	3,080,165	1.2	4,239,587	1.5	5,178,373	1.7
Total	248,709,873	100	281,421,906	100	301,237,703	100

Source: U.S. Dept. of Commerce, Bureau of the Census.

*2006-2008 American Community Survey 3 year estimates

The Economy

Philadelphia'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 Philadelphia 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.

Table 15
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
Atlanta	20.08	20.56	20.16	21.76	21.23	21.29	21.03	23.25
Chicago	23.77	22.97	22.44	24.75	24.78	24.56	24.82	23.95
Dallas	17.43	16.47	17.20	22.96	23.72	23.71	23.12	22.72
Denver	19.03	20.37	22.17	27.15	27.55	26.53	25.96	25.07
Houston	19.15	19.52	21.53	28.92	26.83	24.91	26.35	27.00
Los Angeles	23.12	22.59	23.74	30.52	30.51	29.92	28.72	28.74
New York	55.15	62.07	69.44	103.43	98.08	68.63	68.93	64.51
Philadelphia	22.42	22.96	22.60	24.35	25.26	25.24	24.09	25.36
Phoenix	24.29	26.19	27.32	29.14	29.17	28.23	26.72	26.89
Portland	21.58	22.41	23.00	25.85	27.62	26.99	26.65	26.33
San Francisco	30.62	31.11	35.81	49.71	48.57	39.40	33.94	33.17
St. Louis	21.12	21.75	21.21	22.82	22.42	22.78	22.51	22.58
Tampa	20.54	21.13	22.46	25.30	26.22	26.36	26.39	25.63
Washington, D.C.	42.74	43.58	44.00	51.05	51.26	51.77	51.74	51.75

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 16 and 17, respectively.

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. 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.

In March 2000, the Philadelphia Authority for Industrial Development ("PAID") took ownership of more than 1,000 acres at the site of the former Philadelphia Navy Shipyard, Naval Station, Naval Hospital and Defense Supply Center and has begun to implement aggressive redevelopment activities. To date, at least 47 companies have leased or purchased in excess of 2 million square feet of facilities at the complex, now known as the Philadelphia Naval Business Center ("PNBC"). In addition to this employment, the Navy has retained more than 2 million square feet of facilities. Together, the private and Navy facilities employ more than 7,000 people. Long term plans call for more than 10 million square feet of industrial and commercial space at PNBC, with employment targeted between 15,000-20,000.

Table 16
Labor Force Data Annual Average
Based on Residency (not seasonally adjusted)

	2003	2004	2005	2006	2007	2008	2009	2010
Philadelphia (000)*								
Labor Force	622.6	618.3	616.8	614.5	615.9	627.2	629.5	633.1
Employment	575.7	573.1	575.4	576.7	578.8	582.3	566.6	560.4
Unemployment	46.9	45.2	41.4	37.8	37.1	44.9	62.8	72.7
Unemployment Rate (%)	7.5	7.3	6.7	6.2	6.0	7.2	10.0	11.5
Philadelphia PMSA (000)**								
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
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
Unemployment	156.8	146.9	137.7	131.8	126.1	159.9	248.0	269.7
Unemployment Rate (%)	5.4	5.1	4.7	4.5	4.3	5.4	8.3	9.0
Pennsylvania (000)								
Labor Force	6,145.0	6,197.0	6,270.0	6,309.0	6,330.0	6,441.0	6,414.0	6,463
Employment	5,796.0	5,860.0	5,958.0	6,022.0	6,055.0	6,099.0	5,895.0	5,879
Unemployment	349.0	337.0	312.0	286.0	275.0	342.0	519.0	591
Unemployment Rate (%)	5.7	5.4	5.0	4.5	4.3	5.3	8.1	9.1
United States (000,000)								
Labor Force	146.5	147.4	149.3	151.4	153.1	154.3	154.1	154.4
Employment	137.7	139.3	141.7	144.4	146.0	145.4	139.9	139.4
Unemployment	8.8	8.1	7.6	7.0	7.1	8.9	14.3	14.9
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.7

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, 2010.

* Philadelphia County

** The Philadelphia PMSA includes Philadelphia-Camden-Wilmington, PA, NJ, DE, MD Metro Stat Area.

Table 17
Philadelphia County
Total Monthly Employment and Monthly Unemployment Rates
Based on Residency
2004 – 2010

	Total Employment in 000's							Unemployment Rate %						
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	563.8	7.5	6.9	6.1	6.0	6.4	8.5	11.4
February	573.4	573.5	576.3	579.8	582.0	576.5	561.6	7.3	7.2	6.4	5.8	6.4	9.0	11.5
March	572.0	572.2	576.4	579.2	582.7	571.6	560.1	7.7	6.9	6.2	5.7	6.6	9.2	11.3
April	572.4	574.4	576.4	576.2	586.0	571.1	560.4	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	569.0	N/A	7.5	6.7	6.2	6.0	6.8	9.5	N/A
June	570.7	574.7	577.7	578.3	583.3	567.4	N/A	7.6	6.6	6.2	6.0	6.9	9.8	N/A
July	573.6	577.2	575.6	579.4	582.4	566.0	N/A	7.4	6.4	6.3	6.1	7.1	10.0	N/A
August	572.8	575.8	577.0	578.9	582.6	563.1	N/A	7.3	6.5	6.2	6.0	7.5	10.5	N/A
September	573.4	576.6	576.8	579.2	582.0	560.4	N/A	7.2	6.7	6.1	6.1	7.5	10.8	N/A
October	574.0	576.0	577.8	578.6	582.2	557.5	N/A	7.1	6.5	5.9	6.2	7.8	11.1	N/A
November	575.3	575.7	577.2	581.8	579.1	560.0	N/A	7.0	6.8	6.1	6.1	8.0	10.9	N/A
December	576.5	578.8	578.5	580.4	578.3	559.3	N/A	6.9	6.4	5.9	6.3	8.4	10.9	N/A

Source: Center for Workforce Information and Analysis, PA Dept of Labor and Industry, June 2010 (monthly) Seasonally Adjusted Labor Force), Philadelphia County.

Table 18
Philadelphia City
Non-Farm Payroll Employment*

(Amounts in Thousands)

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Total Non-Farm	683.5	671.3	657.9	660.3	662.5	662.7	663.3	651.0
Natural Resources, Construction & Mining	12.9	12.3	11.4	12.0	12.4	11.9	12.1	10.0
Manufacturing	37.7	34.0	32.6	31.2	29.9	28.5	27.8	25.9
Trade, Transportation & Utilities	98.5	95.8	90.9	90.0	88.5	87.8	87.6	85.2
Information	17.0	15.9	13.6	13.2	12.8	12.6	12.5	12.6
Financial Activities	52.3	50.7	49.0	48.2	47.7	47.1	46.5	45.3
Professional & Business Services	82.9	80.9	80.3	82.4	84.2	85.8	85.3	78.5
Education & Health Services	181.0	185.3	184.1	186.8	192.2	197.1	201.6	205.2
Leisure & Hospitality	54.2	52.9	54.6	56.6	58.0	58.0	57.9	56.6
Other Services	29.9	29.0	28.5	28.5	28.2	28.0	27.8	26.6
Government	117.1	114.7	113.0	111.4	108.6	105.9	104.3	105.0

Source: Bureau of Labor Statistics, March 2010.
* Includes persons employed within the City, without regard to residency.

Table 19
City of Philadelphia
Principal Employers in Philadelphia
June 30, 2009
(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 20
Fortune 500
Largest Corporations
With Headquarters in Philadelphia, 2010

Corporation	Type of Industry	Ranking	Revenues
Comcast	Telecommunications	59	$35,756.0
Sunoco	Petroleum Refining	78	$29,630.0
Cigna	Health Care/Insurance	129	$18,414.0
ARAMARK	Diversified Outsourcing Services	189	$12,297.9
Crown Holdings	Metal Products	289	$7,938.0

Source: Fortune Magazine website, May 2010.

Income

The following table presents data relating to per-capita income for the City, the PMSA, and the United States.

Table 21
Consumer Price Indices and Median Household Effective Buying Income

	2000	2002	2003	2004	2005	2006	2007	2008	2009
CPLLl United States [(a)]	172.2	179.9	184.0	188.9	195.3	201.6	207.3	215.3	214.5
CPL U Philadelphia PMSA[(a)]	176.5	184.9	188.8	196.5	204.2	212.1	216.7	224.1	225.1
Buying Income[(b)]									
Philadelphia	$31,621	$29,995	$28,015	$28,150	$29,269	$30,748	$31,292	$30,746	$31,110
Philadelphia Metro Area*	$47,152	$43,800	$41,820	$42,852	$44,060	$45,395	$46,413	$46,900	$47,580
United States	$37,233	$38,365	$38,035	$38,201	$39,324	$39,324	$40,710	$41,792	$42,303

*Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area.

Source: (a) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.
(b) Sales & Marketing Management's 2009 Survey of Buying Power.

Table 22

Number of Households by Income Range in Philadelphia County

	Number of Households*			Percentage of Households*		
Income	**1990**	**2000**	**2006-2008** (est)**	**1990**	**2000**	**2006-2008** (est)**
Under $ 9,999	136,335	109,237	84,213	22.6	18.5	14.9
$10,000-14,999	59,331	49,035	48,221	9.9	8.3	8.6
$15,000-24,999	108,405	89,059	73,984	18.1	15.0	13.1
$25,000-49,999	190,237	171,215	147,661	31.7	29.0	26.2
$50,000 and over	106,432	171,737	209,758	17.6	29.1	37.2
Total	600,740	590,283	563,837	100.0	100.0	100.0

Source: U.S. Department of Commerce, Bureau of the Census.
* A household includes all the persons who occupy a housing unit.
** 2006-2008 American Community Survey 3 year estimates

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Number of Households by Income Range in United States

Income	Number of Households (000's) 1990	2000	2006-2008* (est)	Percentage of Households 1990	2000	2006-2008* (est)
Under $ 9,999	14,214	10,067	8,046	15.5	9.5	7.2
$10,000-14,999	8,133	6,657	6,140	8.8	6.3	5.5
$15,000-24,999	16,124	13,536	11,921	17.5	12.8	10.6
$25,000-49,999	31,003	30,965	27,850	33.7	29.3	24.8
$50,000 and over	22,519	44,312	58,429	24.5	42.1	52.0
Total	91,994	105,537	112,386	100.0%	100.0%	100.0%

Source: U.S. Department of Commerce, Economics and Statistics Administration, 2000 Census of Population.
Figures may not add up due to rounding.
*2006-2008 American Community Survey 3 year estimates

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Retail Sales

The following table reflects taxable sales for Philadelphia from Fiscal Years 1997 to 2009.

Table 23
Philadelphia
Taxable Retail Sales 1997-2009
($000's)

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

Source: Figures determined by dividing the Philadelphia local sales tax reported by the Pennsylvania Department of Revenue by the local sales tax rate of 0.01.

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 in 1985. The line places the airport 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 Philadelphia 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 Philadelphia International Airport (PHL) and Northeast Philadelphia Airport (PNE) comprise the Philadelphia Airport System (the "Airport System"). The Airport System is owned by the City of Philadelphia and is operated by its Division of Aviation. PHL is located 7.2 miles southwest of Center City; and PNE, a smaller reliever airport, is located 10 miles northeast of Center City. PHL is accessible from major highways within the City and from surrounding communities and SEPTA's Airport rail line. PHL provides its passengers with service on 10 domestic carriers, four of which also provide international service, along with four foreign flag carriers. In addition, PHL currently has 18 regional carriers and three all-cargo carriers. PHL serves as a key connecting hub for US Airways.

Water and Wastewater Systems

The water and wastewater systems of Philadelphia 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 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 480,000 retail customer accounts through 3,137 miles of mains, three water treatment plants, 15 pumping stations and provides fire protection through more than 25,000 fire hydrants.

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 479,000. The wastewater and stormwater systems contain three water pollution control plants, a biosolids processing facility, 21 pumping stations, and approximately 3,657 miles of sewers. Based on its current NPDES discharge permit, the City is required to achieve effluent limitations that are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act, as amended.

Municipal Solid Waste Disposal

The City is responsible for collecting solid waste, including recycling, from residential households and some commercial establishments. On average, approximately 2,800 tons of solid waste per day is 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 three percent per year over the contract term, and multiple vendors maximize operational flexibility and efficiencies.

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Housing

The table below shows details related to Philadelphia County and Pennsylvania's housing markets:

Table 24
Characteristics of Housing Units

	1990	2000	2006-2008* (est)
Total Housing Units			
Philadelphia County	674,899	661,958	660,562
Pennsylvania	4,938,140	5,249,750	5,476,136
Percent Owner-Occupied			
Philadelphia County	62.0%	59.3%	57.1%
Pennsylvania	70.6%	71.3%	71.4%
Median Value of Owner-Occupied Housing			
Philadelphia County	$49,400	$59,700	$ 130,400
Pennsylvania	$69,700	$97,000	$ 155,400
Number/Average Persons per Housing Unit			
Philadelphia County	2.56	2.65	2.63
Pennsylvania	2.72	2.62	2.59

Source: U.S. Department of Commerce, Bureau of the Census.
*2006-2008 American Community Survey 3 year estimates.

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 of Philadelphia—all in order to grow the City's tax base.

Background

In 2009, despite a slowing national economy, the City of Philadelphia aggressively launched several programs aimed at improving economic development. By reorienting its economic development priorities toward promoting transparency and accountability in government services to businesses and individuals, Philadelphia will strive to become the business location of choice. This new business climate, combined with recent cultural additions, neighborhood reinvestment and a renewed sense of civic pride, will further Philadelphia's position as a world-class city. As part of its economic recovery strategy, the City continues to pursue funds appropriated by the American Recovery and Reinvestment Act, which will be used to leverage major economic development projects, and thereby enhance the City's competitive position among major U.S. urban markets.

Philadelphia's Competitive Advantages

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 knowledge industries. The City of Philadelphia is the fifth-largest city in the nation (2000 U.S. Census Data) with the third largest downtown population 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.

Accessibility

Philadelphia is in a key position to access regional and international markets, due to the transportation infrastructure centered here, including Philadelphia International Airport, AMTRAK's Northeast Corridor service, major interstate highway access, regional SEPTA service and the port. The capacity of Philadelphia's transportation infrastructure is demonstrated by its median commuting time, which is 19 percent lower than the national metropolitan average. Recent analysis has shown that employees also benefit: Commuters to suburban firms, nearly all of whom drive to work, spend over $6,200 per year in vehicle expenses. By contrast, 70 percent of downtown office workers use public transit to get to work, and the annual cost of a SEPTA regional rail pass is just $2,172. In addition, 37% of downtown residents walk to work, the highest percentage of any major American city. Another 1.6% of Philadelphia commuters use bicycles to get to work. This is the highest percentage of biking commuters in the U.S., which is nearly three times the national average (2008 American Community Survey, http://blog.bicyclecoalition.org/2009/).

Culture

As a major urban center with a rich historical legacy, Philadelphia is increasingly gaining national recognition for its cultural and recreational advantages, which include the many tourism assets concentrated within city limits. 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 National Museum of American Jewish History, are increasingly drawing national attention. The development of new first-class sports facilities, as well as continued access and development along the City's Delaware and Schuylkill River waterfronts, adds to this array.

Affordability

Philadelphia 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 Philadelphia among the twenty best cities for young professionals to live, noting that college graduates are increasingly choosing Philadelphia over traditionally higher priced northeastern markets like Boston and New York.

Cost of Living 2010 (First Quarter)*

Index	Philadelphia, PA	Washington-Arlington – Arlington, DC-VA	Boston, MA	New York (Manhattan), NY	National Average
Composite (100%)	126.5	137.9	131.1	218.0	100.0

Source: Council for Community and Economic Research ACCRA Cost of Living Index
*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", and the indices for each place are then calculated based upon their relation to that average.

Educational Attainment

Philadelphia captures a significant portion of the region's educational employment and enrollment because of its major colleges and universities. The City houses 40 percent of all students during their studies, and the Philadelphia region retains a strong share of its graduates (55 percent) and an even greater share of graduates who are originally from the region (82 percent). The region retains 26 percent of non-native graduates, based on a survey of the class of 2005. 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 percent, compared to 27 percent). Meanwhile, the City consistently ranks among the lowest educational attainment rates in the nation, with only 20.7 percent of its population having obtained a four-year college degree (American Community Survey data, 2006). To reverse this trend, the Nutter administration has made it a priority to leverage the City's relationships with local universities and industry partners aimed at encouraging recent college graduates to maintain permanent residence and employment within the city.

Real Estate Market

Despite challenges in the national economy, Philadelphia's central business district ("CBD"), which encompasses 42.1 million rentable square feet, shows stable office market conditions when compared with other major metropolitan markets. The strength of the market is driven by the continued expansion of the city's major healthcare and educational institutions, which are less likely to be impacted by the slowdown, and the growth of Comcast Corporation. Recent developments in the financial services market offer both retention risks and attraction opportunities for Philadelphia. Significant downsizing among law firms and other professional services businesses pose the greatest challenge to the office market.

The Center City office market has seen positive results in most recent years, with 1 million square feet of net absorption in 2006, 992,000 square feet in 2007 and approximately 876,000 square feet of positive net absorption in 2008. Unfortunately, the economic slowdown has begun to have an effect, dropping the Class A net absorption rate for 2009 to approximately -190,160. Likewise, while Philadelphia's CBD boasted a direct vacancy rate of under 9% for six quarters in a row as of the first quarter of 2009, this rate has risen to 10.5% by the end of 2009 - still well below the national average, which climbed to 15.8% as of December 2009. Despite these downturns, Philadelphia's CBD shows signs of economic recovery and confidence is returning to the market.

In its Winter 2009 market forecast, Cushman and Wakefield named Philadelphia, among four major metropolitan markets (also including Boston, MA, Washington, DC, and Seattle, WA) that "will be in a recovery-ready mode in 2010." A positive sign of recovery is reflected in accelerating rental activity in the CBD, which in the first quarter of 2010 showed a 67% increase over the first quarter of 2009 activity. As a result of building owners making substantial capital investments and a high demand for 'trophy' locations, , Class A asking rental rates in the CBD have risen from $25.85 in 2006 to $27.08 per square foot through the first quarter of 2010. A concerted attraction and retention campaign involving the combined efforts of the City, PIDC, the Center City District, the Greater Philadelphia Chamber of Commerce, and the Commonwealth has helped to sustain these positive trends.

Amidst the national slowdown in real estate, Philadelphia's single-family property market remains consistent but is showing some signs of strain due to threats of increased foreclosures and a stagnant buyers market. However, the rental real estate market continues to be positioned favorably. Unburdened by a glut of speculative multifamily projects outstripping tenant demand, Philadelphia has maintained a low apartment vacancy rate and has fared well when compared to other regions.

Major Industry Sectors

When compared to the average sector concentration in Pennsylvania counties, Philadelphia has a higher concentration of employment in six sectors, as noted in the chart below.

Philadelphia Industry Concentrations Compared to Pennsylvania

Industry	Pennsylvania	Philadelphia County
Education and Health Services	0.52	2.23
Financial Activities	0.80	1.24
Other Services	0.93	1.07
Professional and Business Services	0.75	1.33
Leisure and Hospitality	0.95	1.05
Information	0.94	1.06
Trade, Transportation, and Utilities	1.54	0.69
Manufacturing	2.54	0.39
Construction	2.35	0.43
Unclassified	0.50	0.02
Natural Resources and Mining	0.55	0.00

Source BLS: 2008 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.

Philadelphia has maintained an above-average concentration of employment in Education and Health Services, Financial Activities, Other Services, Professional and Business Services, Leisure and Hospitality as well as Information Services. 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.

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Employment

Despite a continued rise in unemployment over the past year, the overall gap between local and national unemployment has shrunk moderately due to deteriorating market conditions brought on by the nation's financial crisis.

National, State and Local Unemployment Rates: 1997-2010

Year	U.S.	Pennsylvania	Philadelphia	% Difference between U.S. and Phila
1997	4.9%	5.1%	6.8%	1.9%
1998	4.5%	4.6%	6.2%	1.7%
1999	4.2%	4.4%	6.1%	1.9%
2000	4.0%	4.2%	5.6%	1.6%
2001	4.7%	4.8%	6.1%	1.4%
2002	5.8%	5.6%	7.3%	1.5%
2003	6.0%	5.7%	7.5%	1.5%
2004	5.5%	5.4%	7.3%	1.8%
2005	5.1%	5.0%	6.7%	1.6%
2006	4.6%	4.7%	6.3%	1.7%
2007	4.6%	4.4%	6.0%	1.4%
2008	5.8%	5.5%	7.2%	1.4%
2009	9.3%	8.1%	10.2%	0.9%
2010(1)	9.7%	9.4%	11.3%	1.4%

Source: Bureau of Labor Statistics (BLS).2010.

(1) Preliminary estimates based on data reported to BLS, January – April 2010.

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The jobs report is mixed. As reflected in the chart below, total employment has generally trended upwards in particular sectors (i.e. Education / Healthcare, and Leisure / Hospitality) over the entire period shown, while overall growth decreased slightly in 2009 and continues to be sluggish.

Cluster Employment Data: City of Philadelphia 2003-2010 (in thousands)										
Sector	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010***	**% Change from 2003**	**Avg Annual % Change**
Construction & Mining	12.3	11.4	12	12.6	11.8	12.2	10	8.5	-30.9%	-5.1%
Manufacturing	34	32.6	31.2	30	28.3	27.3	25.9	24.9	-26.8%	-4.5%
Trade, Transportation, & Utilities	95.8	90.9	90	88.6	88.0	87.5	85.2	83.7	-12.6%	-2.1%
Information	15.9	13.6	13.2	12.7	12.9	12.3	12.6	12.6	-20.8%	-3.5%
Financial Activities	50.7	49	48.2	47.6	47.1	46.3	45.3	44	-13.2%	-2.2%
Professional & Business Services	80.9	80.3	82.4	84.1	85.3	85.5	78.5	75.4	-6.8%	-1.1%
Education & Health Services	185.3	184.1	186.8	192	196.4	201.1	205.2	207.4	11.9%	2.0%
Leisure & Hospitality	52.9	54.6	56.6	57.6	58.4	57.8	56.6	53.5	1.1%	0.2%
Other Services	29	28.5	28.5	28.2	28.2	28.1	26.6	25.8	-11.0%	-1.8%
Government	114.7	113	111.4	108.4	105.9	104.5	105	105.1	-8.4%	-1.4%
Total	671.5	658	660.3	661.8	662.4	662.5	651	627.3	-6.6%	-1.1%

Source: Bureau of Labor Statistics. 2010.
*Preliminary estimates based on data reported to BLS, January – April, 2010.

Knowledge Industry: Poised for Growth

The sector of Philadelphia's economy which has remained most insulated from the current recession has been Education and Health Services, capturing an 11.9 % growth rate since 2003. 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 Philadelphia and the region to continue to build its knowledge industries.

While Philadelphia 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 Philadelphia and the region, the life sciences, which includes health care, research, biotechnology, and pharmaceuticals. Philadelphia 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.

Philadelphia'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. Philadelphia supports several initiatives with the goal of increasing employment in this sector and fostering population growth in the City as a result. Philadelphia's population has increased 1.5% since 2000 according to a recently published challenge to the U.S. Census Bureau's 2009 estimate. The City's official population is now recorded as 1,540,351.

Philadelphia International Airport

Philadelphia International Airport served 30.7 million passengers, including 4.1 million international travelers, in calendar year 2009. In 2009, PHL ranked eighteenth in the nation in terms of total passengers and is presently the eleventh busiest in the world for aircraft operations, according to data reported by Airports Council International North America. The regional economic impact of the Airport is $14 billion annually. PHL opened a new commuter terminal in 2001, a new international terminal in May 2003, completed the extension of Runway 17-35 to increase airfield capacity in December 2008, and recently completed two major phases of a $300 million Terminal D-E renovation and expansion project, which included a new 14-lane security checkpoint and ten new food and retail shops that opened in December 2008, and expansion of Concourse E, which added seven gates and a food court in February 2010.

In 2005, the Airport issued three series of Airport Revenue Bonds which included $125 million in fixed-rate Series 2005A bonds, $41 million in variable-rate Series 2005B bonds and $189.5 million in variable-rate Series 2005C bonds. Proceeds of the 2005A and B bonds have enabled the Airport to undertake critical infrastructure projects, such as expansion of Terminals D and E, improvements to Terminal A East, expansion of security checkpoints at Terminals B and C, and resurfacing of Runway 9R-27L. Proceeds of the 2005C bonds were used to refund the Airport's Series 1995A revenue bonds.

In August of 2007, the City issued the 2007A Bonds and the 2007B Bonds. Proceeds from the 2007A Bonds provide funding for several new capital projects including international terminal gate expansion, design work for the expansion of Terminal F, design of a new in-line baggage system for Terminal B/C, and an infrastructure improvement program. The 2007B Bonds refunded the Series 1997B Airport Revenue Bonds.

In April 2009, the City issued the fixed rate 2009A Bonds. Proceeds from the 2009A Bonds were used to refund the Airport's variable-rate Series 2005B, which are described above.

Philadelphia Industrial Development Corporation

Philadelphia Industrial Development Corporation ("PIDC") is a private, not-for-profit Pennsylvania corporation, founded in 1958 by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce to promote economic development throughout the City. The many programs provided by PIDC include (i) direct mortgage funding in a subordinate position at reduced interest rates for fixed asset improvement to companies who intend to build or expand in Philadelphia; (ii) tax-exempt bond financing to eligible borrowers through the Philadelphia Authority for Industrial Development (PAID); (iii) offering of fully improved parcels of land for sale in more than a dozen designated industrial parks and districts across the City; and (iv) offering of development assistance and project management to a range of Philadelphia's development and non-profit corporations.

Financing Programs

PIDC offers a variety of Financing Programs to assist economic development for all segments of the Philadelphia market. Primary categories include:

PIDC Loan Programs: Largely funded by federal, state, and local government sources, PIDC loan programs generally offer subordinated financing and below-market rates which encourage investment in Philadelphia. Specific terms and uses vary and may cover infrastructure costs, land acquisition, building construction, machinery/equipment purchase, or working capital. During 2009, PIDC settled 38 loan transactions and provided approximately $159 million of funding to projects valued at $1.18 billion.

PAID Bond Program: PIDC also manages the Philadelphia Authority for Industrial Development (PAID). PAID issues, as a conduit, tax-exempt bonds for qualified manufacturing and not-for-profit and other projects. PAID is also a conduit for taxable issues. During calendar year 2009, PAID settled 12 bond issues for $153.7 million in financing and total project costs of $157.8 million.

Real Estate Services

On behalf of the City of Philadelphia, PIDC is responsible for acquiring, improving and selling industrial and commercial land in strategic locations throughout the City. Over the years, PIDC has successfully leveraged economic development on more than 2,000 acres of such land.

- Industrial Land: PIDC parcels are competitively priced, zoned for immediate development, environmentally clean, and fully improved with roads and utilities. Many of these sites are located in established Northeast, West, and Southwest Philadelphia industrial park settings with excellent access to transportation and workforce. Others 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.
- 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 throughout Philadelphia. Due to the poor economic climate, PIDC completed 1 transaction in 2010 with a sale price of $165,000. Since this effort began, PIDC has completed the sale of 29 properties resulting in approximately $14.7 million for the City's General Fund. PIDC recently issued an RFP for the existing City-owned Family Court property located at 1801 Vine Street for re-development. As this is still an active facility, settlement on this transaction is not expected for 2 to 3 years.

- Developer Selection: When demand is present, PIDC also manages developer selection and sales of key real estate assets utilizing conventional RFQ/RFP methodology. Currently, PIDC is developing a handful of RFQ/RFP documents for sites that are likely to be in demand when the real estate market rebounds.

- In summary, PIDC closed 2 land sales, totaling 30 acres in the first half of 2010. This level of activity is consistent with 2008 and 2009 levels and represents the impacts of the overall slowdown in the national and regional economy. Since 2009, PIDC worked along with the City of Philadelphia's Commerce Department and the City Planning Commission to conduct a study of Philadelphia's industrial land inventory, characteristics, and projected demand to develop 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. The study is anticipated to be completed in summer 2010.

- Due to the weakness in the real estate market, PIDC is seeking opportunities to purchase distressed or underutilized industrially-zoned sites to replenish the City of Philadelphia's inventory of publicly controlled industrial land. PIDC recently settled on the acquisition of a 20-acre cleared industrially-zoned site which it will begin to market for private development. PIDC is negotiating acquisitions of additional industrially-zoned sites, which if successful, would settle in 2010.

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 these former military properties to civilian use, and many of the dispositions realized during 2003-2006 included development sites from this portfolio.

Located on the Delaware River at the south end of Broad Street, The Navy Yard is the largest former Defense Department asset, with 1,000 acres and 6.5 million square feet of existing industrial and office space. Since the ownership transfer in March 2000, PIDC has been responsible for planning, operations and development of this massive property.

Initial emphasis was on upgrading roads and utilities systems with over $25 million of infrastructure investment. Development of the Aker Philadelphia Shipyard, a $300 million state-of-the-art facility, was funded by federal, state, and local sources. Successful leasing and development efforts have resulted in more than 90 companies and three Navy operations occupying more than 5.5 million square feet of space and employing 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 was 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 activity. Aker employs 1,300 in its commercial shipbuilding operation and is in the midst of $2 billion worth of ship orders.

This robust activity also supports 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, an affiliate of Boston Ship repair leases a dry-dock, pier and related facilities to support commercial and military ship repair activity. Tasty Baking

Company's new 350,000 SF bakery and distribution center at The Navy Yard became fully operational in 2010. This facility, along with an additional 200,000 SF 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 which is now 100 percent leased, (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 and is now 90% leased. PIDC and Liberty/Synterra are in the pre-development phase for a 125 room hotel and 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 with corporate/research future has defined itself in recent years with a combination of headquarters relocations by Vitetta Architects and Engineers, Unique Industries, and Barthco International. In 2006, Urban Outfitters, a major retailer of clothing, furnishings and accessories completed its $115 million corporate campus, an award-winning historic conversion of approximately 300,000 SF of former industrial facilities. Urban Outfitters has grown their headquarters workforce to more than 1,200 employees since relocating to The Navy Yard and will complete work on a $20 million, 50,000 SF expansion in June 2010. Urban retains options on an additional 200,000 SF of facilities to support continued expansion at the Navy Yard.

- 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 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.

- 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 12 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 that will be the focus of their energy research activity. Penn State 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 operations in 2010. PIDC, Penn State and nearly 100 partners have submitted an application to the Department of Energy to support a $130 million center for Energy Efficient Buildings at The Navy Yard. DOE's decision on this proposal is expected in fall 2010.

- In 2009, two significant private investments in the Clean Energy Campus were announced. The first was the development of a 7-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 the second quarter of 2010. The second project is the development of a 350,000 SF, $400 million thin film, solar panel manufacturing facility by Heliospehra USA. This facility is proposed for a start of construction at the end of 2010 or early 2011.

- 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 SF office and lab facility at The Navy Yard. Established with approximately 40 employees initially, AppTec now has more than 260 employees at The Navy Yard. In 2008, WuXi Pharmaceuticals acquired AppTec and now houses its North American contract testing operation and 200 employees 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, where it also houses operations for its growing base of companies.

Additional Projects under Construction

The following table lists additional projects currently under construction in the City for the City/Public sector.

Table 25
Projects under Construction

Project	Estimated Cost
City Hall Exterior Renovation Project	$90,000,000
Presidents House	$8,400,000
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

Source: Office of Budget and Program Evaluation, December 2009

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 Tenth Supplemental Ordinance to the 1998 General Ordinance (the "Tenth Supplemental Ordinance"), which authorizes the issuance of the Gas Works Revenue Bonds, Ninth Series (1998 General Ordinance) (the "Ninth 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 Tenth 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 and the Tenth 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 TENTH SUPPLEMENTAL ORDINANCE
Ordinance of City Council
Approved June 3, 2009
Bill No. 090323
(the "Tenth Supplemental Ordinance")

The Tenth 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, Ninth Series (1998 General Ordinance) of the City (the "Ninth Series Bonds"), which may be issued in one or more subseries, designated "Ninth 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 $150,000,000. The Ninth 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 Tenth 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 Ninth 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 Ninth 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 Ninth Series Bonds. If a majority of the Bond Committee determines it to be in the best interests of the City to assist it in more effectively managing debt service costs, the

Ninth Series Bonds may be issued as Build America Bonds (Tax Credit) or Build America Bonds (Direct Payment) or Recovery Zone Economic Development Bonds or Recovery Zone Facility Bonds. The Ninth 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 Ninth Series Bonds are authorized to be issued under the Tenth Supplemental Ordinance in an aggregate principal amount up to One Hundred Fifty Million Dollars ($150,000,000.00); provided that, if any of the Ninth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of the Ninth Series Bonds which may be issued under the Tenth Supplemental Ordinance shall be increased to reflect such discounts, as long as the aggregate gross proceeds to the City from the sale of the Ninth Series Bonds shall not exceed One Hundred Fifty Million_Dollars ($150,000,000.00), plus accrued interest, if any; provided further, that the Ninth Series Bonds, or any portion thereof, may be sold at a premium so long as the aggregate principal amount of the Ninth Series Bonds does not exceed One Hundred Fifty Million Dollars ($150,000,000.00).

The Tenth Supplemental Ordinance provides that the Ninth 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 Tenth Supplemental Ordinance provides that the Ninth Series Bonds shall be issued for the purpose of providing funds for any and all of the following purposes: (i) the capital projects included in the capital program of the Philadelphia Gas Works ("Gas Works"), which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (ii) the provision of capitalized interest on the Ninth Series Bonds during construction of the capital projects; (iii) paying the costs of issuing the Ninth 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 that the proceeds of the Ninth Series Bonds allocable to the capital program of the Gas Works which remain available for the payment of the costs of the capital improvements, after payment of the financing costs, the required payment into the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for Project Costs or for the funding or refunding of bond anticipation notes or other obligations issued in respect of Project Costs as described above, shall be deposited, held in, and disbursed from, one or more unsegregated accounts of the Gas Works which shall be separate and apart 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. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts. All interest and income earned on the investment of such proceeds (except for amounts to be rebated to the United States) 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 Tenth 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 Tenth Supplemental Ordinance that, as long as any of the Ninth 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 Ninth 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 Tenth Supplemental Ordinance or as otherwise required by the 1998 General Ordinance.

The City covenants that as long as any Ninth 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 Ninth 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 Ninth Series Bonds of the maturity required to be redeemed for cancellation prior to the date specified for such redemption.

The Tenth 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 Ninth Series Bonds and to take such actions on behalf of the City with respect to the investment of the proceeds of the Ninth 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 Ninth Series Bonds shall not be "arbitrage bonds" as defined in the Code.

The Tenth Supplemental Ordinance authorizes the Director of Finance to make such elections under Section 54AA of the Code, any subsection thereof or any other applicable section of the Code, and to take such actions on behalf of the City with respect to the Ninth Series Bonds, in order that the Ninth Series Bonds as so issued, constitute Build America Bonds (Tax Credit) or Build America Bonds (Direct Payment) or Recovery Zone Economic Development

Bonds or Recovery Zone Facility Bonds, as applicable, if it is determined to issue the Ninth Series Bonds, in whole or in part as Build America Bonds (Tax Credit) or Build America Bonds (Direct Payment) or Recovery Zone Economic Development Bonds or Recovery Zone Facility Bonds.

Subject to the determination by a majority of the Bond Committee referred to above, 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 Gas Works Revenues and all funds and accounts established under the 1998 General Ordinance (except for the Sinking Fund and Sinking Fund Reserve), and in each case, the proceeds of the foregoing, shall be for the benefit of the providers of any Credit Facilities with respect to the Ninth Series Bonds, all to the extent and in the manner as provided therein; provided, however, that any payments to a Credit Facility provider on account of principal on and interest on Ninth Series Bonds owned or deemed to be owned by a Credit Facility provider shall be payable from and secured by Gas Works Revenues and the Sinking Fund Reserve equally and ratably with all other Ninth Series Bonds.

All of the provisions of the 1998 General Ordinance relating to Credit Facilities, except to the extent limited by the Tenth Supplemental Ordinance with respect to the Sinking Fund and Sinking Fund Reserve, shall apply to Credit Facilities with respect to the Ninth Series Bonds and to payments due from the City to providers of such Credit Facilities. The providers of Credit Facilities shall have no right or claim at any time to amounts on deposit in the Sinking Fund or the Sinking Fund Reserve, except as provided in the Tenth Supplemental Ordinance.

All of the provisions of the 1998 General Ordinance relating to Credit Facilities shall apply to the Credit Facilities with respect to the Ninth Series Bonds.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement ("Disclosure Agreement") is executed and delivered as of August ___, 2010 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 its $150,000,000.00 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Ninth Series (1998 General Ordinance) (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 Tenth Supplemental Ordinance (Bill No. 090323, approved June 3, 2009) which authorized the issuance of the Bonds, (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 12, 2010 (the "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 contracted 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 12, 2010, 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 Tenth 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 10 of the Bond Authorization in order to assist the Participating Underwriters into complying with the requirements of the Rule.

Section 3. Provision of Annual Financial Information

Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2010, 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.

As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2010, 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.

(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 Tenth 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 Tenth 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 e-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
E-mail: jemani@dacbond.com

(b) To the City or the Disclosure Representative at:

City of Philadelphia
Office of the Director of Finance
Municipal Services Building, Room 1330
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: Director of Finance
Fax: (215) 568-1947
E-mail: rob.dubow@phila.gov ; or

City of Philadelphia
Office of the City Treasurer
Municipal Services Building, Room 640
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
Attention: City Treasurer
Fax: (215) 686-3815
E-mail: rebecca.rhynhart@phila.gov

(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. 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

APPENDIX A

1. Commencing with the fiscal year ending June 30, 2010, 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 Works ending August 31, 2010, 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, 2008 and August 31, 2009, included in Appendix A to the Official Statement.

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APPENDIX F

FORM OF OPINIONS OF CO-BOND COUNSEL

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August __, 2010

Re: $150,000,000 City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Ninth Series (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 Bonds, Ninth Series (1998 General Ordinance) ("Ninth Series Bonds").

The Ninth Series 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 Tenth Supplemental Ordinance to the 1998 General Ordinance (Bill No. 090323), 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 ("Tenth 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 12, 2010 ("Bond Authorization"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1998 General Ordinance or the Tenth Supplemental Ordinance.

The Ninth Series Bonds are being issued by the City to provide funds for any or all of the following purposes: (i) the capital projects included in the capital program of the Philadelphia Gas Works ("Gas Works"), which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (ii) the provision of capitalized interest on the Ninth Series Bonds during construction of the capital projects; (iii) paying the costs of issuing the Ninth Series Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act).

The Ninth Series 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, the "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 Tenth 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 Gas Works having responsibility for issuing the Ninth Series 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 Ninth Series Bonds. We have also examined a fully executed and authenticated Ninth Series 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 internal 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 Tenth Supplemental Ordinance and the Ninth Series Bonds and to issue the Ninth Series Bonds for the purposes set forth in the Tenth Supplemental Ordinance.

2. The City has duly and properly authorized the issuance of the Ninth Series Bonds.

3. The Ninth Series 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 Ninth Series Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax and the Ninth Series 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 Ninth Series 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 Ninth Series 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 Tenth 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 Ninth Series Bonds after the issuance thereof to the extent necessary to effect or maintain the exclusion of interest on the Ninth Series Bonds from gross income for federal income tax purposes. These covenants relate to, *inter alia*, the use and investment of proceeds of the Ninth Series 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 Ninth Series Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Ninth Series Bonds.

We call to your attention that the Ninth Series 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 Ninth Series 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 Ninth Series Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ________________________________
Authorized Officer

(212) 826-0100