

V. RATE BASE

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.1

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

1. Provide a schedule showing the measures of value and the rates of return at the original cost in the current case. All claims made on this exhibit should be cross-referenced to appropriate exhibits.

Answer: Please refer to rate base page contained in Exhibit No. 3-A.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.2

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

2. If a claim is made for construction work in progress, include, in the form of an exhibit, the summary page from all work orders, amount expended at the end of the historic and future test year and anticipated in-service dates. Indicate if any of the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion dates and estimated total amounts to be spent on each project. This exhibit should be updated at the conclusion of these proceedings.

Answer: There is no claim being made for construction work in progress in this filing.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.3

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

3. If a claim is made for non-revenue producing construction work in progress, include, in the form of an exhibit, the summary page from all work orders, amount expended at the end of the historic and future test year and anticipated in-service dates. Indicate if any of the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include a list of items needed to complete each project, such as landscaping and fencing, and estimated total amounts to be spent to complete each project. These exhibits should be updated at the conclusion of these proceedings.

Answer: The Company's initial claim does not include any non-revenue producing construction work in progress.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Plant Held for Future Use

FR V.4

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

4. If a claim is made for plant held for future use, supply the following:
 - a. A brief description of the plant or land site and original its cost.
 - b. Expected date of use for each item claimed.
 - c. Explanation as to why it is necessary to acquire each item in advance of its date of use.
 - d. Date when each item was acquired.
 - e. Date when each item was placed in the plant held for future use.

Answer: The Company has made no claim for Utility Plant Held for Future Use in its rate base elements.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Fuel Stocks

FR V.5

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

5. If fuel stocks comprise part of the cash working capital claim, provide an exhibit showing the actual book balances, noting quantity and price for the fuel inventories by type of fuel for the thirteen months prior to the end of the historic test year by location, station, etc. Explain the method of determining the claim if other than that described above.

Answer: None

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.6

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

6. Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not previously mentioned, in the measures of value.

Answer: See Materials and Supplies Exhibit No. 3-A.
See Cash Working Capital in Exhibit No. 3-A.
See Accrued and Prepaid Taxes in Exhibit No. 3-A.
See Cash Working Capital – Interest and Dividends Exhibit No. 3-A.
See Deferred Taxes in Exhibit No. 3-A.
For further explanation please see the Direct Testimony of Company witness John R. Cox.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Working Capital Items

FR V.7

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

7. Provide schedules and data in support of the following working capital items:
- a. Prepayments—List and identify all items
 - b. Federal Income Tax accrued or prepaid
 - c. Pennsylvania State Income Tax accrued or prepaid
 - d. Pennsylvania Capital Stock Tax accrued or prepaid
 - e. Pennsylvania Public Utility Realty Tax accrued or prepaid
 - f. Payroll taxes accrued or prepaid
 - g. Any adjustments related to the above items for ratemaking purposes.

Answer:

- a. Please refer to the FR V.8
- b. Please refer to the Accrued and Prepaid Taxes Exhibit No. 3-A.
- c. Please refer to the Accrued and Prepaid Taxes Exhibit No. 3-A.
- d. Not applicable
- e. Please refer to the Accrued and Prepaid Taxes (Property Taxes) Exhibit No. 3-A.
- f. Please refer to the FR V.8
- g. Please refer to Exhibit No. 3-A.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Taxes

FR IV.8

Pennsylvania-American Water Company
Coatesville Wastewater Operations
IV. Taxes

8. Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits and reserves by accounting areas.

Answer: Please see the answer to question no. FR IV.12 of this exhibit. Deferred taxes due to accelerated depreciation are the most significant component of the Company's deferred income taxes.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.9

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

9. Indicate if amortized expenses have been removed from the lead/lag study. If so, please provide documentation showing such removal. If not, provide a list of such amortization expenses included.

Answer: The Company has not removed amortized expenses from the lag study calculation. In the initial year the expense was incurred for each amortized item, the Company was able to recoup only the annual portion of the amortization amount allowed in rates, not the actual cash expenditure. Because PAWC is still in the process of recouping the initial cash outlay, its cash working capital effects should be reflected over the life of the amortization .

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Rate Base

FR V.10

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

10. Identify the funds availability arrangements or terms which the Company has with its banks with respect to deposits of customer checks. For example, does the Company have same day or next day access to funds deposited?

Answer:

The Company has two methods concerning the collection of customer accounts receivables. One method is through a lockbox system maintained by Mellon Bank. Mellon Bank credits the Company's account (subject to charge-backs for bad checks, etc) during the banking day after such checks are received. The second method is through a system of collection agencies at varying locations throughout the state. This method has a three business day lag from the date of payment until the funds can be accessed from the Company's bank account.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR V.11

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

- 11 In reference to Materials and Supplies:
- a. What method of inventory valuation was used to develop the claim for materials and supplies?
 - b. Does the utility use a material and supply model to calculate needed material and supply levels?
 - c. If so, provide the model. Supply an illustrative example of how the monthly balances are derived.
 - d. Provide the actual monthly value for the inventory of materials and supplies for the past 12 months. Supply as of the end of the historic test year, a 13-month average, by month, for the material and supply account.
 - e. Provide the monthly level of materials and supplies for three years prior to the conclusion of the historic test year.

Answer

- a. The Company's claim for material and supplies is based on an average of end-of-month balances in Account No. 151, that pertains to the Coatesville Wastewater Operations, for the thirteen months ended December 2007. The end-of-month balances of Account No. 151 are derived by debiting the opening balances by an amount equal to the cost of material and supplies received during the month and crediting the balance by the cost of material and supplies used during the month (calculated by multiplying the average unit cost of the items by the number of items used).
- b. No, it does not.
- c. Please refer to the response to question b.
- d. Please refer to the Material and Supplies page in Exhibit 3-A.
- e. Please refer to attached schedule.

PA American Water Company
Coatesville Wastewater Operations
Waste Water - Stock Balances

2005 Monthly Level		2006 Monthly Level		2007 Monthly Level	
Jan-05	3,076	Jan-06	2,494	Jan-07	5,329
Feb-05	3,076	Feb-06	2,494	Feb-07	3,949
Mar-05	3,076	Mar-06	2,494	Mar-07	4,538
Apr-05	3,076	Apr-06	2,494	Apr-07	4,424
May-05	3,076	May-06	2,494	May-07	4,954
Jun-05	3,076	Jun-06	2,494	Jun-07	6,985
Jul-05	3,076	Jul-06	2,494	Jul-07	11,570
Aug-05	3,076	Aug-06	2,494	Aug-07	5,642
Sep-05	3,076	Sep-06	2,494	Sep-07	2,894
Oct-05	3,076	Oct-06	2,494	Oct-07	6,524
Nov-05	2,494	Nov-06	2,974	Nov-07	9,700
Dec-05	2,494	Dec-06	1,603	Dec-07	10,582

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Projected Plant Additions

FR V.12

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

12. For each non-blanket or projected plant addition to cost the greater of \$100,000 or 0.5% of current rate base, included in the future test year, please provide:
- a. Description of the project.
 - b. Original budgeted cost broken down by Allowance for Funds used during Construction (AFUDC) and non-AFUDC components.
 - c. Current budgeted cost broken down by AFUDC and non-AFUDC components.
 - d. Reason for change in budgeted cost.
 - e. Original estimated date of completion and in service.
 - f. Current estimated date of completion and in service.
 - g. Reason for change in completion date.
 - h. Anticipated retirement related to the plant addition.
 - i. Starting date of project.
 - j. Amount expended to date.
 - k. Percent of project currently complete.
 - l. The depreciation rate applicable.
 - m. Identify which projects are due to a Pennsylvania Department of Environment Protection (PA-DEP) or Federal Environmental Protection Agency (EPA) requirement.

Answer: Please refer to testimony of Company witness David R. Kaufman and Exhibit 3-B which contains future test year additions.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR V.13

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

13. Please explain how the future test year plant balances were projected and provide supporting workpapers and documentation.

Answer: When a rate filing is made based on a future test year, the Company performs a detailed analysis of prospective construction activity to ascertain the in-service date for each project to be completed during the future test year and only the costs associated with those projects is included in the rate base claim. Annual construction plans provide the majority of data relating to the prospective construction activity.

Information by projects has been provided in the Exhibit 3-B which contains the future test year additions. Supporting work papers and documentation for information set forth in that Exhibit can be made available for review in the Company's office in Hershey.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Sole Use of Plant in Service

FR V.14

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

14. Are all of the assets used in the Plant-In-Service, i.e. claim used exclusively by the water or wastewater utility? If not, provide the estimated percentage that each shared asset is used by other entities.

Answer: All of the assets are used in the Plant-In-Service.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Plant Items Not Used For Water

FR V.15

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

15. Is all plant included in rate base currently being used in providing water or wastewater service? If not, provide a schedule which presents those plant items which are not, and indicate the corresponding amounts and account numbers. Further, provide a detailed narrative explaining the reason why such plant is not being used and the anticipated future disposition of the plant.

Answer: All plant in service included in rate base is used and useful. All projected investments during 2008 will be placed into service by the end of the future test year and will be used and useful, the two exceptions are the 30” inch trunk line upgrade (24670507) and West End trunk line upgrade (24670706) which will be completed during 2008 and in service by April 2009.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR V.16

Pennsylvania-American Water Company
Coatesville Wastewater Operations
V. Rate Base

16. Provide all work papers and supporting documentation showing the derivation of the projected balances of Contributions in Aid of Construction, Customers Advances for Construction and Company service line and customer deposits for the future test year.

Answer: The projected future test year balance for CIAC was arrived at by increasing the historic test year balance by the projected contributions that will occur during 2008. Two additional CIAC that may occur in the first quarter of 2009 were also included in the future test year additions to CIAC.

Please see attached for future test year CIAC, refer to Exhibit 3-A for calculation.

VI. DEPRECIATION

MFR VI

Depreciation

Refer to

John Spanos Exhibit No. 6

VII. RATE OF RETURN

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.1

Pennsylvania-American Water Company
Coatesville Wastewater Operations

VII. Rate of Return

1. Provide capitalization and capitalization ratios for the last five-year period and projected through the next two years (with short-term debt and without short-term debt) for the Company, Parent and Consolidated System.
 - a. Provide year-end interest coverages before and after taxes for the last three years and at latest date, including Indenture and Securities and Exchange Commission (SEC) bases, for the Company, Parent and Consolidated System.
 - b. Provide year-end preferred stock dividend coverages for the last three years and at latest date, including Charter and SEC bases.

Answer:

Please refer to schedule 2 of Exhibit 8-A. For 2007 through 2009, please refer to FR VII.3.

- a. Please refer to schedule 2 of Exhibit 8-A.
- b. Please refer to schedule 2 of Exhibit 8-A.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.2

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

2. Provide latest Prospectus for the Company and the Parent.

Answer: A preliminary prospectus for the parent, American Water Works Company, Inc., can be found as part of the Form S-1 filed with the Securities and Exchange Commission on March 31, 2008.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.3

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

VII. Rate of Return

3. Supply projected capital requirements and the sources of Company, Parent and Consolidated System for the historic test year and each of three (3) comparable future years.

Answer: Following are the historic and projected capital requirements for PAWC:

Description	2007	2008	2009*	2010*
Bank Loans	70,909,110	0	0	0
Long Term Debt	849,613,514	994,482,482	1,092,000,000	1,135,000,000
Preferred Stock	14,171,700	14,171,700	14,171,700	14,171,700
Common Stock	813,827,422	871,540,000	966,000,000	1,019,000,000

*The Company is currently in the process of updating the projections for 2009 and 2010 through its normal annual budgeting process.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.4

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

4. Provide a schedule of debt and preferred stock of Company, Parent and Consolidated System as of historic test year-end and latest date, detailing for each issue (if applicable):
- a. Date of issue
 - b. Date of maturity
 - c. Amount issued
 - d. Amount outstanding
 - e. Amount retired
 - f. Amount required
 - g. Gain on reacquisition
 - h. Coupon rate
 - i. Discount or premium at issuance
 - j. Issuance expenses
 - k. Net proceeds
 - l. Sinking Fund requirements
 - m. Effective interest rate
 - n. Dividend rate
 - o. Effective cost rate
 - p. Total average weighted effective Cost Rate

Answer: Please refer to Exhibit No. 3-B for the requested information as of December 31, 2007 and 2008.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.5

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

5. Supply financial data of Company and/or Parent for last five years:
- a. Earnings-price ratio (average)
 - b. Earnings-book value ratio (per share basis) (avg. book value)
 - c. Dividend yield (average)
 - d. Earnings per share (dollar)
 - e. Dividends per share (dollars)
 - f. Average book value per share yearly
 - g. Average yearly market price per share (monthly high-low basis)
 - h. Pre-tax funded debt interest coverage
 - i. Post-tax funded debt interest coverage
 - j. Market price-book value ratio

Answer: Not applicable as the company's stock is not publicly traded. For interest coverage, please see response FR VII.1.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.6

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

6. Provide AFUDC charged by company at historic test year-end and latest date, explain method by which rate was calculated and provide workpaper showing derivation of the Company's current AFUDC rate.

Answer: The Company is using the AFUDC methodology proposed by the OTS and adopted by the Commission in PAWC's rate proceeding at Docket No. R-922428. Attachment A contains a memo dated May 7, 1993, which explains the calculations necessary to derive the AFUDC rate. Attachment B sets forth the detailed calculation for the month of December 2007.

ATTACHMENT A



Pennsylvania-American Water Company

Attachment - A

600 West Hershey Park Drive • P.O. Box 888 • Hershey, PA 17033-0888
(717) 533-5000

TO: J. L. Nader
FROM: Pete Mecca
DATE: May 7, 1993
RE: Revised Calculation of AFUDC

In order to comply with a recent PUC order, it will be necessary to modify the method of calculating AFUDC for inclusion into rate base.

The new calculation shall be as follows:

Short Term Debt Portion

- A. $\frac{\text{Daily Short Term Debt Outstanding} + \text{Beginning Balance}}{\text{Number Of Days In Month} + 1}$
+
- B. $\frac{\text{Average Balance In CWIP Prior To Transfers To Plant For The Month}}{\text{Number Of Days In Month}}$
X
- C. $\frac{\text{Federal Funds Rate At Month End} + \text{Applicable Basis Points}}{\text{Number Of Days In Month}}$
- Other Capital Portion
+
- D. $1 - \% \text{ Calculated In A. Above}$
X
- E. Cost Of Capital Allowed In Latest Rate Case



ATTACHMENT B

PENNSYLVANIA-AMERICAN WATER COMPANY
 AFUDC CALCULATION BASED ON SHORT TERM DEBT
 FOR: DECEMBER 2007

A	Average Daily Borrowing : (Provided by S. Feil - AWWSCo)		<u>16,444,553</u>
B	Beginning balance of CWIP	<u>55,567,588</u>	
	Ending Balance prior to Transfer	<u>76,485,689</u>	
	Average CWIP balance		<u>66,026,638</u>
	Short term debt % (A / B)		24.91%
		WA Debt Rate	
C	AMERICAN WATER CAPITAL CORPORATION	0.051709	
	Weighted Debt Rate		<u>0.051709</u>
	Short term debt % X Adj Fed Funds Rate		<u>1.2879%</u>
D	1 - % calculated in B		0.750941
E	Cost of Capital		8.05%
F	Other capital % (D X E)		<u>6.0451%</u>
G	AFUDC Rate per annum (C + F)		<u><u>7.3329%</u></u>

	DEBT	EQUITY	TOTAL
AFUDC rate per month	<u>0.1073%</u>	<u>0.5038%</u>	0.6111%
AFUDC rate per half-month	0.0537%	0.2519%	0.3055%
AFUDC rate per quarter-month	0.0268%	0.1259%	0.1528%

GROSS-UP CALC

December 2007
 GROSS-UP CALC

ADJUSTMENT

EQUITY PORTION	<u>76,165</u>	30,560	30,559.69
SIT RATE	0.0999		
FIT RATE	0.35		
GROSS UP FACTOR	1.7092118		

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.7

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

7. Set forth provisions of Company's and Parent's charter and indentures, if applicable, which describe coverage requirements, limits on proportions of types of capital outstanding, and restrictions on dividend payouts.

Answer: Coverage Requirements:

The Twenty-Fifth Supplemental Indenture dated as of June 1, 1999, supplemental to The Indenture of Mortgage dated May 1, 1968, states that so long as any of the bonds of the 1999 Series A are outstanding, without the consent of the registered owners of at least sixty-six and two-thirds per cent (66-2/3%) in principal amount of the bonds of the 1999 Series A then outstanding, the Company shall not issue and the Trustee shall not authenticate additional bonds under Section 2.03 and Section 2.04 of the Original Indenture unless the net income of the Company has been equal to at least one and one-half times the aggregate annual interest charges on all Long Term Debt outstanding immediately after such bonds are issued.

The Company shall meet the requirements of this Section by delivering to the Trustee (together with the resolutions, opinions, certificates and instruments provided for in Section 2.03 and section 2.04) a "Certificate of Required Net Income for Debt" which shall state in substance that the net income of the Company, calculated as hereinafter provided, for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the first day of the month in which the additional bonds are to be issued by the Trustee has been equal to at least one and one-half times the aggregate annual interest charges on all Long Term Debt of the Company to be outstanding immediately after such bonds are issued; provided, however, that in all calculations of such net income effect shall be given to the issue or retirement of any indebtedness that will be accomplished prior to or on the date of such issue and there shall be excepted from such Long Term Debt any thereof for the payment or redemption of which moneys in the necessary amounts have been

irrevocably set aside by the Company or deposited with the Trustee or other holder of a mortgage or other lien securing any such Long Term Debt.

Limits:

The Twenty-Fifth Supplemental Indenture dated as of June 1, 1999, supplemental to The Indenture of Mortgage dated May 1, 1968, limits the issuance of bonds, so that the principal amount of all the outstanding long-term debt does not exceed 65% of the total capitalization of the Company.

Dividend Restriction:

The Twenty-Fifth Supplemental Indenture dated as of June 1, 1999, states that so long as any bonds of the 1999 Series A are outstanding, without the consent of the registered owners of a least sixty-six and two-thirds per cent (66-2/3%) in principal amount of the bonds of the 1999 Series A then outstanding, if any, no dividends shall be declared or paid on any shares of Common Stock of the Company (except dividends payable solely in the shares of its Common Stock), nor shall any shares of Common Stock of the Company be purchased or otherwise acquired by the Company, if immediately after or as the result of any such declaration, payment, purchase or other acquisition, the sum of the aggregate of the capital of the Company attributable to its Common Stock plus the amount of all surplus accounts of the Company would be reduced to less than \$ 42,000,000. In determining the aggregate of the capital of the Company attributable to its Common Stock and the amount of all surplus accounts for the purpose hereof, any write-up or write-down of assets or write-off of the excess over original cost of property made on the books of the Company subsequent to December 31, 1980, shall be disregarded.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.8

Pennsylvania-American Water Company
Coatesville Wastewater Operations
VII. Rate of Return

8. Attach copies of the summaries of the Company's projected revenues, expenses and capital budgets for the next two years.

Answer: Please see below for a summary of the total Company's projected revenues, expenses and capital budget for 2008 and 2009.

DESCRIPTION	2008	*2009
Revenues	448,610	454,901
Operating Expenses	200,489	190,612
Depreciation and Amortization	54,355	75,226
Taxes Other Than Income	11,669	11,902
Income Taxes	51,189	45,871
Utility Operating Income	130,908	131,290
Income Deductions	56,322	64,704
Net Income to Common	74,585	66,586

DESCRIPTION	2008	2009
Gross	194,663	263,704
Refunds /Contributions/ Advances	15,933	15,500
Net	178,730	248,204

The amounts above are based upon budget information that was prepared in 2007. It includes wastewater operations along with other forward looking assumptions that are subject to change.

*The Company is currently in the process of updating the projections for 2009 – 2011 through its normal annual budgeting process.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.9

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

VII. Rate of Return

9. Describe long-term debt reacquisitions by Company and Parent as follows:
- a. Reacquisitions by issue by year.
 - b. Total gain on reacquisitions by issue by year.
 - c. Accounting of gain for income tax and book purposes.

Answer: a. Following are the Company's long-term debt issues that have been reacquired:

\$50,000,000 principal amount General Mortgage Bonds, 7.20% series due October 1, 2017, redeemed at 102% of their principal amounts. These bonds were reacquired on February 18, 2003.

\$30,000,000 principal amount General Mortgage Bonds, 7.125% series due December 1, 2022, redeemed at 102% of their principal amounts. These bonds were reacquired on February 18, 2003.

\$19,000,000 principal amount General Mortgage Bonds, 6.05% series due January 1, 2019, redeemed at 102% of their principal amounts. These bonds were reacquired on September 23, 2004.

\$30,000,000 principal amount General Mortgage Bonds, 7% series due December 1, 2017, redeemed at 102% of their principal amounts. These bonds were reacquired on December 1, 2004.

\$30,000,000 principal amount General Mortgage Bonds, 7% series due December 1, 2017, redeemed at 102% of their principal amounts. These bonds were reacquired on December 1, 2004.

\$80,000,000 principal amount Notes Payable, 4.75% series due March 1, 2014, redeemed at 95.756% of their principal amounts. These notes were reacquired on March 29, 2007.

- b. 2003 - Loss on reacquisition's \$980,000.
2004 - Loss on reacquisition's \$1,600,000.
2007 - Gain on reacquisition's \$3,395,111
- c. The amounts in (b) are being amortized to debt expense.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.10

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

10. Provide the following information concerning compensating bank balances requirements for the actual test year:
- a. Name of each bank
 - b. Address of each bank
 - c. Type of accounts with each bank (checking, savings, escrow, other services, etc.)
 - d. Average Daily Balance in each account
 - e. Amount and percentage requirements for compensating bank balances at each bank
 - f. Average daily compensating bank balance at each bank
 - g. Documents from each bank explaining compensating bank balance requirements
 - h. Interest earned on each type of account

Answer:

- a. Mellon Bank
- b. Mellon Global Cash Management
500 Ross Street
Pittsburgh, PA 15262-0001
- c. Lockbox account
- d-h. No compensating bank balances were required during the test year.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.11

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

VII. Rate of Return

11. Provide the following information concerning bank notes payable for the actual per book test year:
- a. Line of Credit at each bank.
 - b. Average daily balances of notes payable to each bank, by name of bank.
 - c. Interest rate charged on each bank note (Prime rate, formula)
 - d. Purpose of each bank note (for example, construction, fuel storage, working capital, debt retirement).
 - e. Prospective future need for this type of financing.

Answer:

- a. American Water Capital Corp. ("AWCC") has an \$800M unsecured five year revolving credit facility expiring September 2012 syndicated among a group of ten banks. JP Morgan Securities Inc. and Citigroup Global Markets inc. are the lead arrangers of the credit facility. AWCC also has a \$10M unsecured working capital line of credit with PNC Bank.
- b. \$800M credit facility - \$0 balance.
\$10M line of credit - \$264,177.
- c. \$800M credit facility - either prime or the London Interbank Offering Rate ("LIBOR") plus an applicable margin based upon the credit ratings of AWCC, as well as total outstanding amounts under the agreement at the time of the borrowing.
\$10M line of credit – 30 day LIBOR plus 25 basis points.
- d. \$800M credit facility – used to support the AWCC commercial paper program and to provide up to \$150M in letters of credit.
\$10M line of credit – used for working capital purposes.
- e. The \$800M credit facility (as support for the commercial paper program) and the \$10M line of credit represent the AWCC's future sources for short-term capital.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.12

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

12. Submit details on Company or Parent common stock offerings for the past five year to present as follows:
- a. Date of Prospectus.
 - b. Date of offering.
 - c. Record date.
 - d. Offering period including dates and number of days.
 - e. Amount and number of shares of offering.
 - f. Offering ratio, if rights offering.
 - g. Percent subscribed.
 - h. Offering price.
 - i. Gross proceeds per share.
 - j. Expenses per share.
 - k. Net proceeds per share in i and j above.
 - l. Market price per share.
 - (1) At record date
 - (2) At offering date
 - (3) One month after close of offering
 - m. Average market price during offering.
 - (1) Price per share
 - (2) Rights per share--average value of rights
 - n. Latest reported earnings per share at time of offering.
 - o. Latest reported dividends at time of offering.

Answer: None.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

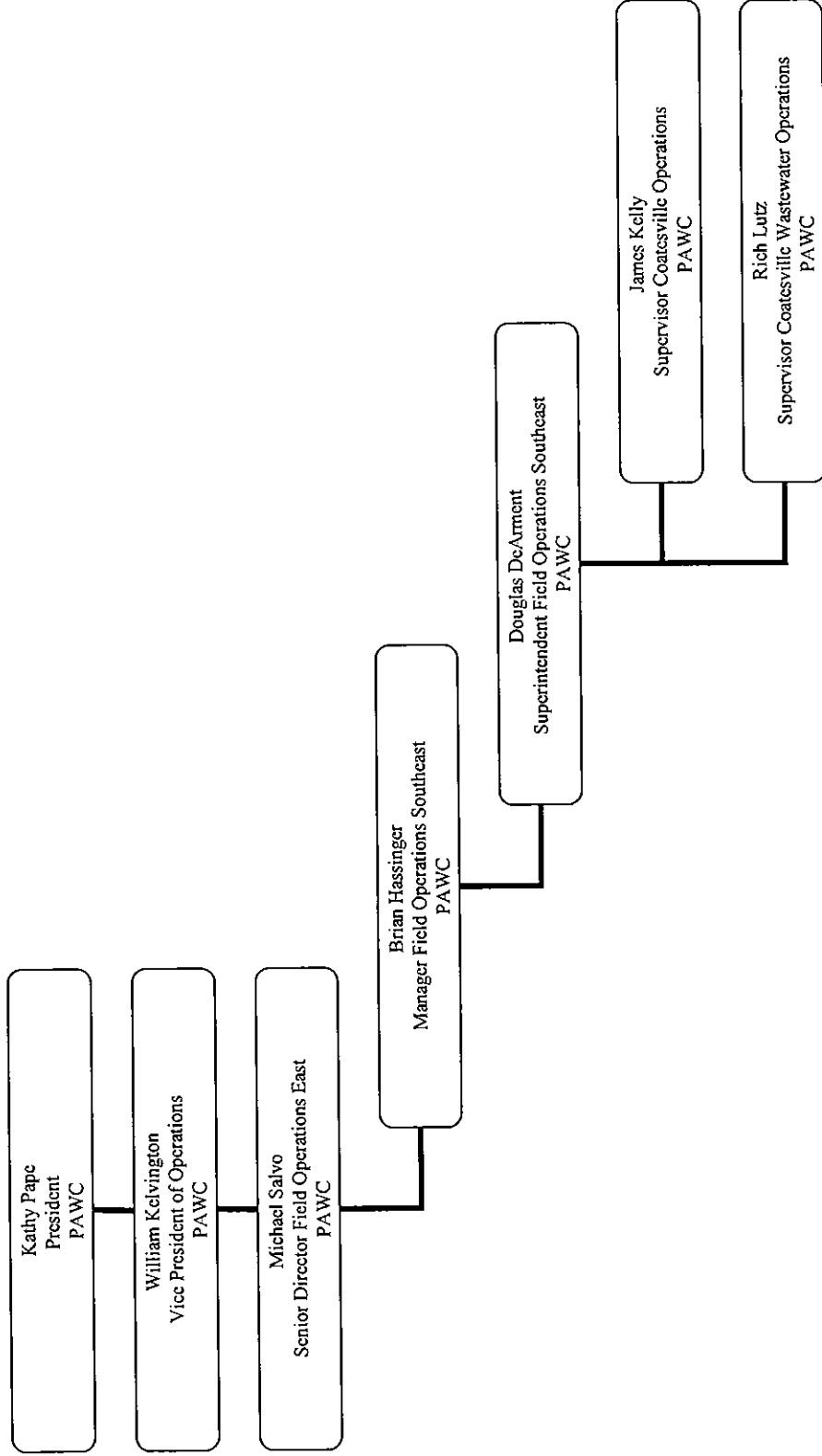
FR VII.13

Pennsylvania-American Water Company
Coatesville Wastewater Operations
VII. Rate of Return

13. Attach chart explaining Company's corporate relationship to its affiliates showing System Structure.

Answer: Please see attached.

EASTERN DIVISION Pennsylvania American Water Field Operations East Coatesville Wastewater Operations



Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.14

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

14. If the utility plans to make a formal claim for a specified allowable rate of return, provide the following data in statement or exhibit form:
- a. Claimed capitalization and capitalization ratios with supporting data.
 - b. Claimed cost of long-term debt with supporting data.
 - c. Claimed cost of short-term debt with supporting data.
 - d. Claimed cost of total debt with supporting data.
 - e. Claimed cost of preferred stock with supporting data.
 - f. Claimed cost of common equity with supporting data.

Answer: Please refer to Exhibit No. 8-A to support the testimony of Paul R. Moul, the Company's rate of return on common equity witness and to Exhibit No.3-B to support the testimony of Steve L. Klick, the Company's rate of return witness.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.15

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

15. Supply copies of the following documents for the Company and, if applicable, its parent:
- a. Most recent Annual Report to shareholders including any statistical supplements;
 - b. Most recent SEC Form 10K;
 - c. All SEC Form 10Q reports issued within the preceding 12 months of the date of submittal of the rate increase request.

- Answer:**
- a. Please see attached.
 - b. Not applicable
 - c. Not applicable

Pennsylvania-American Water Company
(a subsidiary of American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2006 and 2005

Report of Independent Auditors

To the Board of Directors and Stockholder of
Pennsylvania-American Water Company

In our opinion, the accompanying balance sheets and the related statements of income, of capitalization, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Pennsylvania-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 31, 2007

PENNSYLVANIA-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2006 and 2005
(Dollars in thousands)

Assets		
	2006	2005
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 1,958,855	\$ 1,852,148
Utility plant acquisition adjustments, net	16,390	18,279
Non-utility property - at original cost less accumulated depreciation	291	286
	<u>1,975,536</u>	<u>1,870,713</u>
Current assets		
Cash and cash equivalents	1,088	4,534
Restricted cash	2,752	4,142
Customer accounts receivable	37,162	34,238
Allowance for uncollectible accounts	(6,182)	(4,263)
Unbilled revenues	22,686	20,487
Materials and supplies	2,931	3,002
Prepaid taxes	3,258	1,163
Other	1,513	1,539
	<u>65,208</u>	<u>64,842</u>
Long-term assets		
Regulatory assets	178,321	183,136
Goodwill	39,748	38,591
Other	2,214	2,288
	<u>220,283</u>	<u>224,015</u>
	<u>\$ 2,261,027</u>	<u>\$ 2,159,570</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2006 and 2005
(Dollars in thousands)

Capital and Liabilities		
	<u>2006</u>	<u>2005</u>
Capitalization		
Common stockholder's equity	\$ 768,021	\$ 718,536
Preferred stock without mandatory redemption requirements	1,720	1,720
Long-term debt (excluding current portion):		
Preferred stock with mandatory redemption requirements	12,451	12,451
Long-term debt	<u>667,751</u>	<u>714,122</u>
Total capitalization	<u>1,449,943</u>	<u>1,446,829</u>
Current liabilities		
Short-term debt	134,620	-
Notes payable - associated companies	46,288	12,407
Current portion of long-term debt	49,616	143,415
Accounts payable	20,197	22,068
Accounts payable - associated companies	4,682	5,856
Accrued interest	10,047	11,576
Accrued taxes	22,572	28,387
Other	<u>20,525</u>	<u>16,723</u>
	<u>308,547</u>	<u>240,432</u>
Long-term liabilities		
Deferred income taxes	293,910	279,594
Customer advances for construction	89,268	84,775
Deferred investment tax credits	7,475	7,708
Accrued pension expense	19,437	23,588
Accrued postretirement benefit expense	2,713	2,713
Other	<u>1,003</u>	<u>598</u>
	<u>413,806</u>	<u>398,976</u>
Contributions in aid of construction	<u>88,731</u>	<u>73,333</u>
Commitments and contingencies	<u>-</u>	<u>-</u>
	<u>\$ 2,261,027</u>	<u>\$ 2,159,570</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 402,750	\$ 399,796
Operating expenses		
Operation and maintenance	181,476	170,940
Depreciation	57,308	57,881
Amortization	(3,072)	(2,469)
General taxes	10,785	12,464
Gain on disposition of property	-	(1,688)
	<u>246,497</u>	<u>237,128</u>
Operating income	<u>156,253</u>	<u>162,668</u>
Other income (deductions)		
Allowance for other funds used during construction	1,136	1,065
Property taxes on non-utility property	(92)	(188)
Other income (deductions), net	3	(19)
	<u>1,047</u>	<u>858</u>
Income before interest deductions and income taxes	<u>157,300</u>	<u>163,526</u>
Interest income (deductions)		
Interest on long-term debt	49,616	50,985
Interest on short-term debt	1,841	283
Amortization of debt expense	2,013	1,998
Other interest	92	-
Allowance for borrowed funds used during construction	(168)	(11)
	<u>53,394</u>	<u>53,255</u>
Income before income taxes	103,906	110,271
Provision for income taxes	<u>41,653</u>	<u>43,479</u>
Net income	62,253	66,792
Dividends on preferred stock	68	77
Income to common stock	<u>\$ 62,185</u>	<u>\$ 66,715</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands)

	2006	2005
Cash flows from operating activities		
Net income	\$ 62,253	\$ 66,792
Adjustments:		
Depreciation and amortization	54,236	56,123
Removal costs net of salvage	5,112	4,618
Amortization, other	5,312	6,288
Provision for deferred income taxes	14,344	6,863
Amortization of deferred investment tax credits	(234)	(234)
Provision for losses on accounts receivable	7,683	9,522
Allowance for other funds used during construction	(1,136)	(1,065)
Gain on disposition of property	-	(1,688)
Other, net	(2,189)	(773)
Changes in assets and liabilities:		
Accounts receivable	(8,688)	(1,713)
Unbilled revenues	(2,199)	(88)
Other current assets	(1,998)	952
Accounts payable	(1,871)	(4,712)
Accrued taxes	(5,815)	28,387
Other current liabilities	1,099	(5,791)
Net cash provided by operating activities	<u>125,909</u>	<u>163,481</u>
Cash flows from investing activities		
Construction expenditures	(144,065)	(116,638)
Allowance for other funds used during construction	1,136	1,065
Acquisitions	(4,194)	(2,317)
Removal costs from property, plant and equipment retirements, net of salvage	(7,014)	(6,373)
Proceeds from the disposition of property, plant and equipment	-	2,097
Investment in Notes Receivable	-	135
Net Funds restricted for construction	1,390	29,144
Net cash used in investing activities	<u>(152,747)</u>	<u>(92,887)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	3,888	635
Repayment of long-term debt	(144,057)	(52,914)
Debt issuance costs	(82)	(274)
Proceeds from issuance of short-term debt	134,620	-
Net borrowings (repayments) of notes payable-associated companies	63,881	30,683
Customer advances and contributions, net of refunds	7,910	720
Dividends paid	(42,768)	(51,420)
Net cash provided by (used in) financing activities	<u>23,392</u>	<u>(72,570)</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,446)</u>	<u>(1,976)</u>
Cash and cash equivalents at beginning of year	<u>4,534</u>	<u>6,510</u>
Cash and cash equivalents at end of year	<u>\$ 1,088</u>	<u>\$ 4,534</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 52,910</u>	<u>\$ 51,361</u>
Income taxes, net of refunds	<u>\$ 33,950</u>	<u>\$ 8,435</u>
Non-cash capital contribution by stockholder (see Note 7)	<u>\$ 30,000</u>	<u>\$ 30,000</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2006 and 2005
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2006	2005
Stockholder's equity			
Common stock - \$5.50 par value, authorized 10,000,000 shares, 3,910,343 shares issued and outstanding in 2006 and 2005	\$	21,507	\$ 21,507
Paid-in capital		487,984	457,984
Retained earnings		258,530	239,045
Total common stockholder's equity		768,021	718,536
Preferred stocks - \$100 par value, authorized 367,200 shares			
Cumulative preferred stocks, without mandatory redemption requirements: 4 1/2% series, 17,202 shares outstanding in 2006 and 2005	\$ 103.50	1,720	1,720
Total stockholder's equity		769,741	720,256
Long-term debt			
Cumulative preferred stocks, with mandatory redemption requirements: 8.49% series, 120,000 shares outstanding in 2006 and 2005 due 11/1/2036 9.35% series, 2,735 shares outstanding in 2006 and 2005 9.75% series, 1,780 shares outstanding in 2006 and 2005	\$ 100.00	12,000 273 178	12,000 273 178
		12,451	12,451
Notes payable to affiliate			
4.92% redeemed 2006		-	73,000
4.92% redeemed 2006		-	61,620
5.25% due 2007		15	20
6.87% due 2011		17,000	17,000
4.75% due 2014		80,000	80,000
Variable rate due 2018 (3.25% effective rate at December, 31, 2006)		18,250	18,250
Variable rate due 2019 (3.31% effective rate at December 31, 2006)		17,950	17,950
Variable rate due 2031 (3.32% effective rate at December 31, 2006)		16,700	16,700
General mortgage bonds			
8.51% series redeemed 2006		-	1,100
8.58% series due 2007		37,900	37,900
9.35% series due 2008		9,800	14,700
3.60% series due 2009		13,165	13,165
3.60% series due 2009		80,000	80,000
7.08% series due 2017		33,000	33,000
9.717% series due 2019		15,500	15,500
9.69% series due 2021		20,000	20,000
8.15% series due 2025		10,000	10,000
7.80% series due 2026		150,000	150,000
5.05% series due 2029		23,855	23,865
8.82% series due 2031		10,000	10,000
6.78% series due 2033		38,000	38,000
4.95% series due 2034		19,000	19,000
5.10% series due 2034		30,000	30,000
4.80% series due 2034		39,940	40,000

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2006 and 2005
(Dollars in thousands, except per share amounts)

	<u>2006</u>	<u>2005</u>
Long-term debt (continued)		
Water facility loans:		
3.25% due 2009	133	180
4.19% due 2009	677	958
4.19% due 2009	502	711
1.00% due 2011	75	91
3.45% due 2012	1,036	1,192
1.38% due 2018	3,829	4,343
2.57% due 2018	896	965
2.80% due 2019	1,438	1,528
2.91% due 2019	1,901	2,064
1.18% due 2020	2,583	2,764
1.62% due 2022	2,859	3,023
1.62% due 2022	3,426	3,641
1.62% due 2022	2,657	2,809
1.39% due 2022	2,658	2,872
1.39% due 2024	4,605	4,841
1.31% due 2024	2,758	2,894
1.39% due 2024	1,145	1,256
1.39% due 2024	2,275	.
1.00% due 2024	1,839	635
	<u>717,367</u>	<u>857,537</u>
Less: Current portion of long-term debt	<u>(49,616)</u>	<u>(143,415)</u>
Long-term debt, net of current maturities	<u>667,751</u>	<u>714,122</u>
Total capitalization	<u><u>\$ 1,449,943</u></u>	<u><u>\$ 1,446,829</u></u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2004	3,910,343	\$ 21,507	\$ 427,984	\$ 223,673	\$ 673,164
Net income	-	-	-	66,792	66,792
Dividends paid					-
Preferred stock	-	-	-	(77)	(77)
Common stock, \$13.13 per share	-	-	-	(51,343)	(51,343)
Capital contribution by stockholder	-	-	30,000	-	30,000
Balance at December 31, 2005	3,910,343	21,507	457,984	239,045	718,536
Net income	-	-	-	62,253	62,253
Dividends paid					
Preferred stock	-	-	-	(68)	(68)
Common stock, \$10.92 per share	-	-	-	(42,700)	(42,700)
Capital contribution by stockholder	-	-	30,000	-	30,000
Balance at December 31, 2006	<u>3,910,343</u>	<u>\$ 21,507</u>	<u>\$ 487,984</u>	<u>\$ 258,530</u>	<u>\$ 768,021</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 1: Organization and Operation

Pennsylvania-American Water Company (the Company) provides water service to approximately 626,107 (unaudited) customers and wastewater service to 14,406 (unaudited) customers. These services are provided in 373 communities located in 35 counties in the Commonwealth of Pennsylvania. As a public utility operating in Pennsylvania, the Company functions under rules and regulations prescribed by the Pennsylvania Public Utility Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American). American is a wholly-owned subsidiary of Thames Water Aqua US Holdings, Inc., a wholly-owned subsidiary of RWE Aktiengesellschaft (RWE).

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits, which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator.

Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. Removal costs, net of salvage, of \$5,112 and \$4,618 are recorded in operation and maintenance expense as of December 31, 2006 and 2005, respectively.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property. Software costs totaling \$365 and \$822, were capitalized during 2006 and 2005, respectively.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and is amortized to expense over the useful lives of the corresponding purchased plant assets. Amortization of utility plant adjustments was (\$468) and (\$479) for 2006 and 2005, respectively. The range of remaining lives is from 2 to 48 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2006 or 2005.

Restricted Cash

Restricted cash reflects proceeds set aside from financings for the construction of certain water treatment facilities. The proceeds of these financings are held in escrow until the capital improvements are incurred. These funds were released to the Company in March 2007.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. When customers request extended payment terms, credit is extended based on Commission guidelines and generally, collateral is not required.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

Allowance for Uncollectible Accounts

The company maintains allowance for uncollectible accounts for estimated probable losses resulting from the inability of the Company's customers to make required payments. Accounts outstanding longer than the payment terms are considered past due. The Company considers a number of factors in determining the allowance for uncollectible accounts including the length of time trade accounts receivable are past due and the Company's previous loss history. The Company writes-off accounts receivable when they become uncollectible.

The change in the Company's allowance for 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Balance as of January 1	\$ 4,263	\$ 2,535
Provision charged to expense	7,683	9,522
Accounts written-off	(6,519)	(8,578)
Recoveries of accounts previously written-off	755	784
Balance as of December 31	<u>\$ 6,182</u>	<u>\$ 4,263</u>

Materials and Supplies

Materials and supplies are stated at cost. Cost is determined using the average cost method.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions from customers, real estate developers and builders to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base. The Company depreciates contributed property and amortizes contributions in aid of construction at the composite rate of the related property. For the years ended December 31, 2006 and 2005, cash advances and contributions were \$17,573 and \$13,261, and non-cash advances and contributions were \$7,171 and \$16,640, respectively.

Recognition of Revenues

Water and wastewater service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues, including billing and collection services and antenna leases, are recognized when services are performed.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2006 and 2005.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Goodwill

Goodwill represents the excess cost over the fair value of net assets acquired through acquisitions. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," the goodwill is not being amortized.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

The Company completed its most recent annual impairment assessment of goodwill effective December 31, 2006, utilizing its updated five-year business plan as the basis for development of discounted cash flows and an estimate of fair value. As a result of the comparison of the book carrying value, including goodwill, against the estimated fair value, the Company determined that no impairment exists.

The components of goodwill at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Balance as of January 1	\$ 38,591	\$ 38,591
Acquisitions	1,157	-
Balance as of December 31	<u>\$ 39,748</u>	<u>\$ 38,591</u>

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3: Acquisitions

During 2006, the Company completed acquisitions of the assets of six water and wastewater systems for an aggregate purchase price of \$5,014. The acquired operations provided services to approximately 3,900 (unaudited) customers in aggregate at the time of their acquisitions. The acquisitions were accounted for as business purchases and the difference between the purchase price and the fair value of assets acquired less liabilities assumed at the date of the acquisitions was recorded as goodwill or utility plant acquisition adjustment, as appropriate.

The aggregate purchase price allocations were as follows:

Utility plant - at original cost less accumulated depreciation	\$ 10,577
Utility plant acquisition adjustment	(126)
Deferred tax assets, net	820
Goodwill	<u>1,157</u>
Total assets acquired	12,428
Less: contributions in aid of construction	6,412
Less: customer advances for construction	<u>1,002</u>
Net assets acquired	<u>\$ 5,014</u>

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 4: Utility Plant

The components of utility plant at December 31 are as follows:

	Range of remaining useful lives	2006	2005
Land and other non-depreciable assets	-	\$ 21,560	\$ 19,755
Sources of supply	32 to 75 Years	74,615	71,368
Treatment and pumping	6 to 44 Years	492,499	459,441
Transmission and distribution	9 to 74 Years	1,271,042	1,170,489
Services, meters and fire hydrants	9 to 51 Years	456,027	419,645
General structures and equipment	4 to 50 Years	113,583	120,841
Wastewater	9 to 71 Years	52,149	41,441
Construction work in progress	-	32,452	53,781
		<u>2,513,927</u>	<u>2,356,761</u>
Less: accumulated depreciation		<u>(555,072)</u>	<u>(504,613)</u>
		<u>\$ 1,958,855</u>	<u>\$ 1,852,148</u>

Note 5: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return.

The components of regulatory assets are as follows:

	2006	2005
Income taxes recoverable through rates	\$ 101,559	\$ 100,122
Pension expense	23,103	26,515
Debt and preferred stock expense	14,835	16,761
Cost of removal	18,334	16,432
Security costs	11,787	13,451
Business service project expense	5,081	6,065
Treatment plant costs and carrying charges	361	842
Other	3,261	2,948
	<u>\$ 178,321</u>	<u>\$ 183,136</u>

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 5 (continued):

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate-making purposes. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Pension expense in excess of the amount contributed to the pension plan is deferred. These costs will be recovered in future service rates as increased contributions are made to the pension plan.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

The Company has deferred the cost of increased security measures that were implemented to secure facilities after the terrorist attacks on September 11, 2001. The Commission authorized the Company the recovery of \$15,538 over a 10 year period or \$1,554 on an annual basis effective January 29, 2004.

Business services project expenses consist of re-engineering and start-up activities for consolidated customer and shared administrative service centers that have been established by American. On January 25, 2002 the Commission approved \$5,534 of these costs for rate recovery over a 10 year period. In the subsequent proceeding, the Company was allowed to true-up the projected costs it had submitted in the previous proceeding to \$7,844 to be recovered over 8 years.

Treatment plant costs and carrying charges represent the operation expenses and depreciation on water filtration plants from the time the plants were placed in service until the costs were included in the rates charged for water service. The Commission authorized the Company the recovery of \$10,371 over a 10 year period or \$1,037 on an annual basis effective October 3, 1997.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 6: Preferred Stocks

Preferred stock agreements on the 9.35% series and the 9.75% series provide for annual sinking fund payments of \$12 and \$10, respectively, at the option of the holder. The preferred stock agreement on the 8.49% series provides for sinking fund payments to begin in 2012.

Preferred stock agreements contain provisions for redemption at various prices on 30 days notice at the Company's discretion except for the 9.35% and 9.75% series, which are not callable.

In the event of voluntary liquidation, the 4½% series is redeemable at \$100 per share, provided a majority of the holders consent, or at \$103.50 if they do not; all other issues are redeemable at \$100 per share provided the voluntary liquidation is in connection with governmental acquisition of substantially all of the Company's property or common stock. In the event of involuntary liquidation or governmental acquisition, all classes of preferred stocks are redeemable at \$100 per share. All call prices are on 30 days notice plus accrued dividends.

Note 7: Long-Term Debt

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. Under the most restrictive provisions of the indenture, as supplemented, \$157,964 and \$160,906 was available for distribution at December 31, 2006 and 2005.

During 2006, the Company paid-off the 8.51% General Mortgage Bond for \$1,100.

The State of Pennsylvania offers water facility loans through Pennsylvania Infrastructure Investment Authority. These low-interest loans cover the design, engineering, and construction of publicly and privately owned drinking water distribution systems. The water facility loans are available to communities or private firms needing clean drinking water distribution facilities. The interest on this type of loan ranges from 1% or 5% depending upon the resulting user rates in the community. The loan terms depend upon the useful life of the asset being financed. The loan disbursements are based upon reimbursable expenses for a specific approved project. At December 31, 2006, the Company had seven open projects with available funds totaling \$14,635. The Company makes monthly sinking fund payments of principal and interest on these water facility loans. The principal payments will amount to \$3,334 in 2007, \$3,768 in 2008, \$3,402 in 2009, \$3,258 in 2010, and \$3,318 in 2011.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 7 (continued):

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation (AWCC), a subsidiary of American, for the principal amount.

Sinking fund deposits are required under provisions of the 5.25% term note, the 9.35% series general mortgage bond and the 6.87% debt issued by AWCC. These deposits will amount to \$8,315 in 2007, \$8,300 in 2008, and \$3,400 in 2009 through 2011.

During 2006, the Company received proceeds from the issuance of \$134,620, 5.31% series short term note payable issued to AWCC, which was used to pay down the 4.92% series notes payable affiliate that matured on November 6, 2006. This note was refinanced in January 2007 with three notes payable issued to AWCC totaling \$180,000 with interest rates ranging from 5.52% to 5.77%.

The Company received capital contributions of \$30,000 from American in both 2006 and 2005. In 2006, it was used to paydown other maturing long-term debt and in 2005 it was used to partially pay down the 6.87% AWCC note.

Maturities of long-term debt, exclusive of sinking funds, will amount to \$37,900 in 2007, \$0 in 2008, \$93,336 in 2009, \$0 in 2010, and \$6 in 2011.

Note 8: Short-term Borrowings

The Company maintains a line of credit through AWCC for \$100,000. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

At December 31, 2006 and 2005, there were \$46,288 and \$12,407 of short-term borrowings outstanding, respectively. The weighted average annual interest rate on these borrowings was 5.94 % and 2.92 %, respectively. The unused line of credit at December 31, 2006 was \$53,712.

American, through AWCC, has committed to make additional financing available to the Company, as needed, to pay its obligations as they come due.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 9: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2006</u>	<u>2005</u>
Property	\$ 2,176	\$ 3,592
Capital stock	3,143	3,491
Payroll	3,141	3,185
Public Utility Commission	<u>2,417</u>	<u>2,384</u>
	<u>\$ 10,877</u>	<u>\$ 12,652</u>

Note 10: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2006</u>	<u>2005</u>
State income taxes:		
Current	\$ 6,568	\$ 7,098
Deferred		
Current	32	(287)
Non-current	<u>1,417</u>	<u>1,468</u>
	<u>8,017</u>	<u>8,279</u>
Federal income taxes:		
Current	20,975	29,752
Deferred		
Current	97	(3,324)
Non-current	12,798	9,006
Amortization of deferred investment tax credits	<u>(234)</u>	<u>(234)</u>
	<u>33,636</u>	<u>35,200</u>
Total income taxes	<u>\$ 41,653</u>	<u>\$ 43,479</u>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2006</u>	<u>2005</u>
Federal income tax at statutory rate of 35%	\$ 36,367	\$ 38,595
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	5,212	5,381
Flow through difference	624	967
Amortization of investment tax credits	(234)	(234)
Other, net	<u>(316)</u>	<u>(1,230)</u>
	<u>\$ 41,653</u>	<u>\$ 43,479</u>

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 10 (continued):

The following table provides the components of the net deferred tax liability at December 31:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Advances and contributions	\$ 64,878	\$ 65,842
Deferred investment tax credits	3,102	3,199
Accrued other post-retirement employee benefit costs	2,849	2,986
Tax losses and credits carryforward	87	2,494
Accrued pension benefits	6,614	5,194
Accrued incentive plan compensation	91	11
Other	74	928
	<u>77,695</u>	<u>80,654</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	306,919	290,208
Utility plant, acquisition adjustment	7,319	9,456
Income taxes recoverable through rates	40,567	40,146
Deferred security costs	4,948	5,524
Deferred pension benefits	9,586	11,002
Other	2,266	3,912
	<u>371,605</u>	<u>360,248</u>
Net deferred tax liability	<u>\$ 293,910</u>	<u>\$ 279,594</u>

No valuation allowances were required on deferred tax assets at December 31, 2006 and 2005 as management believes it is more likely than not that deferred tax assets will be realized.

Note 11: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on actual sales during the historic test year selected by the Company as the base period, but are adjusted for known changes such as an increase or decrease in the number of customers or a documented change in customer usage.

As authorized by the Commission, the Company has instituted a Distribution System Improvement Charge based on specific capital improvements made to the water distribution system. The charge is adjusted each quarter based on the qualified investment in the preceding quarter. The Company recorded revenues of \$14,653 in 2006 and \$6,637 in 2005 associated with this charge.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 11 (continued):

On October 17, 2006, the Company filed a petition before the Commission to increase the maximum allowable Distribution System Improvement Charge from 5% to 7.5%. On July 11, 2007 the Commission approved the increase. The final order, which should address the effective date, is expected in early August 2007.

No rate cases were filed during 2006.

On April 27, 2007, the Company filed a rate application with the Commission requesting \$59,236 in additional annual revenue or 14.73%. Hearings are scheduled for August and September. The statutory effective date is January 26, 2008.

Note 12: Employee Benefit Plans

Savings Plan for Employees

The Company maintains 401(k) Savings Plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitation. Due to the elimination of participants in the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plan totaling \$763 for 2006 and \$586 for 2005. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 13: Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering primarily all employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$6,457 and \$7,306 for 2006 and 2005, respectively.

The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the American plan of \$10,608 in 2006 and \$4,052 in 2005.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 13 (continued):

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. Primarily, all employees, except non-bargaining unit employees hired on or after January 1, 2002, may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$6,310 and \$7,560 for 2006 and 2005, respectively.

The Company made contributions to trust funds established for these postretirement benefits of \$6,310 in 2006 and \$7,560 in 2005. The Company's policy is to fund postretirement benefits costs accrued.

Note 14: Related Party Transactions

American Water Works Service Company, Inc. (AWWS), a subsidiary of American, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2006</u>	<u>2005</u>
Included in operation and maintenance expense as a charge against income	\$ 40,396	\$ 32,351
Capitalized primarily in utility plant	<u>3,664</u>	<u>7,911</u>
	<u>\$ 44,060</u>	<u>\$ 40,262</u>

AWWS leases space in an office building owned by the Company. Rent received under the terms of the lease was \$691 in 2006 and \$638 in 2005. Additionally, the Company received \$205 in 2006 and \$220 in 2005 from AWWS for the rental of furniture and equipment.

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 14 (continued):

The Company maintains a line of credit through AWCC (See Note 7). The Company paid AWCC fees of \$263 in 2006 and \$187 in 2005 and interest on borrowings of \$1,834 in 2006 and \$279 in 2005. Interest expense on long-term debt due to AWCC was \$13,389 and \$15,034 for 2006 and 2005, respectively.

The Company provides billing and collection services to American Water Resources, a subsidiary of American, for waterline and sewer line protection. The Company recorded revenue of \$373 in 2006 and \$308 in 2005 related to these services.

The Company purchased granular activated carbon from American Carbon Services, a subsidiary of American, at seven and eight of the Company's filtration plants during 2006 and 2005. The total amount paid to American Carbon Services for the removal of the existing filter media, the new carbon media and its installation was \$1,019 in 2006 and \$1,071 in 2005.

Note 15: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amounts reported in the balance sheet for current assets and current liabilities approximate their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements, including current maturities	\$ 12,451	\$ 15,479	\$ 12,451	\$ 14,438
Long-term debt, including current maturities	\$ 717,367	\$ 750,935	\$ 857,537	\$ 955,047

PENNSYLVANIA-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 16: Operating Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$5,360 in 2006 and \$5,674 in 2005. The operating leases for facilities will expire over the next 11 years and the operating leases for equipment will expire over the next three years. Certain leases have renewal options ranging from one to five years.

At December 31, 2006, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are \$6,081 in 2007, \$5,301 in 2008, \$5,092 in 2009, \$4,695 in 2010, \$1,376 in 2011, and \$1,404 thereafter.

Note 17: Commitments and Contingencies

The Company maintains agreements with other water purveyors for the purchase of water to supplement our water supply. Certain agreements stipulate purchases of minimum quantities of water through various dates. The estimated annual commitment related to the minimum quantities of water purchased is expected to approximate \$876 annually in 2007 through 2011. One of the agreements contains a yearly price adjustment through 2008 based upon the Consumer Price Index. The Company's purchased water expense under these types of agreements amounted to approximately \$986 and \$931 during the years ended December 31, 2006 and 2005, respectively.

As of December 31, 2006, the Company has entered into one non-derivative forward purchase agreement to secure fixed prices for purchases of electricity used in certain facilities in the normal course of operations. This agreement has a term length of three years. The benefit or cost to the Company of these agreements fluctuates with changes in market electricity prices. The Company records any benefit or cost of these agreements as electricity purchases occur.

Commitments have been made in connection with certain construction programs.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.16

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

16. Supply copies of the Company's balance sheets for each month/quarter for the last two years.

Answer: Please refer to FR XI.1.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.17

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

VII. Rate of Return

17. Provide the bond rating history for the Company and, if applicable, its parent from the major credit rating agencies for the last five years.

Answer: Pennsylvania-American Water Company is not rated by either Standard & Poor's or Moody's Investors Service.

The credit ratings of American Water Capital Corp. for the last five years are as follows (Long-term debt/commercial paper):

	Standard & Poor's	Moody's
2007	A-/A-2 (09/19/07)	Baa2/ P-2 (10/12/07)
2006	A-/A-2	Baa1/P-2
2005	A- /NR	Baa1/NR
2004	A /NR	Baa1/NR
2003	A /A-1	Baa1/P-2

American Water Works Company, Inc. was assigned an A- corporate credit rating by Standard & Poor's in October 2006 which was reaffirmed in September 2007. Effective October 12, 2007, Moody's assigned a Baa2 senior unsecured issuer rating to American Water Works Company, Inc.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.18

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

18. Provide copies of all bond rating reports relating to the Company and, if applicable, its parent for the past two years.

Answer:

Not applicable.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.19

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

19. Supply copies of all presentations by the Company's and, if applicable, its parent's management and securities analysts during the past 2 years, including presentations of financial projections.

Answer: Neither the Company nor its parent, American Water Works Company, Inc., have publicly traded securities and, therefore, their management does not make presentations to securities analysts in the way publicly traded corporations do. Accordingly, there are no such presentations.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.20

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

20. Please provide a listing of all securities issuances for the Company and, if applicable, its parent projected for the next two years. The response shall identify for each projected issuance date, dollar amount, type of security, and effective cost rate.

Answer: Pennsylvania-American Water expects to utilize AWCC to meet both its short and long-term financing needs during the two year period ending 2009.

In 2008, Pennsylvania-American Water expects to issue \$100 million of new long-term debt. The majority of this debt will be issued through AWCC. The debt will be issued as Senior Unsecured Notes. Interest rates will be comparable to those of similarly rated companies and similarly structured debt instruments. The current 2009 Business Plan has Pennsylvania-American Water issuing an additional \$100 million of long-term debt, with the same interest parameters as those shown above.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.21

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

21. Please identify any plan by the Company to refinance high cost long-term debt or preferred stock.

Answer: The Pennsylvania-American Water Company has no current plans to refinance high cost long-term debt or preferred stock due to make-whole provisions, premiums or mortgage indenture restrictions.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.22

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

22. Please provide copies of all securities analysts' reports relating to the Company and its parent, or both, issued within the past 2 years.

Answer: There are no reports issued for PAWC.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.23

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

23. If applicable, please supply a listing of all common equity infusions from the parent to the Company over the past five years. In each case, identify date and dollar amount.

Answer:

YEAR	AMOUNT (000)	DATE
2007	\$32,500	12/07
2006	\$30,000	12/06
2005	\$30,000	12/05
2004	\$0	
2003	\$17,000	10/03

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.24

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

24. If applicable, please identify the Company's common dividend payments to its parent for each of the last five years.

Answer:

YEAR	AMOUNT (000)
2007	\$48,215
2006	\$42,701
2005	\$51,343
2004	\$48,097
2003	\$40,980

Pennsylvania-American Water Company
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.25

Pennsylvania-American Water Company

VII. Rate of Return

25. Provide the latest year-by-year financial projections for the Company for the next five years. Also, please indicate the date these projections were prepared; whether approved by management; and whether the projections have been submitted to bond rating agencies. The information will be treated in a confidential manner, if requested by the Company in writing, as wet forth in 52 PA Code § 5.423.

Answer:

These projections were approved by the PAWC Board in December of 2007 to be submitted as part of the Company's Strategic Business Plan.

DESCRIPTION	2008	2009	2010	2011
Revenues	\$ 448,610	\$ 454,901	\$ 490,872	\$ 506,363
Operating Expenses	200,489	190,612	196,129	202,553
Depreciation and Amortization	54,355	75,226	80,324	85,499
Taxes Other Than Income	11,669	11,902	11,711	12,883
Income Taxes	51,189	45,871	55,203	55,006
Utility Operating Income	130,908	131,290	147,505	150,422
Income Deductions	56,322	64,704	67,107	70,190
Net Income to Common	\$ 74,585	\$ 66,586	\$ 80,398	\$ 80,232

* The Company is currently in the process of updating the projections for 2009 – 2011 through its normal annual budgeting process.

Pennsylvania-American Water Company
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.26

Pennsylvania-American Water Company
VII. Rate of Return

26. Please provide the Company's five-year construction budget.

Answer: Company's construction budget net of customer contributions and advances.

2008	\$178,730,192
2009	\$248,204,242
2010	\$185,135,441
2011	\$158,145,927
2012	\$157,349,120

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.27

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

27. Please identify the Company's and, if applicable, its parent's capital structure targets (percentages of capital types). Provide the complete basis for the capital structure targets.

Answer: Pennsylvania-American strives to maintain a common equity ratio in the range of 45% - 50% of its total permanent capital structure. This target is based upon the desire to maintain a capital structure which facilitates access to capital markets at favorable rates.

The parent's capital structure targets are not applicable to the Company.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission

FR VII.28

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

VII. Rate of Return

28. For each month, of the most recent 24 months, please supply the Company's
- a. Short-term debt balance;
 - b. Short-term debt interest rate;
 - c. Balance of construction work in progress; and
 - d. Balance of construction work in progress which is eligible for AFUDC accrual.

Answer:

Short Term Debt Balance

	Balance 2006	Interest Rate	Balance 2007	Interest Rate
Jan	13,154,085	5.21%	3,304,828	5.50%
Feb	2,368,665	5.04%	0	5.42%
Mar	37,198,955	4.69%	13,243,428	5.49%
Apr	39,209,882	4.74%	6,047,016	5.39%
May	33,592,795	4.73%	1,292,666	5.39%
Jun	42,368,954	5.43%	13,631,510	5.44%
Jul	38,385,072	5.25%	2,694,245	5.37%
Aug	33,505,477	5.79%	0	5.75%
Sep	47,816,719	5.42%	20,474,763	5.75%
Oct	42,122,207	5.73%	15,235,299	5.33%
Nov	184,135,546	5.14%	12,823,483	5.17%
Dec	176,036,890	5.83%	70,909,110	5.28%

**Construction Work in Progress Total
Total PA Amer**

	Balance 2006	Balance 2007
Jan	56,754,136	33,759,218
Feb	55,873,127	32,298,294
Mar	31,707,836	33,683,567
Apr	36,934,152	36,158,036
May	33,121,801	43,573,162
Jun	30,356,502	49,294,336
Jul	33,444,856	56,198,425
Aug	30,771,718	50,370,024
Sep	37,628,765	56,269,066
Oct	40,844,631	55,567,588
Nov	39,554,119	60,736,988
Dec	32,037,355	36,081,696

**Construction Work in Progress Eligible for AFUDC
Total PA Amer**

	Balance 2006	Balance 2007
Jan	8,898,120	13,628,263
Feb	8,818,066	12,844,167
Mar	11,091,649	13,488,944
Apr	15,183,982	14,763,943
May	13,463,591	14,900,885
Jun	12,707,743	16,272,110
Jul	15,558,276	18,695,359
Aug	13,521,815	20,991,798
Sep	11,783,871	18,321,715
Oct	14,230,328	20,900,661
Nov	13,598,678	24,681,620
Dec	12,414,467	26,472,424

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.29

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

29. Fully identify all debt, other than instruments traded in public markets, owed to all shareholders, corporate officers, or members of the board of directors, its affiliates, parent company, or subsidiaries.

Answer: See attached

PENNSYLVANIA-AMERICAN WATER COMPANY
INSIDE DEBT @ 12/31/07

DESCRIPTION	RATE	PRINCIPAL	AFFILIATE
Variable Short Term Revolver Balance *	Variable	\$ 70,909,110	AWCC
6.870% series issued 06/01/02 due 03/29/11	6.870%	\$ 13,600,000	AWCC
Variable series issued 11/07/06 due 07/01/31	Variable	\$ 16,700,000	AWCC
Variable series issued 11/07/06 due 09/01/18	Variable	\$ 18,250,000	AWCC
Variable series issued 11/07/06 due 03/15/19	Variable	\$ 17,950,000	AWCC
5.77% series issued 03/29/07 due 03/29/22	5.770%	\$ 80,000,000	AWCC
5.52% series issued 1/31/07 due 12/21/16	5.520%	\$ 13,800,000	AWCC
5.62% series issued 1/31/07 due 12/21/18	5.620%	\$ 65,900,000	AWCC
5.77% series issued 1/31/07 due 12/21/21	5.770%	\$ 100,300,000	AWCC
TOTAL LONG-TERM DEBT		<u>\$ 397,409,110</u>	

GENERAL LEDGER:

NOTES INSIDE
BONDS OUTSIDE
BONDS INSIDE
CURR PORTION LTD-OUT
CURR PORTION LTD-IN

ACCT:

231200	\$	70,909,110
221110	\$	-
221120	\$	323,100,000
232100	\$	-
232200	\$	3,400,000
TOTAL G/L	\$	<u>397,409,110</u>

* Derived from Commercial Paper backed by Line of Credit

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.30

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

30. Provide a summary statement of all stock dividends, splits, or par value changes during the two (2) year calendar period preceding the rate case filing.

Answer: None.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.31

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

31. If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and consolidated system, the reasons for this claim must be fully stated and supported.

Answer: Not applicable.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission

FR VII.32

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

VII. Rate of Return

32. To the extent not provided elsewhere, supply financial data of the Company and parent, if applicable, for the last five (5) years.
- a. Times interest earned ratio--pre and post tax basis.
 - b. Preferred stock dividend coverage ratio--post tax basis.
 - c. Times fixed charges earned ratio--pre tax basis.
 - d. Dividend payout ratio.
 - e. AFUDC as a percent of earnings available for common equity.
 - f. Construction work in progress as a percent of net utility plant.
 - g. Effective income tax rate.
 - h. Internal cash generations as a percent of total capital requirements.

Answer: Please refer to Exhibit No. 8-A.

VIII. RATE STRUCTURE – COST OF SERVICE

MFR VIII

Rate Structure / Cost of Service

Refer to

Paul Herbert Exhibit No. 7

IX. QUALITY OF SERVICE

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission
 For Period of January 1, 2007 to December 31, 2007

FR IX.1

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

IX. Quality of Service

1. Indicate whether the Company is in violation of any provision of the Pennsylvania Safe Drinking Water Act (SDWA) or any rule, regulation or order, or any condition of any permit, variance or exemption granted by the Pennsylvania Department of Environmental Protection (PA-DEP), or its predecessor.

RESPONSE: The SDWA regulates drinking water supplies and has no references to wastewater. The Coatesville wastewater operations fall under the regulatory requirements of the Clean Water Act and the Clean Streams Law.

Two Notices of Violation (NOV) for incidences related to the Clean Streams Law were noted. The first incident occurred on March 11, 2007, when a bypass pump failed during replacement of a section of sewer line in the collection system. This sanitary sewer overflow was reported to the Pa. DEP. The second NOV was issued by the DEP for a sanitary sewer overflow which occurred in the collection system on June 19, 2007. A bypass pump failed, causing a backup in the collection system and an eventual release to homes and into the East Branch of the Brandywine Creek. PAWC properly notified the DEP of this incident. PAWC settled both violations with the DEP by paying a Civil Penalty of \$12,000.

- a. Provide information indicating whether the Company is in compliance with SDWA provisions at 25 Pa. Code, §109.407 regarding general public notification requirements.
 - (i) Provide a copy of each public notification given in accordance with this section, since the last rate proceeding.

RESPONSE: The Coatesville wastewater plant is not covered under the Safe Drinking Water Act. This question is not applicable.

- (ii) Provide a detailed explanation of all actions taken to remedy an acute violation, and/or to comply with the requirements prescribed by a variance or exemption.

RESPONSE: See Item 1 above.

- (iii) State whether any fines or penalties were assessed by PA-DEP, and indicate the amounts paid by the Company.

RESPONSE: See Item 1 above.

- b. (i) Provide the most recent copies of all annual consumer confidence reports issued pursuant to SDWA Amendments of 1996 since the last rate proceeding.

RESPONSE: A consumer confidence report is not issued for the Coatesville wastewater operations and is not required by any environmental statute.

- (ii) Provide any annual consumer confidence reports which reflect violations of state and Federal drinking water requirements.

RESPONSE: Not Applicable.

- (iii) Explain how these violations were resolved.

RESPONSE: See Item 1 above for the explanation of the 2 notices of violation received in calendar year 2007.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Quality of Service Operating Pressure Standards
FR IX.2

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

IX. Quality of Service

2. Indicate whether the Company is in compliance with 52 Pa. Code, § 65.6(a) regarding normal operating pressure standards, with 52 Pa. Code, § 65.6 (d) regarding pressure surveys at regular intervals.
 - a. Provide details on any water pressure problems, lasting longer than five days, which had occurred since the last rate proceeding in any part of the water transmission and distribution system.
 - b. Describe any action taken on a temporary basis, and the long term solutions developed to address any water pressure problems.

Answer: Not applicable to operations of a sewer system.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Quality of Service Interruptions

FR IX.3

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

IX. Quality of Service

3. Provide support to demonstrate that water or wastewater service is being furnished on a continuous basis by supplying a summary of the Company's records of each service interruption greater than 24 hours since the last rate proceeding.

Answer: The Coatesville sewer system has not experienced any service interruptions greater than 24 hours.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission
 Quality of Service Customer Complaints

FR IX.4

Pennsylvania-American Water Company
Coatesville Wastewater Operations
IX. Quality of Service

4. Provide a discussion of the Company's policy, or provide a copy of the policy if in written form, on tracking and responding to customer complaints.
 - a. Provide a summary report demonstrating the Company's compliance with 52 Pa. Code, §65.3 regarding the full and prompt investigation of service or facility complaints and the record keeping requirements of such complaints.

Answer: The Company does not have a formal written policy for tracking and responding to customer complaints. The company however, does follow the BCS PUC Guidelines. Once a customer has filed a customer complaint with the company, information relating to the complaint is documented and the contact information is electronically transferred to the dispute follow-up personnel to research the account. The dispute follow up group gathers the necessary information for the customer to make an informed judgment. The customer is verbally contacted for satisfaction and when satisfied, the contact is closed. If no satisfaction occurs, the customer is sent a written company utility report and the contact is then closed. During the dispute process, a hold date is placed on the account eliminating late penalty charges and terminations.

For continual tracking purposes, all dispute contacts denoted as Displwup (dispute follow up), remain open until the necessary information is obtained and provided to the customer. The company may then query the contact types to identify those accounts where disputes remain open along with those accounts with disputes that have been closed

- a. Please see attached.

Detailed Complaint Report

Log ID	Account Nui	Account Last Name	Date Receive	District	Sub Category 1	Agency Case Number	Agency Investigator	Agency Case Status
59040	1269095	Wilkerson	04/27/2007	PAAWC - Coatesville	3.8 Miscellaneous	2227347	Valerie Fisher	Closed
60226	1268564	Arizuendi	06/12/2007	PAAWC - Coatesville	3.8 Miscellaneous	2249429	Valerie Fisher	Closed

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Quality of Service Distribution System Mapping

FR IX.5

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

IX. Quality of Service

5. Indicate whether the Company is in compliance with 52 Pa. Code, § 65.4 (b) regarding complete and current mapping of the entire distribution or collection system.

Answer: Each District in Pennsylvania-American Water Company's operating areas maintain their current mapping in addition to a statewide set of mapping located in the Corporate Office located in Hershey Pa.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Quality of Service Water Conservation

FR IX.6

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

IX. Quality of Service

6. Provide a summary report demonstrating the Company's efforts in water conservation, since the last rate proceeding to 52 Pa. Code § 65.20.

Answer: Not applicable.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Quality of Service Water Conservation

FR IX.7

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

IX. Quality of Service

7. Provide a discussion of the Company's policy regarding meter requirements, replacements and testing. State if the Company procedures are in compliance with 52 Pa. Code, § 65.8 (b).
- a. Provide meter test records as required in 52 Pa. Code, § 65.8(c) for 50 meters most recently removed from service.
 - b. Provide a discussion of the Company's policy and history of compliance with 52 Pa. Code § 65.9 regarding adjustments of bills for meter error within the last year.

Answer: Pennsylvania-American Water Company strictly adheres to 52 Pa Code § 65.8(b) concerning this matter.

- a. See attached.
- b. Pennsylvania-American Water Company adjusts meters that are found not in compliance to the meter testing rules and regulations under 52 Pa. Code § 65.9. By way of further answer adjustments are made in accordance to Chapter 65.9 (c) referencing non-registering meters.

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 11/29/2005

Customer Name: Novak, Fran E.

Removed From: # 102 Hydrangea Way

Account Number: 1566858

Premise Number: 240688021

Manufacturer: Neptune T-10

Meter Number: N78826117

Serial Number: 78826117

Meter Size: 5/8"

Meter Reading: O199130

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 11/30/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O199140 0.1	O199150 0.1	100%
6	100 Gallons	O199150 7.1	O199250 0.2	100.1%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 10/25/2005

Customer Name: Bullard, Allen

Removed From: # 103 Largo Way

Account Number: 159736

Premise Number: 240688870

Manufacturer: Neptune T-10

Meter Number: N79038619

Serial Number: 79038619

Meter Size: 5/8"

Meter Reading: O218000

Reason: Stopped Frozen Time Changeout

Special Test Other: _____

TEST DATE: 10/27/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O218000 0.0	O218010 0.0	100%
6	100 Gallons	O218010 0.0	O218110 0.7	100.7%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 10/3/2005

Customer Name: Rollins, Leon

Removed From: # 131 Virginia Avenue

Account Number: 1416721

Premise Number: 240612774

Manufacturer: Sensus ECR SR-II

Meter Number: S057543419

Serial Number: 57543419

Meter Size: 5/8"

Meter Reading: 0375980

Reason: Stopped Frozen Time Changeout

Special Test Other: _____

TEST DATE: 10/11/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>0375980 0.0</u>	<u>0375980 8.6</u>	<u>86%</u>
<u>6</u>	<u>100 Gallons</u>	<u>0376000 0.0</u>	<u>0376100 1.0</u>	<u>101.0%</u>

NOTES: Failed Test - Low on low flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 6/16/2005

Customer Name: Hyde, William

Removed From: # 117 Millview Drive

Account Number: 1531782

Premise Number: 240615386

Manufacturer: Sensus SR-II

Meter Number: S013495633

Serial Number: 57315879

Meter Size: 5/8"

Meter Reading: O200710

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 6/29/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>O200720 0.0</u>	<u>O200730 9.9</u>	<u>99%</u>
<u>6</u>	<u>100 Gallons</u>	<u>O200730 0.0</u>	<u>O200830 0.9</u>	<u>100.9%</u>

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 6/20/2005

Customer Name: Hery, Harry

Removed From: # 440 Strasburg Avenue

Account Number: 1274229

Premise Number: 240620307

Manufacturer: Neptune T-10

Meter Number: N000951230

Serial Number: 32032195

Meter Size: 5/8"

Meter Reading: 0797660

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 6/29/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	0797670 0.0	0797680 0.1	101%
6	100 Gallons	0797680 0.1	0797680 0.8	100.7%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 5/24/2005

Customer Name: Kay, John

Removed From: # 3622 Lincoln Hwy.

Account Number: _____

Premise Number: 240620532

Manufacturer: Neptune T-10

Meter Number: 57176721

Serial Number: 57176721

Meter Size: 5/8"

Meter Reading: O477570

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 5/26/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>O477600 0.0</u>	<u>O477600 9.0</u>	<u>90%</u>
<u>6</u>	<u>100 Gallons</u>	<u>O477600 0.0</u>	<u>O477700 1.4</u>	<u>101.4%</u>

NOTES: Failed Test - Low on Low Flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road
Sinking Spring, PA 19608
Tel.610-678-2493
Fax 610-678-7481

WATER METER TEST

District: COATESVILLE
Removed Date: 5/16/2005
Customer Name: Migdal, Marian
Removed From: # 1006 Stirling Street
Account Number: 1272019
Premise Number: 240615154
Manufacturer: Neptune T-10
Meter Number: N077178810
Serial Number: 77178810
Meter Size: 5/8"
Meter Reading: OO54230
Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 5/19/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>OO54230 0.0</u>	<u>OO54230 6.4</u>	<u>64%</u>
<u>6</u>	<u>100 Gallons</u>	<u>OO54240 0.0</u>	<u>OO54340 0.1</u>	<u>100.1%</u>

NOTES: Failed Test - Low on Low Flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 1/5/2005

Customer Name: Porte, Michael V

Removed From: # 913 Madison Street

Account Number: 1271741

Premise Number: 240614864

Manufacturer: Neptune Auto T-10

Meter Number: N076510547

Serial Number: 76510547

Meter Size: 5/8"

Meter Reading: O143700

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 1/11/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O143700 0.1	O143700 9.9	98%
6	100 Gallons	O143710 0.0	O143810 1.0	101.0%

NOTES: Tested Ok.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 8/4/2005

Customer Name: Sebastian, Joseph

Removed From: # 120 Maranatha Drive

Account Number: 1275915

Premise Number: 240617073

Manufacturer: Sensus SR-II

Meter Number: S004556123

Serial Number: 48365970

Meter Size: 5/8"

Meter Reading: O71O51O

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 8/9/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O71O51O 0.2	O71O51O 0.1	99%
6	100 Gallons	O71O51O 0.2	O71O62O 0.2	100.1%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 11/9/2005

Customer Name: AGC Chemicals Americas, Inc.

Removed From: # 255 South Bailey Road

Account Number: 1276989

Premise Number: 240619010

Manufacturer: Sensus Compound

Meter Number: S007957612

Serial Number: 1527611

Meter Size: 2"

Meter Reading: 34380600

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 11/16/2005

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
16	100 Gallons	34380600 0.7	34380600 9.7	97.7%

NOTES: Failed Test - Low on low flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 11/9/2006

Customer Name: Roth, Paul

Removed From: # 106 Nassau Lane

Account Number: 1599663

Premise Number: 240691605

Manufacturer: Neptune T-10

Meter Number: N79482700

Serial Number: 79482700

Meter Size: 5/8"

Meter Reading: O170050

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 11/16/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O170050 0.0	O170050 9.7	97%
6	100 Gallons	O170060 0.0	O170160 0.1	100.1%

NOTES: Failed Test - Low on Low Flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: _____

Customer Name: AGC Chemicals

Removed From: # 255 South Bailey Road

Account Number: 1276989

Premise Number: 240619010

Manufacturer: Neptune T-10

Meter Number: N060456536

Serial Number: 60456536

Meter Size: 2"

Meter Reading: O519300

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 6/6/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
2	10 Gallons	O151930 0.0	O519300 1.0	100%
50	100 Gallons	O519300 1.0	O519310 0.9	99.9%

NOTES: Tested OK, but register it's showing only one dead zero ?
Normally are two dead zeros for 2" gallon meters.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 8/22/2006

Customer Name: Merlino, Sarah

Removed From: # 200 Cyprus Lane

Account Number: 1776787

Premise Number: 240713286

Manufacturer: Neptune T-10

Meter Number: N081991232

Serial Number: 81991232

Meter Size: 5/8"

Meter Reading: OO40400

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 8/31/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO40400 0.0	OO40410 0.0	100%
6	100 Gallons	OO40410 0.0	OO40510 9.7	99.7%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 7/18/2006

Customer Name: Sturn, Cathy

Removed From: # 115 Bridle Path Lane

Account Number: 1748570

Premise Number: 240710831

Manufacturer: Neptune T-10

Meter Number: NO8099O895

Serial Number: 8099O895

Meter Size: 5/8"

Meter Reading: OO7556O

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 8/8/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO7556O 0.0	OO7557O 0.0	100%
6	100 Gallons	OO7557O 0.4	OO7567O 0.2	99.8%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 7/10/2006

Customer Name: Repak, Steve

Removed From: # 320 Charles Street

Account Number: 1271399

Premise Number: 240614489

Manufacturer: Neptune T-10

Meter Number: N000307910

Serial Number: 29925967

Meter Size: 5/8"

Meter Reading: 0642830

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 7/17/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	0642840 0.0	0642840 0.0	0%
6	100 Gallons	0642840 0.0	0642940 0.9	100.9%

NOTES: Failed Test - No Movement in the low flow indicator at 1/4 gpm.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 6/26/2006

Customer Name: Labuda, Chris

Removed From: # 2965 Honeymead Road

Account Number: 1773740

Premise Number: 240706786

Manufacturer: Neptune T-10

Meter Number: NO81991248

Serial Number: 81991248

Meter Size: 5/8"

Meter Reading: OO58830

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 7/6/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO58830 0.0	OO58830 0.1	101%
6	100 Gallons	OO58840 0.1	OO58940 0.0	99.9%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 6/21/2006

Customer Name: Barbara, Parker

Removed From: # 554 Walnut Street

Account Number: 1288769

Premise Number: 240613206

Manufacturer: Neptune T-10

Meter Number: NOOO187620

Serial Number: 34069881

Meter Size: 5/8"

Meter Reading: 1527240

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 6/28/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>2 1/4</u>	10 Gallons	1527250 0.0	1527250 9.6	96%
<u>50</u>	100 Gallons	1527260 0.0	1527360 0.3	100.3%

NOTES: Fialed Test - Low on low flow

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 4/19/2006

Customer Name: Green, Darryl R.

Removed From: # 54 Irish Lane

Account Number: 1579120

Premise Number: 240616451

Manufacturer: Neptune T-10

Meter Number: N080423497

Serial Number: 80423497

Meter Size: 5/8"

Meter Reading: OO18340

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 4/20/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO18350 0.0	OO18360 0.0	100%
6	100 Gallons	OO18360 0.0	OO18460 0.2	100.2%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 4/19/2006

Customer Name: Ese Machines, Inc.

Removed From: # 21 South Caln Road

Account Number: 1273906

Premise Number: 240618812

Manufacturer: Sensus - ECR

Meter Number: S012711463

Serial Number: 56796290

Meter Size: 5/8"

Meter Reading: O364600

Reason: Stopped Frozen Time Changeout

Special Test Other: _____

TEST DATE: 4/20/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>O364600 0.0</u>	<u>O364600 5.0</u>	<u>50%</u>
<u>6</u>	<u>100 Gallons</u>	<u>O364610 5.0</u>	<u>O364710 5.8</u>	<u>100.8%</u>

NOTES: Failed Test - Low on Low Flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 3/3/2006

Customer Name: Thorton, Shauna A

Removed From: # 8 Ingleside Drive

Account Number: 1695207

Premise Number: 240617754

Manufacturer: Rockwell TTR

Meter Number: R028873366

Serial Number: 28873366

Meter Size: 5/8"

Meter Reading: 225410

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 3/7/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>225420 0.0</u>	<u>225420 5.4</u>	<u>54%</u>
<u>6</u>	<u>100 Gallons</u>	<u>225430 0.0</u>	<u>225530 9.6</u>	<u>99.6%</u>

NOTES: Failed Test - Low on Low Flow.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 1/9/2006

Customer Name: Tastkhitz, Amir M.

Removed From: # 91 South 6th Avenue

Account Number: 1718283

Premise Number: 240612870

Manufacturer: Neptune T-10

Meter Number: N076609412

Serial Number: 76609412

Meter Size: 5/8"

Meter Reading: OO96070

Reason: Stopped Frozen Time Changeout

Special Test Other: _____

TEST DATE: 1/11/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO96070 0.1	OO96080 0.1	100%
6	100 Gallons	OO96080 0.1	OO96180 0.5	100.4%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 2/21/2006

Customer Name: Stoltzfus, Linda Kay

Removed From: # 1080 West Kings Hwy.

Account Number: 1275893

Premise Number: 240617051

Manufacturer: Sensus SR-II TR/PL

Meter Number: SOO9832861

Serial Number: 54166403

Meter Size: 5/8"

Meter Reading: 0119900

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 2/24/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	0119900 0.0	0119900 0.0	0%
6	100 Gallons	0119900 0.0	0119900 0.0	0.0%

NOTES: Failed Test - Stopped Register.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 12/27/2005

Customer Name: D' Angelo, Jim

Removed From: # 353 Adams Street

Account Number: 1481416

Premise Number: 240618559

Manufacturer: Neptune T-10

Meter Number: N076609225

Serial Number: 76609225

Meter Size: 5/8"

Meter Reading: O326280

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 1/4/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O326300 0.2	O326300 0.3	101%
6	100 Gallons	O326300 0.3	O326400 0.9	100.6%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

WATER METER TEST

District: COATESVILLE
Removed Date: 12/19/2005
Customer Name: Murtaugh, Lori (Landlord)
Removed From: # 104 East 2nd Street
Account Number: 1609251
Premise Number: 240620074
Manufacturer: Neptune T-10
Meter Number: N076324100
Serial Number: 76324100
Meter Size: 5/8"
Meter Reading: 0070610
Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 1/4/2006

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	0070620 0.1	0070620 0.0	99%
6	100 Gallons	0070630 0.0	0070730 0.7	100.7%

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel.610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 10/2/2007

Customer Name: Fairways, Apartments

Removed From: # 47 Horseshoe Drive

Account Number: 1828598

Premise Number: 240618961

Manufacturer: Rockwell

Meter Number: RO22869390

Serial Number: 22869390

Meter Size: 5/8"

Meter Reading: 643640

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 10/12/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	643650 0	643650 0	0%
6	100 Gallons	643650 0	643750 98	98.0%

NOTES: **Failed Test - No Movement in the Low Flow at 1/4 GPM.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT): _____

CUSTOMER SIGNATURE: _____

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel.610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 10/5/2007

Customer Name: Zwick, Don

Removed From: # 1933 Valley Road

Account Number: 1276707

Premise Number: 240619499

Manufacturer: Badger Read-O-Matic

Meter Number: BO8344O399

Serial Number: 8344O399

Meter Size: 5/8"

Meter Reading: O94132O

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 10/12/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O94133O 0	O94133O 96	96%
6	100 Gallons	O94134O 0	O94144O 100	100.5%

NOTES: **Failed Test - Low on Low Flow.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 12/6/2007

Customer Name: Evans, David

Removed From: # 33 Lincoln Avenue

Account Number: 1692413

Premise Number: 240695450

Manufacturer: Neptune T-10

Meter Number: NO8O991111

Serial Number: 8O991111

Meter Size: 5/8"

Meter Reading: O256820

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 12/11/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O256830 0	O256840 0	100.0%
6	100 Gallons	O256840 0	O256940 4	100.4%

NOTES: **Tested OK.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 12/5/2007

Customer Name: Underwood, David

Removed From: # 113 Pennsylvania Avenue

Account Number: 1268194

Premise Number: 240611844

Manufacturer: Neptune T-10

Meter Number: NO75671425

Serial Number: 75671425

Meter Size: 5/8"

Meter Reading: O371710

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 12/11/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O371710 0	O371720 0	100.0%
6	100 Gallons	O371720 0	O371820 8	100.8%

NOTES: **Tested OK.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 11/16/2007

Customer Name: Moskel, Lorraine

Removed From: # 202 Grant Street

Account Number: 1326197

Premise Number: 240620059

Manufacturer: Neptune R900i

Meter Number: NO84729358

Serial Number: 84729358

Meter Size: 5/8"

Meter Reading: OOO2144.52 RF # 1820293162

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 11/30/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OOO2245.70	OOO2245.74	4.0%
6	100 Gallons	OOO2245.74	OOO2345.53	99.7%

NOTES: **Failed Test - Low on Low Flow.** RF Read OOOOO23455

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 11/27/2007

Customer Name: Moskel, Lorraine

Removed From: # 202 Grant Street

Account Number: 1326197

Premise Number: 240620059

Manufacturer: Neptune R900i

Meter Number: NO84146149

Serial Number: 84146149

Meter Size: 5/8"

Meter Reading: OO17738.39 RF # 1820087291

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 11/30/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>OO17847.22</u>	<u>OO17857.27</u>	<u>100.5%</u>
<u>6</u>	<u>100 Gallons</u>	<u>OO17857.81</u>	<u>OO17957.92</u>	<u>100.1%</u>

NOTES: Tested OK, but cannot obtain read via RF.

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

Shop

District: COATESVILLE

Removed Date: 7/9/2007

Customer Name: 24-Hour Business Inc.

Removed From: # 3470 Lincoln Hwy. Happy Days

Account Number: 1608803

Premise Number: 240620520

Manufacturer: Neptune T-10

Meter Number: N060459014

Serial Number: 60459014

Meter Size: 1.5

Meter Reading: 00921600

Reason: Stopped Frozen Time Change out
Special Test Other: _____

TEST DATE: 7/18/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1	10 Gallons	00921600 0	00921600 10	100%
30	100 Gallons	00921600 10	00921700 10	100.0%

NOTES: **Customer witness test - Tested OK.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT): _____

CUSTOMER SIGNATURE: _____

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 4/18/2007

Customer Name: _____

Removed From: # 18 North, 3rd Avenue ????

Account Number: _____

Premise Number: _____

Manufacturer: Neptune T-10

Meter Number: _____

Serial Number: 33000464

Meter Size: 1"

Meter Reading: 4509910

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 4/24/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>3/4</u>	<u>10 Gallons</u>	<u>4509920 2</u>	<u>4509920 0</u>	<u>98%</u>
<u>20</u>	<u>100 Gallons</u>	<u>4509930 0</u>	<u>4510030 96</u>	<u>99.6%</u>

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel.610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 3/1/2007

Customer Name: Howe, Don

Removed From: # 360 Harmony Street

Account Number: 1269930

Premise Number: 240613049

Manufacturer: Neptune T-10

Meter Number: N034963335

Serial Number: 34963335

Meter Size: 5/8"

Meter Reading: O2O382O

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 3/5/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	O2O382O 10	O2O383O 10	100%
6	100 Gallons	O2O383O 10	O2O393O 19	100.9%

NOTES: Tested OK - Receive meter with broken low flow indicator.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY

Meter Shop - Penn Water District

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

WATER METER TEST

District: COATESVILLE

Removed Date: 3/1/2007

Customer Name: Arraya, Stephen

Removed From: # 128 Wesley Lane

Account Number: 1780986

Premise Number: 240692570

Manufacturer: Neptune T-10

Meter Number: N79753918

Serial Number: 79753918

Meter Size: 5/8"

Meter Reading: O156720

Reason: Stopped Frozen Time Changeout
Special Test Other: _____

TEST DATE: 3/5/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
<u>1/4</u>	<u>10 Gallons</u>	<u>O156720 3</u>	<u>O156720 1</u>	<u>98%</u>
<u>6</u>	<u>100 Gallons</u>	<u>O156730 1</u>	<u>O156830 5</u>	<u>100.4%</u>

NOTES: Tested OK.

INSPECTOR: Eli Encarnacion - Meter Technician

PENNSYLVANIA-AMERICAN WATER COMPANY
Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road
Sinking Spring, PA 19608
Tel. 610-678-2493
Fax 610-678-7481

District: COATESVILLE

Removed Date: 9/10/2007

Customer Name: Ctsvl Area School Benner

Removed From: # 545 East Lincoln Hwy

Account Number: 1271748

Premise Number: 240614877

Manufacturer: Sensus SR/ECR Compound

Meter Number: N01539516

Serial Number: 1539516

Meter Size: 2" 1000 Gallon Register

Meter Reading: OO492400

Reason: Stopped Frozen Time Change out

Special Test **Other:** _____

TEST DATE: 9/12/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
50	100 Gallons	OO492400 2	OO492500 3	100.1

NOTES: **Tested OK.**

INSPECTOR: Eli Encarnacion - Meter Technician

CUSTOMER NAME (PRINT):

CUSTOMER SIGNATURE:

PENNSYLVANIA-AMERICAN WATER COMPANY

Penn Water District Meter Shop - Water Meter Test Results

920 Mountain Home Road

Sinking Spring, PA 19608

Tel. 610-678-2493

Fax 610-678-7481

District: COATESVILLE

Removed Date: 8/21/2007

Customer Name: Williams, Denise

Removed From: # 146 Cornwall Place

Account Number: 1840937

Premise Number: 240722191

Manufacturer: Neptune T-10 R900i Gear # 2110-01-05

Meter Number: N084146339 RF # 1810373718

Serial Number: 84146339

Meter Size: 5/8"

Meter Reading: OO51378.73 R900i Read *0000154803

Reason: Stopped Frozen Time Change out

Special Test Other: _____

TEST DATE: 8/23/2007

GPM:	FLOW AMOUNT:	START READ:	END READ:	PERCENTAGE:
1/4	10 Gallons	OO51380.75	OO51380.82	7%
6	100 Gallons	OO51380.82	OO51480.41	99.6%

NOTES: **Failed Test - Low on Low Flow**

Encoder rate was displaying " 0 " when I actually was running .25 GPM during the Low Flow Test.

INSPECTOR: *Eli Encarnacion - Meter Technician*

X. BALANCE SHEET

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Comparative Balance Sheet as of December 31, 2007

FR X.1

Pennsylvania-American Water Company
Coatesville Wastewater Operations
X. Balance Sheet

1. Provide a comparative balance sheet for the historic test year-end and the preceding year-end.

Answer: Please see attached.

Pennsylvania-American Water Company
 Coatesville Waste Water Facility
 Comparative Balance Sheet as of
 December 31 2007

FR X.1

	As Of Dec 2007 Actual	As Of Dec 2006 Actual	Change
Utility Plant	33,834,910	27,779,109	6,055,801
Construction Work in Progress	4,077,089	2,797,810	1,279,279
Accumulated Depreciation	(5,544,795)	(4,247,652)	(1,297,143)
Utility Plant Acquisitions adjustments	(1,647,689)	(2,154,671)	506,982
Sub -Total Utility Plant	30,719,515	24,174,596	6,544,919
Cash & Cash Equivalents	-	-	-
Utility customer accounts receivable	-	-	-
Allowance for uncollectible accounts	-	-	-
Accrued utility revenues	-	-	-
Other receivables, net	-	-	-
Taxes receivables, including federal	-	-	-
Materials & supplies	-	-	-
Other current assets	3,370	271	3,099
Total Assets	30,722,885	24,174,867	6,548,018
Common Stock	-	-	-
Paid in Capital	-	-	-
Retained Earnings	496,824	1,113,047	(616,223)
Total Common Stockholder's Equity	496,824	1,113,047	(616,223)
Preferred Stock w/o mandatory redemption	-	-	-
LT Debt	-	-	-
Redeemable preferred stock at redemption	-	-	-
Total Capitalization	496,824	1,113,047	(616,223)
ST Debt	-	-	-
Current portion of LT Debt	-	-	-
Accounts Payable	823,020	-	823,020
Taxes Accrued	-	-	-
Interest Accrued	-	-	-
Other Current Liabilities	6,013	4,300	1,713
Total Current Liabilities	829,033	4,300	824,733
Customer advances for construction	2,575,577	2,858,577	(283,000)
Contributions in aid of construction	9,285,076	7,608,791	1,676,285
Total Capital & Liabilities	13,186,510	11,584,715	1,601,795

PAWC Water & Sewer TOTAL

	As Of Dec 2007 Actual	As Of Dec 2006 Actual	Change
Utility Plant	2,627,874,213	2,481,890,205	145,984,008
Construction Work in Progress	36,081,696	32,037,355	4,044,341
Accumulated Depreciation	(599,085,073)	(555,072,344)	(44,012,729)
Utility Plant Acquisitions adjustments	19,363,395	18,366,603	996,792
Total Utility Plant, net	2,084,234,231	1,977,221,819	107,012,412
Total Non-Utility Plant, net	381,933	291,098	90,835
Total PP&E	2,084,616,164	1,977,512,917	107,103,247
Cash & Cash Equivalents	2,169,451	1,798,289	371,162
Utility customer accounts receivable	33,011,412	37,161,918	(4,150,506)
Allowance for uncollectible accounts	(6,507,829)	(6,021,346)	(486,483)
Accrued utility revenues	25,253,327	22,685,734	2,567,593
Other receivables, net	1,625,005	977,236	647,769
Taxes receivables, including federal	3,549,334	2,145,673	1,403,661
Materials & supplies	3,595,359	2,931,170	664,189
Receivable from affiliated companies **	-	-	-
Other current assets	6,434,989	7,690,435	(1,255,446)
Total Current Assets	69,131,048	69,369,109	(238,061)
Regulatory assets - income tax recovery	110,870,552	108,681,263	2,189,289
Debt & preferred stock expense	13,510,518	14,834,776	(1,324,258)
Deferred pension expense	-	-	-
Deferred security costs	-	-	-
Deferred business services project expense	-	-	-
Deferred rate case expenses	1,349,896	-	1,349,896
Other regulatory assets	-	-	-
Total Regulatory Assets	125,730,966	123,516,039	2,214,927
Other investments	40,343,801	45,388,281	(5,044,480)
Funds restricted for construction	-	-	-
Goodwill	38,971,280	39,165,641	(194,361)
Other LT Assets	-	-	-
Total Other LT Assets	79,315,081	84,553,922	(5,238,841)
Total Assets	2,358,793,259	2,254,951,987	103,841,272
Common Stock	21,506,887	21,506,887	-
Paid in Capital	520,483,004	487,983,004	32,500,000
Retained Earnings *	271,837,531	258,529,500	13,308,031
Total Common Stockholder's Equity	813,827,422	768,019,391	45,808,031
Preferred Stock w/o mandatory redemption	1,720,200	1,720,200	-
LT Debt	850,246,198	680,203,184	170,043,014
Redeemable preferred stock at redemption	-	-	-
Total Capitalization	1,665,793,820	1,449,942,775	215,851,045
ST Debt	70,909,110	176,036,890	(105,127,780)
Current portion of LT Debt	11,818,817	49,615,828	(37,797,011)
Accounts Payable	31,305,709	29,265,482	2,040,227
Taxes Accrued	38,774,553	24,253,812	14,520,741
Interest Accrued	10,799,128	10,047,468	751,660
Other Current Liabilities	24,470,577	20,870,718	3,599,859
Total Current Liabilities	188,077,894	310,090,198	(122,012,304)
Customer advances for construction	92,803,941	89,267,777	3,536,164
Deferred income taxes	290,894,927	295,572,079	(4,677,152)
Deferred investment tax credits	7,241,308	7,474,900	(233,592)
Regulatory liability - cost of removal	-	-	-
Accrued pension expense	-	-	-
Accrued post retirement benefit expense	-	-	-
Other Deferred credits	17,871,850	13,873,356	3,998,494
Total Regulatory & LT Liabilities	408,812,026	406,188,112	2,623,914
Contributions in aid of construction	96,109,519	88,730,902	7,378,617
Total Capital & Liabilities	2,358,793,259	2,254,951,987	103,841,272

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Investments as of December 31, 2007

FR X.2

Pennsylvania-American Water Company
Coatesville Wastewater Operations
X. Balance Sheet

2. Provide a detail of Other Physical Property, Investments in Affiliated Companies and Other Investments.

Answer: Coatesville Wastewater Operations had no Other Physical Property or investments in Affiliated Companies.

As part of the March 2001 acquisition of the Coatesville Wastewater operations by PAWC, a debt service from the borough of Parkersburg to the City of Coatesville was transferred to PAWC. At December 31, 2007 the balance of this debt service from the Borough of Parkersburg was \$1.15 million. This receivable is recorded on the corporate business unit of the Company.

The debt service is being recovered through a surcharge on the bills of those customers in the Parkersburg service area.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Special Cash Accounts as of December 31, 2007

FR X.3

Pennsylvania-American Water Company
Coatesville Wastewater Operations
X. Balance Sheet

3. Provide the amounts and purpose of Special Cash Accounts as of the historic test-year end.

Answer: Coatesville Wastewater Operations has no Special Cash Accounts.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Notes Receivable, Accounts Receivable from Associated Companies and Other
Receivables as of December 31, 2006

FR X.4

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

4. Describe the nature and amounts of notes receivable, accounts receivable from associated companies, and any other receivables, other than customers' accounts, greater than 15% of the total. Limit the explanation to variances greater than \$10,000.

Answer: None.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission
 Accumulated Reserve for Uncollectible Accounts as of December 31, 2006

FR X.5

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

X. Balance Sheet

5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued and amounts written-off in each of the last three years.

Answer: The Company keeps the accumulated reserve for uncollectible accounts on a total company basis, that information is not available for the Coatesville Wastewater Operations. Below please find the amounts written off for the Coatesville Wastewater Operations.

	Year-end 2005	Year-end 2006	Year-end 2007
Net Write-Offs	\$69,499	\$70,584	\$66,564

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Prepayments as of December 31, 2007

FR X.6

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

6. Provide a list of prepayments and give an explanation of special prepayments.

Answer: Please refer to FR X.7.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Current Assets as of December 31, 2006

FR X.7

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

7. Break down and explain in detail any significant items, greater than 15% of the total, in the current assets account listed on the balance sheet. Limit the explanation to variances greater than \$10,000.

Answer: The Company does not have any significant items, greater than 15% of the total, in the current assets account listed on the balance sheet for Coatesville Wastewater Operations.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Deferred Asset Accounts as of December 31, 2006

FR X.8

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

8. Explain in detail, including the amount and purpose, the deferred asset accounts that currently operate to effect or will at a later date effect the operating account supplying:
- a. Origin of these accounts.
 - b. Probable changes to this account in the near future.
 - c. Amortization of these accounts currently charged to operations or to be charged in the near future.

- Answer:**
- a. Retirement work in progress \$3,370
 - b. Based on actual retirements.
 - c. None

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Accounts Payable to Associated Companies

FR X.9

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

9. Explain the nature of accounts payable to associated companies. Provide a breakdown by category.

Answer: The Company does not have accounts payable to associated companies for the Coatesville Wastewater Operations.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Deferred Credits as of December 31, 2007

FR X.10

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

10. Provide breakdown and explanation of other deferred credits as to their origin and disposition policy, for example, amortization.

Answer: Extension deposit in suspense \$7,513.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Funding of Reserves

FR X.11

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

11. Provide an explanation and method of funding of any reserves, other than depreciation and bad debt, appearing on historic balance sheet.

Answer: None.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Unappropriated Retained Earnings as of December 31, 2006

FR X.12

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

12. Provide an analysis of un-appropriated retained earnings for the historic test year and two preceding years.

Answer: Un-appropriated retained earnings are not recorded specifically for the Coatesville Wastewater Operations. Un-appropriated retained earnings are recorded on a total company basis (water and wastewater).

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Advances to Parent

FR X.13

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

X. Balance Sheet

13. Describe the purpose of any advances made by the Company to its parent corporation and describe all terms and conditions associated with such advances, including an estimate of future advances or repayments that are expected to occur.

Answer: The Company made no advances to its parent corporation for Coatesville Wastewater Operations.

XI. OTHER DATA

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Data Monthly Balance Sheet and Income Statement

FR XI.1

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

XI. Other Data

1. Provide the Company's monthly balance sheets and income statements for each month of the historic and future test year.

Answer: Historic test year monthly statements are attached as well as those future test year statements that are available.

Pennsylvania American Water Company
Balance Sheet
Period Ending 12/31/07
Coatesville Wastewater Operations - 2467

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Utility Plant	28,184,570	29,348,622	29,043,705	29,087,492	29,167,422	29,200,888	29,220,265	30,597,859	30,981,944	31,400,318	32,561,576	33,834,908
Construction Work in Progress	2,591,583	3,128,642	2,953,239	3,157,297	3,970,481	4,746,498	4,811,540	3,551,558	3,698,808	3,632,126	4,192,601	4,077,089
Accumulated Depreciation	(4,264,513)	(4,298,332)	(4,316,826)	(4,364,304)	(4,411,885)	(4,459,511)	(4,502,125)	(4,546,881)	(4,582,648)	(4,613,240)	(4,654,755)	(5,544,795)
Utility Plant Acquisitions adjustments	(2,112,422)	(2,070,174)	(2,027,925)	(1,985,677)	(1,943,429)	(1,901,180)	(1,858,932)	(1,816,683)	(1,774,435)	(1,732,186)	(1,689,938)	(1,647,689)
Sub - Total Utility Plant	24,399,218	26,108,758	25,652,193	25,894,808	26,782,589	27,588,395	27,662,649	27,789,387	28,344,874	28,705,098	30,417,469	30,722,883
Cash & Cash Equivalents	-	-	-	-	-	1,700	(8,099)	3,534	1,206	18,080	7,985	3,370
Utility customer accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for uncollectible accounts	-	-	-	-	-	-	-	-	-	-	-	-
Accrued utility revenues	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	-	-	-	-	-	-
Taxes receivables, including federal	-	-	-	-	-	-	-	-	-	-	-	-
Materials & supplies	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	24,399,218	26,108,758	25,652,193	25,894,808	26,782,589	27,588,395	27,662,649	27,789,387	28,344,874	28,705,098	30,417,469	30,722,883
Common Stock	-	-	-	-	-	-	-	-	-	-	-	-
Paid in Capital	-	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	43,742	113,118	104,243	180,568	198,156	260,216	383,715	447,760	404,147	418,809	498,787	498,824
Total Common Stockholder's Equity	43,742	113,118	104,243	180,568	198,156	260,216	383,715	447,760	404,147	418,809	498,787	498,824
Preferred Stock w/o mandatory redemption	-	-	-	-	-	-	-	-	-	-	-	-
LT Debt	-	-	-	-	-	-	-	-	-	-	-	-
Redeemable preferred stock at redemption	-	-	-	-	-	-	-	-	-	-	-	-
Total Capitalization	43,742	113,118	104,243	180,568	198,156	260,216	383,715	447,760	404,147	418,809	498,787	498,824
ST Debt	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of LT Debt	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	558,353	15,731	303	76,712	47,468	275,848	823,020
Taxes Accrued	-	-	-	-	-	-	-	-	-	-	-	-
Interest Accrued	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities	576	(4)	(1,247)	(2,297)	4,300	12,691	5,450	6,500	10,200	5,700	5,700	6,013
Total Current Liabilities	576	(4)	(1,247)	(2,297)	4,300	571,044	21,181	6,803	86,912	53,168	281,548	829,033
Customer advances for construction	2,822,943	2,872,543	2,872,543	2,872,543	2,872,543	2,872,543	2,849,043	2,819,029	2,822,238	2,822,238	2,575,577	2,575,577
Contributions in aid of construction	7,966,679	7,956,751	7,932,319	7,908,598	8,086,659	8,060,939	8,051,254	8,079,556	8,128,823	8,144,855	9,299,323	9,285,076
Total Capital & Liabilities	10,833,940	10,942,408	10,907,858	10,957,412	11,161,658	11,764,742	11,305,193	11,353,148	11,442,120	11,439,070	12,655,235	13,186,510

Pennsylvania American Water Company
Balance Sheet
Period Ending 03/31/08
Coatesville Wastewater Operations - 2467

	Jan-08	Feb-08	Mar-08
Utility Plant	32,961,527	34,900,529	34,868,666
Construction Work in Progress	4,089,573	5,007,882	5,180,852
Accumulated Depreciation	(4,470,639)	(5,656,874)	(5,705,395)
Utility Plant Acquisitions adjustments	(1,605,441)	(1,563,193)	(1,520,944)
Sub - Total Utility Plant	30,975,020	32,688,344	32,823,179
Cash & Cash Equivalents	-	-	-
Utility customer accounts receivable	-	-	-
Allowance for uncollectible accounts	-	-	-
Accrued utility revenues	-	-	-
Other receivables, net	-	-	-
Taxes receivables, including federal	-	-	-
Materials & supplies	-	-	-
Other	3,685	4,592	15,823
Total Assets	30,978,705	32,692,936	32,839,002
Common Stock	-	-	-
Paid in Capital	-	-	-
Retained Earnings	70,233	120,465	179,732
Total Common Stockholder's Equity	70,233	120,465	179,732
Preferred Stock w/o mandatory redemption	-	-	-
LT Debt	-	-	-
Redeemable preferred stock at redemption	-	-	-
Total Capitalization	70,233	120,465	179,732
ST Debt	-	-	-
Current portion of LT Debt	-	-	-
Accounts Payable	31,323	155,999	174,157
Taxes Accrued	-	-	-
Interest Accrued	-	-	-
Other Current Liabilities	12,317	12,317	4,612
Total Current Liabilities	43,640	168,316	178,769
Customer advances for construction	2,575,577	701,407	662,311
Contributions in aid of construction	9,270,828	12,548,677	12,661,487
Total Capital & Liabilities	11,960,278	13,538,865	13,682,299

Pennsylvania American Water Company
Statement of Income
Period Ending 12/31/07
Conestoga Wastewater Operations - 7487

Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total 2007
OPERATING REVENUES													
Water	190,327	175,930	178,755	194,916	206,737	219,372	196,390	185,132	188,149	178,355	213,025	173,911	2,314,490
Other	12,198	5,196	5,083	13,307	8,760	8,864	58,891	10,364	9,260	10,343	7,348	7,658	164,280
Management													
Total Revenues	202,525	181,126	184,748	208,313	214,897	228,236	255,281	205,516	207,409	184,708	220,373	181,569	2,478,778
OPERATIONS & MAINTENANCE EXPENSE													
Labor	37,851	28,542	30,298	29,461	31,915	32,239	34,617	36,008	34,071	39,030	30,011	47,083	421,436
Purchased Water	0	0	0	0	0	0	0	0	0	0	0	0	0
Fuel and Power	12,986	20,842	23,818	35,264	17,659	21,485	21,785	20,544	19,128	18,620	19,873	22,695	255,987
Chemicals	3,737	3,462	5,547	7,895	5,974	3,719	11,898	8,554	7,827	8,834	3,707	4,930	135,964
Waste Disposal	9,073	10,485	12,443	9,307	25,927	13,844	11,257	33,057	16,900	11,808	7,730	16,370	183,208
Management Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Group Insurance (1)	8,020	8,638	8,638	8,638	10,446	8,638	8,412	8,638	8,638	8,638	8,638	8,638	102,227
Group Insurance (2)	-5	0	0	0	0	0	-14	0	0	0	0	0	-78
Regulatory Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance-Other Than Group	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Accounting (2)	4,354	5,202	4,694	4,710	4,432	4,681	5,390	4,665	4,091	4,432	4,705	4,979	57,288
Rents	269	1,001	1,001	887	12	12	914	23	0	919	12	10	4,070
Other	300	345	218	211	1,944	-300	-170	210	147	149	212	568	2,175
General Office Expense	22,321	21,015	21,951	14,223	18,934	19,505	21,838	19,484	23,172	24,107	23,689	26,780	257,149
Depreciation	70,934	24,416	101,880	22,806	79,932	60,340	15,770	4,968	40,195	4,188	6,660	17,118	463,934
Other Maintenance	173,378	130,269	208,614	133,293	195,378	164,224	131,218	139,073	166,174	121,368	111,931	152,099	1,824,044
Total Maintenance & Operations Expense	375,554	312,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	3,998,000
Depreciation	-7,554	-5,893	-5,837	-4,248	-4,248	-4,248	-4,248	-4,248	-4,248	-4,248	-4,248	-4,248	-42,248
Amortization (S)	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-2,248	-22,480
General Taxes (3 & 4)	8,466	8,043	6,241	6,195	6,301	6,522	7,895	7,044	6,740	6,842	6,734	8,847	80,868
State Income Taxes													
Federal Income Taxes													
Tax Savings Acquisitions Adjustments													
Total Operating Expenses	375,554	312,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	330,248	3,998,000
Utility Operating Income	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	674,820
OTHER INCOME DEDUCTIONS													
Non-Operating Rental Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend Income - Common	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend Income - Preferred	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Income	0	0	0	0	0	0	0	0	0	0	0	0	0
AFUDC Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
AFUDC Equity	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Before Interest Charges	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	674,820
INTEREST CHARGES													
Interest on Long Term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization and Debt Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on Short Term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
AFUDC Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest Charges	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	674,820
Preferred Dividends Declared	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income to Common	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	67,482	674,820

* Includes costs allocated / transferred from Corporate.

Adjustments from PA Water Corp

	2007	Monthy Change
1 Allocate Group Insurance Premium	504,100.16	\$ 100,601
2 Allocate uncollectibles	570,100.15	55,187
3 Transfer Property Taxes	665,200	408.11
4 Allocate General Assessment	685,100	408.1
5 Transfer Neg UFPA amount from Corp	683,500	408
	\$ (288,075)	\$ (24,923)

Pennsylvania American Water Company
Statement of Income
Period Ending 12/31/08
Coatesville Wastewater Operations - 2467

Description	Jan	Feb	Mar
1 OPERATING REVENUES			
2 Water			216,057
3 Sewer	227,945	189,469	6,730
4 Other	6,246	4,215	
5 Management			
6 Total Revenues	<u>234,191</u>	<u>193,684</u>	<u>222,787</u>
7 OPERATIONS & MAINTENANCE EXPENSE			
8 Labor	41,990	36,672	40,765
9 Purchased Water	0	0	0
10 Fuel and Power	21,008	19,076	35,547
11 Chemicals	4,252	4,406	5,394
12 Waste Disposal	20,690	12,527	4,315
13 Management Fees	0	0	0
14 Group Insurance (1)	0	3,198	0
15 Pensions	0	0	0
16 Regulatory Expense	0	0	0
17 Insurance Other Than Group	0	0	0
18 Customer Accounting (2)	714	16	257
19 Rents	909	11	11
20 General Office Expense	167	168	193
21 Miscellaneous	26,941	21,178	20,895
22 Other Maintenance	23,239	14,953	21,609
23 Total Maintenance & Operations Expense	<u>139,910</u>	<u>112,205</u>	<u>128,966</u>
24 Depreciation	38,728	40,309	39,996
25 Amortization (5)			
26 General Taxes (3 & 4)	4,511	3,562	2,622
27 State Income Taxes			
28 Federal Income Taxes			
29 Tax Savings Acquisitions Adjustments			
30 Total Operating Expenses	<u>183,149</u>	<u>156,096</u>	<u>171,584</u>
31 Utility Operating Income	<u>51,042</u>	<u>37,588</u>	<u>51,203</u>
32 OTHER INCOME DEDUCTIONS			
33 Non Operating Rental Income			
34 Dividend Income - Common			
35 Dividend Income - Preferred			
36 Interest Income	9,320	0	0
37 AFUDC Equity	9,320	0	0
38 Total Other Income	<u>18,640</u>	<u>0</u>	<u>0</u>
39 Income Before Interest Charges	<u>60,362</u>	<u>37,588</u>	<u>51,203</u>
40 INTEREST CHARGES			
41 Interest on Long Term Debt			
42 Amortization and Debt Expense			
43 Interest on Short Term Debt			
44 Other Interest Expense	-9,870	-12,642	-8,064
45 AFUDC Debt	-9,870	-12,642	-8,064
46 Total Interest Charges	<u>-19,740</u>	<u>-25,284</u>	<u>-16,128</u>
47 Net Income	<u>40,622</u>	<u>12,304</u>	<u>35,075</u>
48 Preferred Dividends Declared	70,232	50,230	59,267
49 Net Income to Common	<u>70,232</u>	<u>50,230</u>	<u>59,267</u>

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Data Internal and Independent Audit Reports

FR XI.2

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

XI. Other Data

2. Supply a copy of internal and independent audit reports of the historic test year and prior calendar year, noting any exceptions and recommendations and disposition thereof.

Answer: Please refer to attached for the 2005 internal audit reports. Please refer to FR VII.15 for the 2006 Annual Report.



INTERNAL AUDIT SERVICES

To: Christopher BuIs
Nick Rowe
Daniel Warnock

Internal Audit Services

cc: John Bigelow
Dietrich Firnhaber
Jim McGivern
Jeremy Pelczer
John Young

Name Doneen Hobbs
Phone 856.309.4506
Fax 856.346.8360
E-Mail dhobbs@amwater.com

December 20, 2005

Pennsylvania American Water Company/A0240/2005/A/16

Please find attached the final Audit Report and the Audit Status Report arising from the above audit work. The audit results have already been discussed with Christopher BuIs and Nick Rowe at an exit meeting held on November 22, 2005. Internal Audit's findings, recommendations and management responses including agreed timescales for clearance are outlined at the back of the report.

It was also agreed at the Exit meeting that Nick Rowe would be responsible for maintaining the Audit Status report and providing Internal Audit (and line management if requested) with the current status of the implementation of the agreed management actions.

In normal circumstances we will contact Nick Rowe for the updated position at the end of each quarter but in certain circumstances he may be asked to provide a more regular update. The memorandum requesting this information will be sent at least two weeks before the due date and the updated Audit Status Report must be provided in response to the request.

Please adhere to the agreed recommendation implementation dates since the Chief Executive has requested details of failures to implement agreed actions to be reported to him in quarterly IA progress reports. In addition, overdue agreed actions are also reported quarterly to RWE via the QRM process.

If you require any further information on the work carried out or the process going forward, please contact either Courtland L. Hines or myself.

Sincerely,

Doneen Hobbs



Pennsylvania - American Water Company

REF: A0240/2005/A/16

STATUS: Final

REPORT DATE: 11/22/2005

Director of Internal Audit: Michael Upton
Vice President Internal Audit: Doneen Hobbs
Lead Auditor: Courtland L. Hines
Auditors: Steven Gill

Distribution : Daniel Warnock
Nick Rowe
Christopher Buls

Copy : Jeremy Pelczer John Young
Jim McGivern Dietrich Firnhaber
John Bigelow



CONTENTS

1. Introduction
2. Audit Objectives
3. Audit Scope
4. Reporting
5. Conclusion
6. Detailed Recommendations
7. Contact Listing



1. Introduction

Pennsylvania American Water Company ("The Company") is Pennsylvania's largest regulated public water utility and provider of quality water and wastewater service to over two million people living in 368 communities in 35 Pennsylvania counties. Total operating revenues and net income for the year ended December 31, 2004 were \$378.6 million and \$59.0 million. The company operates in 40 districts and employs over 800 people throughout Pennsylvania.

The Company operates under rules and regulations established by the Pennsylvania Public Utility Commission (PUC), Pennsylvania Department of Environmental Protection (DEP) and the U.S. Environmental Protection Agency (EPA). The Company is a wholly owned subsidiary of American Water Works Company, Inc. (American Water).

Business objectives:

The Company's business objectives are to:

1. Grow their top line
2. Improve regulatory relationships
3. Execute operational excellence initiatives
4. Prudently invest to renew their business;
5. Expand customer focus;
6. Strengthen their organization.

2. Audit Objectives

We reviewed and evaluated the adequacy, effectiveness, and efficiency of internal controls and compliance with corporate and regional policies relating to billing, payroll, and fleet vehicle management. Additional objectives include a review of management concerns relating to:

- Extension deposits and refunds;
- Inaccuracies in customer billings due to regional or centralized procedures;
- Actual turns for Stock E inventory being less than the target turns; and
- The percentage of non-revenue water for Pennsylvania may be in excess of state requirements.

3. Audit Scope

The audit scope for billing, fleet vehicles, and developer deposits was limited to the Wilkes-Barre / Scranton district, which was judgmentally selected based upon employee headcount by district (198) within Pennsylvania. The audit scope for payroll, evaluation of inventory turns, and non-revenue water will be state wide.

4. Reporting

Our report has been prepared on an exception basis, highlighting only those areas where we consider improvement is required.



We will review implementation of all management responses to our recommendations within four months of the date of the report.

5. Conclusion

Our review of the adequacy, effectiveness, and efficiency of internal controls based upon the above audit scope produced the following findings:

1. Credits resulting from overestimated customer accounts are not always properly calculated by the credit adjustment module;
2. The automatic credit adjustment module was not adequately tested prior to being put into production;
3. Improper reporting of taxable benefits relating to employer provided vehicles;
4. Records relating to business use of vehicles are not maintained;
5. Noncompliance with Corporate Vehicle Utilization Policy;
6. A comprehensive fleet vehicle policy has not been developed and approved;
7. There is no process owner for the fleet vehicle preventative maintenance program;
8. A physical inventory of vehicles leased from ARI has not been performed;
9. The decision to account for vehicle leases as operating leases was not made by financial management;
10. Information in the inventory database is not complete and accurate;
11. There has been no analysis of inventory quantities for excess and obsolete items and there is no written inventory management plan for reducing excess inventory;
12. Nonexempt employee time sheets are not retained as required by the Fair Labor Standards Act;
13. Approval of employee timesheets is not evidenced;
14. A comprehensive record retention policy has not been developed;
15. There is no current written policy or procedures regarding terminated employees;
16. Follow up on inactive accounts with consumption is not adequate;
17. Active accounts with zero usage are not periodically re-investigated;
18. Management reporting of non-revenue water is not consistent with statutory requirements for unaccounted for water; and
19. Procedural manuals for time entry and approval have not been developed

Our recommendations were discussed with Nick Rowe and Christopher Buls at an exit meeting held on November 22, 2005. Their comments, together with details of management action, are set out in section 6.



6. Detailed Recommendations

Ref	Finding	Risk	Recommendation	Priority	Management Response
01	<p><u>Automatic Credit Adjustment Module</u></p> <p>Credits resulting from overestimated customer accounts are not always properly calculated by the credit adjustment module</p> <p>Credits resulting from overestimated customer accounts are not always properly calculated by the automatic credit adjustment module. Eleven districts in Pennsylvania use "on and off" billing to invoice American Water customers. Customer water usage is estimated every other month in "on and off" billing.</p> <p>We examined ten customer accounts for September 2005 from a meter reading edit report with high usage (i.e. The credit adjustment module incorrectly credited the entirety of both commercial and residential customers previous month's bill on seven of ten accounts instead of the difference between the estimated amount and the actual amount used. Further investigation indicated the issue resulted when the bill date in a meter reading batch was prior to the read date. Although the average amount of the over credit was \$26, there were 86 accounts on the meter reading edit report with high usage. At the time of the</p>	<p>Over crediting of customer accounts results in understating water revenues.</p>	<p>Although IT has conducted a preliminary review of the above issue, local management should coordinate with management responsible for the other 14 states and IT to:</p> <ul style="list-style-type: none"> a) Determine the impact to all fifteen states; b) Determine the impact to all bill types; c) Develop a plan to be reimbursed by the customer; and d) Correct the credit adjustment module to avoid similar future errors. 	1	<p>Comment: Recommendation #1a and #1b– John Danneker ran an independent test and validated Joe Pignio's original numbers for PA which proved to be correct. Joe Pignio's original impact assessment was for all 18 states which totaled \$3,494,56.</p> <p>Recommendation #1c – A cost benefit analysis shows that the cost of the recovery effort will exceed amount to be collected. Cost of recovery for these 2800 accounts would exceed the \$3,500.</p> <p>Recommendation #1d - We have discussed with Alliance (Orcom) who has agreed to implement a fix. Work Order number is WO 92,759, SI 166390. Alliance will provide finished updated code before 12/23/05 and American Water will test throughout the month of January. Expected go-live</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
02	<p>fieldwork, we were unable to determine the aggregate dollar amount of over credits since the automatic credit adjustment module was put into production. The automatic credit adjustment module has been placed into production in fifteen states.</p> <p>The automatic credit adjustment module was not adequately tested prior to being put into production</p> <p>It's a sound internal control to sufficiently test modifications to existing systems to ensure the changes operate as intended.</p> <p>In August of 2004 an automatic credit adjustment module was put into production to credit customer accounts for over estimated meter readings. During our review, we noted the above module accepts invalid data (i.e., billing date prior read date). Instead of crediting a customer's account for the difference between estimated and actual usage, in the above circumstance, the credit adjustment module credits the customer's account for the entirety of the previous month's charges including service or connections fees. This module has been placed into production in fifteen states.</p>	<p>Changes not properly tested may result in erroneous system processing and financial or operating records may be misstated.</p>	<p>Local management in cooperation with IT should:</p> <ul style="list-style-type: none"> a) Revise the existing credit adjustment module to reject invalid data. b) Review all credit adjustments processed by the automatic credit adjustment module for proper calculation of amount. c) Require future state specific modifications to the billing system be approved by local management. 	1	<p>date into production is 2/1/06.</p> <p>Responsibility: Adam Boelke Target Date: Thursday, December 22, 2005</p> <p>Comment: Recommendation #2a. Revise the existing credit adjustment module to reject invalid data." - Currently, we have implemented a manual daily exception query of all bill batches until the hard (automated) exception process is implemented by IT. Expected go-live date into production is 2/1/06.</p> <p>Recommendation #2b. This would not be feasible to verify all of them manually as we do thousands a day. Our recommendation is to have IT look into developing an automated check and balance system. The request for IT to develop this tool will go in no later than 01/06/06.</p> <p>Recommendation #2c. The current policy is to gain Regional CS Director's</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
03	<p>Fleet Vehicles</p> <p>Improper reporting of taxable benefits relating to employer provided vehicles</p> <p>IRS regulations as specified in IRS Publication 15-B require an employer to include in the gross wages of an employee the fair market value (FMV) of an employer provided vehicles used for personal purposes. Publication 15-B specifies the FMV of an employer provided vehicle may be determined using the Lease Valuation Rule and related annual lease valuation tables, which take into consideration the</p>	<p>Failure to comply with IRS statutes and regulations may expose the Company to fines and penalties for improper reporting of employee's wages, liability for the employer portion of social security and Medicare taxes not</p>	<p>a) Local Management should take immediate action to properly value employee use of company vehicles based on the rules prescribed in IRS Publication 15-B prior to December 31, 2005.</p>	2	<p>approval for all billing changes which was implemented in April of 2005. The daily query and eventually the hard exception process will also prevent these from happening going forward. Also a change control board is in the process of being formed with the Regions to be implemented early 2006. Local approval (such as Pennsylvania) will be required. The change control board is in process of being formed with anticipated start date by 2/28/06.</p> <p>Responsibility: Adam Boelke Target Date: Thursday, December 22, 2005</p> <p>Comment: Completed. Communication issued 12-09-2005 to all Southeast Region employees requiring submittal of 525's completed for each month, by 12-16. Follow up will be required of appropriate supervisors/management to ensure all appropriate individuals "catch up" with Form 525 submissions through year-end.</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>cost of the vehicle, financing costs, insurance, and maintenance.</p> <p>During our review of fleet vehicles in the Wilkes-Barre/Scranton district from January through August 2005, we noted the following:</p> <ul style="list-style-type: none"> • There was no valuation of personal vehicle use for nine of eleven employees; • Form 525 was either not submitted to payroll or payroll did not input gross wages for ten of eleven employees for vehicle use after May 2005; • Two employees inappropriately used the Commuting Rule, which results in only \$3 per day being added to an employee's gross wages. 	<p>paid, liability for employee taxes not withheld or reported, and adverse publicity.</p>	<p>b) Local management should take immediate action to obtain guidance from the Tax Department on valuation methods to ensure compliance to statutes and regulations within the valuation rules defined by the IRS for taxation of company provided vehicles.</p> <p>c) Local management should provide to Payroll quarterly a listing of employees who use company vehicles for nonbusiness related and should be reporting personal use.</p> <p>d) The documented "Procedures for Preparing and Filing Form 525-A" should be re-communicated to all employees.</p>		<p>Completed. An initial discussion with Bill Schiavi and Ben Tartaglia of the Tax department was conducted 12-09-05. Follow up actions and responsibilities were assigned for completion to address finding. Separately, the Tax Department representatives agreed to provide input to anticipated vehicle policy revisions to ensure appropriate tax treatment.</p> <p>The Company will look to develop a cooperative process with shared services to routinely identify individuals not submitting the forms in a timely fashion, similar to notification for P-Cards, etc... Those discussions are expected to occur first quarter 2006. A list will be provided beginning in the first quarter of 2006.</p> <p>Completed. Communication from Carole Dascani to entire Southeast Region sent 12-09-05.</p> <p>A process will be developed to ensure appropriate local supervision is responsible for, and able to ensure compliance</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
04	<p>Records relating to business use of vehicles are not maintained</p> <p>IRS regulations as specified in IRS Publication 463 require preparation of timely kept records of the date, destination, business purpose, and mileage to substantiate tax deductible expenses relating to vehicles.</p> <p>During our review, we noted vehicle mileage logs in the Wilkes-Barre/Scranton district were not prepared indicating date, place, business purpose, and number of miles driven.</p>	<p>Failure to comply with IRS statutes and regulations may result in disallowance of vehicle related deductions and imposition of penalties and interest on underpayment of federal and state income taxes.</p> <p>If business reasons are not available upon IRS request, all miles driven may be</p>	<p>e) Local management in cooperation with Payroll should enforce compliance to the documented procedures.</p> <p>a) A Vehicle Utilization Procedure should be created providing clearly defined reporting guidelines.</p> <p>b) The procedure should be communicated to all employees.</p> <p>c) Local management should enforce the procedure by performing periodic reviews of the logs, taking the</p>	2	<p>with documented procedures.</p> <p>The process will be developed by end of 1st Qtr 2006.</p> <p>The fleet manager, or designated owner, will lead this process and the time line established is based on hiring a fleet manager in Febr-06.</p> <p>Responsibility: Nick Rowe, Region VP, Service Delivery Target Date: Wednesday, March 22, 2006</p> <p>Comment: This finding was remedied in the course of the audit. Effective November 1, vehicle logs detailing the date, miles driven, destination and purpose are being maintained in accordance with IRS regulations.</p> <p>On November 30, the last day of the first month that the policy was reinforced / reinstated, a reminder was sent indicating that the logs should be collected, reviewed and saved locally for 4 years beyond each respective calendar year.</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
		considered personal use, resulting in higher taxes to be paid by the individual, in addition the company may also be subjected to penalties and interest on underreporting federal and state income taxes.	necessary steps to address any exceptions noted, and documenting the results.		More strict control and compliance monitoring of the process will be addressed when the Company addresses recommendation 6b. Beginning with January 2006 reporting, the logs will be revised to include a "personal miles" column to tie to miles reported on the Form 525, where applicable. <i>Responsibility: Louis P. Tschachler</i> <i>Target Date: Wednesday, March 22, 2006</i>
05	Non-compliance with Corporate Vehicle Utilization Policy According to the Vehicle Utilization Policy, it notes employees who conduct company business travel may use an available pool vehicle and if they are 'On Call' may take home a pool vehicle. Conversations with HR and the Policy Committee confirmed that the policy intention was that employees should only be taken a company vehicle home during the on-call period. Our audit revealed 11 employees in the	Pool vehicles may be driven home nightly by employees who are not scheduled to be on-call which may result in unnecessarily exposing the company to risks of property damage, personal injury, and other liabilities. The company may also incur additional	As intended by the Vehicle Utilization Policy, pool vehicles should only be provided to employees during normal business hours for business purposes and to be taken home only when scheduled to be on-call.	1	<i>Comment: This finding appeared in multiple states, and apparently multiple regions', audits. It requires system-wide attention. This topic was on the agenda of the Region Service Delivery VPs' meeting December 8-9. The SER will work with the other regions to review the policy implementation and make a recommendation to EMT by end of 1st Qtr 2006.</i> <i>Responsibility: Nick Rowe,</i>



Ref	Finding	Risk	Recommendation	Priority	Management Response
	Wilkes-Barre/Scranton district were assigned with a dedicated "pool" vehicle to take home on a daily basis. According to the 2005 on-call schedules, these employees are typically scheduled to be on-call once every 8 days and every eighth weekend 4 or 5 weeks, which is about seven non-consecutive weeks per year.	costs related to fuel consumption and increased maintenance costs.			Region VP, Service Delivery Target Date: Thursday, December 22, 2005
06	<p>A comprehensive fleet vehicle policy has not been developed and approved</p> <p>It is a good business practice to have an approved and implemented comprehensive Fleet Program Governance to reasonably ensure the organization is not exposed to unnecessary legal liability.</p> <p>While the corporation does have a Vehicle Utilization Policy it does not contain all of the key elements to protect the organization from unnecessary legal liability.</p> <p>Note: A comprehensive Corporate Fleet Program Governance is still in the draft stage and awaiting final revision prior to being approved by the Executive Management Team (EMT).</p>	<p>The absence of a Fleet Program Governance may result in exposure to unnecessary legal liability, and increased cost to operations.</p> <p>An approved Fleet Program Governance is necessary to provide guidelines that local offices can use as reference to manage company vehicles.</p>	<p>a. In short of a comprehensive Fleet Program, local management should include, but not be limited to the following key elements as part of their regular review of users operating fleet vehicles:</p> <ul style="list-style-type: none"> • Registration, titling, and taxation of vehicles; • Fuelling; • Traffic and parking violations; • Vehicle collisions and accidents; • Insurance; • Driver license requirements; • Safety; and • Safeguarding of company vehicles. 	2	<p>Comment: a. SER management agrees that a process should be in place to ensure safeguards such as those listed are addressed. SER anticipates that such a role is best addressed with designated responsibility, and expect to evaluate the elements need to be reviewed, at what intervals, and who (internal vs. external sources) could most efficiently administer this recommendation.</p> <p>b. The SER will bring this process forward upon the hiring of the fleet manager by end of 1st Qtr 2006.</p> <p>Compliance will take place immediately thereafter, but no later than Apr-06.</p> <p>c. SER engaged the tax</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
			<p>b. Corporate Fleet Management should take the necessary steps to put forth a comprehensive Fleet Program Governance to guide local offices on expected and best practices. Included in the Fleet Program should be a requirement that a review be performed on a periodic basis to reasonably ensure the program operates as intended.</p> <p>c. The Tax Department should establish a Corporate Policy that incorporates applicable IRS requirements to provide employees with adequate guidance with regards to IRS rules and regulations.</p> <p>The approved policies and procedures should be communicated to all employees.</p>		<p>department regarding the issues identified in the audit. The Tax Department (Bill Schiavi and Ben Tartaglia) have indicated a willingness to provide the guidance requested, and ensure the vehicle policy incorporates the tax reporting requirements.</p> <p>Responsibility: Nick Rowe, Region VP, Service Delivery Target Date: Wednesday, March 22, 2006</p>
07	There is no process owner for the fleet vehicle preventative maintenance program	Failure to perform scheduled	A process owner for fleet vehicle maintenance should	2	Comment: The number of vehicle-related audit findings



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>It is a good business practice to have a process owner, who is responsible for ensuring the fleet vehicles are adequately maintained.</p> <p>Ownership of the fleet vehicle preventive maintenance program has not been identified to monitor and follow up to make sure scheduled maintenance is performed</p>	<p>preventative maintenance may (1) reduce the life span of fleet vehicles, (2) reduce fleet vehicle availability, (3) reduce the resale value of fleet vehicles, (4) result in voiding of manufacturer warranties, and (5) result in higher maintenance or replacement costs when vehicles breakdown or no longer function.</p>	<p>be established and appropriate policies and procedures should be implemented.</p>		<p>clearly illustrates process shortcomings with respect to fleet management. SER management commits to evaluate the need for a role of vehicle fleet process owner not only for this recommendation, but for other vehicle findings as well.</p> <p>The fleet manager review will commence after discussion with other regions. If approved for the SER, the role will be posted by end of Jan-06 with position filled by end of 1st Qtr 2006.</p> <p>Responsibility: Nick Rowe, Region VP, Service Delivery Target Date: Wednesday, March 22, 2006</p>
08	<p>A physical inventory of vehicles leased from ARI has not been performed</p> <p>It is a sound internal control to periodically conduct a physical inventory of leased vehicles and compare the results to leasing records.</p> <p>American Water executed a Master Lease Agreement with Automotive Rentals, Inc. (ARI) in June of 2003. There has been no physical inventory of leased vehicles</p>	<p>Vehicles may be lost, stolen, destroyed, or temporarily diverted. Financial statements and operating reports may be misstated. Additionally, critical fleet vehicle decisions may be</p>	<p>Management should conduct a physical inventory of fleet vehicles on an annual basis and compare the results to ARI leasing records.</p>	2	<p>Comment: The Company agrees with this finding and is currently performing a physical inventory of fleet vehicles, which will be completed January 2006.</p> <p>Responsibility: John Cox Target Date: Wednesday, March 22, 2006</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
	subsequent to the signing of the above contract.	based upon erroneous information.			
	<u>Accounting for Vehicle Leases</u>				
09	<p>The decision to account for vehicle leases as operating leases was not made by financial management</p> <p>Sound internal controls require financial reporting decisions to be made by professionals who by experience, education, training, and judgment are well versed in applicable financial accounting standards. During our review, we noted the decision to account for vehicle leases as operating leases was made by Supply Chain Management.</p> <p>American Water entered into a Master Lease Agreement (MLA) with ARI in April of 2003. Lease payments vary based upon depreciation periods, which vary by vehicle type. Vehicles surrendered to ARI prior to the end of the applicable depreciation period result in a lease adjustment equal to the difference between the resale proceeds and the depreciated value of the vehicle. American Water bears the risk of loss and is responsible for insuring the leased vehicles. As of September 30, 2005, the Company leases 1,045 vehicles from ARI with a net capital lease value of \$32.7 million.</p>	<p>Inappropriate delegation of financial reporting decisions (1) may result in the issuance of financial statements not prepared in accordance with US GAAP or IFRS applied on a consistent basis, (2) increases the risk of restating previously issued financial statements, (3) may result in violations of applicable securities regulations, and (4) increases the Company's exposure to litigation due to improper financial reporting.</p>	<p>Corporate financial management should evaluate the ARI MLA and determine the appropriate accounting treatment under both US GAAP and IFRS. Additionally, financial reporting decisions should be designated as Finance responsibilities and should not be delegated to other functional areas.</p>	2	<p>Comment: This is a responsibility of corporate accounting provided we are allowed to fill some new technical accounting roles that have been recently discussed. The additional resource will be requested by John Bigelow by January 31, 2006, with John's response by February 28, 2006. If approved, we will go through a normal hiring process. Once the individual is on board, we would target the issue to be addressed within 90 days.</p> <p>Responsibility: Robert D. Sievers Target Date: Wednesday, March 22, 2006</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>American Water produces its financial statements in accordance with US Generally Accepted Accounting Principles (GAAP). The American Water US GAAP financial statements are converted to those based upon International Financial Reporting Standards (IFRS) for RWE consolidation.</p> <p>Leases are classified as operating or capital leases under US GAAP and as operating or financing leases under IFRS. US GAAP and IFRS have different criteria to distinguish the type of leases. It is possible for lease categorization to be different under the above financial reporting standards (e.g., an operating lease under US GAAP could be classified as a financing lease under IFRS).</p> <p>Under US GAAP, the ARI MLA would be classified as a capital lease if it meets one of the following criteria:</p> <ol style="list-style-type: none"> 1.. The lease term, as specified in FAS13, is more than 75% of the estimated useful life of an asset; 2. The present value of the minimum lease payments, as defined in FAS13, equals or exceeds 90% of the fair market value of the leased asset. <p>IFRS specify finance leases are those that transfer all the risks and rewards incident to ownership to the lessee.</p>				

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
10	<p><u>Non Pipe Stock E Inventory</u></p> <p>Information in the inventory database is not complete and accurate</p> <p>It is a good business practice to periodically review the characteristics of items in inventory for reasonableness.</p> <p>Total non-pipe Stock E inventory as of August 2005 totaled \$1.88 million and consisted of approximately 5,000 stock keeping units (SKUs). The above inventory is classified A-D based upon inventory turn rates. Strategic items are those items that have significant supply lead-times and need to be retained in stock due to the potential for their immediate need in the field in the event of an emergency. During our review, we noted the following:</p> <ul style="list-style-type: none"> The classification of inventory by turn rates has not been updated since October 2004; Inventory valued at \$300k has not been classified by turn rate; Minimum and maximum quantities for 975 SKUs valued at \$229,000 have not been established; Strategic items are not so designated in the inventory database; and 36 SKUs valued at \$43,000 reflect negative 12 month average demand. 	<p>Critical inventory management decisions may be made on erroneous information.</p>	<p>Management should:</p> <ul style="list-style-type: none"> Classify all SKUs by turn rate annually; Establish minimum and maximum quantities for all SKUs; Designate appropriate SKUs as "Strategic"; and Periodically review the inventory database for reasonableness and to identify and resolve unusual items. 	2	<p>Comment: PA agrees with the recommendations and will update the inventory database by March 1, 2006.</p> <p>Responsibility: Brian Hassinger Target Date: Wednesday, March 22, 2006</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
11	<p>There has been no analysis of inventory quantities for excess and obsolete items and there is no written inventory management plan for reducing excess and obsolete inventory.</p> <p>It is a good business practice to periodically review inventory quantities for excess and obsolete items and to have an inventory management plan for reducing excess and obsolete inventory.</p> <p>There is no written inventory management plan to address excess and obsolete inventory. The target non-pipe Stock E inventory turn rate for the Southeast Region by the end of the fiscal year is 4.1 turns. Pennsylvania American Water's non-pipe stock inventory and turn rate as of August 2005 were \$1.88 million and 2.59 turns. There was more than 12 months supply of the above inventory valued at \$520,000. Additionally, \$286,000 of the above inventory was classified as "out of position" and, therefore, potentially available to be transferred to another American Water location.</p>	<p>The net realizable value of excess and obsolete inventory may not be maximized.</p>	<p>Management should develop a plan to address excess and obsolete inventory quantities, which includes but is not limited to evaluation of the following:</p> <ol style="list-style-type: none"> 1. Reviewing Stock E inventory for excess and obsolete items. 2. The feasibility of using inventory of equal or greater specification on new or maintenance projects. 3. Restocking fees for returning inventory to vendors. 4. Auctioning of excess inventory. 5. Selling excess inventory to brokers or salvage yards. 6. Writing off non-saleable inventory 	2	<p><i>Comment: The Inventory Management Initiative for the Southeast Region started in June of 2004 and a Regional Plan was developed by the Supply Chain Department and SER. PA intends to revisit this Regional Plan and develop a PA specific plan by January 27, 2006. PA has reduced inventory from \$2.5M too \$1.6M during the September 2004- November 2005 time period. A reduction of 36% has been realized, although we have not reached the target of 4.1 turns</i></p> <p>PA agrees that the net realizable value of excess and obsolete inventory has not been maximized and will evaluate in a PA state specific plan the recommendations provided, as well as other methods for reduction of stock by January 27, 2006.</p> <p>Responsibility: Brian Hassinger Target Date: Wednesday, March 22, 2006</p>
	Retention and Approval of Nonexempt Employee Time Sheets				

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
12	<p>Non-exempt employee time sheets are not retained as required by the Fair Labor Standards Act</p> <p>The Fair Labor Standards Act (FLSA) and related regulations require employers to retain time cards or sheets for a period of two years.</p> <p>During our review of several business units in the Wilkes-Barre/Scranton district, we noted the following:</p> <ul style="list-style-type: none"> Employee time sheets were routinely discarded after two or three payroll cycles; Employee time sheets were not always signed; and Employee time sheets were not always prepared. 	<p>Failure to comply with the FLSA and related regulations may result in fines, penalties, lawsuits, or contingent liabilities.</p>	<p>Management should immediately require:</p> <ul style="list-style-type: none"> All applicable business units to retain employee time cards or sheets for the time period required by the FLSA and applicable State of Pennsylvania requirements; Time sheets to be prepared for all nonexempt employees; and Employees to sign their time sheets evidencing hours and type of work performed or to input their time directly into the Time & Attendance system. 	2	<p>Comment: Management agrees with this finding Policy addressing 12 and 13 to be issued by 1/31/06. The policy will address record retention, employee and supervisor approvals and appropriate controls.</p> <p>Responsibility: Christopher C. Buis Target Date: Wednesday, March 22, 2006</p>
13	<p><u>Approval of Employee Time Sheets</u></p> <p>Approval of employee timesheets is not evidenced</p> <p>It is a sound internal control to retain</p>	<p>Employees may be paid for hours not worked, may be paid</p>	<p>Management should require evidence of approval of employee time sheets be</p>	2	<p>Comment: Management agrees with this finding Policy addressing 12 and 13 to</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>documentation of performance of key internal controls for a reasonable period of time.</p> <p>During our review of several business units in the Wilkes-Barre/Scranton, we noted:</p> <ul style="list-style-type: none"> Employee time sheets were routinely discarded after two or three payroll cycles; Employee time sheets were not always approved by their appropriate supervisor; and Employee time sheets were not always prepared. <p>Consequently, there were no evidence time sheets from the last pay period in August 2005 for several employees were properly approved.</p>	<p>incorrectly, or may not be paid for hours actually worked.</p>	<p>retained for at least two years.</p>		<p>be issued by 1/31/06. The policy will address record retention, employee and supervisor approvals and appropriate controls.</p> <p>Responsibility: Christopher C. Buls Target Date: Wednesday, March 22, 2006</p>
14	<p>Record Retention Policy</p> <p>A comprehensive record retention policy has not been developed</p> <p>It is a sound internal control and good business practice to have a comprehensive and corporate wide record retention policy.</p> <p>During our review, we noted there was no comprehensive corporate wide record retention policy.</p>	<p>Failure to have a comprehensive and consistently enforced document retention policy may result in violation of applicable federal and state laws and regulations resulting in fines, penalties, or contingent liabilities.</p> <p>Failure to establish</p>	<p>Local management should coordinate with the Executive Management Team to establish and enforce a comprehensive corporate wide document retention policy, which should cover the following:</p> <ol style="list-style-type: none"> The retention period by document type considering federal or state law requirements, statute of 	2	<p>Comment: The Pennsylvania-American Law Department has its own document retention policy. That policy addresses many of the issues listed in the recommendations for Item 14 for the principal contracts, deeds and other legal documents that the Pennsylvania-American Law Department regularly deals with.</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
		<p>or follow a document retention policy may result in a "spoliation inference" in litigation, which may require a judge or jury to conclude a document contained information detrimental to the company's position or being required to produce a document in discovery after it should have been destroyed, and may result in default or unnecessary adverse judgments or the award of additional fees and costs. Additionally, failure to have and enforce a document retention policy may result in additional costs and expenses associated with storing of documents.</p>	<ol style="list-style-type: none"> 1. Limitation periods, property interests, contractual requirements, and sound business judgment; 2. Determination of any special storage considerations by document type; 3. The method of destruction; 4. Establishment of clear accountability and consistent enforcement of the policy; 5. Inclusion of electronic data and email; and 6. Procedures to suspend regular retention and destruction procedures when litigation or a legal document request is pending or is imminent. 		<p>However, it is true that there is no company wide policy embracing all of the issues listed in item 14. An initiative to formulate such a policy was begun early in 2005 by Bruce Larson in the Internal Security Department. Seth Mendelsohn of the Pennsylvania-American law department drafted a policy addressing legal issues involving document retention as part of this effort and provided it to Bruce Larson. However, that program was never completed.</p> <p>Although document retention affects most of the administrative support areas of the company – ITS, security, Shared Services, etc, the need that drives such a policy is ultimately legal: - the rules and regulations requiring document retention, as well as sanctions for violating them, are legal in nature. The need for a coordinated and systemic document retention policy is also Company-wide and not unique to Pennsylvania-American.</p> <p>Accordingly, the Law</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
					<p>Department will take up as one of its objectives the task of bringing this effort to a successful conclusion by the end of the third quarter of 2006. By the end of January, 2006 the Law Department will seek a mandate from the EMT to carry forward this project (a mandate deemed essential to secure the input necessary from other business units), and propose a timeline and benchmarks for completing the project. These will include the organization a cross-functional team consisting of representatives of other affected business units and the circulation of a revised draft policy for their consideration and input. At the same time, the law department will work closely with the leaders of the Sarbanes-Oxley compliance program to ensure that its work requirements of that statute.</p> <p>Responsibility: George Patrick Target Date: Wednesday, March 22, 2006</p>
15	<p><u>Policy Regarding Terminated Employees</u> There is no current written policy or</p>				

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>procedures regarding terminated employees</p> <p>Good business practices dictate a policy should exist specifying procedures to be followed regarding terminated employees.</p> <p>During our review, we noted there is no written policy or procedures regarding terminated employees.</p>	<p>Payroll for terminated employees may not be processed in a timely manner resulting in employees being paid for time periods not worked and collection of overpayments may require legal action.</p>	<p>Management should prepare and disseminate a policy requiring applicable supervisors or managers to promptly inform both Human Resources and Payroll of all terminations. Additionally, a terminated employee checklist should be completed prior to disbursement of the employee's final payroll. This checklist should include:</p> <ol style="list-style-type: none"> 1. A review of outstanding advances and expense statements; 2. Return or deactivation of all company credit cards; 3. Deactivation of all computer accounts and passwords; 4. Return of all company property, proprietary information, badges, security passes, and keys. 5. State requirements for timing of delivering final pay checks. 	2	<p>Comment: We agree with this recommendation. A regional employee checklist will be prepared and disseminated by January 31, 2006.</p> <p>Responsibility: Carole Dascani Target Date: Wednesday, March 22, 2006</p>
16	<p>Inactive Accounts with Consumption and Active Accounts with Zero Usage</p> <p>Follow up on inactive accounts with</p>	<p>Failure to follow up</p>	<p>Management should:</p>	2	<p>Comment: Inactive with</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
	<p>consumption is not adequate</p> <p>It's a good business practice to follow up in both a timely and appropriate manner on inactive accounts with consumption.</p> <p>Management follow up on Inactive Accounts with Consumption has resulted in back billing totaling \$232K year to date.</p> <p>There were 534 accounts on the August 2005 report of Inactive Accounts with Consumption for the Wilkes-Barre/Scranton district totaling 8.6 million gallons of water consumed. We reviewed ten accounts with 4.1 million gallons of water consumed, noting the following:</p> <ul style="list-style-type: none"> • Although notices were posted and letters sent to three accounts with consumption of 1.0 million gallons of water for the month of August 2005, no further action was taken; and • Upon further review, three of the above accounts with 1.8 million gallons of consumption were erroneously listed on the report. 	<p>in both a timely and appropriate manner results in unnecessary loss of water and a potential loss of revenue.</p> <p>Additionally, erroneous inclusion of accounts on the report results in an inefficient follow up process.</p>	<ul style="list-style-type: none"> • Timely issue initial notices, second, and final notices to those customers or accounts that are listed on the Inactive Accounts with Consumption report; • Establish thresholds specifying volume levels that result in (1) service being turned off and (2) pursuit of appropriate legal remedies (e.g., access to property to turn off service, collection of accounts); • Revise it's criteria for inclusion of accounts appearing on the report. 		<p>consumption is a meter read exception that appears on the meter read exception report, if applicable. This report has been, and will continue to be, run daily. The Company will ensure consistent review of the report by assigning ownership to the task. Four individuals will be hired to ensure timely review and processing of this and other exceptions, effective on or about February 1, 2006. They will be responsible for investigation of meter read exceptions, creation of service orders daily, and coordination with the FRCC to ensure that the orders are worked before the expiry period. If we are unable to disconnect because of inaccessibility, and the consumption indicates 50,000 gallons or more, within 30 days the RSS group will attempt contact with the owner. If unsuccessful, within 60 days we will pursue access through court petition.</p> <p>Target date 2/1/2006</p> <p>Target date to pursue inaccessible meters 3/31/2006.</p> <p>Needs may require one</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
17	<p><u>Accounts with Zero Consumption</u></p> <p>Active accounts with zero usage are not periodically re-investigated</p> <p>It's a good business practice to periodically revalidate the explanation for accounts with zero usage.</p> <p>Current practice for Pennsylvania is to re-investigate accounts with zero usage every six months. During our review of an August 2005 report of accounts with zero usage for 90 days, five of ten accounts we selected were not re-investigated within six months of the original determination.</p>	<p>Accounts with zero usage may be indicative of non-functional meters, which would result in billing delays and lost revenue.</p>	<p>Management should follow up on accounts with zero usage every six months.</p>	2	<p>additional FTE.</p> <p>Responsibility: Traci Follmer Target Date: Wednesday, March 22, 2006</p> <p>Comment: The four individuals to be hired and referenced in the Company's response to finding #16 will also work 3 or more consecutive zero usages effective 2/1/2006.</p> <p>They will be responsible for investigation of meter read exceptions, creation of service orders daily, and coordination with the FRCC to ensure that the orders are worked before the expiry period. If we are unable to gain access to the property within 30 days and the potential dollar amount exceeds \$500 a month, the RSS group will attempt contact with the owner. If unsuccessful within 60 days, we will pursue access through court petition.</p> <p>Target date 2/1/2006</p> <p>Target date to pursue inaccessible meters 3/31/2006.</p>



Ref	Finding	Risk	Recommendation	Priority	Management Response
18	<p><u>Non-Revenue Water</u></p> <p>Management reporting of non-revenue water does not include data for unaccounted for water</p> <p>It's a good business practice for management reporting to include data for which regulatory compliance is required.</p> <p>Year to date non-revenue water in Pennsylvania was reported as 33.9%. However, there was no information detailing specific information on "unaccounted for water" versus authorized usage (non-revenue water represents the difference between system delivery and billed usage). PA Code § 65.20 specifies, "[l]evels of unaccounted for water should be kept within reasonable amounts. Levels above 20% have been considered by the commission to be excessive".</p> <p>We reviewed the August 2005 Southeast Region non-revenue water report. We noted this report did not specify amounts of "unaccounted for water" as a separate component of non-revenue water.</p>	<p>Management monitoring of levels of non-revenue water rather than specific data on "unaccounted for water" for regulatory purposes may result in critical operational or capital expenditure decisions being made on erroneous information.</p>	<p>Management's periodic reporting of non-revenue water should separately identify levels of "unaccounted for water". Additionally, education workshops should be held or educational materials distributed to local management to explain the above statutory terminology.</p>	2	<p>Needs may require one additional FTE.</p> <p>Responsibility: Traci Follmer Target Date: Wednesday, March 22, 2006</p> <p>Comment: This recommendation will be implemented effective with January 2006 reporting. Non-revenue use line items have been added to the "Non-Revenue Water Activity Report" to account for water reported under Thames' NRW definition between non-revenue use and unaccounted-for water in accordance with the PA PUC's reporting requirements.</p> <p>The Company's unaccounted-for water percentages, for the current period and ytd, will be reported monthly on the MD Report.</p> <p>Responsibility: Louis P. Tschachler Target Date: Wednesday, March 22, 2006</p>

INTERNAL AUDIT SERVICES

Status: Final



Ref	Finding	Risk	Recommendation	Priority	Management Response
19	<p>Therefore, management did not have the appropriate information or data required to be monitored for regulatory</p> <p><u>Time Entry and Approval Procedures</u></p> <p>Procedural manuals for time entry and approval have not been developed</p> <p>It's a good business practice to provide procedural manuals to employees having time keeping, and approval responsibilities.</p> <p>There is no written policy or procedural manual regarding time keeping, entry or approval.</p>	<p>Lack of written procedures increases the probability of inconsistent and/or inefficient processes.</p>	<p>Policy and procedural manuals for time keeping, entry, and approval should be developed, communicated to all employees, and periodically reviewed for compliance.</p>	3	<p>Comment: Manuals will be developed and issued.</p> <p>Responsibility: Christopher C. Buis</p> <p>Target Date: Wednesday, March 22, 2006</p>



7. Contact Listing

Name	Title
Adam Boelke	Director, Customer Service Center
Christopher Buls	Director of Finance
John Cox	Sr. Financial Analyst
Carole Dascani	Regional Director, Human Resources
Traci Follmer	Director of Customer Relations
Brian Hassinger	Southeast Regional Director of Network
George Patrick	General Counsel
Nick Rowe	VP, Service Delivery
Robert Sievers	VP, Performance, Planning, & Reporting
Louis Tschachler	Manager Operational Excellence
Daniel Warnock	Regional President - Southeast Region

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Data Budget Variance Reports

FR XI.3

**Pennsylvania-American Water Company
Coatesville Wastewater Operations**

XI. Other Data

3. Provide all monthly or quarterly, or both, budget variance reports to management or the Board of Directors, or both, submitted during the past year. Please provide the most recent detailed budget variance report which the Company compiled, and update as additional reports are issued.

Answer: The Company does not provide budget variance reports at the Coatesville Wastewater Operation level to management or the Board of Directors. The Pennsylvania American Water Company monthly variance reports are available upon request.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Data Operating and Capital Budgets

FR XI.4

Pennsylvania-American Water Company
Coatesville Wastewater Operations
XI. Other Data

4. Provide a copy of the Company's most recent operating and capital budgets.

Answer: Please see FR VII.8.

Pennsylvania-American Water Company
 Coatesville Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission
 Other Data Unaccounted For Water

FR XI.5

**Pennsylvania-American Water Company
 Coatesville Wastewater Operations**

XI. Other Data

5. Provide a schedule that shows the percentage of unaccounted for water for the test year and two prior years. Describe how this amount was determined and explain any steps taken to reduce unaccounted for water. Provide a similar analysis of infiltration for wastewater utilities.

Answer:

	2005	2006	2007
Metered Flow	568,899,274	595,902,442	625,595,573
Coatesville Flow	713,372,726	699,724,958	699,874,427
Total Plant Flow	1,282,272,000	1,295,627,000	1,325,470,000
Inches of Rain	51.36	57.39	52.29
# of Customers	5,536	5,686	5,892
Parkensburg*	134,409,184	130,882,678	127,775,838

* Parkensburg flows are part of the Metered Flow noted above.

Infiltration and Inflow (I & I) work has been on-going in the Coatesville sewer system for many years. Most recently pipe and manhole repairs were done in Coatesville Basins #1 & #2 in December 2003 to April 2004; Coatesville Basins #3, #4 & #5 in July to December 2005; and the Parkensburg Basin in November 2006 to May 2007.

In comparing the Coatesville Flow from 2005 to 2007, I & I was reduced by 13.5 MG, or 1.9%; and comparing the Parkensburg Flow from 2005 to 2007, I & I was reduced by 6.6 MG, or 4.9%.

Pennsylvania-American Water Company
Coatesville Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Other Data Corporate History

FR XI.6

Pennsylvania-American Water Company
Coatesville Wastewater Operations
XI. Other Data

6. Provide a corporate history (include the dates of original incorporation, subsequent mergers or acquisitions, or both). Indicate all counties and cities and other governmental subdivisions to which service is provided, including service areas outside the state, and the total population in the area served.

Answer: The Company acquired the wastewater system from the City of Coatesville Authority, Chester and Lancaster Counties, on March 22, 2001. The Company furnishes wastewater service to about 5,901 customers in the following municipalities:

All, or portions of, the City of Coatesville, the Borough of Parkesburg and the Townships of Caln, East Fallowfield, Highland, Sadsbury, Valley, West Caln, West Brandywine and West Sadsbury in Chester County.