MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A3 to Philadelphia Gas Works' $215 million Gas Work's Revenue Bonds 16th Series A and $53 million Revenue Refunding Bonds 16th Series B; outlook stable

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New York, April 20, 2020 -- Moody's Investors Service, ("Moody's") has assigned an A3 rating to the Philadelphia Gas Work's (PGW) $215 million Gas Works Revenue Bonds, Sixteenth Series A and $53 million Gas Works Revenue Refunding Bonds Sixteenth Series B. Concurrently, Moody's has affirmed the A3 rating on approximately $964 million of PGW's pre-refunding 1998 Ordinance bonds outstanding. The outlook is stable.

RATINGS RATIONALE

The A3 rating reflects the historically credit supportive regulatory environment that has increased the utility's asset base, supported an acceleration to its iron main replacement program, and reduced borrowing needs as the approved rates allow for more cash funded capital investments. The rating acknowledges the utility's sound management that has enhanced PGW's operating efficiencies and resulted in recurring cost savings that have led to a more stable and more predictable financial position that is expected to be maintained. The rating remains constrained by PGW's sizeable low income and modestly growing customer base that is pressured during economic downturns, as well as the utility's position as a supplier of last resort, which yields consistently above average retail rates. Moreover, PGW's state rate regulation constrains its cost recovery framework compared to the majority of municipally owned gas utilities in the US, which benefit from local unregulated rate setting. Thus, the rating heavily factors the constructive relationship PGW has with the Pennsylvania Public Utility Commission (PAPUC) and the fact that the PAPUC must approve rates sufficient for PGW to satisfy its indenture required 1.5 times debt service coverage ratio (DSCR) rate covenant.

RATING OUTLOOK

The stable outlook reflects our expectation that PGW's sound management and the constructive regulatory environment will continue to yield stable and relatively predictable financial and operating results.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-Material reduction in outstanding debt.

-Notable expansion of the customer base.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-A less credit supportive rate regulatory environment, including a denial of the majority of the current pending base rate increase

-Financial margins or liquidity materially declines due to higher costs and/or lower revenue collections.

-Increased leverage without sufficient cost recovery.

LEGAL SECURITY

The 1998 Ordinance bonds are secured by net revenues of the system. There is a strong rate covenant and additional bonds test requiring net revenues to be 150% of annual debt service costs and a cash funded debt service reserve fund at maximum annual debt service. The indenture requires PGW to operate and maintain the Gas Works System as long as any bonds or notes are outstanding, effectively restricting the sale of PGW's assets unless the outstanding debt is paid in full.

USE OF PROCEEDS

Bond Proceeds from the Gas Works Revenue Bonds Sixteenth Series A will be used to fund part of PGW's ongoing Capital Improvement Program, the associated debt service reserve fund and issuance costs. Bond

Proceeds from the Gas Works Revenue Refunding Bonds Sixteenth Series B will refund various outstanding maturities from the Ninth Series for savings.

PROFILE

PGW is a municipally owned regulated gas distribution utility that supplies and transports natural gas to 519,200 primarily residential customers within the City of Philadelphia. PGW has a distribution monopoly in the City and serves as the supplier of last resort given there is gas supplier choice in Pennsylvania. If customers use another gas supplier, PGW is paid a transportation fee for the use of its lines. PGW's gas distribution system consists of approximately 3,041 miles of gas mains, 476,605 service lines, and 198 regulator stations.

Approximately 42% (by length) of the gas mains are cast iron, 34% are steel, 4% are ductile iron and 20% are plastic. Of the steel lines, 51% are wrapped, coated and cathodically protected. About 27% of the service lines are steel and 73% are plastic. PGW also operates two LNG facilities for liquefaction, storage, and regasification of natural gas, which is used during the winter in addition to the utility's firm take from two interstate pipelines. The utility has laddered firm gas supply contracts and has a relatively balanced gas supply mix with half coming from the Spectra pipeline and the other half coming from the Transco-Williams pipeline.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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