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ECONOMY LEAGUE ANALYSIS OF PHILADELPHIA GAS WORKS FINDS IMPROVEMENT, BUT STATUS REMAINS “CHRONIC” Structural Changes Necessary to Prevent Return to Crisis

October 21, 2008 (Philadelphia) – The Philadelphia Gas Works (PGW), long an ailing City-owned company, has improved its performance in recent years. However, significant structural issues unique to PGW require attention if the utility is to become a working asset for the city and lower its costs to customers, according to a study released today by the Economy League of Greater Philadelphia. The study concludes that improving PGW’s current condition not only will provide Philadelphians with less expensive gas service but also will enhance its value for that time when market conditions are more favorable for a potential sale or other conveyance.

“The Philadelphia Gas Works: Challenges and Solutions,” commissioned by The Pew Charitable Trusts and the William Penn Foundation, analyzes PGW’s current status and challenges and outlines future ownership scenarios.

“Our role is to help bring stakeholders together around the facts,” said Steve Wray, Executive Director of the Economy League. “We are hopeful that this report will lead to productive actions that result in a good outcome for the City and for Philadelphia’s gas customers.”

Following a change in senior management seven years ago, PGW has increased collections and repaid an aging loan from the City. These developments have improved PGW’s financial outlook.

Yet, PGW’s future is problematic due to the structure and environment of its operation:

- Convoluting Governance: More than 30 elected and appointed officials have a role in PGW’s governance, a system that increases costs and diffuses accountability.
- Shrinking and Poorer Customer Base: One in four PGW residential customers is subsidized. The most popular subsidy caps bills without incentivizing conservation. The result is that subsidized customers use 47% more gas on average than full rate-paying customers.
- Starved for Capital: Despite paying off its loan from the City, PGW’s long-term debt burden is rising.

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- **Rising Energy Costs:** Rising energy costs mean even higher bills to market rate customers as they pay more for their own usage as well as more to subsidize the increased costs of PGW's low-income customer program. This situation could lead to an increase in delinquent payments.
- **High Labor Costs:** Staffing ratios are higher than at comparable utilities, with the number of employees per customer double the national average.

These structural issues have left Philadelphia Gas Works in a generally uncompetitive and financially precarious position. For consumers, the result is that their rates are much higher than those of peer cities. Meanwhile, the City's balance sheet carries PGW's growing capital debt while gaining no revenue from this considerable investment. No other city confronts this situation, and as a result, no model solutions exist for PGW to emulate.

Given this situation, the analysis details three potential scenarios for change: selling assets to a private firm, retaining City ownership, and creating a new authority. While the current volatility of credit markets makes a sale or even conveyance to an authority difficult, market conditions underscore the importance of taking the more immediate steps outlined in this report to upgrade PGW's condition as a City-owned entity and increase the value of the utility for potential future options.

"The Philadelphia Gas Works is facing a decisive moment, and we hope this analysis proves valuable in charting a future course that best meets residents' needs," said Donald Kimelman, managing director of Pew's Philadelphia Program. "While PGW has been making positive changes over the years, 'The Philadelphia Gas Works: Challenges and Solutions' provides an unvarnished look at the company's crippling structural problems and points the way toward needed reforms."

The study is available for download at the Economy League's website, www.EconomyLeague.org.

About the Economy League of Greater Philadelphia

The Economy League of Greater Philadelphia is an independent, nonpartisan, nonprofit organization dedicated to research and analysis of the region's resources and challenges with the goal of promoting sound public policy and increasing the region's prosperity. ELGP is an affiliate of the Pennsylvania Economy League, Inc., with offices in Harrisburg, Wilkes-Barre, and Pittsburgh. For more information, visit www.EconomyLeague.org.

About The Pew Charitable Trusts

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life. In the Philadelphia region, Pew partners with many local institutions to encourage a thriving arts and cultural community; support the health and welfare of the region's neediest residents; inform discussion on important issues facing the City; and, more broadly, strengthen Philadelphia's appeal to visitors and residents alike.

About the William Penn Foundation

The William Penn Foundation, founded in 1945 by Otto and Phoebe Haas, is dedicated to improving the quality of life in the Greater Philadelphia region through efforts that foster rich cultural expression, strengthen children's futures, and deepen connections to nature and community. In partnership with others, the Foundation works to advance a vital, just, and caring community.