FEBRUARY 2012

STRATEGIC ASSESSMEMT

PGW
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Disclaimer

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I. STRATEGIC ASSESSMENT SUMMARY

In July 2010, the City of Philadelphia retained Lazard as its Strategic Alternatives Advisor to help evaluate the City's strategic options for PGW. Lazard was asked to provide valuation, financial, analytical and technical services for the independent assessment of the feasibility and consequences of transferring ownership and/or operation of PGW to a private entity through a sale or long-term lease, and to consider certain financial, social, and public policy criteria when conducting this Assessment. As part of this engagement, the City asked Lazard to provide an assessment of whether transferring ownership and/or operation of PGW could be done in a manner that would meet or exceed a threshold price necessary to discharge PGW's liabilities as identified to us by the City and PGW (the "Reserve Price" or "PGW-related Liabilities"), while meeting the City's proposed policy criteria, including the following:

- Maintain the current Senior Citizen Discount Program and all Pennsylvania Public Utilities Commission ("PA PUC") mandated discount programs currently in place, including the Customer Responsibility Program ("CRP") and Demand Side Management (weatherization)
- Implement a rate freeze through August 2016
- Honor the new negotiated collective bargaining agreement
- Maintain corporate headquarters in Philadelphia and/or a specified minimum number of employees in Philadelphia for at least 3 years
- Maintain (for those in place already) or establish dedicated trust funds for any PUC-granted rate recovery of employee benefits (i.e., health, pension, and OPEBs)
- Assume PGW-related OPEB and pension liabilities (management and funding), as applicable[a]

Lazard was also asked to facilitate discussions with a representative sampling of entities selected by Lazard that, were the City ultimately to decide it wished to pursue transfer of ownership and/or operating responsibility, could potentially have an interest in acquiring or leasing PGW and have the financial and managerial capacity to undertake a transaction and operate the utility long-term. The discussions were intended to elicit information concerning preferences for acquisition vs. lease, the impact of different base rate assumptions on valuation, the feasibility of attaining the Reserve Price given the proposed policy criteria, and other factors.

This report outlines the process and results of this Strategic Assessment which, taken together, provide the basis for Lazard's summary recommendations included herein.

(a) It was subsequently determined that the pension fund must be closed upon any sale/transfer.

A. OVERVIEW OF THE STRATEGIC ASSESSMENT PROCESS

The Strategic Assessment process included an independent valuation analysis of PGW, an analysis of the City's PGW-related Liabilities, consideration of the benefits and disadvantages of a privatization and various privatization structures and a "Market Sounding" process.

Privatized PGW Value Considerations

Lazard performed a detailed valuation analysis of PGW based on financial projections provided by PGW Management and including the application of certain private entity characteristics (e.g., modified capital structure, various income and other taxes, etc.), as well as the ability to prepay unfunded pension liabilities and continue to collect the related expense in rates. The resulting hypothetical entity used for this analysis is referred to herein as "Privatized PGW." All of the valuation results presented herein are shown in terms of "enterprise value," reflecting the implied value of Privatized PGW's assets on a debt-free basis, as of August 31, 2012. Alternative assumptions regarding synergy levels and the treatment of OPEB funding resulted in the creation of the following scenarios:

- **No Synergies Case:** The estimated enterprise value of Privatized PGW assuming no changes in the existing PGW Management operating forecast (included as a benchmark for illustrative purposes) and assuming the ability to prepay any unfunded pension liabilities and continue to recover these prepaid expenses in rates[(a)]
- **Moderate Synergies Case:[(b)]** The estimated enterprise value of Privatized PGW assuming a potential acquiror achieves modest operating synergies (50% of those realized on average in past utility transactions)[(d)]and assuming the ability to prepay any unfunded pension liabilities and continue to recover these prepaid expenses in rates[(a)]
- **Industry Benchmark Case:[(c)]** The estimated enterprise value of Privatized PGW assuming a potential acquiror achieves industry benchmark operating synergies (100% of those realized on average in past utility transactions)[(d)] and assuming the ability to prepay any unfunded pension liabilities and continue to recover these prepaid expenses in rates[(a)]
- **Prepaid OPEB Case:** The estimated enterprise value of Privatized PGW assuming the Industry Benchmark Synergies Case as well as the ability to prepay any unfunded OPEB liabilities and subsequently continue to recover these prepaid expenses in rates[(a)]

Source: PGW and City of Philadelphia forecasts and estimates.

(a) All cases assume that the PA PUC would continue to grant the Privatized PGW the ability to recover in rates, over time, amounts sufficient to cover the costs related to the upfront pension (all cases)/OPEB (Prepaid OPEB Case) payment made by the buyer at the time of the transaction. The Privatized PGW in this case would no longer incur the forecasted (cash) expenses related to these liabilities.

(b) Assumes a rate freeze post privatization through FY 8/31/2016, followed by a $20 million rate increase effective 9/1/2016. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.

(c) Assumes a rate freeze post privatization through FY 8/31/2016 but no subsequent rate increase, as the additional operating synergies would eliminate the need for a rate increase. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.

(d) U.S. Electric & Gas Utility transactions (where expected synergy levels have been publicly disclosed).

Estimated PGW-related Liabilities

In assessing the feasibility of a potential transfer of ownership and/or operation of PGW, Lazard worked closely with the City and PGW to help identify and quantify the various PGW-related Liabilities which it would need to discharge upon the sale or privatization of the Company (if such Liabilities were not assumed by the buyer in the privatization transaction). The City estimated and defined *low* and *high* ranges for its PGW-related Liabilities as follows:

- The *Low* Range of the PGW-related Liabilities includes debt defeasance costs[a] of PGW's currently outstanding Revenue Bonds, including termination payments for swaps and Guaranteed Investment Contracts ("GICs"), net of cash on hand and restricted cash fund balances, the low estimate of unfunded pension liabilities[b], and an estimate of other potential contingent liabilities
- The *High* Range of the PGW-related Liabilities includes debt defeasance costs[a] of PGW's currently outstanding Revenue Bonds, including termination payments for swaps and GICs, net of cash on hand and restricted cash fund balances, the high end of estimated unfunded pension liabilities[b], an estimate of other potential contingent liabilities and—when comparing against the Prepaid OPEB Case—currently unfunded OPEB liabilities

Historically, PGW has not fully funded its pension, OPEB and other liabilities, creating large unfunded liabilities/obligations for the City. However, PGW has recently received permission from the PA PUC to recover increased amounts for pension and OPEB costs in rates. In connection with a privatization of PGW, a sale could be structured such that these liabilities could either (i) be paid for up front (i.e., as part of the purchase price) or (ii) be assumed by the buyer and paid out of PGW over time (i.e., annually through the operation of the business). The higher valuation resulting in the Prepaid OPEB Case assumes the buyer pays the City up front (as part of the purchase price) the unfunded OPEB liability, and that this future liability is subsequently discharged by the City (and the buyer is able to retain in rates the amounts currently authorized for OPEB expense recovery).

PGW Privatization Considerations

Lazard's privatization analysis also considered the benefits and disadvantages of a PGW privatization from the City's perspective, and evaluated several potential management and ownership alternatives for PGW. This structural alternatives analysis reflects the input of a number of advisors and outside experts (e.g., tax, regulatory, etc.) regarding the validity and implications of each option, and was evaluated within the context of the City's proposed policy criteria and their impact on the valuation of Privatized PGW. The structures considered included the following:

- Enhanced Status Quo (PGW would remain owned/operated by the City, with continued oversight and operational improvements)

(a) Debt defeasance costs will fluctuate with changes in interest rates.
(b) PGW Management, in conjunction with the City's legal counsel, determined that, according to current City statutes, PGW's pension fund would need to be fully funded and terminated in the event of a privatization of PGW.

- Privatization
  - Strategic Sale
  - Public-Private Partnership ("PPP")
  - Initial Public Offering ("IPO")
- Management Services Agreement ("MSA")

Market Sounding Summary

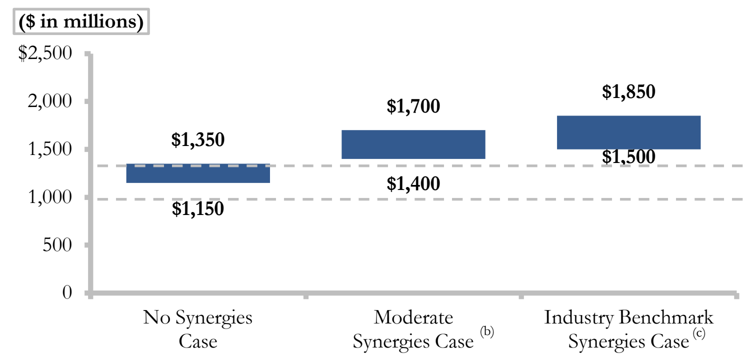
To verify its privatization considerations and gain other practical insights, Lazard conducted a Market Sounding process. As part of this process, a number of potential strategic and financial acquirors were contacted and interviewed to gauge their likely interest in some form of a PGW privatization transaction, their views on risk assessment, and indicative valuation levels. Lazard chose participants based on a variety of factors, including strategic position, geographic footprint, financial wherewithal, and relevant industry experience. In order to help participants form an opinion of PGW, Lazard provided overview materials on PGW and a Market Sounding questionnaire covering key issues.

B. SUMMARY OF KEY FINDINGS

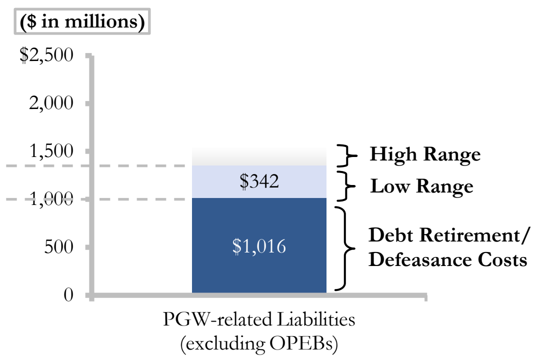
Based on the analysis and Market Sounding described herein, while there can be no guarantee of outcome, Lazard believes that a privatization via strategic sale would likely meet or exceed the City's estimate of its PGW-related Liabilities, while also meeting the City's stated policy criteria (i.e., preserve current social programs). Based on feedback from the Market Sounding process and general observations of the broader current M&A environment in the Power & Utilities sector, a strategic sale appears to be both feasible and likely to result in a higher value to the City relative to other privatization structures, such as a PPP or IPO. In Lazard's estimation, the benefits of a privatization transaction would also likely exceed the present value of the $18 million annual payment currently forecasted to be made from PGW to the City. These benefits include potential excess transaction proceeds received by the City, a portion of future tax payments collected by the City from a privatized PGW, reduced ongoing financial and operating risk, and qualitative benefits related to reallocating administrative resources toward other City operating priorities.

Lazard's valuation analysis of PGW indicates that the value expected to be achieved in a strategic sale may well exceed the City's estimate of its PGW-related Liabilities. The following charts illustrate the estimated enterprise value ranges of Privatized PGW under various scenarios relative to the estimated ranges of the PGW-related Liabilities:

PRIVATIZED PGW ENTERPRISE VALUE(a)



PGW-RELATED LIABILITIES RANGE(a)

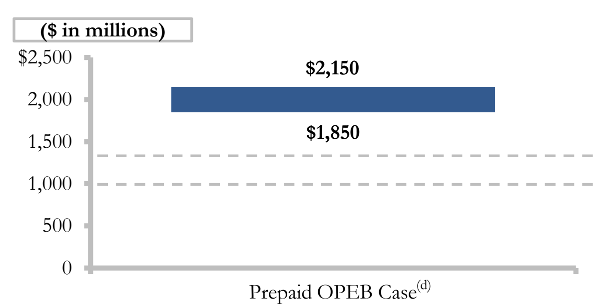


In the Industry Benchmark Synergies Case, Lazard's valuation analysis suggests an enterprise value (gross proceeds) range of $1.5 to $1.85 billion, which is likely to cover all estimated debt retirement/defeasance costs and all of the High Range of the PGW-related Liabilities defined by the City. The Industry Benchmark Synergies Case assumes that the buyer (new PGW owner) would remain responsible for OPEB payments and funding.

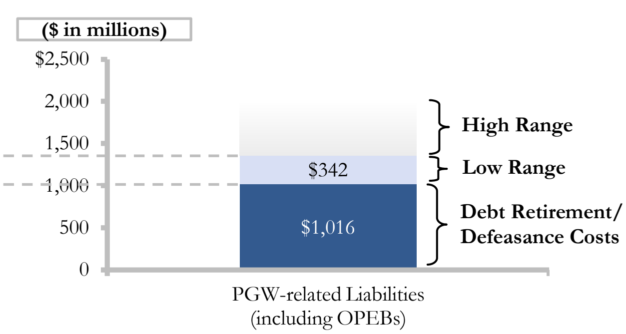
Alternatively, if the buyer of PGW were to "prepay" to the City all of the unfunded OPEB liabilities, and PGW's existing rates going forward were maintained at a level sufficient to continue to recover such prepaid expense, Lazard's valuation analysis suggests an enterprise value (gross proceeds) range of $1.85 to $2.15 billion, substantially covering all estimated debt retirement/defeasance costs as well as most (or all) of the High Range of the PGW-related Liabilities defined by the City (including unfunded pension and OPEB liabilities).

The following charts illustrate the estimated enterprise value ranges of Privatized PGW under the Pre-Paid OPEB Case relative to the estimated ranges of the PGW-related Liabilities including OPEBs:

PRIVATIZED PGW ENTERPRISE VALUE(a)



PGW-RELATED LIABILITIES RANGE(a)



Source: PGW and City of Philadelphia forecasts and estimates.

(a) Valuation and liabilities estimated as of August 31, 2012.

(b) Assumes a rate freeze post privatization through FY 8/31/2016, followed by a $20 million rate increase effective 9/1/2016. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.

(c) Assumes a rate freeze post privatization through FY 8/31/2016 but no subsequent rate increase, as the additional operating synergies would eliminate the need for a rate increase. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.

(d) Prepaid OPEB Case is based on the operating assumptions in the Industry Benchmark Synergies Case.

Based on historical utility merger data, which shows that most companies actually achieve synergies at levels greater than those expected/publicized on the date of transaction announcement, Lazard believes that the Industry Benchmark Synergies Case could well be achievable by most potential acquirors of PGW.

Among the various potential management and ownership alternatives, privatization appeared to have the most potential for enabling the City to eliminate its PGW-related Liabilities, thereby reducing potential future financial risk/exposure. Lazard found that the Enhanced Status Quo and MSA alternatives would not be likely to lead to any significant liability reduction or risk transfer for the City. Privatization would also relieve the City of current administrative and governance-related obligations; however, a privatized PGW would also result in reduced City control over PGW. Under any privatization scenario, it is unclear whether tax revenues from a privatized PGW would exceed or be lower than the $18 million franchise fee.[a]

Lazard believes that, of the potential privatization structures, a strategic sale would likely generate the greatest expected potential synergies from a transaction, and therefore maximize proceeds to the City. A strategic sale would also likely be easier to execute than a PPP or IPO. A PPP structure would be difficult to execute given the lack of precedent and would likely not achieve as much value as a strategic sale. In addition, any concession agreement under a PPP structure would likely create conflicts and/or redundancies with the existing PA PUC regulatory structure. Recognizing the improbability of an IPO as an option, a strategic sale would likely achieve a higher value than an IPO due to the value uplift from expected synergies in a strategic sale and the additional costs (public company, stock issuance, etc.) associated with an IPO.

The Market Sounding findings indicated that there is an active, albeit finite, market of strategic and financial buyers that would be interested in pursuing the acquisition of PGW. The Privatized PGW valuation/purchase price would be a function of a buyer's ability to obtain regulatory certainty around future rates for recovery of certain cost items, as well as the ability to quantify and cap other potential risk exposures, including protecting any existing utility customers of a buyer from cross-subsidizing PGW customers.

C. LAZARD RECOMMENDATIONS

As a result of its Strategic Assessment, Lazard recommends that the City of Philadelphia pursue a process to transfer ownership and operation of PGW to a private entity via a strategic sale. Lazard believes that the privatization of PGW could generate sufficient interest from potential acquirors, that the Industry Benchmark Synergies Case may be achievable by most potential strategic buyers and that the enterprise value achieved in a strategic sale may well exceed the City's estimate of its PGW-related Liabilities. The proceeds from the divestiture could enable the City to exit its PGW ownership and operating requirements at little or no cost (and potentially at a profit) to the City, while achieving the

(a) A full tax assessment would be required to determine the tax revenues the City would likely receive from a privatized PGW.

City's public policy criteria. Importantly, the City should reserve the right to proceed with a privatization transaction only if the aforementioned City objectives and policy criteria are achieved.

In order to provide additional certainty surrounding the City's privatization decision, Lazard recommends that the City of Philadelphia continue to evaluate and narrow the estimated range of the City's PGW-related Liabilities, using reasonable estimates therefor. The City should also explore further opportunities and options to reduce the City's PGW-related Liabilities[a][b] and/or increase PGW's sale value.

The City should develop an appropriate and realistic set of transaction strategies and objectives to maximize the potential for success (e.g., valuation, indemnities, rate criteria, other social criteria, etc.). A successful privatization of PGW would require that the City develop a plan to build broad support from the City Council, City Administration, Commonwealth officials, the PA PUC and PGW Management. Such support is critical to convincing potential acquirors that a sale process would be a worthwhile allocation of time and resources. A privatization process should also incorporate a comprehensive strategy addressing the concerns/positions of each PGW stakeholder (e.g., ratepayers, City taxpayers, unions, PA PUC, Buyer, etc.).

(a) The City should further analyze the possibility of structuring a privatization transaction which would leave some or all of PGW's existing tax-exempt bonds outstanding, although this is judged unlikely to be practical in the present situation. Based on advice from Ballard Spahr, current IRS regulations provide that if a facility that has been financed with tax-exempt bonds (e.g., PGW) undergoes a post-issuance privatization, the tax-exempt bonds must be defeased to the earliest optional redemption date in order to preserve tax exemption (i.e., avoid the bonds being deemed taxable).

(b) The City of Philadelphia should explore pursuing legislation that, while adhering to existing bond indenture provisions, would allow the existing PGW Revenue Bonds to remain outstanding.

II. PRIVATIZED PGW VALUE CONSIDERATIONS

Lazard's valuation analysis considered the No Synergies Case, Moderate Synergies Case, Industry Benchmark Synergies Case and Prepaid OPEB Case, as previously defined. Using a series of valuation methodologies, Lazard determined a valuation range for each scenario.

A. VALUATION METHODOLOGIES

Lazard's valuation analysis employed the following valuation methodologies:

Discounted Cash Flow ("DCF"): A "forward-looking" approach that estimates the value of an asset or business based upon the present value of expected future unlevered after-tax cash flows to be generated by that business. This method employs a discount rate (weighted average cost of capital, "WACC") range to estimate present values of interim cash flows as well as the present value of a "terminal value," calculated at the end of the financial projection period

Dividend Discount Model ("DDM"): A "forward-looking" approach that estimates the equity value of an asset or business based upon the present value of expected future dividends to be generated by that business. Enterprise value is then derived by adding the assumed level of debt at the time of the transaction to the calculated equity value

Comparable Company Multiples: Estimates the public market enterprise and/or equity value of a company by applying financial trading metrics of other publicly-traded companies with relatively similar businesses and financial characteristics to the equivalent metrics of the Company

Precedent Transaction Multiples: Estimates the private market enterprise and equity value by examining publicly-disclosed information for M&A transactions of comparable companies or assets, analyzing the purchase price as a multiple of certain appropriate metrics, and applying the resulting metric to the equivalent metrics of the Company

B. SENSITIVITY ANALYSIS

Each valuation methodology was analyzed using a range of key inputs and assumptions. For the DCF and DDM methodologies, sensitivities were applied to the discount rates (weighted average cost of capital and cost of equity, respectively) and the capital structure (debt-to-equity ratio). Operational forecasts were also sensitized in areas such as the potential for a future rate increase and the level of synergies/efficiencies a potential buyer might achieve. For the Comparable Company and Precedent Transaction multiples, ranges of publicly available Enterprise Value/EBITDA, Equity Value/Net Income and Equity Value/Book Value ratios were analyzed.

C. KEY ASSUMPTIONS FOR SELECTED VALUATION CASES

The selected Privatized PGW valuation cases consisted of the following underlying assumptions:

	NO SYNERGIES	MODERATE SYNERGIES CASE(a)	INDUSTRY BENCHMARK SYNERGIES CASE(a)	PREPAID OPEB CASE(a)
PGW RATES	■ Revenue forecast taken from PGW Management budget through 2012 and until 2016 from forecast included in the Black & Veatch June 15, 2011 Engineering Report, both of which do not include a rate increase (b)	■ Assumes base revenues forecasted by PGW Management, including a rate freeze through FY 8/31/2016 ■ A rate increase of $20 million is assumed to be effective on 9/1/2016 (and continuing thereafter)	■ Same as No Synergies Case (i.e., no rate increase) ■ $20 million rate increase not included since additional operating synergies would eliminate the need for a rate increase	■ Same as Industry Benchmark Synergies Case
CAPITAL STRUCTURE	■ Debt-to-equity ratio: 50/50 ■ Cost of long-term debt: 5.5% ■ Required ROE: 10.0%	■ Same as No Synergies Case	■ Same as No Synergies Case	■ Same as No Synergies Case
OPEX SYNERGIES	■ Assumes forecast taken from PGW Management budget through 2012 and until 2016 from forecast included in the Black & Veatch June 15, 2011 Engineering Report; increases at inflation thereafter	■ 14% reduction in non-fuel operational expenses phased in over two years, excluding OPEB and pension costs, but including such portion of healthcare expenses attributable to current employees	■ 28% reduction in non-fuel operational expenses phased in over two years, excluding OPEB and pension costs, but including such portion of healthcare expenses attributable to current employees ■ 14% reduction in bad debt expense, phased in over two years	■ Same as Industry Benchmark Synergies Case
PENSION EXPENSE & RECOVERY	■ Includes continuing recovery of pre-existing amounts in rates; however, no future cash expenses are incurred since the buyer is assumed to "pre-fund" unfunded pension liabilities	■ Same as No Synergies Case	■ Same as No Synergies Case	■ Same as No Synergies Case
OPEB EXPENSE & RECOVERY	■ Includes pre-existing amounts in rates and continued funding at such levels by PGW ($16 million and $2.5 million, respectively)	■ Same as No Synergies Case	■ Same as No Synergies Case	■ Includes continuing recovery of pre-existing amounts in rates and continued funding at such levels by PGW; however, no future cash expenses are incurred since the buyer is assumed to "pre-fund" unfunded OPEB liabilities
CAPEX	■ Assumes PGW Management forecast through 2016; increases at inflation thereafter	■ Same as No Synergies Case	■ Same as No Synergies Case	■ Same as No Synergies Case
TAXES(c) / CITY PAYMENT	■ State income tax (9.99%) ■ Federal income tax (35.00%) ■ Business Privilege Tax (0.1415% on gross receipts and 6.45% of taxable Net Income) ■ $18 million Annual City Payment not included(d)	■ Same as No Synergies Case	■ Same as No Synergies Case	■ Same as No Synergies Case

Note: Projected PGW Net PP&E ("Ratebase") at 8/31/2012 estimated to be $1,293 million.
(a) Privatization assumes the sale of a control position to a single acquiror.
(b) Although a rate increase is not explicitly forecasted by PGW Management, PGW Management believes it would likely file for a rate increase in 2015.
(c) Current valuation scenarios do not include the Public Utility Realty Tax (PURTA) or the Business Use & Occupancy Tax.
(d) The $18 million Annual City Payment is not included in any scenario. Any consideration of the City Payment should take into account the tax proceeds the City would receive from a privatized entity.

D. OVERVIEW OF KEY VALUATION DRIVERS

Lazard's valuation and sensitivity analysis led to a detailed understanding of the various factors that drive Privatized PGW's value. The following variables were identified as having a key impact on PGW's potential value as an investor-owned (i.e., privatized) utility:

Upside Factors:

- Improved regulatory environment
- Ability to recover costs on a timely basis (including bad debts, etc.)
- Lower cost of capital (e.g., lower cost of equity, lower cost of debt, and/or higher leverage)
- Operational synergies/efficiencies (e.g., elimination of redundant operations, economies of scale, etc.)
- Ability to recover tax expenses (e.g., through a rider or otherwise)
- Ability to leave tax-exempt bonds outstanding
- Certainty regarding future collective bargaining agreement
- Tort claim protection (including lower liability insurance rates)
- Release from annual franchise fee ($18 million) paid to the City[a]

Downside Factors:

- Lack of tort claim protection
- Inability to impose a lien on a customer's property for non-payment
  - While the loss of the ability to lien may impact the value of the privatized PGW, Lazard's view is that the impact would likely be immaterial
  - Standard industry collection practices do not include the ability to lien, and the valuation analysis herein takes into account the nature of PGW's customer base
- Inability to leave tax-exempt bonds outstanding
- Inability to recover tax expenses (e.g., PURTA, Business Use & Occupancy Tax, Real Estate Tax, Philadelphia Business Privilege Tax, and Federal and Pennsylvania State income taxes)
- Higher operating expenses (e.g., pension, OPEB, healthcare expenses and future liabilities)
- Higher cost of capital/inability to earn cost of capital
- Inability to recover costs on a timely basis
- Unstable/deteriorated regulatory environment

(a) The annual franchise fee was reinstated in FY2011; since 2004, the City had granted the franchise fee back to PGW in an effort to improve PGW's financial position during that period.

E. NON-FUEL OPERATING EXPENSE SYNERGIES

In order to determine the level of synergies assumed under each of the Moderate and Industry Benchmark Synergies Cases, Lazard examined precedent U.S. Electric & Gas Utility transactions (where expected synergy levels have been publicly disclosed). This analysis yielded synergy levels of approximately 28% of non-fuel operating and maintenance costs. Under the Industry Benchmark Synergies Case, Lazard applied this percentage cost reduction (28%) to selected budget line items that were deemed likely to be impacted, with the exception of bad debt expense, where a 14% reduction was applied. For the Moderate Synergies Case, half of this synergy estimate was assumed (14%), and bad debt expense was left unchanged. In all cases, synergies were projected to be fully realized by 2014.

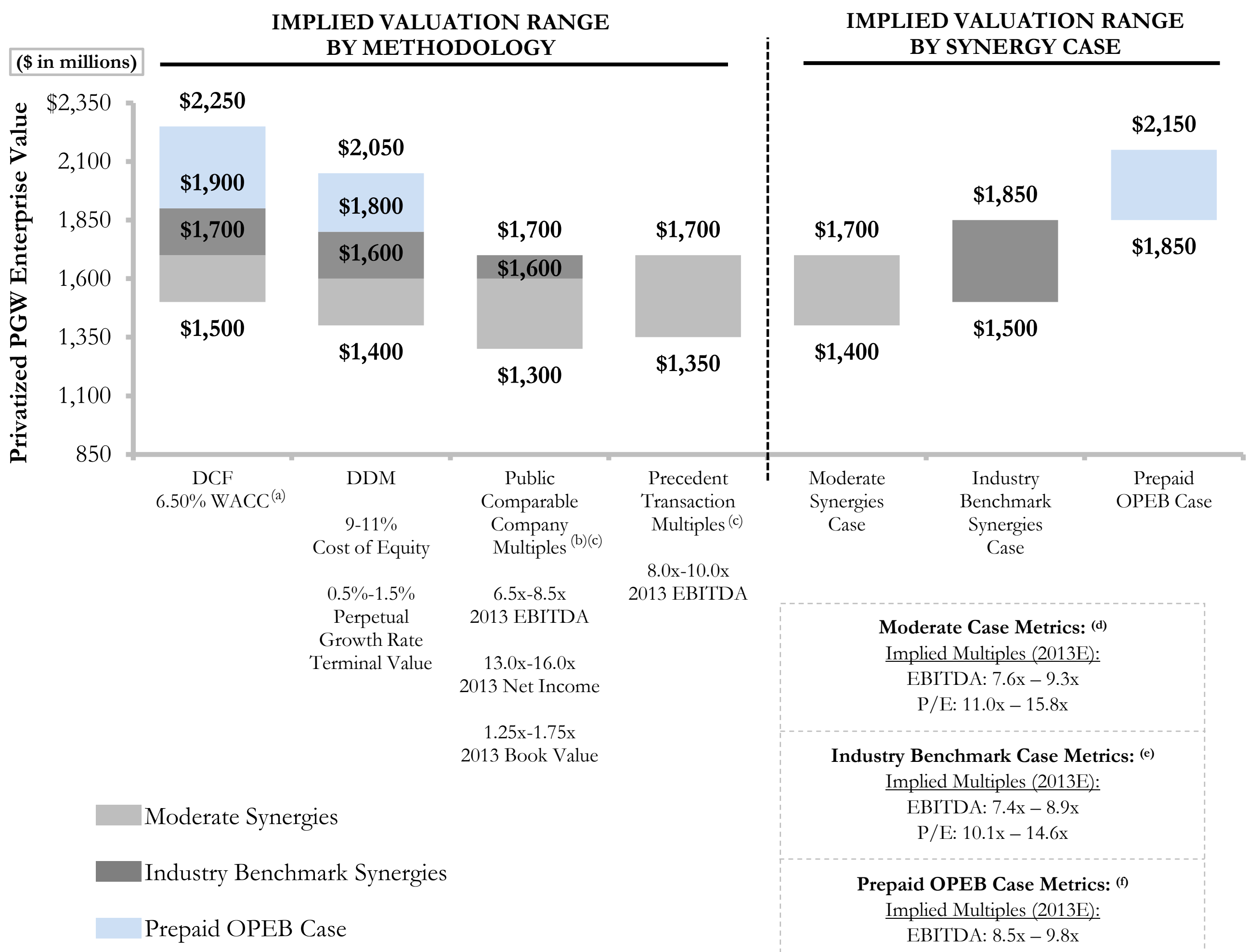
The following comparison details the reductions to non-fuel operating expenses assumed to be realized by 2014 (after a two-year phase-in) under each of the synergy scenarios indicated. In addition to non-fuel operating expenses, there are other areas where a prospective buyer could extract synergies (e.g., capital expenditure efficiencies, hedging activities, adoption of sophisticated tax-efficient corporate structures, cross-selling of existing products/services, etc.).

($ in thousands, 2014 projections)		Moderate Synergies Case		Industry Benchmark Synergies Case[a]	
Item Description	2014 Privatized PGW–No Synergies	% Change from No Synergies Case	2014 Amount in Privatized PGW–Revised O&M	% Change from No Synergies Case	2014 Amount in Privatized PGW–Revised O&M
Gas Processing	$15,999	*(14.0%)*	$13,759	*(28.0%)*	$11,519
Field Services	38,857	*(14.0%)*	33,417	*(28.0%)*	27,977
Distribution	29,500	*(14.0%)*	25,370	*(28.0%)*	21,240
Collection	4,714	*(14.0%)*	4,054	*(28.0%)*	3,394
Customer Services	14,740	*(14.0%)*	12,676	*(28.0%)*	10,613
Customer Accounting	8,152	*(14.0%)*	7,011	*(28.0%)*	5,869
Bad Debt Expense	29,056	-	29,056	*(14.0%)*	24,988
Marketing & Point-of-Sale Expenses	4,830	*(14.0%)*	4,154	*(28.0%)*	3,478
Administrative & General	53,273	*(14.0%)*	45,815	*(28.0%)*	38,357
Active Health Insurance	34,241	*(14.0%)*	29,447	*(28.0%)*	24,654
Retiree Health Insurance	30,134	-	30,134	--	30,134
Capitalized Fringe Benefits	(8,795)	-	(8,795)	--	(8,795)
Capitalized Admin Charges	(6,580)	-	(6,580)	--	(6,580)
BT Supply Chain Initiative	(635)	-	(635)	--	(635)
Pensions[b]	5,700	-	5,700	--	5,700
Payroll Taxes	7,266	*(14.0%)*	6,249	*(28.0%)*	5,232
Other Post Employment Benefits (OPEBs)	16,631	-	16,631	--	16,631
Cost/Labor Savings	(373)	-	(373)	--	(373)
Total 2014 Operating Expenses	**$276,710**		**$247,090**		**$213,403**
Overall Change from No Synergies Case		*(10.7%)*	*($29,620)*	*(22.9%)*	*($63,307)*

(a) The same level of synergies and their application is assumed in the Prepaid OPEB Case.
(b) Cash pension expense reduced by $16 million per year as all cases assume the buyer prepays unfunded pension liabilities and subsequently continues to recover this prepaid expense in rates.

F. PRIVATIZED PGW VALUATION SUMMARY

The various valuation analyses yielded an implied valuation range of $1.4 to $1.7 billion for the Moderate Synergies Case, $1.5 to $1.85 billion for the Industry Benchmark Synergies Case, and $1.85 to $2.15 billion for the Prepaid OPEB Case.



Moderate Case Metrics: (d)
Implied Multiples (2013E):
EBITDA: 7.6x – 9.3x
P/E: 11.0x – 15.8x

Industry Benchmark Case Metrics: (e)
Implied Multiples (2013E):
EBITDA: 7.4x – 8.9x
P/E: 10.1x – 14.6x

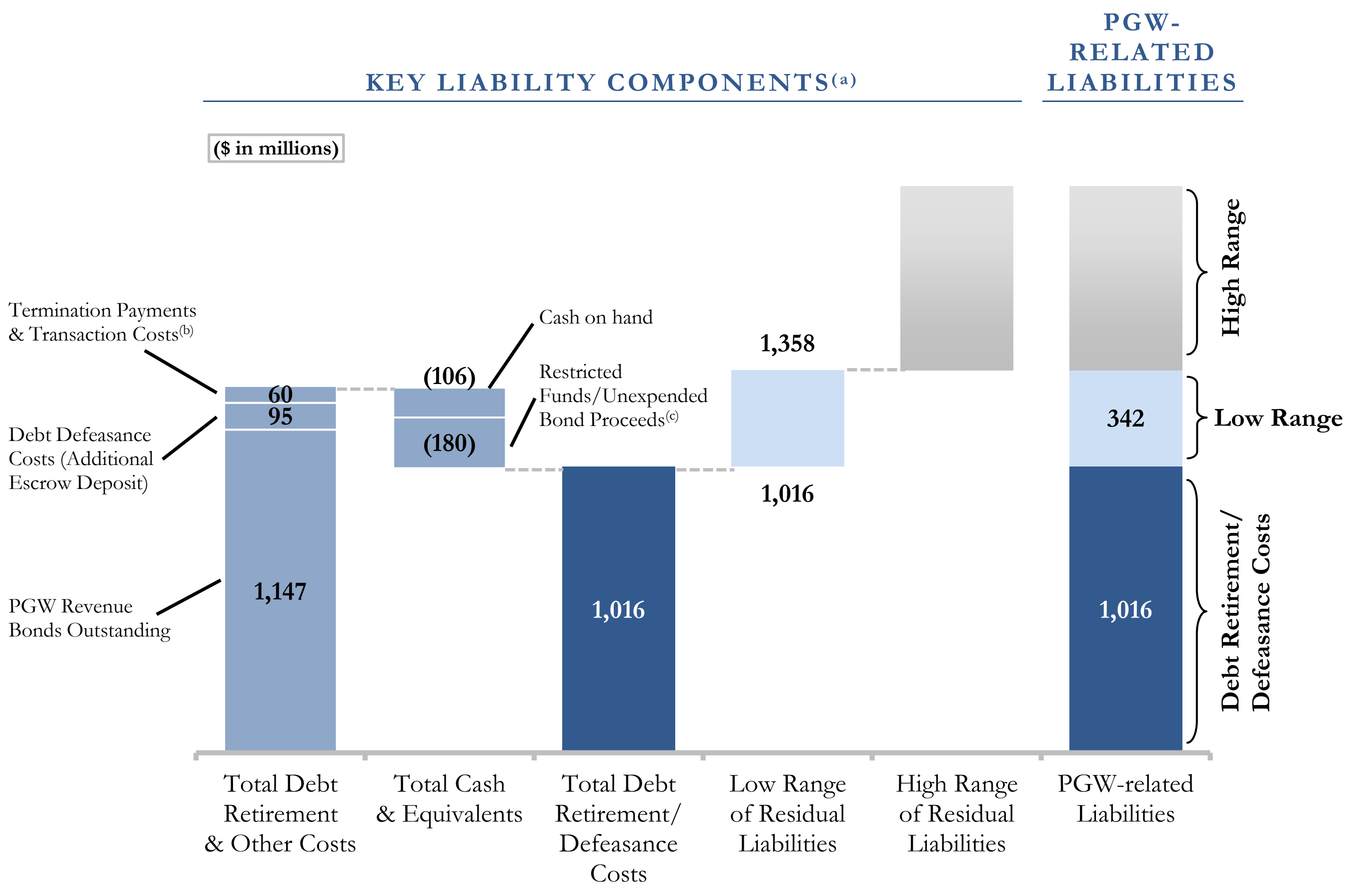
Prepaid OPEB Case Metrics: (f)
Implied Multiples (2013E):
EBITDA: 8.5x – 9.8x
P/E: 11.7x – 15.5x

Note: The Moderate Synergies and Industry Benchmark Synergies Cases were used in both the DCF and DDM valuations, whereas the No Synergies Case was used for the Public Comparable Company and Precedent Transaction multiples analysis to reflect the pre-synergy/efficiency condition of publicly-traded or pre-merger/acquisition companies. Analysis does not take into account valuation impacts of Federal or other government-mandated expenditures that could arise in the area of system integrity and also require a related rate increase.

(a) DCF range derived from various exit/terminal value assumptions/ranges.
(b) Reference range includes a 15% "control premium" to the implied equity value (enterprise value less net debt) for the base case and a 25% "control premium" to the implied equity value for the upside case.
(c) Based on 2013 EBITDA of $168, 2013 Net Income of $68 and 2012 net debt of $442.
(d) Based on 2013 EBITDA of $183, 2013 Net Income of $62 and 2012 net debt of $712.
(e) Based on 2013 EBITDA of $200, 2013 Net Income of $67 and 2012 net debt of $809.
(f) Based on 2013 EBITDA of $218, 2013 Net Income of $79 and 2012 net debt of $931.

III. ESTIMATED CITY PGW-RELATED LIABILITIES

In assessing the feasibility of a potential transfer of ownership and/or operation of PGW, Lazard worked closely with the City to help identify and quantify the various PGW-related Liabilities. The debt retirement/defeasance costs of PGW's currently outstanding Revenue Bonds, including termination payments for swaps and GICs, net of cash on hand and restricted cash fund balances were estimated at approximately $1.0 billion. The City-defined low range of the PGW-related Liabilities was estimated at between $1.0 and $1.4 billion, while the high range was estimated at $1.4+ billion. The following chart illustrates the components of the City's estimated PGW-related Liabilities as well as the corresponding liabilities ranges:



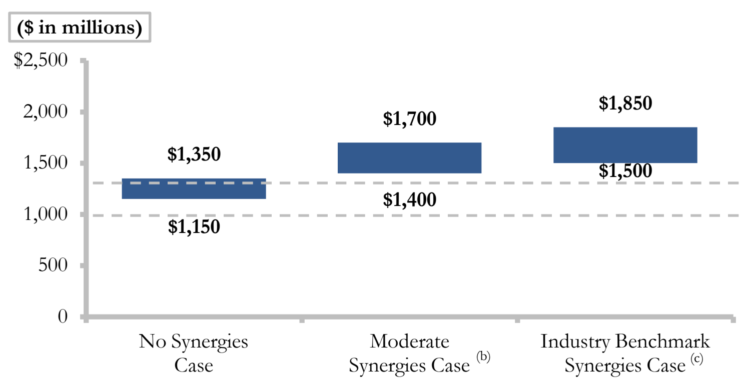
IV. PGW PRIVATIZATION CONSIDERATIONS

While there can be no guarantee of the ultimate outcome, Lazard's valuation analysis of Privatized PGW indicates that the value expected to be achieved in a strategic sale may well exceed the City's

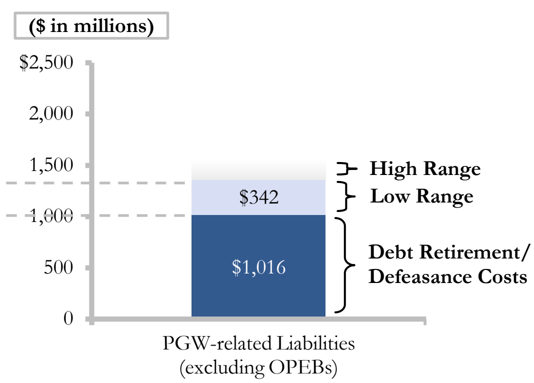
Source: City of Philadelphia, PGW Management forecast, official bond/swap documents, ButcherMark Financial Advisors.
(a) Liabilities calculated based on information available as of July 21, 2011.
(b) GIC termination payment, swap termination payment, and Lazard estimate of likely financial, technical, legal and other transaction advisory costs.
(c) Balance includes the Sinking Fund Reserve (net of expenses to cancel FRA contract) and the Capital Improvement Fund.

estimate of its PGW-related Liabilities. In the Industry Benchmark Synergies Case, Lazard's valuation analysis suggests an enterprise value (gross proceeds) range of $1.5 to $1.85 billion, which is likely to cover all estimated debt retirement/defeasance costs and all of the High Range of the PGW-related Liabilities defined by the City. The Industry Benchmark Synergies Case assumes that the buyer (new PGW owner) would remain responsible for OPEB payments and funding.

PRIVATIZED PGW ENTERPRISE VALUE[a]

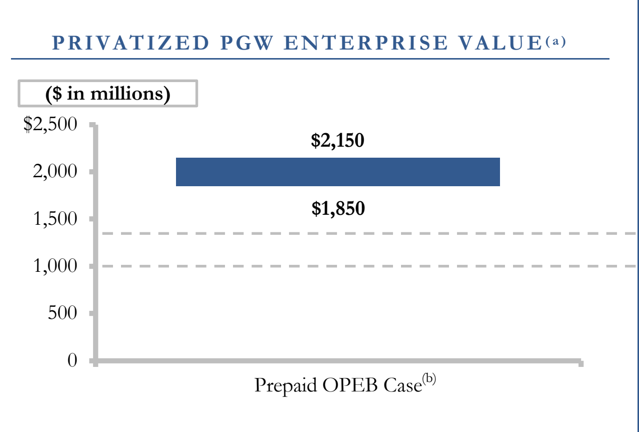


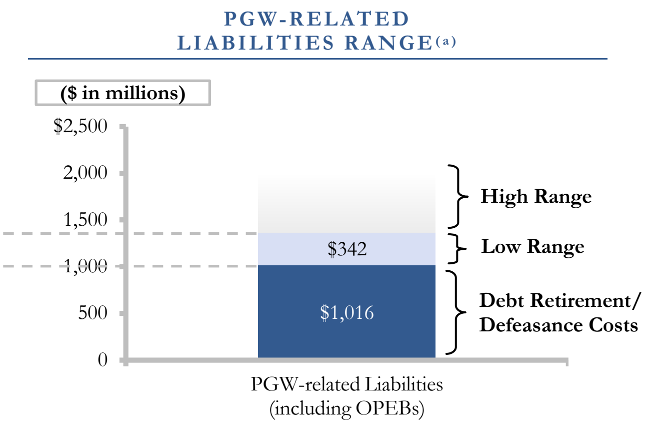
PGW-RELATED LIABILITIES RANGE[a]



Alternatively, if the buyer of PGW were to "prepay" to the City all of the unfunded OPEB liabilities, and PGW's existing rates going forward were maintained at a level sufficient to continue to recover such prepaid expense, Lazard's valuation analysis suggests an enterprise value (gross proceeds) range of $1.85 to $2.15 billion, substantially covering all estimated debt retirement/defeasance costs as well as most (or all) of the High Range of the PGW-related Liabilities defined by the City (including unfunded pension and OPEB liabilities).

Source: PGW and City of Philadelphia forecasts and estimates.
(a) Valuation and liabilities estimated as of August 31, 2012.
(b) Assumes a rate freeze post privatization through FY 8/31/2016, followed by a $20 million rate increase effective 9/1/2016. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.
(c) Assumes a rate freeze post privatization through FY 8/31/2016 but no subsequent rate increase, as the additional operating synergies would eliminate the need for a rate increase. If a buyer were able to recover some incremental costs from the PA PUC at the time of acquisition, the overall valuation would increase modestly.





A. PRIVATIZATION BENEFITS & DISADVANTAGES

Lazard evaluated a potential PGW privatization from the City's perspective and arrived at the following summary benefits and disadvantages:

Potential Privatization Benefits

Under a privatization scenario, the City could well achieve adequate upfront sale proceeds that exceed the City's estimate of its PGW-related Liabilities, while still meeting the City's proposed policy criteria. This would be the primary privatization benefit to the City. The City would also be able to transfer ownership, operational control and administrative responsibility to the private sector, establishing PGW as an investor-owned utility similar to most large-city utilities in the U.S.[c] By transferring such responsibility, the City would reduce ongoing financial risk while maintaining service quality and rates for customers, and in the Industry Benchmark Synergies Case, would eliminate the need for a rate increase in August 2016.

The City, the Commonwealth, and the School District of Philadelphia would also receive tax revenues from the privatized PGW[d], including Property Taxes (PURTA, Business Use & Occupancy Tax[e], Real Estate Tax), the Philadelphia Business Privilege Tax (BPT), and Capital Stock Tax.[f]

Potential Privatization Disadvantages

Under a privatization scenario, the City would forego the $18 million annual franchise fee it currently receives. Since 2004, the City had granted the franchise fee back to PGW in an effort to improve PGW's financial position. The fee to the City was reinstated in FY2011, and is expected to continue.

Source: PGW and City of Philadelphia forecasts and estimates.
(a) Valuation and liabilities estimated as of August 31, 2012.
(b) Prepaid OPEB Case is based on the operating assumptions in the Industry Benchmark Synergies Case.
(c) Of the 30 largest U.S. cities, only 4 have a gas operation owned by the municipality.
(d) A full tax assessment would be required to determine the tax revenues the City would likely receive from a privatized PGW.
(e) Revenues from the Business Use & Occupancy Tax support the School District of Philadelphia.
(f) Revenues from the Capital Stock Tax are collected by the Commonwealth of Pennsylvania.

While there would no longer be an annual franchise fee, a privatized PGW would pay to the City certain other taxes. These potential tax revenues from a privatized PGW, however, may be lower than the current $18 million annual franchise fee. The City may also have to retain certain residual PGW-related Liabilities (e.g., title, OPEB, etc.) to enable a privatization transaction.

The transformation of PGW into an entity that can be privatized will have significant execution risk and opportunity cost associated with City resources. The City will lose the control it currently exerts on PGW through the City Council, the Philadelphia Gas Commission ("PGC"), and the Philadelphia Facilities Management Corporation ("PFMC"). However, this would be mitigated by the fact that the PA PUC would continue to regulate rates, safety and customer service.

SUMMARY BENEFITS & DISADVANTAGES

PRIVATIZATION BENEFITS	PRIVATIZATION DISADVANTAGES
+ Excess transaction proceeds of approximately \$146 – \$496 million[(a)]	– \$18 million forecasted annual City payment
+ Future tax revenues from a privatized PGW[(b)]	– Potential retention of certain residual PGW-related Liabilities (e.g., title, OPEB, etc.)
+ Release of PGW-related Liabilities	
+ Reduced ongoing financial and operational risk	
+ Elimination of projected August 2016 rate increase under Industry Benchmark Synergies Case	
+ Qualitative benefits related to reallocating administrative resources toward other City operating priorities	

Other Potential Concerns

A concern was raised regarding the potential loss of social programs under the privatized PGW. Lazard notes that the analysis and projections herein assume all current social programs remain in place for the forecast period. Another concern was raised regarding the City potentially foregoing the value of future PGW business opportunities by pursuing a privatization.

Lazard believes that the potential value of any new business opportunities currently available to PGW would be factored into prospective buyers' purchase price. As such, PGW and the City would not necessarily be foregoing this value.

B. OVERVIEW OF PGW STRUCTURAL ALTERNATIVES

Lazard evaluated, on a preliminary basis, the feasibility of each of the following potential PGW structural alternatives:

(a) Assumes Industry Benchmark Synergies Case valuation range and low estimate of PGW-related Liabilities.
(b) A full tax assessment would be required to determine the tax revenues the City would likely receive from a privatized PGW.

Enhanced Status Quo

The Enhanced Status Quo involves retaining PGW's current organizational structure, but with potential improvements, including the following:

- Independent/streamlined corporate governance structure
- Improved labor/contract flexibility (i.e., with regard to upcoming contract negotiations)
- Continue/increase incorporation of unfunded OPEB liabilities into ratebase/rates
- Continue focus on cost reduction and operational improvement programs (e.g., outsourcing opportunities, attrition/retirements, etc.)
- Revisit privatization options and opportunity in 18 – 36 months

Privatization[a]

Potential privatization structures include the following:

- **Strategic sale:** A strategic sale to a private operator/consortium would most likely target either a corporate strategic or pension/infrastructure fund(s).
- **Public-private partnership:** A PPP structure would consist of a long-term lease of PGW to a private entity or consortium, whereby the City maintains underlying ownership and "negative" control via a concession agreement.
- **Initial public offering:** The IPO structure would involve a listing of PGW shares on a public stock exchange.

Management Services Agreement

Under a management services agreement ("MSA"), the City would enter into a contract with a third-party operator, while retaining ultimate ownership and "negative" control over PGW. MSAs typically last a minimum of 5 years to justify the costs of setting up the structure. An MSA would constrain the City from pursuing other options during the contract period. MSAs also require clearly-defined performance standards and penalties, as well as an oversight entity which ensures that the agreement is being properly implemented on an ongoing basis. The scope of the MSA (e.g., which employees/ services would be covered under the contract) would need to be determined at a later date.

(a) Privatization options could involve a 100% sale/transfer, or the City could retain residual or minority ownership (residual interest could be sold down or sold off at some point in the future).

C. SUMMARY ASSESSMENT OF STRUCTURAL ALTERNATIVES

The following table illustrates Lazard's views of how well each of the potential structural alternatives would likely achieve various selected objectives:

		PRIVATIZATION			
SELECTED OBJECTIVES	**ENHANCED STATUS QUO**	**STRATEGIC SALE**	**PPP**	**IPO**	**MANAGEMENT SERVICES AGREEMENT ("MSA")**
MAXIMIZE PROCEEDS	◔	●	◕	◑	◔
MINIMIZE RISK/COST RETENTION	○	●	◕	◑	◔
PRESERVE JOBS	◕	◑	◑	◑	◑
PRESERVE MAINTENANCE/ SAFETY STANDARDS	◕	◕	◕	◕	◕
STREAMLINE GOVERNANCE	◔	●	◑	◑	◑
FUND CAPITAL IMPROVEMENTS	◔	◕	◑	◑	◔
PRESERVE OPTION/UPSIDE	◕	◔	◔	◑	◑
MINIMIZE EXECUTION RISK	◑	◑	◔	◔	◑
EXECUTE QUICKLY	●	●	◑	○	◕
SUMMARY COMMENTS	The Enhanced Status Quo may let the City begin restructuring the governance of PGW, address title issues, reduce PGW debt, and address perceptions of PGW—all issues in respect of any future privatization transaction	A strategic sale could well permit the City to undertake a controlled process based on a City-defined strategy while maximizing proceeds and relieving the City from the oversight of PGW and related liabilities	A PPP structure would be difficult to execute and would likely not achieve as much value as a strategic sale; in addition, any concession agreement under a PPP structure would likely create conflicts and/or redundancies with the existing PA PUC regulatory structure	While theoretically feasible, an IPO may not be a financially-attractive alternative as PGW's pre-existing liabilities are likely to weigh on its valuation; public company trading levels, lack of synergy generation and IPO discount would suggest proceeds will be less than in a strategic sale	A management services agreement may not realize any incremental proceeds, could potentially constrain the City in pursuing other options, and decoupling management from ownership could create additional complications

● = Higher/Better ○ = Lower/Worse

V. MARKET SOUNDING SUMMARY

Lazard held conversations with a list of targeted potential acquirors of PGW in order to gauge participants' overall appetite, views on risk assessment and indicative valuation levels regarding a potential privatization of PGW. Lazard chose the Market Sounding participants based on a variety of factors, including strategic position, geographic footprint, financial wherewithal, and relevant industry experience. Participants included four potential strategic parties and two potential financial acquirors. Market Sounding participants were provided with a profile of PGW that contained a high-level description of the Company, operational and financial forecasts/metrics, investment highlights, potential privatization issues, an overview of the Company's regulatory environment, and the public policy criteria the City considers relevant to the privatization of PGW.

The Market Sounding study obtained a variety of responses from participants and provided numerous leads on potential buyers' preferences regarding PGW and a potential privatization; however, opinions expressed in the study may change in an actual process and may not reflect a participant's final position.

The findings of the study can be summarized as follows:

- The majority of the study participants had some level of familiarity with PGW, some having analyzed and pursued the Company in the past
- A number of the study participants expressed interest in a potential privatization of PGW
- A valuation/purchase price of PGW will be a function of numerous factors—important priorities include regulatory certainty and the ability to quantify and cap other potential risk exposures
- In the cases of entities with existing assets regulated by the PA PUC, concerns were expressed regarding the exposure of existing utility customers to the potential for cross-subsidization of PGW customers
- In the case of one potential strategic acquiror, such company believes the value of PGW is likely to be maximized through a narrow targeted sale process and that chances of success would be increased through some type of joint ownership/PPP structure where both the City and potentially the Commonwealth maintain/obtain a modest equity stake[a]

(a) It was noted by the City's legal department that the current Constitution of the Commonwealth of Pennsylvania (Article IX, § 9. Appropriation for public purposes) does not allow for the City or Commonwealth to maintain an equity stake in a private entity.

A. MARKET SOUNDING FEEDBACK

The following table summarizes the feedback from, and characteristics of, the Market Sounding participants:

COMPANY	STRATEGIC INTEREST	OWNERSHIP OF GAS UTILITIES	UTILITY M&A EXPERIENCE	SIZE/ AFFORDABILITY	SYNERGY POTENTIAL	COMMENTS
Company #1	○	◔	◕	◑	○	■ Indicated they would not be interested in evaluating/acquiring PGW
Company #2	●	●	●	◕	◕	■ High level of strategic interest ■ Significant utility M&A experience ■ Actively seek and pursue utility acquisition opportunities ■ Valuation and purchase price a function of regulatory compact (e.g., duration and certainty of allowed cost recovery mechanisms) and ability to quantify/cap other potential risk exposures
Company #3	◔	◔	●	●	●	■ Have looked at/analyzed PGW on previous occasions (typically at request of City) ■ Not strategically critical/compelling ■ Will not expose their existing utility customers to potential for cross-subsidization of PGW customers ■ Would only consider on a deeply-discounted basis
Company #4	○	○	○	○	◑	■ Would take a hard look at PGW if privatization is pursued (likely through a gas utility business they already own) ■ Given history and financial metrics, "likely wouldn't purchase at a fancy multiple" ■ Also suggested consideration of a lease-type structure, perhaps one with an earnings sharing mechanism to provide City with additional/ongoing revenue opportunity
Company #5	◑	◔	◕	●	◑	■ Strategically and operationally occupied with other matters ■ Would likely consider if a formal sale process were initiated ■ Unlikely to ascribe high strategic value to PGW given Company's modest existing gas utility position
Company #6	●	●	●	◕	◕	■ Have strategic interest and would participate in any privatization process ■ Believes best outcome will occur through a narrowly-targeted sale process (not wide auction) ■ Have not appreciated financial effects of recent rate increase ■ Believes the PA PUC would welcome/be supportive ■ Not convinced City has political will to actually implement a privatization ■ Thinks a public-private partnership structure (where the City and, possibly, the Commonwealth of PA itself, maintain/own a modest equity stake) may make most sense[(a)]

● = Higher/Better ○ = Lower/Worse

(a) It was noted by the City's legal department that the current Constitution of the Commonwealth of Pennsylvania (Article IX, § 9. Appropriation for public purposes) does not allow for the City or Commonwealth to maintain an equity stake in a private entity.

VI. LAZARD RECOMMENDATIONS

As a result of its Strategic Assessment, Lazard recommends that the City of Philadelphia pursue a process to transfer ownership and operation of PGW to a private entity via a strategic sale. Lazard believes that the privatization of PGW could generate sufficient interest from potential acquirors, that the Industry Benchmark Synergies Case may be achievable by most potential strategic buyers and that the enterprise value achieved in a strategic sale may well exceed the City's estimate of its PGW-related Liabilities. The proceeds from the divestiture could enable the City to exit its PGW ownership and operating requirements at little or no cost (and potentially at a profit) to the City, while achieving the City's public policy criteria. Importantly, the City should reserve the right to proceed with a privatization transaction only if the aforementioned City objectives and policy criteria are achieved.

In order to provide additional certainty surrounding the City's privatization decision, Lazard recommends that the City of Philadelphia continue to evaluate and narrow the estimated range of the City's PGW-related Liabilities, using reasonable estimates therefor. The City should explore further opportunities and options to reduce the City's PGW-related Liabilities[a][b] and/or increase PGW's sale value.

The City should develop an appropriate and realistic set of transaction strategies and objectives to maximize the potential for success (e.g., valuation, indemnities, rate criteria, other social criteria, etc.). A successful privatization of PGW would require that the City develop a plan to build broad support from the City Council, City Administration, Commonwealth officials, the PA PUC and PGW Management. Such support is critical to convincing potential acquirors that a sale process would be a worthwhile allocation of time and resources. A privatization process should also incorporate a comprehensive strategy addressing the concerns/positions of each PGW stakeholder (e.g., ratepayers, City taxpayers, unions, PA PUC, Buyer, etc.).

(a) The City should further analyze the possibility of structuring a privatization transaction which would leave some or all of PGW's existing tax-exempt bonds outstanding, although this is judged unlikely to be practical in the present situation. Based on advice from Ballard Spahr, current IRS regulations provide that if a facility that has been financed with tax-exempt bonds (e.g., PGW) undergoes a post-issuance privatization, the tax-exempt bonds must be defeased to the earliest optional redemption date in order to preserve tax exemption (i.e., avoid the bonds being deemed taxable).

(b) The City of Philadelphia should explore pursuing legislation that, while adhering to existing bond indenture provisions, would allow the existing PGW Revenue Bonds to remain outstanding.

Appendix

A. QUESTIONS & ANSWERS

1. What happens next?

Should the City decide to proceed with a potential privatization of PGW, the City would retain advisors (financial, legal, and others) to perform detailed due diligence and prepare documentation for a sale process. In parallel, and prior to conducting any buyer outreach, the City should seek to obtain the approvals/support of the appropriate City leaders and PGW oversight bodies whose ultimate approval(s) would be required in order to proceed with the buyer outreach exercise. The sale process itself would likely entail multiple rounds of bidding and negotiations before a final agreement could be reached. Such a process would likely take 6 to 12 months to reach a signing of a definitive agreement, plus up to an additional 12 months to receive required PA PUC approvals to close the transaction.

2. How would private ownership of PGW impact current employees?

As a precondition to any sale of PGW, the City has indicated that the private owner would be required to honor the existing collective bargaining agreement and other policy criteria outlined by the City.

3. What will happen to employee benefits?

As a precondition to any sale, earned Pension benefits and OPEBs will be maintained for existing employees. The pension fund is expected to be fully funded at the time of sale, and OPEBs are expected to either be prefunded or to continue to be funded on an ongoing basis through the rate recovery process, as it is today.

4. Will there be layoffs as a result of the privatization?

Of PGW's 1,654 current positions, 1,138 are union positions. A private buyer would be required to honor the current collective bargaining agreement, which extends through May 2015. This agreement includes a no-layoff clause for all union employees hired before May 15, 1998, as well as another 150 employees hired after May 15, 1998—roughly two-thirds of the unionized workforce. In addition, Lazard believes that the City could require a private buyer to agree to a no-layoff requirement for a short period of time, such as two years, without significantly impacting the sale value. However, after that time, a private buyer would need to feel that they have flexibility in determining staffing levels. Lazard pointed out that, in general, Operations staff are least vulnerable to reductions since these jobs, such as line replacement workers, are necessary to maintain a functioning utility. Out of PGW's 1,654 positions, 985 are Operations positions.

5. What will happen to employee union representation?

As noted above, there will be no change to employee union representation. The City has indicated that it will require that employees currently represented by a union will continue to be represented. Future collective bargaining will take place with the private owner.

6. What will happen to PGW's current social programs under the privatized scenario?

The City of Philadelphia has indicated that it will require that any purchaser of PGW agree, as a precondition to any sale, to maintain the Senior Citizen Discount Program and preserve all PUC-mandated discount programs currently in place, including the Customer Responsibility Program and Demand Side Management (weatherization). Under private ownership, PGW would continue to be regulated by the Pennsylvania PUC, which regulates rates, investor returns and service conditions.

7. Isn't a new private owner likely to gut the Company and O&M and allow it to operate in an unsafe manner in order to fatten profits?

No. Under private ownership, PGW would continue to be regulated by the Pennsylvania PUC, which regulates rates, investor returns and service conditions. Under private ownership, PGW would also need to continue to comply with all State and Federal regulations governing pipeline maintenance, operations, safety, etc.

8. Would a privatized PGW still be able to lien customer property?

No. Under private ownership, PGW would lose the right to impose a lien on customer property for non-payment. While the loss of the ability to lien may impact the value of the privatized PGW, Lazard's view is that the impact would likely be immaterial (standard industry collection practices do not include the ability to lien).

9. Would the new organization be headquartered in Philadelphia?

If PGW is purchased by a private operator, the City could require, as a precondition to any sale, that the new owner agree to maintain PGW's headquarters in Philadelphia for several years.

10. Will service levels decline if PGW is operated by a private company?

The Pennsylvania PUC would continue to regulate PGW to ensure adequate service levels.

11. Would the City lose money from a sale (or miss out on the value from potential future improvements)?

The sale process would be designed to highlight to potential purchasers all of the potential future improvements and growth opportunities PGW contemplates in the foreseeable future, and to reflect such potential improvements in an increased bid value. The City has indicated that it would only pursue a sale of PGW if it believes that the sale offer exceeds the value to the City under its current ownership structure, including taking into account any forecasted improvements to PGW's operations, the present value of the $18 million forecasted annual City Payment (less the forecasted future tax revenues from a privatized PGW), and the potential retention of certain residual PGW-related Liabilities.

12. Why would a private buyer be willing to pay a premium (value in excess of the book value of PGW's assets) for PGW?

Private buyers may be willing to pay a premium for PGW for various reasons. Often times a buyer may feel that they are in a position to realize certain operating improvements and other efficiencies that accompany private operation through combined technical expertise, financial improvements or increased scale. Gas distribution companies (and other utilities) are typically (and routinely) acquired for premiums to historical book value.

13. If the City pursues a privatization process, will it be required to sell?

No. The City would only enter into a definitive, binding agreement to sell PGW after a formal marketing process and then only if it believes that the sale offer exceeds the value to the City under its current ownership structure. The privatization process would also be subject to City Council and Mayoral approval.

14. Would a buyer be able to finance the purchase of PGW?

Yes. Privately-owned regulated utilities regularly raise financing for acquisitions of companies and assets in the capital markets.

15. Won't the City give up its control of PGW if it is sold to a private party? Why would it agree to do this?

Yes. However, the rates charged and conditions of service offered by PGW will continue to be regulated by the PA PUC. In addition, a sale of PGW to a private owner would enable the City to redeploy various high-level City employees to devote more of their time to more pressing City business and programs.

16. Do most cities own and operate their gas distribution companies?

No. Of the 30 largest U.S. cities, only 4 currently have a gas distribution company owned by the municipality. Of the top 10 cities by population, Philadelphia and San Antonio are the only cities that own and operate their respective local gas distribution companies. Most of Philadelphia's peer cities (e.g., Atlanta, Baltimore, Boston, Chicago, Detroit, Los Angeles, New York, Pittsburgh, Washington D.C.) do not own and operate their own local gas distribution companies.

TOP 30 U.S. CITIES BY POPULATION

	CITY	STATE	GAS DISTRIBUTION COMPANY	# OF CUSTOMERS
1	New York	New York	Consolidated Edison	1,200,000
2	Los Angeles	California	Sempra (SoCalGas)	6,650,000
3	Chicago	Illinois	Integrys (Peoples Gas)	1,673,000
4	Houston	Texas	Centerpoint	3,259,532
5	Philadelphia	Pennsylvania	Philadelphia Gas Works	514,511
6	Phoenix	Arizona	Southwest Gas	1,837,000
7	San Antonio	Texas	CPS Energy	319,925
8	San Diego	California	Sempra (SDG&E)	6,650,000
9	Dallas	Texas	Atmos Energy	3,186,040
10	San Jose	California	PG&E	4,300,000
11	Jacksonville	Florida	TECO (Peoples Gas System)	336,000
12	Indianapolis	Indiana	Citizens Energy Group	269,272
13	San Francisco	California	PG&E	4,300,000
14	Austin	Texas	ONEOK (Texas Gas Service Company)	2,110,607
15	Columbus	Ohio	NiSource	3,290,643
16	Fort Worth	Texas	Atmos Energy	3,186,040
17	Charlotte	North Carolina	Piedmont Natural Gas	955,069
18	Detroit	Michigan	DTE (MichCon)	1,200,000
19	El Paso	Texas	ONEOK	2,110,607
20	Memphis	Tennessee	Memphis Light, Gas & Water	319,983
21	Baltimore	Maryland	Constellation (BG&E)	652,600
22	Boston	Massachusetts	NSTAR	300,000
23	Seattle	Washington	Puget Energy	750,000
24	Washington	District of Columbia	WGL	1,084,599
25	Nashville	Tennessee	Piedmont (Nashville Gas)	955,069
26	Denver	Colorado	Xcel	1,906,000
27	Louisville	Kentucky	PPL (LG&E)	320,000
28	Milwaukee	Wisconsin	Wisconsin Energy Corp	1,064,500
29	Portland	Oregon	Northwest Natural	674,000
30	Las Vegas	Nevada	Southwest Gas	1,837,000

Indicates cities with municipally-owned gas utilities.

Source: Company filings.

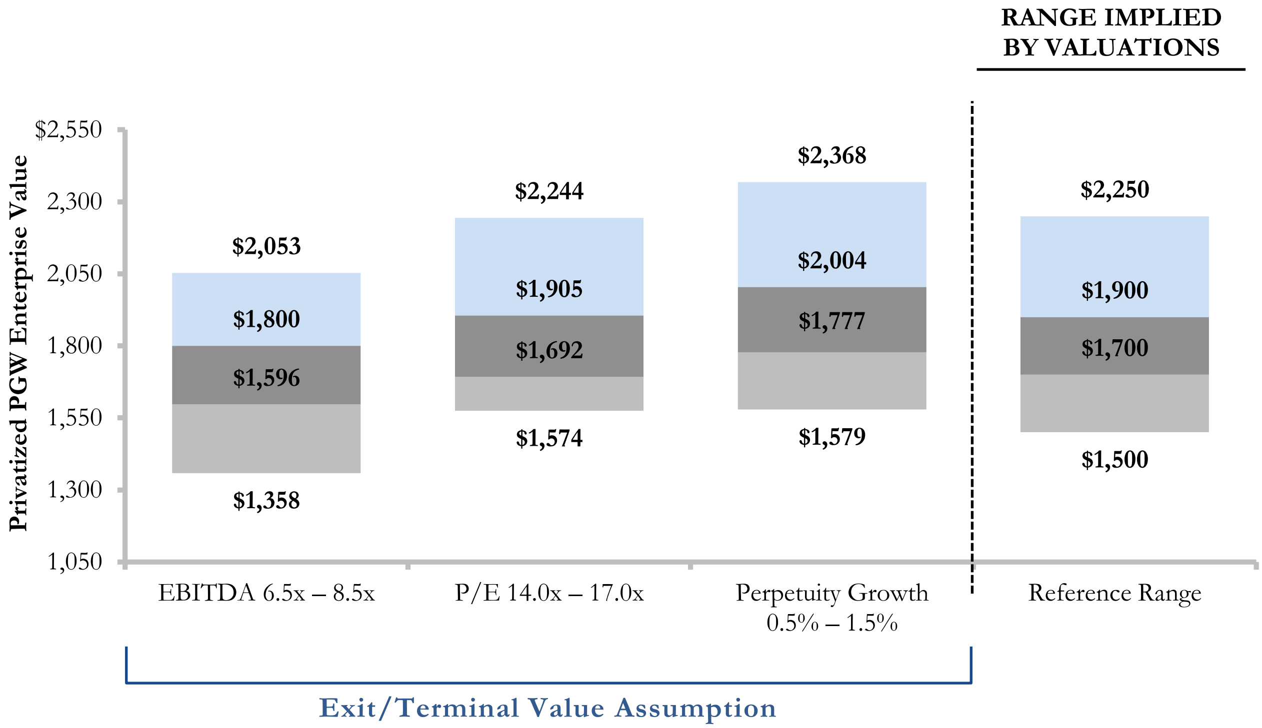
Note: Customer count represents total gas customers served (not just those in city referenced).

B. SUPPORTING VALUATION MATERIALS

1. DISCOUNTED CASH FLOW VALUATION

Discounted Cash Flow Analysis: Summary Valuation

($ in millions)



= Prepaid OPEB Case

= Industry Benchmark Synergies Case

= Moderate Synergies Case

Moderate Synergies Case Metrics:	Implied Multiples (2013E): [(a)] EBITDA: 8.2x – 9.3x P/E: 12.6x – 15.8x
Industry Benchmark Synergies Case Metrics:	Implied Multiples (2013E): [(b)] EBITDA: 8.5x – 9.5x P/E: 13.4x – 16.4x
Prepaid OPEB Case Metrics:	Implied Multiples (2013E): [(c)] EBITDA: 8.7x – 10.3x P/E: 12.3x – 16.7x

Source: PGW forecasts.
Note: Valuation assumes a 6.5% WACC.
(a) Based on 2013 EBITDA of $183, 2013 Net Income of $62 and 2012 net debt of $712.
(b) Based on 2013 EBITDA of $200, 2013 Net Income of $67 and 2012 net debt of $809.
(c) Based on 2013 EBITDA of $218, 2013 Net Income of $79 and 2012 net debt of $931.

WACC Analysis

($ in millions, except per share data)

PGW Comparables		Stock Price 07/20/11	Equity Value	Net Debt	Debt/ Book Cap.	Net Debt/ Ent. Value	Net Debt/ Equity Value	Levered Beta [a]	Unlevered Beta [b]
AGL Resources	AGL	$41.21	$3,237	$2,131	53.4%	39.7%	65.8%	0.67	0.49
Atmos Energy	ATO	33.79	3,057	2,007	47.6%	39.6%	65.6%	0.71	0.53
Chesapeake Utilities	CPK	39.20	374	138	37.2%	27.0%	36.9%	0.57	0.47
Laclede Group	LG	37.96	851	341	39.0%	28.6%	40.1%	0.57	0.47
New Jersey Resources	NJR	45.71	1,897	513	42.9%	21.3%	27.1%	0.58	0.50
Nicor	GAS	55.30	2,521	555	36.6%	18.0%	22.0%	0.59	0.53
Northwest Natural	NWN	46.25	1,236	785	52.1%	38.8%	63.5%	0.52	0.39
Piedmont Natural Gas	PNY	30.30	2,181	826	44.4%	27.5%	37.9%	0.63	0.52
South Jersey Industries	SJI	53.41	1,600	594	49.7%	27.1%	37.1%	0.57	0.47
Southwest Gas	SWX	38.52	1,770	1,014	47.7%	36.4%	57.3%	0.75	0.57
WGL	WGL	39.61	2,031	521	34.6%	20.4%	25.7%	0.65	0.57
Median					44.4%	27.5%	37.9%	0.59	0.50

Assumptions	
Marginal Tax Rate [c]	45.5%
Risk Free Rate of Return [d]	2.89%
Equity Risk/Market Premium [e]	6.50%
Equity Size Premium [f]	1.85%

Debt/ Cap	Debt/ Equity	Median Unlevered Beta	Levering Factor [g]	Levered Beta	Cost of Equity [h]
0.00%	0.00%	0.50	1.00	0.50	8.01%
10.00%	11.11%	0.50	1.06	0.53	8.21%
20.00%	25.00%	0.50	1.14	0.57	8.45%
30.00%	42.86%	0.50	1.23	0.62	8.77%
40.00%	66.67%	0.50	1.36	0.69	9.20%
50.00%	100.00%	0.50	1.55	0.78	9.79%
60.00%	150.00%	0.50	1.82	0.91	10.68%
70.00%	233.33%	0.50	2.27	1.14	12.17%
80.00%	400.00%	0.50	3.18	1.60	15.13%

Pre-Tax/After-Tax Cost of Debt				
5.00%	5.25%	5.50%	5.75%	6.00%
2.73%	2.86%	3.00%	3.13%	3.27%
Weighted Average Cost of Capital [i]				
8.01%	8.01%	8.01%	8.01%	8.01%
7.66%	7.67%	7.69%	7.70%	7.71%
7.31%	7.34%	7.36%	7.39%	7.42%
6.96%	7.00%	7.04%	7.08%	7.12%
6.61%	**6.66%**	**6.72%**	**6.77%**	6.83%
6.26%	**6.33%**	**6.39%**	**6.46%**	6.53%
5.91%	**5.99%**	**6.07%**	**6.15%**	6.23%
5.56%	5.65%	5.75%	5.84%	5.94%
5.21%	5.32%	5.42%	5.53%	5.64%

(a) Betas as of June 30, 2011.
(b) Unlevered Beta = Levered Beta/[1+(1-Tax Rate)(Debt/Equity)].
(c) Blended tax rate of federal, state and business privilege tax.
(d) Risk Free Rate is 10-Year Treasury Bond Yield as of July 20, 2011.
(e) Represents the long-horizon expected equity risk premium based on differences of historical arithmetic mean returns on the S&P 500 from 1926-2009 (Ibbotson Associates' 2010 Yearbook).
(f) Equity Size Premium taken from Ibbotson 2010 Yearbook based on returns in excess of CAPM from January 1926 to December 2009. Premium for companies with equity market capitalization between $432 million and $1.6 billion is 1.85%.
(g) Levering Factor = [1 + (1-Tax Rate)(Debt/Equity)].
(h) Cost of Equity = (Risk Free Rate of Return)+(Levered Beta)(Equity Risk Premium)+ Equity Size Premium.
(i) Weighted Average Cost of Capital = (After-Tax Cost of Debt)(Debt/Cap.)+(Cost of Equity)(Equity/Cap.).

Discounted Cash Flow Analysis: No Synergies Case

($ in millions)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY	'13-'22 CAGR
EBITDA	**$161**	**$168**	**$162**	**$155**	**$147**	**$144**	**$142**	**$145**	**$148**	**$151**	**$153**	**$156**	*(1.0%)*
Less: Depreciation and Amortization	(40)	(34)	(35)	(37)	(38)	(39)	(41)	(42)	(43)	(45)	(46)	(48)	
EBIT	**$121**	**$134**	**$127**	**$119**	**$109**	**$104**	**$102**	**$103**	**$104**	**$106**	**$107**	**$108**	*(2.5%)*
Less Taxes at 46%	(56)	(44)	(40)	(36)	(32)	(29)	(27)	(28)	(28)	(28)	(28)	(29)	
EBIT After Tax	$65	$90	$86	$82	$78	$75	$74	$76	$77	$78	$79	$80	*(1.5%)*
Plus: Depreciation and Amortization	40	34	35	37	38	39	41	42	43	45	46	48	
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(64)	(65)	(67)	(68)	(69)	(71)	(72)	(48)	
Plus/(Minus): Other Investments	0	0	0	0	0	0	0	0	0	0	0	0	
Plus/(Minus): Changes in Working Capital	(6)	(26)	2	(14)	(17)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
Unlevered Free Cash Flow	**$26**	**$31**	**$57**	**$41**	**$35**	**$45**	**$44**	**$45**	**$46**	**$47**	**$48**	**$75**	*5.0%*

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward EBITDA Exit Multiple 6.50x	7.50x	8.50x	=	Enterprise Value 6.50x	7.50x	8.50x
6.00%	$321		$566	$654	$741		$887	$974	$1,061
6.25%	317		553	638	723		870	955	1,040
6.50%	313		540	624	707		853	937	1,020
6.75%	309		528	609	690		837	918	1,000
7.00%	306		516	595	674		821	901	980

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward P/E Exit Multiple 14.00x	15.50x	17.00x	=	Enterprise Value 14.00x	15.50x	17.00x
6.00%	$321		$727	$768	$809		$1,048	$1,089	$1,130
6.25%	317		710	750	790		1,027	1,067	1,107
6.50%	313		694	733	772		1,007	1,046	1,085
6.75%	309		678	716	754		987	1,025	1,063
7.00%	306		662	699	737		968	1,005	1,042

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal FCF in TY at Growth Rate of 0.50%	1.00%	1.50%	=	Enterprise Value 0.50%	1.00%	1.50%
6.00%	$321		$766	$843	$937		$1,087	$1,164	$1,257
6.25%	317		716	784	867		1,033	1,101	1,184
6.50%	313		670	731	804		983	1,044	1,117
6.75%	309		629	683	748		938	992	1,058
7.00%	306		590	640	698		896	945	1,003

Source: PGW forecasts.

Discounted Cash Flow Analysis: Moderate Synergies Case

($ in millions)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY	'13-'22 CAGR
EBITDA	**$161**	**$183**	**$192**	**$188**	**$183**	**$204**	**$205**	**$209**	**$212**	**$216**	**$220**	**$223**	*2.0%*
Less: Depreciation and Amortization	(40)	(45)	(46)	(48)	(49)	(50)	(51)	(53)	(54)	(56)	(57)	(58)	
EBIT	**$121**	**$138**	**$146**	**$140**	**$134**	**$153**	**$154**	**$156**	**$158**	**$160**	**$163**	**$165**	*1.8%*
Less Taxes at 46%	(56)	(39)	(42)	(40)	(37)	(45)	(45)	(46)	(47)	(47)	(48)	(49)	
EBIT After Tax	$65	$99	$103	$101	$98	$108	$109	$110	$112	$113	$115	$116	*1.7%*
Plus: Depreciation and Amortization	40	45	46	48	49	50	51	53	54	56	57	58	
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(64)	(65)	(67)	(68)	(69)	(71)	(72)	(58)	
Plus/(Minus): Other Investments	0	0	0	0	0	0	0	0	0	0	0	0	
Plus/(Minus): Changes in Working Capital	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
Unlevered Free Cash Flow	**$26**	**$51**	**$84**	**$70**	**$78**	**$89**	**$89**	**$91**	**$92**	**$94**	**$95**	**$112**	*7.2%*

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward EBITDA Exit Multiple			=	Enterprise Value		
			6.50x	7.50x	8.50x		6.50x	7.50x	8.50x
6.00%	$600		$811	$936	$1,060		$1,411	$1,536	$1,660
6.25%	592		792	914	1,036		1,384	1,506	1,628
6.50%	585		774	893	1,012		1,358	1,477	1,596
6.75%	578		756	872	988		1,333	1,449	1,566
7.00%	570		738	852	965		1,309	1,422	1,536

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward P/E Exit Multiple			=	Enterprise Value		
			14.00x	15.50x	17.00x		14.00x	15.50x	17.00x
6.00%	$600		$1,037	$1,099	$1,160		$1,637	$1,699	$1,760
6.25%	592		1,013	1,073	1,133		1,605	1,665	1,726
6.50%	585		989	1,048	1,107		1,574	1,633	1,692
6.75%	578		966	1,024	1,081		1,544	1,602	1,659
7.00%	570		944	1,000	1,056		1,514	1,571	1,627

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal FCF in TY at Growth Rate of			=	Enterprise Value		
			0.50%	1.00%	1.50%		0.50%	1.00%	1.50%
6.00%	$600		$1,136	$1,250	$1,389		$1,736	$1,850	$1,989
6.25%	592		1,062	1,163	1,285		1,654	1,755	1,878
6.50%	585		994	1,084	1,193		1,579	1,669	1,777
6.75%	578		932	1,013	1,110		1,510	1,591	1,687
7.00%	570		875	948	1,035		1,446	1,519	1,605

Source: PGW forecasts.

Discounted Cash Flow Analysis: Industry Benchmark Synergies Case

($ in millions)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY	'13-'22 CAGR
EBITDA	**$161**	**$200**	**$226**	**$221**	**$217**	**$218**	**$221**	**$225**	**$229**	**$234**	**$238**	**$243**	*2.0%*
Less: Depreciation and Amortization	(40)	(49)	(50)	(51)	(53)	(54)	(55)	(57)	(58)	(59)	(61)	(62)	
EBIT	**$121**	**$151**	**$176**	**$170**	**$164**	**$164**	**$166**	**$168**	**$171**	**$174**	**$177**	**$180**	*1.8%*
Less Taxes at 46%	(56)	(43)	(54)	(51)	(48)	(48)	(48)	(49)	(51)	(52)	(53)	(54)	
EBIT After Tax	$66	$108	$122	$119	$116	$116	$117	$119	$121	$123	$124	$126	*1.6%*
Plus: Depreciation and Amortization	40	49	50	51	53	54	55	57	58	59	61	62	
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(64)	(65)	(67)	(68)	(69)	(71)	(72)	(62)	
Plus/(Minus): Other Investments	0	0	0	0	0	0	0	0	0	0	0	0	
Plus/(Minus): Changes in Working Capital	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
Unlevered Free Cash Flow	**$26**	**$64**	**$107**	**$92**	**$101**	**$101**	**$102**	**$104**	**$105**	**$107**	**$109**	**$122**	*6.1%*

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward EBITDA Exit Multiple			=	Enterprise Value		
			6.50x	**7.50x**	**8.50x**		**6.50x**	**7.50x**	**8.50x**
6.00%	$719		$881	$1,016	$1,151		$1,600	$1,735	$1,871
6.25%	710		860	992	1,125		1,570	1,703	1,835
6.50%	702		840	969	1,099		1,542	1,671	1,800
6.75%	693		821	947	1,073		1,514	1,640	1,766
7.00%	685		802	925	1,048		1,486	1,610	1,733

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward P/E Exit Multiple			=	Enterprise Value		
			14.00x	**15.50x**	**17.00x**		**14.00x**	**15.50x**	**17.00x**
6.00%	$719		$1,128	$1,195	$1,261		$1,847	$1,914	$1,981
6.25%	710		1,102	1,167	1,232		1,812	1,877	1,942
6.50%	702		1,076	1,140	1,203		1,778	1,841	1,905
6.75%	693		1,051	1,113	1,175		1,744	1,806	1,869
7.00%	685		1,027	1,087	1,148		1,711	1,772	1,833

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal FCF in TY at Growth Rate of			=	Enterprise Value		
			0.50%	**1.00%**	**1.50%**		**0.50%**	**1.00%**	**1.50%**
6.00%	$719		$1,241	$1,365	$1,517		$1,960	$2,084	$2,236
6.25%	710		1,159	1,270	1,403		1,870	1,980	2,114
6.50%	702		1,085	1,184	1,302		1,787	1,885	2,004
6.75%	693		1,018	1,106	1,211		1,711	1,799	1,905
7.00%	685		956	1,035	1,130		1,641	1,720	1,814

Source: PGW forecasts.

Discounted Cash Flow Analysis: Prepaid OPEB Case

($ in millions)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY	'13-'22 CAGR
EBITDA	**$161**	**$218**	**$244**	**$240**	**$236**	**$237**	**$239**	**$244**	**$248**	**$252**	**$257**	**$261**	*1.8%*
Less: Depreciation and Amortization	(40)	(54)	(55)	(56)	(58)	(59)	(60)	(61)	(63)	(64)	(66)	(67)	
EBIT	**$121**	**$165**	**$189**	**$184**	**$178**	**$178**	**$179**	**$182**	**$185**	**$188**	**$191**	**$194**	*1.6%*
Less Taxes at 46%	(56)	(38)	(48)	(46)	(43)	(43)	(43)	(44)	(46)	(47)	(48)	(49)	
EBIT After Tax	$66	$127	$141	$138	$135	$135	$136	$138	$139	$141	$143	$145	*1.3%*
Plus: Depreciation and Amortization	40	54	55	56	58	59	60	61	63	64	66	67	
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(64)	(65)	(67)	(68)	(69)	(71)	(72)	(67)	
Plus/(Minus): Other Investments	0	0	0	0	0	0	0	0	0	0	0	0	
Plus/(Minus): Changes in Working Capital	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
Unlevered Free Cash Flow	**$26**	**$88**	**$131**	**$116**	**$124**	**$124**	**$125**	**$127**	**$129**	**$130**	**$132**	**$141**	*4.6%*

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward EBITDA Exit Multiple			=	Enterprise Value		
			6.50x	7.50x	8.50x		6.50x	7.50x	8.50x
6.00%	$893		$948	$1,093	$1,239		$1,840	$1,986	$2,132
6.25%	882		926	1,068	1,210		1,807	1,950	2,092
6.50%	871		904	1,043	1,182		1,775	1,914	2,053
6.75%	861		883	1,019	1,155		1,744	1,880	2,015
7.00%	850		863	995	1,128		1,713	1,846	1,978

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal Value at Forward P/E Exit Multiple			=	Enterprise Value		
			14.00x	15.50x	17.00x		14.00x	15.50x	17.00x
6.00%	$893		$1,284	$1,362	$1,440		$2,177	$2,254	$2,332
6.25%	882		1,254	1,330	1,406		2,136	2,212	2,288
6.50%	871		1,225	1,299	1,373		2,096	2,170	2,244
6.75%	861		1,197	1,269	1,342		2,057	2,130	2,202
7.00%	850		1,169	1,240	1,310		2,019	2,090	2,161

Discount Rate	PV of FCF '13 - '22	+	PV of Terminal FCF in TY at Growth Rate of			=	Enterprise Value		
			0.50%	1.00%	1.50%		0.50%	1.00%	1.50%
6.00%	$893		$1,427	$1,570	$1,744		$2,320	$2,462	$2,637
6.25%	882		1,333	1,460	1,614		2,215	2,342	2,496
6.50%	871		1,248	1,361	1,497		2,119	2,232	2,368
6.75%	861		1,170	1,272	1,393		2,031	2,132	2,254
7.00%	850		1,099	1,191	1,299		1,949	2,041	2,149

Source: PGW forecasts.

2. DIVIDEND DISCOUNT MODEL ANALYSIS

Dividend Discount Model Analysis: No Synergies Case

($ in millions)

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY
Dividends	$68	$64	$59	$53	$50	$48	$48	$48	$48	$49	$49
Terminal Value										544	
Cash Flow to Equity	68	64	59	53	50	48	48	48	48	593	
Discount Factor at 10% ROE	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386	
Present Value of Future Dividends	**$62**	**$53**	**$44**	**$36**	**$31**	**$27**	**$25**	**$22**	**$21**	**$19**	
NPV of Future Dividends	**$339**										
Present Value of Terminal Value [(a)]	**$210**										

Cost of Equity	PV of Dividends '13 - '22	+	PV of Terminal Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%	+	2012 Net Debt	=	Enterprise Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%
9.00%	$353		$243	$259	$276		$470		$1,066	$1,081	$1,098
9.50%	346		220	232	247		470		1,035	1,048	1,063
10.00%	339		199	210	222		470		1,007	1,018	1,031
10.50%	332		180	190	200		470		983	992	1,003
11.00%	326		164	172	182		470		960	968	977

Dividend Discount Model Analysis: Moderate Synergies Case

($ in millions)

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY
Dividends	$62	$66	$63	$59	$69	$69	$70	$71	$72	$73	$74
Terminal Value										818	
Cash Flow to Equity	62	66	63	59	69	69	70	71	72	891	
Discount Factor at 10% ROE	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386	
Present Value of Future Dividends	**$57**	**$55**	**$47**	**$40**	**$43**	**$39**	**$36**	**$33**	**$30**	**$28**	
NPV of Future Dividends	**$408**										
Present Value of Terminal Value [(b)]	**$316**										

Cost of Equity	PV of Dividends '13 - '22	+	PV of Terminal Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%	+	2012 Net Debt	=	Enterprise Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%
9.00%	$427		$366	$389	$415		$735		$1,528	$1,550	$1,576
9.50%	417		330	350	372		735		1,482	1,502	1,524
10.00%	408		299	316	334		735		1,442	1,458	1,477
10.50%	399		271	286	302		735		1,405	1,420	1,435
11.00%	391		247	259	273		735		1,372	1,385	1,398

Source: PGW forecasts.

(a) Assuming terminal year dividends of $49 million growing at 1.0% in perpetuity.

(b) Assuming terminal year dividends of $74 million growing at 1.0% in perpetuity.

Dividend Discount Model Analysis: Industry Benchmark Synergies Case

($ in millions)

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY
Dividends	$67	$80	$76	$73	$72	$73	$74	$76	$77	$78	$80
Terminal Value										886	
Cash Flow to Equity	67	80	76	73	72	73	74	76	77	964	
Discount Factor at 10% ROE	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386	
Present Value of Future Dividends	**$61**	**$66**	**$57**	**$50**	**$45**	**$41**	**$38**	**$35**	**$33**	**$30**	
NPV of Future Dividends	**$455**										
Present Value of Terminal Value [(a)]	**$342**										

Cost of Equity	PV of Dividends '13 - '22	+	PV of Terminal Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%	+	2012 Net Debt	=	Enterprise Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%
9.00%	$476		$396	$421	$449		$830		$1,702	$1,727	$1,755
9.50%	466		357	379	402		830		1,653	1,674	1,697
10.00%	455		324	342	362		830		1,609	1,627	1,647
10.50%	446		294	309	326		830		1,569	1,585	1,602
11.00%	436		267	281	296		830		1,533	1,547	1,561

Dividend Discount Model Analysis: Prepaid OPEB Case

($ in millions)

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	TY
Dividends	$79	$92	$89	$85	$85	$86	$87	$88	$90	$91	$93
Terminal Value										1,031	
Cash Flow to Equity	79	92	89	85	85	86	87	88	90	1,122	
Discount Factor at 10% ROE	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386	
Present Value of Future Dividends	**$72**	**$76**	**$67**	**$58**	**$53**	**$48**	**$45**	**$41**	**$38**	**$35**	
NPV of Future Dividends	**$533**										
Present Value of Terminal Value [(b)]	**$397**										

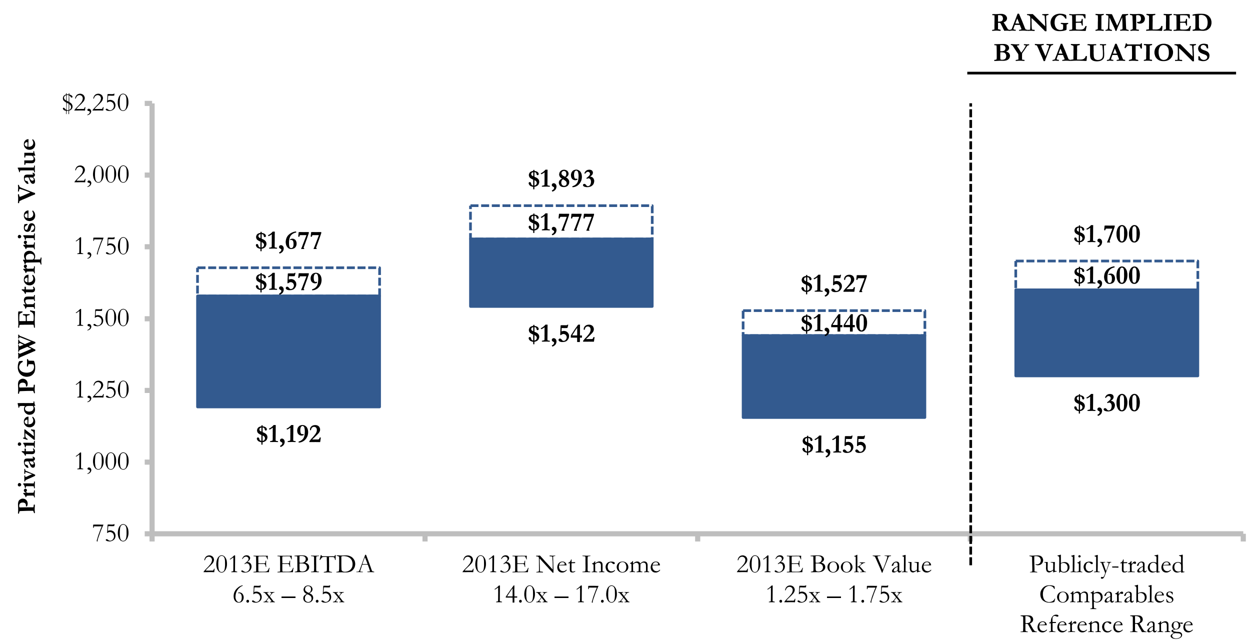
Cost of Equity	PV of Dividends '13 - '22	+	PV of Terminal Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%	+	2012 Net Debt	=	Enterprise Value Assuming Perpetual Growth Rate of 0.50%	1.00%	1.50%
9.00%	$557		$461	$490	$523		$949		$1,967	$1,995	$2,028
9.50%	545		416	440	468		949		1,909	1,934	1,961
10.00%	533		377	397	421		949		1,858	1,879	1,902
10.50%	521		342	360	380		949		1,812	1,830	1,850
11.00%	510		311	327	344		949		1,770	1,786	1,803

Source: PGW forecasts.
(a) Assuming terminal year dividends of $80 million growing at 1.0% in perpetuity.
(b) Assuming terminal year dividends of $93 million growing at 1.0% in perpetuity.

3. COMPARABLE COMPANY MULTIPLES

Comparable Companies Trading and Control Premium Analysis

($ in millions)



Base Case Metrics:	2013E EBITDA of $168 15% Control Premium to Implied Equity	2013E Net Income of $68 15% Control Premium to implied equity	2013E Book Value of $496 15% Control Premium to Implied Equity	Implied Multiples (2013E): [a] EBITDA: 7.7x – 9.5x Net Income: 12.6x – 17.0x Book Value: 1.7x – 2.3x
Upside Case Metrics:	2013E EBITDA of $168 25% Control Premium to Implied Equity	2013E Net Income of $68 25% Control Premium to Implied Equity	2013E Book Value of $496 25% Control Premium to Implied Equity	Implied Multiples (2013E): [a] EBITDA: 9.5x – 10.1x Net Income: 17.0x – 18.4x Book Value: 2.3x – 2.5x

= Base Case

= Upside Case

Note: The No Synergies Case was used to reflect the pre-synergy/efficiency condition of publicly-traded comparable companies.
(a) Based on 2012 No Synergies Case net debt of $442.

North American Gas Utility Comparable Company Trading Analysis

($ in millions, except per share data)

Company Name	Closing Price	Equity Value	Enterprise Value	% Of 52 Week High	Price / I/B/E/S EPS 2011E	Price / I/B/E/S EPS 2012E	Price / Book Value	Enterprise Value / EBITDA 2011E	Enterprise Value / EBITDA 2012E	2011E Dividend Payout	Dividend Yield	I/B/E/S Long-Term Growth Rate	Total Return	2011E PE/ Total Return	Debt/ 2011E EBITDA	S&P Rating	Credit Outlook
AGL Resources	$41.22	$3,237	$5,368	97.3%	13.2x	12.6x	1.7x	7.8x	7.4x	57.4%	4.4%	5.2%	9.6%	1.38x	3.2x	A-	Watch Neg
Atmos Energy	33.79	3,057	5,064	95.9%	14.4x	13.6x	1.3x	7.0x	6.6x	58.1%	4.0%	3.2%	7.2%	2.00x	3.0x	BBB+	Stable
Chesapeake Utilities	39.20	374	513	90.9%	14.1x	13.4x	1.6x	6.8x	6.5x	47.4%	3.5%	12.3%	15.8%	0.89x	1.9x	NR	NR
Laclede Group	37.96	851	1,192	94.9%	15.4x	NA	1.5x	8.0x	NA	65.8%	4.3%	NA	NA	NA	2.4x	A	Stable
National Fuel Gas	71.77	6,069	6,974	94.5%	25.9x	22.5x	3.3x	9.8x	8.4x	49.7%	2.0%	3.0%	5.0%	5.20x	1.5x	BBB	Stable
New Jersey Resources	45.71	1,897	2,411	98.1%	17.3x	16.3x	2.4x	11.8x	NA	53.4%	3.2%	2.6%	5.8%	3.00x	2.9x	A	Stable
Nicor (a)	55.30	2,521	3,076	98.2%	20.9x	21.5x	2.2x	7.6x	7.7x	70.3%	3.4%	2.0%	5.4%	3.89x	1.6x	AA(b)	Watch Neg
Northwest Natural	46.25	1,236	2,020	90.9%	18.5x	17.0x	1.7x	9.3x	8.7x	70.2%	3.8%	4.0%	7.8%	2.39x	3.6x	A+	Stable
Piedmont Natural Gas	30.30	2,181	3,007	94.7%	18.9x	17.9x	2.1x	10.0x	NA	72.2%	3.8%	4.8%	8.6%	2.21x	2.8x	A	Stable
South Jersey Industries	53.41	1,600	2,193	92.0%	17.8x	16.1x	2.6x	11.9x	11.1x	49.7%	2.7%	7.5%	10.2%	1.74x	3.3x	BBB+	Stable
Southwest Gas	38.52	1,770	2,784	94.9%	16.9x	14.9x	1.4x	6.5x	6.1x	45.8%	2.8%	4.4%	7.2%	2.37x	2.6x	BBB+(b)	Stable
WGL	39.61	2,031	2,551	98.0%	18.5x	16.1x	1.6x	7.7x	7.2x	72.0%	3.9%	4.5%	8.4%	2.20x	2.1x	A+	Stable

	% Of 52 Week High	Price / I/B/E/S EPS 2011E	Price / I/B/E/S EPS 2012E	Price / Book Value	Enterprise Value / EBITDA 2011E	Enterprise Value / EBITDA 2012E	2011E Dividend Payout	Dividend Yield	I/B/E/S Long-Term Growth Rate	Total Return	2011E PE/ Total Return	Debt/ 2011E EBITDA
High	98.2%	25.9x	22.5x	3.3x	11.9x	11.1x	0.7x	4.4%	12.3%	15.8%	5.2x	3.6x
Mean	94.7%	17.4x	16.0x	1.9x	8.8x	7.8x	58.3%	3.5%	5.1%	8.5%	2.3x	2.7x
Median	94.9%	17.3x	16.1x	1.7x	8.0x	7.3x	57.4%	3.8%	4.5%	8.1%	2.2x	2.8x
Low	90.9%	13.2x	12.6x	1.3x	6.5x	6.1x	45.8%	2.0%	2.0%	5.0%	0.9x	1.5x

Source: SDC, Factset and Company filings.
Note: Updated as of July 20, 2011.
(a) Nicor excluded from mean and median statistics due to pending merger with AGL announced on December 7, 2010.
(b) Reflects S&P rating of subsidiary; parent not rated.

4. PRECEDENT TRANSACTION MULTIPLES

Selected Natural Gas Distribution M&A Comparable Transactions

($ in millions)

Announcement Date	Acquiror	Target	Equity Purchase Price	Transaction Value	Purchase Price Premiums to Pre-Announcement Prices: 1-Week	Purchase Price Premiums to Pre-Announcement Prices: 1-Day	Purchase Price / LTM EBITDA	Purchase Price / NTM EBITDA	Purchase Price / Forward Earnings
12/9/2010	Algonquin Power & Utilities	Granite State Electric & EnergyNorth Natural Gas	$285	$394	NA	NA	16.9x	NA	NA
12/7/2010	AGL Resources	Nicor	2,383	3,113	21.0%	11.9%	6.7x	7.6x	18.1x
5/25/2010	UIL	Iberdrola USA's New England Gas Utilities	885	1,296	NA	NA	9.4x	NA	NA
4/20/2009	Chesapeake Utilities	Florida Public Utilities	75	134	24.5%	17.3%	7.8x	NA	NA
7/28/2008	Sempra Energy	EnergySouth	509	831	38.8%	22.6%	18.2x	12.6x	NA
7/2/2008	SteelRiver Infrastructure Fund	Dominion Peoples	780	NA	NA	NA	NA	NA	NA
7/1/2008	MDU Resources	Intermountain Gas Company	233	328	NA	NA	12.1x	NA	NA
1/12/2008	Continental Energy Systems	PNM Gas Services	620	620	NA	NA	10.6x	NA	NA
1/12/2008	PNM Resources	Continental and Cap Rock Holding	203	NA	NA	NA	NA	NA	NA
11/14/2007	SourceGas	Arkansas Western Gas Company	230	NA	NA	NA	NM	NA	NM
2/23/2007	Cap Rock Holding Corporation	SEMCO Energy	289	804	37.0%	35.8%	9.6x	8.8x	25.5x
8/14/2006	GE Energy Financial Services / Alinda	Kinder Morgan Retail	710	NA	NA	NA	NA	NA	NA
7/10/2006	WPS Resources	Peoples Energy	1,592	2,577	14.5%	15.0%	9.1x	8.0x	18.7x
7/9/2006	MDU Resources	Cascade Natural Gas	305	456	25.3%	23.5%	9.2x	8.4x	NA
3/1/2006	Equitable Resources	Dominion Peoples and Dominion Hope	970	NA	NA	NA	NA	NA	NA
2/27/2006	National Grid	KeySpan	7,391	11,874	16.8%	16.1%	9.2x	8.6x	17.1x
2/16/2006	National Grid USA	NECG- Rhode Island	498	575	NA	NA	10.4x	NA	NA
1/27/2006	UGI Corporation	PG Energy	580	NA	NA	NA	NA	NA	NA
9/21/2005	Empire District Electric	Missouri Gas (Aquila)	84	NA	NA	NA	NA	NA	NA
9/21/2005	WPS Resources	Michigan Gas (Aquila)	270	NA	NA	NA	NA	NA	NA
9/21/2005	WPS Resources	Minnesota Gas (Aquila)	288	NA	NA	NA	NA	NA	NA
7/15/2004	AGL Resources	NUI	222	678	1.9%	9.5%	14.7x	9.7x	18.3x
6/17/2004	Atmos Energy	TXU Gas	1,199	1,925	NA	NA	12.1x	8.8x	NA

All Precedents:

	1-Week	1-Day	LTM EBITDA	NTM EBITDA	Forward Earnings
High	**38.8%**	**35.8%**	**18.2x**	**12.6x**	**25.5x**
Median	**22.7%**	**16.7%**	**10.0x**	**8.8x**	**18.3x**
Low	**1.9%**	**9.5%**	**6.7x**	**8.0x**	**17.1x**

5. SENSITIVITY ANALYSIS

Capital Structure Sensitivities[a]

($ in millions)

DISCOUNTED CASH FLOW

		ILLUSTRATIVE PGW CAPITAL STRUCTURE[b]				
		40%	**45%**	**50%**	**55%**	**60%**
	9.00%	$1,467	$1,502	$1,537	$1,574	$1,611
	9.25%	1,451	1,486	1,522	1,560	1,598
	9.50%	1,434	1,470	1,508	1,546	1,586
COST	**9.75%**	1,418	1,455	1,493	1,533	1,574
OF	**10.00%**	1,402	1,440	$\boxed{1,477}$	1,520	1,562
EQUITY	**10.25%**	1,386	1,425	1,465	1,506	1,549
	10.50%	1,370	1,410	1,451	1,493	1,537
	10.75%	1,355	1,395	1,437	1,481	1,526
	11.00%	1,340	1,381	1,424	1,468	1,514

DIVIDEND DISCOUNT MODEL

		ILLUSTRATIVE PGW CAPITAL STRUCTURE[c]				
		40%	**45%**	**50%**	**55%**	**60%**
	9.00%	$1,451	$1,500	$1,550	$1,602	$1,654
	9.25%	1,424	1,474	1,525	1,578	1,631
	9.50%	1,399	1,450	1,502	1,555	1,610
COST	**9.75%**	1,375	1,426	1,479	1,534	1,589
OF	**10.00%**	1,352	1,405	$\boxed{1,458}$	1,513	1,570
EQUITY	**10.25%**	1,330	1,384	1,438	1,494	1,552
	10.50%	1,310	1,364	1,420	1,476	1,534
	10.75%	1,291	1,346	1,402	1,459	1,518
	11.00%	1,273	1,328	1,385	1,443	1,502

Cost/Synergy Sensitivities

($ in millions)

DISCOUNTED CASH FLOW

		SYNERGIES/EFFICIENCIES[d]				
		0%	**5%**	**10%**	**14%**	**28%**
	$40	$1,317	$1,425	$1,533	$1,619	$1,921
2017	**30**	1,246	1,354	1,462	1,548	1,851
REVENUE	**20**	1,175	1,283	1,391	$\boxed{1,477}$	1,780
INCREASE	**10**	1,104	1,212	1,320	1,407	1,709
	0	1,034	1,141	1,249	1,336	1,638

Note: Base case valuations are indicated by a box.
(a) Based on the Moderate Synergies Case.
(b) Enterprise value calculated using an implied WACC based on a 5.5% cost of debt and a range of total debt/capitalization ratio and cost of equity; terminal value based on a 7.5x terminal year EBITDA multiple.
(c) Enterprise value calculated using a terminal year dividend of $74 million.
(d) Synergies/efficiencies phased in over two years and applied only to non-fuel O&M expenses; does not apply to insurance, pension, OPEB and bad debt expenses; does not include any reduction to bad debt expense.

Illustrative Analysis at Various Prices[a]

($ in millions)

ILLUSTRATIVE ENTERPRISE VALUE	PGW Metric	$1,400	$1,450	$1,550	$1,650	$1,750	$1,850	$1,950	$2,050	$2,150
City PGW-related Liabilities incl. Add. Potential PGW-related Liabilities Components - Low		$1,354	$1,354	$1,354	$1,354	$1,354	$1,354	$1,354	$1,354	$1,354
Proceeds/(Shortfall) After PGW-related Liabilities		**$46**	**$96**	**$196**	**$296**	**$396**	**$496**	**$596**	**$696**	**$796**
City PGW-related Liabilities incl. Debt Retirement/ Defeasance Costs only		$1,012	$1,012	$1,012	$1,012	$1,012	$1,012	$1,012	$1,012	$1,012
Proceeds/(Shortfall) After PGW-related Liabilities		**$388**	**$438**	**$538**	**$638**	**$738**	**$838**	**$938**	**$1,038**	**$1,138**
Enterprise Value as a Multiple of:										
EBITDA										
2013E	**$200**	7.0x	7.3x	7.8x	8.3x	8.8x	9.3x	9.8x	10.3x	10.8x
2014E	**226**	6.2x	6.4x	6.9x	7.3x	7.8x	8.2x	8.6x	9.1x	9.5x
2015E	**221**	6.3x	6.5x	7.0x	7.5x	7.9x	8.4x	8.8x	9.3x	9.7x
Equity Value as a Multiple of:										
NET INCOME										
2013E	**$67**	10.1x	10.5x	11.2x	12.0x	12.7x	13.5x	14.2x	15.0x	15.7x
2014E	**80**	8.5x	8.8x	9.4x	10.0x	10.7x	11.3x	11.9x	12.6x	13.2x
2015E	**76**	8.8x	9.2x	9.8x	10.5x	11.1x	11.8x	12.5x	13.1x	13.8x

Indicates approximate midpoint of Industry Benchmark Synergies Case.

Note: PGW metrics based on the Industry Benchmark Synergies Case; equity value multiples assume constant 50/50 debt-to-capitalization ratio.
(a) Actual outcome cannot be predicted and may vary from illustrated figures show.

C. SUMMARY PROJECTIONS

1. NO SYNERGIES CASE

No Synergies Case: Income Statement[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Gross Revenue	$790	$835	$842	$865	$896	$913	$932	$950	$969	$989	$1,008
Proposed Base Rate Increase	-	-	-	-	-	-	-	-	-	-	-
Purchased Gas Cost	(349)	(395)	(403)	(427)	(458)	(467)	(477)	(486)	(496)	(506)	(516)
Net Revenue	**$441**	**$440**	**$439**	**$438**	**$437**	**$446**	**$455**	**$464**	**$473**	**$483**	**$492**
Non-Fuel Operating & Maintenance Expenses	($106)	($110)	($112)	($114)	($116)	($118)	($121)	($123)	($126)	($128)	($131)
Bad Debt Expense	(33)	(30)	(29)	(29)	(29)	(30)	(30)	(31)	(32)	(32)	(33)
SG&A Expenses	(141)	(148)	(152)	(156)	(160)	(170)	(177)	(181)	(184)	(188)	(191)
O&M Offsets[(b)]	-	16	16	16	16	16	16	16	16	16	16
City Payment	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**$161**	**$168**	**$162**	**$155**	**$147**	**$144**	**$142**	**$145**	**$148**	**$151**	**$153**
Depreciation & Amortization	(40)	(34)	(35)	(37)	(38)	(39)	(41)	(42)	(43)	(45)	(46)
EBIT	**$121**	**$134**	**$127**	**$119**	**$109**	**$104**	**$102**	**$103**	**$104**	**$106**	**$107**
Interest Expense	($71)	($26)	($28)	($29)	($30)	($31)	($32)	($32)	($33)	($34)	($35)
Other Income/(Expenses)	5	5	5	5	5	5	5	5	5	5	5
Pretax Income	$55	$113	$104	$95	$85	$78	$75	$76	$76	$77	$77
Taxes		(44)	(40)	(36)	(32)	(29)	(27)	(28)	(28)	(28)	(28)
Net Income	**$55**	**$68**	**$64**	**$59**	**$53**	**$50**	**$48**	**$48**	**$48**	**$48**	**$49**
Earned ROE	**11.7%**	**13.8%**	**12.6%**	**11.2%**	**9.7%**	**8.8%**	**8.3%**	**8.1%**	**8.0%**	**7.8%**	**7.7%**

No Synergies Case: Balance Sheet[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Cash	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	6	3	3	3	3	0	-	-	-	-	-
Net Working Capital[(c)]	136	162	160	174	191	195	199	203	207	211	216
Net PP&E	833	866	898	926	952	978	1,004	1,030	1,057	1,083	1,109
Other Assets	145	145	145	145	145	145	145	145	145	145	145
Total Assets	**$1,147**	**$1,201**	**$1,231**	**$1,273**	**$1,316**	**$1,343**	**$1,373**	**$1,404**	**$1,434**	**$1,464**	**$1,495**
Revolver Debt	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt	468	495	510	530	552	566	581	596	611	626	642
Other Liabilities and Deferred Credits	210	210	210	210	210	210	210	210	210	210	210
Common Equity	468	496	511	532	554	567	582	597	613	628	643
Total Liabilities & Equity	**$1,147**	**$1,201**	**$1,231**	**$1,273**	**$1,316**	**$1,343**	**$1,373**	**$1,404**	**$1,434**	**$1,464**	**$1,495**

Source: PGW forecasts.

(a) Assumes $937 million purchase price and $442 million of initial net debt (midpoint of Base Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Cash pension expense reduced by $16 million per year as all cases assume the buyer prepays any unfunded pension liabilities and subsequently continues to recover this prepaid expense in rates.

(c) Assumes a constant variation in working capital from 2017 onward.

No Synergies Case: Cash Flow Statement[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net Income	$55	$68	$64	$59	$53	$50	$48	$48	$48	$48	$49
Depreciation & Amortization	40	34	35	37	38	39	41	42	43	45	46
Change in Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Change in Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	(0)	3	(0)	(0)	(0)	3	-	-	-	-	-
Change in Net Other Assets/Liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-
FFO	95	105	99	95	91	92	88	90	92	93	95
Change in Net Working Capital [(b)]	(6)	(26)	2	(14)	(17)	(4)	(4)	(4)	(4)	(4)	(4)
Cash Provided by/(Used in) Operating Activities	**$89**	**$80**	**$101**	**$81**	**$74**	**$88**	**$84**	**$86**	**$87**	**$89**	**$90**
Construction Capital Expenditures	($73)	($67)	($67)	($65)	($64)	($65)	($67)	($68)	($69)	($71)	($72)
Other Investing Activities	-	-	-	-	-	-	-	-	-	-	-
Cash Provided by/(Used in) Investing Activities	**($73)**	**($67)**	**($67)**	**($65)**	**($64)**	**($65)**	**($67)**	**($68)**	**($69)**	**($71)**	**($72)**
Free Cash Flow	$16	$13	$34	$17	$10	$22	$18	$18	$18	$18	$18
Change in Revolving Debt	-	$0	-	$0	$0	-	-	$0	-	-	$0
Long-Term Debt Issuance/(Redemption)	-	28	15	21	22	14	15	15	15	15	15
Additional Long-Term Debt Issuance		(1)	(0)	(0)	0	(0)	(0)	0	0	(0)	0
Equity Issuance	-	28	15	21	22	14	15	15	15	15	15
Dividends	-	(68)	(64)	(59)	(53)	(50)	(48)	(48)	(48)	(48)	(49)
Cash Provided by/(Used in) Financing Activities	**$0**	**($14)**	**($34)**	**($17)**	**($10)**	**($22)**	**($18)**	**($18)**	**($18)**	**($18)**	**($18)**
NET CHANGE IN CASH											
Minimum Cash Balance	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Beginning Cash Balance	0	26	25	25	25	25	25	25	25	25	25
Excess Cash/(Deficit) Available for Debt Paydown	($9)	$1	($0)	$0	$0	($0)	($0)	$0	($0)	($0)	$0
Beginning Cash Balance	$100	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25
Net Cash from Operations, Investing and Financing	16	(1)	(0)	(0)	0	(0)	(0)	0	0	(0)	0
Ending Cash Balance	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25

Source: PGW forecasts.

(a) Assumes $937 million purchase price and $442 million of initial net debt (midpoint of Base Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Assumes a constant variation in working capital from 2017 onward.

2. MODERATE SYNERGIES CASE

Moderate Synergies Case: Income Statement[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Gross Revenue	$790	$835	$842	$865	$896	$913	$932	$950	$969	$989	$1,008
Proposed Base Rate Increase	-	-	-	-	-	20	20	20	20	20	20
Purchased Gas Cost	(349)	(395)	(403)	(427)	(458)	(467)	(477)	(486)	(496)	(506)	(516)
Net Revenue	**$441**	**$440**	**$439**	**$438**	**$437**	**$466**	**$475**	**$484**	**$493**	**$503**	**$512**
Non-Fuel Operating & Maintenance Expenses	($106)	($102)	($96)	($98)	($100)	($102)	($104)	($106)	($108)	($111)	($113)
Bad Debt Expense	(33)	(30)	(29)	(29)	(29)	(30)	(30)	(31)	(32)	(32)	(33)
SG&A Expenses	(141)	(141)	(138)	(139)	(141)	(146)	(151)	(154)	(157)	(160)	(163)
O&M Offsets[(b)]	-	16	16	16	16	16	16	16	16	16	16
City Payment	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**$161**	**$183**	**$192**	**$188**	**$183**	**$204**	**$205**	**$209**	**$212**	**$216**	**$220**
Depreciation & Amortization	(40)	(45)	(46)	(48)	(49)	(50)	(51)	(53)	(54)	(56)	(57)
EBIT	**$121**	**$138**	**$146**	**$140**	**$134**	**$153**	**$154**	**$156**	**$158**	**$160**	**$163**
Interest Expense	($71)	($41)	($42)	($43)	($43)	($44)	($44)	($45)	($45)	($46)	($47)
Other Income/(Expenses)	5	5	5	5	5	5	5	5	5	5	5
Pretax Income	$55	$102	$108	$102	$96	$114	$114	$116	$118	$119	$121
Taxes		(39)	(42)	(40)	(37)	(45)	(45)	(46)	(47)	(47)	(48)
Net Income	**$55**	**$62**	**$66**	**$63**	**$59**	**$69**	**$69**	**$70**	**$71**	**$72**	**$73**
Earned ROE	**7.4%**	**8.2%**	**8.6%**	**8.0%**	**7.4%**	**8.6%**	**8.6%**	**8.6%**	**8.6%**	**8.6%**	**8.6%**

Moderate Synergies Case: Balance Sheet[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Cash	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	6	3	3	3	3	0	-	-	-	-	-
Net Working Capital [(c)]	136	162	160	174	178	182	186	190	194	198	202
Net PP&E	1,374	1,396	1,417	1,434	1,449	1,465	1,480	1,496	1,511	1,526	1,542
Other Assets	145	145	145	145	145	145	145	145	145	145	145
Total Assets	**$1,688**	**$1,731**	**$1,750**	**$1,781**	**$1,801**	**$1,817**	**$1,836**	**$1,856**	**$1,875**	**$1,894**	**$1,914**
Revolver Debt	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt	739	760	769	785	794	803	812	822	832	841	851
Other Liabilities and Deferred Credits	210	210	210	210	210	210	210	210	210	210	210
Common Equity	739	761	771	786	796	804	814	823	833	843	852
Total Liabilities & Equity	**$1,688**	**$1,731**	**$1,750**	**$1,781**	**$1,801**	**$1,817**	**$1,836**	**$1,856**	**$1,875**	**$1,894**	**$1,914**

Source: PGW forecasts.

(a) Assumes $1.477 billion purchase price and $712 million of initial net debt (midpoint of Moderate Synergies Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Cash pension expense reduced by $16 million per year as all cases assume the buyer prepays any unfunded pension liabilities and subsequently continues to recover this prepaid expense in rates.

(c) Assumes a constant variation in working capital from 2017 onward.

Moderate Synergies Case: Cash Flow Statement[(a)]

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net Income	$55	$62	$66	$63	$59	$69	$69	$70	$71	$72	$73
Depreciation & Amortization	40	45	46	48	49	50	51	53	54	56	57
Change in Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Change in Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	(0)	3	(0)	(0)	(0)	3	-	-	-	-	-
Change in Net Other Assets/Liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-
FFO	95	110	112	110	108	122	121	123	125	127	130
Change in Net Working Capital [(b)]	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cash Provided by/(Used in) Operating Activities	**$89**	**$85**	**$114**	**$96**	**$104**	**$118**	**$117**	**$119**	**$121**	**$123**	**$126**
Construction Capital Expenditures	($73)	($67)	($67)	($65)	($64)	($65)	($67)	($68)	($69)	($71)	($72)
Other Investing Activities	-	-	-	-	-	-	-	-	-	-	-
Cash Provided by/(Used in) Investing Activities	**($73)**	**($67)**	**($67)**	**($65)**	**($64)**	**($65)**	**($67)**	**($68)**	**($69)**	**($71)**	**($72)**
Free Cash Flow	$16	$18	$47	$32	$39	$53	$50	$51	$52	$52	$53
Change in Revolving Debt	-	$0	-	-	$0	-	-	$0	$0	-	$0
Long-Term Debt Issuance/(Redemption)	-	22	10	15	10	8	10	10	10	10	10
Additional Long-Term Debt Issuance		(1)	(0)	(0)	0	0	(0)	(0)	0	(0)	(0)
Equity Issuance	-	22	10	15	10	8	10	10	10	10	10
Dividends	-	(62)	(66)	(63)	(59)	(69)	(69)	(70)	(71)	(72)	(73)
Cash Provided by/(Used in) Financing Activities	**$0**	**($19)**	**($47)**	**($32)**	**($39)**	**($53)**	**($50)**	**($51)**	**($52)**	**($52)**	**($53)**
NET CHANGE IN CASH											
Minimum Cash Balance	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Beginning Cash Balance	0	26	25	25	25	25	25	25	25	25	25
Excess Cash/(Deficit) Available for Debt Paydown	($9)	$1	($0)	$0	$0	($0)	($0)	$0	$0	($0)	$0
Beginning Cash Balance	$100	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25
Net Cash from Operations, Investing and Financing	16	(1)	(0)	(0)	0	0	(0)	0	0	(0)	(0)
Ending Cash Balance	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25

Source: PGW forecasts.

(a) Assumes $1.477 billion purchase price and $712 million of initial net debt (midpoint of Moderate Synergies Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Assumes a constant variation in working capital from 2017 onward.

3. INDUSTRY BENCHMARK SYNERGIES CASE

Industry Benchmark Synergies Case[(a)]: Income Statement

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Gross Revenue	$790	$835	$842	$865	$896	$913	$932	$950	$969	$989	$1,008
Proposed Base Rate Increase	-	-	-	-	-	-	-	-	-	-	-
Purchased Gas Cost	(349)	(395)	(403)	(427)	(458)	(467)	(477)	(486)	(496)	(506)	(516)
Net Revenue	**$441**	**$440**	**$439**	**$438**	**$437**	**$446**	**$455**	**$464**	**$473**	**$483**	**$492**
Non-Fuel Operating & Maintenance Expenses	($106)	($94)	($81)	($82)	($84)	($86)	($87)	($89)	($91)	($93)	($94)
Bad Debt Expense	(33)	(28)	(25)	(25)	(26)	(27)	(27)	(28)	(28)	(29)	(29)
SG&A Expenses	(141)	(134)	(124)	(125)	(126)	(132)	(136)	(138)	(141)	(144)	(146)
O&M Offsets[(b)]	-	16	16	16	16	16	16	16	16	16	16
City Payment	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**$161**	**$200**	**$226**	**$221**	**$217**	**$218**	**$221**	**$225**	**$229**	**$234**	**$238**
Depreciation & Amortization	(40)	(49)	(50)	(51)	(53)	(54)	(55)	(57)	(58)	(59)	(61)
EBIT	**$121**	**$151**	**$176**	**$170**	**$164**	**$164**	**$166**	**$168**	**$171**	**$174**	**$177**
Interest Expense	($71)	($46)	($47)	($48)	($48)	($49)	($49)	($50)	($50)	($50)	($51)
Other Income/(Expenses)	5	5	5	5	5	5	5	5	5	5	5
Pretax Income	$55	$110	$133	$127	$121	$120	$121	$124	$126	$129	$131
Taxes		(43)	(54)	(51)	(48)	(48)	(48)	(49)	(51)	(52)	(53)
Net Income	**$55**	**$67**	**$80**	**$76**	**$73**	**$72**	**$73**	**$74**	**$76**	**$77**	**$78**
Earned ROE	**6.6%**	**7.8%**	**9.2%**	**8.7%**	**8.3%**	**8.2%**	**8.1%**	**8.2%**	**8.3%**	**8.4%**	**8.5%**

Industry Benchmark Synergies Case[(a)]: Balance Sheet

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Cash	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	6	3	3	3	3	0	-	-	-	-	-
Net Working Capital [(c)]	136	162	160	174	178	182	186	190	194	198	202
Net PP&E	1,567	1,586	1,603	1,616	1,627	1,639	1,650	1,662	1,673	1,685	1,696
Other Assets	145	145	145	145	145	145	145	145	145	145	145
Total Assets	**$1,881**	**$1,921**	**$1,936**	**$1,963**	**$1,979**	**$1,991**	**$2,007**	**$2,022**	**$2,038**	**$2,053**	**$2,068**
Revolver Debt	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt	835	855	862	876	883	890	897	905	913	921	928
Other Liabilities and Deferred Credits	210	210	210	210	210	210	210	210	210	210	210
Common Equity	835	856	864	877	885	891	899	907	914	922	930
Total Liabilities & Equity	**$1,881**	**$1,921**	**$1,936**	**$1,963**	**$1,979**	**$1,991**	**$2,007**	**$2,022**	**$2,038**	**$2,053**	**$2,068**

Source: PGW forecasts.

(a) Assumes $1.712 billion purchase price and $830 million of initial net debt (midpoint of Industry Benchmark Synergies Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Cash pension expense reduced by $16 million per year as all cases assume the buyer prepays any unfunded pension liabilities and subsequently continues to recover this prepaid expense in rates.

(c) Assumes a constant variation in working capital from 2017 onward.

Industry Benchmark Synergies Case[(a)]: Cash Flow Statement

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net Income	$55	$67	$80	$76	$73	$72	$73	$74	$76	$77	$78
Depreciation & Amortization	40	49	50	51	53	54	55	57	58	59	61
Change in Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Change in Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	(0)	3	(0)	(0)	(0)	3	-	-	-	-	-
Change in Net Other Assets/Liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-
FFO	95	118	129	127	125	130	128	131	134	136	139
Change in Net Working Capital [(b)]	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cash Provided by/(Used in) Operating Activities	**$89**	**$93**	**$131**	**$114**	**$121**	**$126**	**$124**	**$127**	**$130**	**$132**	**$135**
Construction Capital Expenditures	($73)	($67)	($67)	($65)	($64)	($65)	($67)	($68)	($69)	($71)	($72)
Other Investing Activities	-	-	-	-	-	-	-	-	-	-	-
Cash Provided by/(Used in) Investing Activities	**($73)**	**($67)**	**($67)**	**($65)**	**($64)**	**($65)**	**($67)**	**($68)**	**($69)**	**($71)**	**($72)**
Free Cash Flow	$16	$26	$64	$49	$57	$60	$57	$59	$60	$61	$63
Change in Revolving Debt	-	-	$0	$0	-	$0	$0	-	-	$0	$0
Long-Term Debt Issuance/(Redemption)	-	20	8	13	8	6	8	8	8	8	8
Additional Long-Term Debt Issuance		(1)	0	0	(0)	(0)	0	0	(0)	(0)	0
Equity Issuance	-	20	8	13	8	6	8	8	8	8	8
Dividends	-	(67)	(80)	(76)	(73)	(72)	(73)	(74)	(76)	(77)	(78)
Cash Provided by/(Used in) Financing Activities	**$0**	**($27)**	**($64)**	**($49)**	**($57)**	**($60)**	**($57)**	**($59)**	**($60)**	**($61)**	**($63)**
NET CHANGE IN CASH											
Minimum Cash Balance	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Beginning Cash Balance	0	26	25	25	25	25	25	25	25	25	25
Excess Cash/(Deficit) Available for Debt Paydown	($9)	$1	$0	($0)	($0)	$0	$0	($0)	($0)	$0	$0
Beginning Cash Balance	$100	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25
Net Cash from Operations, Investing and Financing	16	(1)	0	0	(0)	(0)	0	0	(0)	0	0
Ending Cash Balance	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25

Source: PGW forecasts.

(a) Assumes $1.712 billion purchase price and $830 million of initial net debt (midpoint of Industry Benchmark Synergies Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Assumes a constant variation in working capital from 2017 onward.

4. PREPAID OPEB CASE

Prepaid OPEB Case[a]: Income Statement

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Gross Revenue	$790	$835	$842	$865	$896	$913	$932	$950	$969	$989	$1,008
Proposed Base Rate Increase	-	-	-	-	-	-	-	-	-	-	-
Purchased Gas Cost	(349)	(395)	(403)	(427)	(458)	(467)	(477)	(486)	(496)	(506)	(516)
Net Revenue	**$441**	**$440**	**$439**	**$438**	**$437**	**$446**	**$455**	**$464**	**$473**	**$483**	**$492**
Non-Fuel Operating & Maintenance Expenses	($106)	($94)	($81)	($82)	($84)	($86)	($87)	($89)	($91)	($93)	($94)
Bad Debt Expense	(33)	(28)	(25)	(25)	(26)	(27)	(27)	(28)	(28)	(29)	(29)
SG&A Expenses	(141)	(134)	(124)	(125)	(126)	(132)	(136)	(138)	(141)	(144)	(146)
O&M Offsets[b][c]	-	35	35	35	35	35	35	35	35	35	35
City Payment	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**$161**	**$218**	**$244**	**$240**	**$236**	**$237**	**$239**	**$244**	**$248**	**$252**	**$257**
Depreciation & Amortization	(40)	(54)	(55)	(56)	(58)	(59)	(60)	(61)	(63)	(64)	(66)
EBIT	**$121**	**$165**	**$189**	**$184**	**$178**	**$178**	**$179**	**$182**	**$185**	**$188**	**$191**
Interest Expense	($71)	($53)	($54)	($54)	($55)	($55)	($55)	($55)	($56)	($56)	($56)
Other Income/(Expenses)	5	5	5	5	5	5	5	5	5	5	5
Pretax Income	$55	$117	$140	$134	$128	$128	$129	$131	$134	$137	$139
Taxes		(38)	(48)	(46)	(43)	(43)	(43)	(44)	(46)	(47)	(48)
Net Income	**$55**	**$79**	**$92**	**$89**	**$85**	**$85**	**$86**	**$87**	**$88**	**$90**	**$91**
Earned ROE	**5.7%**	**8.1%**	**9.4%**	**9.0%**	**8.6%**	**8.5%**	**8.5%**	**8.6%**	**8.7%**	**8.8%**	**8.9%**

Prepaid OPEB Case[a]: Balance Sheet

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Cash	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	6	3	3	3	3	0	-	-	-	-	-
Net Working Capital[d]	136	162	160	174	178	182	186	190	194	198	202
Net PP&E	1,811	1,824	1,836	1,845	1,851	1,858	1,865	1,871	1,878	1,884	1,891
Other Assets	145	145	145	145	145	145	145	145	145	145	145
Total Assets	**$2,125**	**$2,159**	**$2,170**	**$2,192**	**$2,202**	**$2,210**	**$2,221**	**$2,231**	**$2,242**	**$2,252**	**$2,263**
Revolver Debt	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt	957	974	979	990	995	999	1,004	1,010	1,015	1,020	1,026
Other Liabilities and Deferred Credits	210	210	210	210	210	210	210	210	210	210	210
Common Equity	957	975	980	991	997	1,001	1,006	1,011	1,017	1,022	1,027
Total Liabilities & Equity	**$2,125**	**$2,159**	**$2,170**	**$2,192**	**$2,202**	**$2,210**	**$2,221**	**$2,231**	**$2,242**	**$2,252**	**$2,263**

Source: PGW forecasts.

(a) Assumes $1.956 billion purchase price and $951 million of initial net debt (midpoint of Prepaid OPEB Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).

(b) Cash pension expense reduced by $16 million per year as all cases assume the buyer prepays any unfunded pension liabilities and subsequently continues to recover this prepaid expense in rates.

(c) Cash OPEB expense reduced by $18.5 million per year. Assumes the buyer prepays any unfunded OPEB liabilities and subsequently continues to recover this prepaid expense in rates.

(d) Assumes a constant variation in working capital from 2017 onward.

Prepaid OPEB Case[a]: Cash Flow Statement

($ in millions)

	2012PF	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net Income	$55	$79	$92	$89	$85	$85	$86	$87	$88	$90	$91
Depreciation & Amortization	40	54	55	56	58	59	60	61	63	64	66
Change in Sinking Fund Reserve	-	-	-	-	-	-	-	-	-	-	-
Change in Capital Improvement Fund	-	-	-	-	-	-	-	-	-	-	-
Restricted Investment Workers' Compensation Fund	(0)	3	(0)	(0)	(0)	3	-	-	-	-	-
Change in Net Other Assets/Liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-
FFO	95	136	147	145	143	147	146	148	151	154	157
Change in Net Working Capital [b]	(6)	(26)	2	(14)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cash Provided by/(Used in) Operating Activities	**$89**	**$110**	**$149**	**$131**	**$139**	**$143**	**$142**	**$144**	**$147**	**$150**	**$153**
Construction Capital Expenditures	($73)	($67)	($67)	($65)	($64)	($65)	($67)	($68)	($69)	($71)	($72)
Other Investing Activities	-	-	-	-	-	-	-	-	-	-	-
Cash Provided by/(Used in) Investing Activities	**($73)**	**($67)**	**($67)**	**($65)**	**($64)**	**($65)**	**($67)**	**($68)**	**($69)**	**($71)**	**($72)**
Free Cash Flow	$16	$43	$82	$67	$74	$78	$75	$76	$78	$79	$81
Change in Revolving Debt	-	-	$0	-	-	$0	-	-	$0	$0	-
Long-Term Debt Issuance/(Redemption)	-	18	5	11	5	4	5	5	5	5	5
Additional Long-Term Debt Issuance		(1)	0	0	(0)	0	0	(0)	(0)	0	(0)
Equity Issuance	-	18	5	11	5	4	5	5	5	5	5
Dividends	-	(79)	(92)	(89)	(85)	(85)	(86)	(87)	(88)	(90)	(91)
Cash Provided by/(Used in) Financing Activities	**$0**	**($44)**	**($82)**	**($67)**	**($74)**	**($78)**	**($75)**	**($76)**	**($78)**	**($79)**	**($81)**
NET CHANGE IN CASH											
Minimum Cash Balance	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25
Beginning Cash Balance	0	26	25	25	25	25	25	25	25	25	25
Excess Cash/(Deficit) Available for Debt Paydown	($9)	$1	$0	($0)	($0)	$0	($0)	($0)	$0	$0	($0)
Beginning Cash Balance	$100	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25
Net Cash from Operations, Investing and Financing	16	(1)	0	(0)	(0)	0	0	(0)	(0)	0	(0)
Ending Cash Balance	$26	$25	$25	$25	$25	$25	$25	$25	$25	$25	$25

Source: PGW forecasts, Company filings and Wall Street research.
Note: Amounts adjusted per S&P methodology
(a) Assumes $1.956 billion purchase price and $951 million of initial net debt (midpoint of Prepaid OPEB Case DCF valuation using a 6.50% WACC and 7.5x EBITDA terminal value).
(b) Assumes a constant variation in working capital from 2017 onward.

D. SUMMARY CREDIT METRICS

Moderate Synergies Case Summary Credit Metrics

($ in millions)

CASH FLOW PROFILE	2012PF	2013E	2014E	2015E	Total
		For the Fiscal Year Ended December 31,			
Net Income	$55	$62	$66	$63	$191
Depreciation & Amortization	40	45	46	48	139
Working Capital and Other	(6)	(23)	2	(14)	(35)
Cash Flow from Operations	**$89**	**$85**	**$114**	**$96**	**$295**
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(199)
Free Cash Flow	**$16**	**$18**	**$47**	**$32**	**$96**
Less: Dividends	0	(62)	(66)	(63)	(191)
Net Cash Flow	**$16**	**($45)**	**($19)**	**($31)**	**($95)**
Common Equity Issuance/(Repurchase)	0	22	10	15	47
Net External Financing Requirements	**($16)**	**$22**	**$10**	**$15**	**$47**
Debt Maturities	0	22	10	15	67
Gross External Financing Requirements	**($16)**	**$45**	**$19**	**$31**	**$114**

CREDIT PROFILE	2013E	2014E	2015E
Debt	$760	$769	$785
Common Equity	761	771	823
Total Capitalization	1,521	1,540	1,645
Debt/EBITDA[a]	4.1x	4.0x	3.9x
FFO/Interest[a]	3.7x	3.7x	3.7x
FFO/Total Debt[a]	14.5%	14.6%	14.9%
Total Debt/Capitalization[a]	50.0%	50.0%	50.0%

Indicative Credit Rating/Outlook	
S&P	BBB/Stable
Moody's	Baa2/Stable

Indicative Credit Statistics [b]		
Significant		
3.0x	-	3.5x
3.0x	-	4.0x
20.0%	-	30.0%
45.0%	-	50.0%

Industry Benchmark Synergies Case Summary Credit Metrics

($ in millions)

CASH FLOW PROFILE	2012PF	2013E	2014E	2015E	Total
		For the Fiscal Year Ended December 31,			
Net Income	$55	$67	$80	$76	$222
Depreciation & Amortization	40	49	50	51	150
Working Capital and Other	(6)	(23)	2	(14)	(35)
Cash Flow from Operations	**$89**	**$93**	**$131**	**$114**	**$338**
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(199)
Free Cash Flow	**$16**	**$26**	**$64**	**$49**	**$139**
Less: Dividends	0	(67)	(80)	(76)	(222)
Net Cash Flow	**$16**	**($41)**	**($15)**	**($27)**	**($83)**
Common Equity Issuance/(Repurchase)	0	20	8	13	42
Net External Financing Requirements	**($16)**	**$20**	**$8**	**$13**	**$42**
Debt Maturities	0	20	8	13	57
Gross External Financing Requirements	**($16)**	**$41**	**$15**	**$27**	**$99**

CREDIT PROFILE	2013E	2014E	2015E
Debt	$855	$862	$876
Common Equity	856	864	907
Total Capitalization	1,711	1,726	1,812
Debt/EBITDA[a]	4.3x	3.8x	4.0x
FFO/Interest[a]	3.5x	3.7x	3.6x
FFO/Total Debt[a]	13.9%	15.0%	14.5%
Total Debt/Capitalization[a]	50.0%	50.0%	50.0%

Indicative Credit Rating/Outlook	
S&P	BBB/Stable
Moody's	Baa2/Stable

Indicative Credit Statistics [b]		
Significant		
3.0x	-	3.5x
3.0x	-	4.0x
20.0%	-	30.0%
45.0%	-	50.0%

Source: Company filings and Wall Street research.
Note: Amounts adjusted per S&P methodology
(a) Based on implied credit metrics from the Moderate Synergies Case and the Industry Benchmark Synergies Case, respectively.
(b) Credit metric ranges implied for a company with a business risk profile of "Satisfactory" and a financial risk profile of "Significant", for which the expected credit rating under S&P's methodology would be BBB/BBB-.

Prepaid OPEB Case Summary Credit Metrics

($ in millions)

CASH FLOW PROFILE	2012PF	2013E	2014E	2015E	Total
	For the Fiscal Year Ended December 31,				
Net Income	$55	$79	$92	$89	$259
Depreciation & Amortization	40	54	55	56	165
Working Capital and Other	(6)	(23)	2	(14)	(35)
Cash Flow from Operations	**$89**	**$110**	**$149**	**$131**	**$390**
Less: Capital Expenditures	(73)	(67)	(67)	(65)	(199)
Free Cash Flow	**$16**	**$43**	**$82**	**$67**	**$191**
Less: Dividends	0	(79)	(92)	(89)	(259)
Net Cash Flow	**$16**	**($36)**	**($10)**	**($22)**	**($69)**
Common Equity Issuance/(Repurchase)	0	18	5	11	34
Net External Financing Requirements	**($16)**	**$18**	**$5**	**$11**	**$34**
Debt Maturities	0	18	5	11	45
Gross External Financing Requirements	**($16)**	**$36**	**$10**	**$22**	**$79**

CREDIT PROFILE	2013E	2014E	2015E
Debt	$974	$979	$990
Common Equity	975	980	1,011
Total Capitalization	1,949	1,959	2,021
Debt/EBITDA[a]	4.5x	4.0x	4.1x
FFO/Interest[a]	3.6x	3.7x	3.7x
FFO/Total Debt[a]	13.9%	15.0%	14.7%
Total Debt/Capitalization[a]	50.0%	50.0%	50.0%

Indicative Credit Rating/Outlook	
S&P	BBB/Stable
Moody's	Baa2/Stable

Indicative Credit Statistics[b]		
Significant		
3.0x	-	3.5x
3.0x	-	4.0x
20.0%	-	30.0%
45.0%	-	50.0%

Source: Company filings and Wall Street research.
Note: Amounts adjusted per S&P methodology
(a) Based on implied credit metrics from the Prepaid OPEB Case.
(b) Credit metric ranges implied for a company with a business risk profile of "Satisfactory" and a financial risk profile of "Significant", for which the expected credit rating under S&P's methodology would be BBB/BBB-.