



Dear Customer:

Pennsylvania American Water has filed a request with the Pennsylvania Public Utility Commission (PUC) to increase your wastewater rates as of June 27, 2008. A full investigation of this request could delay the change until January 27, 2009. This notice describes our request, the PUC's role, and what actions you can take.

RATE REQUEST

Pennsylvania American Water is requesting an overall rate increase of \$2,685,488 per year. Here is an example of the proposed change for a typical customer's monthly bill.

Customer Type	Current Monthly Bill	Proposed Monthly Bill
Residential	\$15.00	\$34.36
Commercial	\$48.97	\$104.54

To find out how the request might change your wastewater bill, or to address any other questions you might have, please contact Pennsylvania American Water's customer service center at 1-800-565-7292. You can also find the rates requested by Pennsylvania American Water in Wastewater Tariff PA P.U.C. No. 7, filed with the PUC and on our website at www.pawc.com. You can also review the material filed with the PUC at our office at 800 West Hersheypark Drive, Hershey, PA 17033. In addition, you can request that we mail you a copy of Pennsylvania American Water's Statement of Reasons, which is a plain language summary of why we need to raise rates.

BACKGROUND

The last base rate increase for your wastewater system occurred in October 1994, and this request is Pennsylvania American Water's first since acquiring the system in March 2001. The increase is needed to recover the approximately \$8.7 million that the company will have invested between 2001 and April 2009 to address past environmental issues and to improve the quality and reliability of your wastewater service. This capital spending translates to an investment of approximately \$1,470 per customer, which is more than eight times what the typical residential customer pays annually for wastewater service.

Specifically, Pennsylvania American Water's capital improvements since acquiring your wastewater system include replacing more than 3.2 miles of aging sewer pipe to improve service reliability and to prevent sewer backups. To ensure compliance with environmental regulations, the company rehabilitated booster stations that pump sewage from collection points in the system to the treatment facility, as well as installed new disinfection equipment, pumps and treatment/processing equipment at the existing sewer plant. Also, the company analyzed most of the sewage collection system to identify leaky, deteriorating pipes and manholes. As a result, Pennsylvania American Water repaired numerous leaks and replaced manholes to reduce storm water flows into the collection system. The company also installed centralized data control and security systems to remotely monitor pumping stations and the collection system.

The proposed rate increase will also help pay for a portion of system improvements associated with the approximately \$50 million wastewater plant upgrade and expansion, which will replace the existing outdated facility that dates back to 1932. In addition to Pennsylvania American Water's capital investment, local developers and bulk users will have contributed more than \$11 million for system upgrades to accommodate new development. This contributed capital is not recoverable in rates. However, the significant capital spending by the company and others has enabled the wastewater system to serve additional customers, which allows Pennsylvania American Water to spread its fixed and operational costs over a larger customer base, thereby helping to control wastewater rates.

Pennsylvania American Water believes it is entitled to the proposed increase in sewer rates and has filed this request with the PUC.

PUC ROLE

The state agency that approves rates for public utilities is the PUC. The PUC will review and investigate the requested rate increase. Pennsylvania American Water must prove that the requested rates are reasonable. After examining the evidence, the PUC might grant all, some or none of the request, or it might reduce existing rates. As a result, the final effect on your bill might be different than the company's request.

ACTIONS YOU CAN TAKE

You can challenge Pennsylvania American Water's request by:

- 1) Sending a letter to the PUC – You can tell the PUC why you object to the requested rate increase in your letter. You can also tell the PUC about any other concerns you have about the company. This information can be helpful when the PUC investigates the rate request. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Attending or presenting testimony at PUC public input hearings – You can attend or be a witness at a PUC public hearing. The PUC holds public input hearings if it opens an investigation of Pennsylvania American Water's rate increase request and if there is enough interest in the case. At these hearings, you can present your views in person to the PUC judge and to company representatives. Testimony under oath becomes part of the rate case record. The PUC holds these hearings in the service area of the company. For more information, call the PUC at 1-800-692-7380.
- 3) Becoming a party by filing a formal complaint – If you want to be a party to the case, you must file a formal complaint. You then have an opportunity to take part in all the hearings about the rate increase request. You can receive copies of all materials distributed by the other parties. Formal complaints should be filed with the PUC before June 27, 2008. If no one files a formal complaint, the Commission may grant all, some or none of the request without holding a hearing before a PUC judge. You can request a formal complaint form by writing to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265, or by going to its website at www.puc.paonline.com.