

EXHIBIT
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TABLE OF CONTENTS

DESCRIPTION	PAGE NO
INCOME STATEMENT	1
OPERATING REVENUES	
REVENUES BY TARIFF SUBDIVISION.....	2
SUMMARY OF ADJUSTMENTS	3
PENALTIES	4
ELIMINATION OF CAPACITY AND INSPECTION FEES.....	5
RECLASSIFY REVENUES.....	6
SPECIFIC CUSTOMER ADJUSTMENTS.....	7
CHANGE IN NUMBER OF CUSTOMERS (HISTORIC)	8
CHANGE IN NUMBER OF CUSTOMERS (FUTURE)	9
NUMBER OF CUSTOMERS SERVED	10
RATE BASE	
SUMMARY OF RATE BASE ADJUSTMENTS.....	11
SUMMARY OF DETAILED PLANT ACCOUNTS.....	12
CONTRIBUTIONS IN AID OF CONSTRUCTION	13
MATERIALS AND SUPPLIES	14
CASH WORKING CAPITAL REQUIREMENTS	15
SUPPORT OF EXPENSE DAYS	16
ACCRUED AND PREPAID TAXES	17
CALCULATION OF LAG DAYS FOR ACCRUED & PREPAID TAXES	18
CASH WORKING CAPITAL REQUIREMENTS - INTEREST & DIVIDENDS.....	19
CALCULATION OF DEFERRED INCOME TAXES	20
OPERATING EXPENSES	
SUMMARY OF EXPENSE ACCOUNTS.....	21 & 22
SUMMARY OF OPERATING EXPENSE ADJUSTMENTS	23
SALARY AND WAGES	24
GROUP INSURANCE	25
401K & DEFINED CONTRIBUTION PLAN COST.....	26
CHEMICALS	27
POWER.....	28
LEASED VEHICLES	29
RATE CASE EXPENSE	30
INFLATION	31
UNCOLLECTABLE ACCOUNTS	33
ANNUAL DEPRECIATION.....	33
TAXES, OTHER THAN INCOME	
PAYROLL	34
GENERAL ASSESSMENT	35
INCOME TAX	
STATE AND FEDERAL INCOME TAXES UNDER PRESENT AND PROPOSED RATES	36
CALCULATION OF STATE AND FEDERAL INCOME TAXES	37
INCOME DEDUCTIONS	
INTEREST UNDER PRESENT AND PROPOSED RATES.....	38
APPLICATION OF INCOME DEDUCTIONS	39

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

PRO FORMA STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2007

AND DECEMBER 31, 2008 UNDER PRESENT AND PROPOSED RATES

LINE NO.	DESCRIPTION	PER BOOKS		PRESENT RATES 12/31/07		12/31/08		PROPOSED RATES		LINE NO.
		AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	
1	OPERATING REVENUE	\$2,478,780	\$0	\$2,478,780	-\$65,959	\$2,412,821		\$2,685,488		1
2	OPERATING REVENUE DEDUCTIONS:									2
3	OPERATING EXPENSES	1,824,044	18,072	1,842,116	447,085	2,289,201		82,341		3
4	DEPRECIATION	358,656	0	358,656	696,741	1,055,397		0		4
5	AMORTIZATIONS	-506,981	0	-506,981	0	-506,981		0		5
6	TAXES, OTHER THAN INCOME:									6
7	LOCAL PROPERTY AND MISCELLANEOUS	36,362	0	36,362	0	36,362		0		7
8	FEDERAL ENVIRONMENTAL TAX	0	0	0	0	0		0		8
9	PUBLIC UTILITY REALTY TAXES	0	0	0	0	0		0		9
10	PAYROLL TAXES	35,806	0	35,806	9,088	44,894		0		10
11	GENERAL ASSESSMENT	14,697	-534	14,163	216	14,379		16,367		11
12	STATE CAPITAL STOCK TAX	0	0	0	0	0		0		12
13	TOTAL TAXES OTHER THAN INCOME	86,865	-534	86,331	9,304	95,635		16,367		13
14	UTILITY OPERATING INCOME BEFORE INCOME TAXES	716,196	-17,538	698,658	-1,219,089	-520,431		2,586,780		14
15	INCOME TAXES:									15
16	STATE INCOME TAX	0	0	0	0	0		150,106		16
17	FEDERAL INCOME TAX	0	0	0	0	0		278,458		17
18	AMORTIZATION OF ITC & EXCESS DEFERRED TAXES	0	0	0	0	0		0		18
19	TOTAL INCOME TAXES	0	0	0	0	0		428,564		19
20	TOTAL OPERATING REVENUE DEDUCTIONS	1,762,584	17,538	1,780,122	1,153,130	2,933,252		527,272		20
21	UTILITY OPERATING INCOME	716,196	-17,538	698,658	-1,219,089	-520,431		2,158,216		21
22	INCOME DEDUCTIONS:									22
23	INTEREST ON LONG TERM DEBT	489,828	0	489,828	124,188	614,016		369		23
24	AMORTIZATION OF DEBT DISCOUNT EXPENSE	0	0	0	0	0		0		24
25	INTEREST ON NOTES PAYABLE TO OTHERS	35,485	0	35,485	35,485	0		0		25
26	TOTAL INCOME DEDUCTIONS	525,313	0	525,313	88,703	614,016		369		26
27	NET INCOME	190,883	-17,538	173,345	-1,307,732	-1,134,447		2,157,847		27
28	PREFERRED DIVIDENDS	10,874		10,874		11,536				28
29	NET INCOME TO COMMON	\$180,009		\$162,471		-\$1,145,983				29

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

TOTAL INCREASE IN REVENUES BY TARIFF SUBDIVISIONS PROJECTED TO
AN ANNUAL BASIS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2008

LINE NO.	ACCT. NO.	CUSTOMER CLASSIFICATION	PER BOOKS 12/31/2007	CHANGE IN NUMBER OF CUSTOMERS	SPECIFIC CUSTOMERS	OTHER OPERATING REVENUES	RECLASSIFY REVENUE	PRO FORMA PRESENT RATES 12/31/2008	PERCENT	AMOUNT	PRO FORMA PROPOSED RATES
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1		OPERATING REVENUES									
2		METERED SALES									
3	461.1	RESIDENTIAL	\$979,362	\$50,535	\$0	\$0	\$0	\$1,029,897	129.17%	1,330,276	\$2,360,173
4	461.2	COMMERCIAL	204,226	0	0	0	0	204,226	113.43%	231,649	435,875
5	461.3	INDUSTRIAL	197,450	0	(17,115)	0	0	180,335	98.05%	176,812	357,147
6	464	MUNICIPAL	195,062	0	0	0	(101,838)	93,224	103.77%	96,740	189,964
7	466	SALES FOR RESALE	718,532	0	1,412	0	101,838	821,782	100.07%	822,387	1,644,169
9		TOTAL METERED SALES	2,294,632	50,535	(15,703)	0	0	2,329,464	114.10%	2,657,864	4,987,328
10		UNMETERED SALES									
11	460	RESIDENTIAL	19,335	550	0	0	0	19,885	81.29%	16,166	36,051
12	460	COMMERCIAL	533	0	0	0	0	533	80.50%	429	962
13	460	INDUSTRIAL	0	0	0	0	0	0	0.00%	0	0
14	460	MUNICIPAL	0	0	0	0	0	0	0.00%	0	0
15	460	MISCELLANEOUS	0	0	0	0	0	0	0.00%	0	0
16		TOTAL UNMETERED SALES	19,868	550	0	0	0	20,418	0.00%	16,595	37,013
17	462.1	PRIVATE FIRE PROTECTION	0	0	0	0	0	0	0.00%	0	0
18	462.2	PUBLIC FIRE PROTECTION	0	0	0	0	0	0	0.00%	0	0
19		TOTAL WASTEWATER SALES	2,314,500	51,085	(15,703)	0	0	2,349,882	113.81%	2,674,459	5,024,341
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	11,580	0	0	(1,889)	0	9,691	113.81%	11,029	20,720
22	471	MISC SERVICE REVENUES	99,452	0	0	(99,452)	0	0	0.00%	0	0
23	472	RENTS FROM PROPERTIES	0	0	0	0	0	0	0.00%	0	0
24	474	OTHER REVENUES	53,248	0	0	0	0	53,248	0.00%	0	53,248
25		TOTAL OTHER OPERATING REVENUE	164,280	0	0	(101,341)	0	62,939	17.52%	11,029	73,968
26		TOTAL OPERATING REVENUES	\$2,478,780	\$51,085	(\$15,703)	(\$101,341)	\$0	\$2,412,821	111.30%	\$2,685,488	\$5,098,309
27											

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

SUMMARY OF ADJUSTMENTS TO OPERATING REVENUES

LINE NO.	DESCRIPTION	ADJUSTMENT	PRESENT RATES 12/31/08 AMOUNT
1	PER BOOKS		\$2,478,780
2	RECLASSIFY REVENUES	\$0	
3	SPECIFIC CUSTOMER ADJUSTMENT	(15,703)	
4	OTHER OPERATING REVENUES		
5	470 - PENALTIES	(1,889)	
6	471 - CAPACITY AND INSPECTION FEES	(99,452)	
7	CHANGE IN CUSTOMERS ADJUSTMENT	51,085	
8			
	PRO FORMA ADJUSTMENTS		<u>(65,959)</u>
	PRO FORMA PRESENT RATES AT DECEMBER 31, 2008		<u><u>\$2,412,821</u></u>

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

PENALTIES

The following adjustment reflects the annualization of revenues associated with changes projected to be imposed during 2008. Additionally, annualized late payment charges are calculated based on revenues at the proposed rate level.

LINE NO.	DESCRIPTION	PER BOOKS 12/31/07	PRESENT RATES 12/31/08	PROPOSED RATES
1	TOTAL BILLED SALES	\$2,314,500	\$2,349,882	\$5,024,341
2	% OF PENALTIES TO TOTAL			
3	SALES (3 YEAR AVERAGE)		0.4124000%	0.4124000%
4	PENALTIES	11,580	9,691	20,720
5				
6	LESS: PER BOOKS AT 12-31-07		11,580	
7	LESS: PRESENT RATES AT 12-31-08			9,691
8	PRO FORMA ADJUSTMENTS		<u>(\$1,889)</u>	<u>\$11,029</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

ELIMINATION OF CAPACITY AND INSPECTION FEES

During this rate proceeding, the Company is proposing to eliminate all charges for capacity fees and inspection fees from revenues and begin recording them as contributions to rate base.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	MISCELLANEOUS SERVICE REVENUES	
2	CAPACITY AND INSPECTION FEES	(\$99,452)
3	TOTAL MISCELLANEOUS SERVICE REVENUES	<u>(99,452)</u>
4	PRO FORM ADJUSTMENT	<u><u>(\$99,452)</u></u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

RECLASSIFY REVENUES

This adjustment reclassifies Sadsbury Township's revenues from the municipal bill class to the resale bill class.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	MUNICIPAL REVENUES	(\$101,838)
2	RESALE REVENUES	\$101,838
3	TOTAL REVENUES	<u>0</u>
4	PRO FORM ADJUSTMENT	<u>\$0</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

SPECIFIC CUSTOMER ADJUSTMENTS

LINE NO.	DESCRIPTION	PRESENT RATES 12-31-08 AMOUNT
1	COMMERCIAL	
2	INDUSTRIAL	
3	MITTEL STEEL	(17,115)
4	MUNICIPAL	
5	SALE FOR RESALE	
6	CALN TOWNSHIP	1,412
7	TOTAL	<u><u>(\$15,703)</u></u>

WITNESS: JO ANNE LONTZ

REFERENCE: FR II. 2

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

CHANGE IN REVENUES DUE TO CHANGE IN NUMBER OF CUSTOMERS

The following adjustment reflects the change in revenues due to the average change in number of customers during the twelve months ended December 31, 2007.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2007 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED CUSTOMERS	FR II.2	\$14,567
2	An analysis of residential accounts indicates that		
3	various accounts were lost, added or reclassified during		
4	the test year. Revenue was adjusted by applying the		
5	average annual consumption per residential customer		
6	to the difference between the actual number of customers		
7	at December 2007 and the average number of customers		
8	between December 2006 and December 2007.		
9	RESIDENTIAL UNMETERED CUSTOMERS		
10	This adjustment was made to annualize the number of		
11	EDU's billed at December 2007.		\$550
12	COMMERCIAL METERED CUSTOMERS	FR II.2	\$0
13	An analysis of commercial accounts indicates that		
14	various accounts were lost, added or reclassified during		
15	the test year. The difference between the actual number of		
16	customers at December 2007 and the average number of		
17	customers between December 2006 and December 2007		
18	was zero, therefore an adjustment was not made.		
19	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE		\$0
20	METERED CUSTOMERS.	FR II.2	
21	Any change to these revenue classes large enough to warrant		
22	an adjustment will be shown as a specific customer adjustment.		
23	PRO FORMA ADJUSTMENT		<u>\$15,117</u>
24	WITNESS: JO ANNE LONTZ		

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

CHANGE IN REVENUES DUE TO CHANGE IN NUMBER OF CUSTOMERS

The following adjustment reflects the change in revenues due to the projected change in number of customers during the twelve months ending December 31, 2008.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2008 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED CUSTOMERS	FR II.2	\$35,968
2	Residential revenue was adjusted by applying		
3	the average annual consumption per residential		
4	customer to the projected increase in customers		
5	for the test year 2008		
6	COMMERCIAL METERED CUSTOMERS	FR II.2	\$0
7	The Company does not expect an increase in		
8	commercial customers for 2008.		
9	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE	FR II.2	\$0
10	METERED CUSTOMERS		
11	Those large enough to warrant an adjustment are		
12	shown as specific customer adjustments.		
13	PRO FORMA ADJUSTMENT		<u>\$35,968</u>
14	WITNESS: JO ANNE LONTZ		

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

NUMBER OF CUSTOMERS

The following is a list of the number of customers served at December 31, 2006 and 2007 and the estimated number of customers to be served at December 31, 2008. Also shown are the number of customers in each class whose bills will increase, decrease or remain unchanged as a result of the rate changes proposed in this filing.

LINE NO.	ACCT. NO.	DESCRIPTION	TO BE				INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
			SERVED AT 12/31/2006	SERVED AT 12/31/2007	SERVED AT 12/31/2008				
1		METERED							
2	601.1	RESIDENTIAL	5,294	5,479	5,679	5,679	0	0	
3	601.2	COMMERCIAL	328	335	335	335	0	0	
4	601.3	INDUSTRIAL	2	2	2	2	0	0	
5	606	MUNICIPAL	18	19	18	18	0	0	
6	607	RESALE	4	4	5	5	0	0	
7	601.4	MISCELLANEOUS	0	0	0	0	0	0	
8		METERED	5,646	5,839	6,039	6,039	0	0	
9		UNMETERED							
10	602.1	RESIDENTIAL	38	51	51	51	0	0	
11	602.2	COMMERCIAL	2	2	2	2	0	0	
12	602.3	INDUSTRIAL	0	0	0	0	0	0	
13	606	MUNICIPAL	0	0	0	0	0	0	
14	602.4	MISCELLANEOUS	0	0	0	0	0	0	
15		UNMETERED	40	53	53	53	0	0	
16	604	PRIVATE FIRE	0	0	0	0	0	0	
17	605	PUBLIC FIRE	0	0	0	0	0	0	
18		TOTAL CUSTOMERS	5,686	5,892	6,092	6,092	0	0	

WITNESS: JO ANNE LONTZ

NOTES TO RATE BASE ELEMENTS

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	DEPRECIATED	DEPRECIATED	DEPRECIATED	
		ORIGINAL COST 12/31/07	ORIGINAL COST 12/31/08	ORIGINAL COST PROPOSED	
1	NON-DEPRECIABLE PLANT	\$221,912	\$221,912	\$221,912	
2	DEPRECIABLE PLANT	33,612,998	39,776,929	39,776,929	
3	TOTAL UTILITY PLANT IN SERVICE	33,834,910	39,998,841	39,998,841	
4	DEDUCT:				
5	CONTRIBUTIONS IN AID OF CONSTRUCTION	10,186,608	13,450,552	13,450,552	
6	CUSTOMER ADVANCES FOR CONSTRUCTION	2,575,577	2,575,577	2,575,577	
		0	0	0	
7	SUB-TOTAL	12,762,185	16,026,129	16,026,129	
8	NET UTILITY PLANT IN SERVICE	21,072,725	23,972,712	23,972,712	
9	ACCRUED DEPRECIATION	4,643,263	5,150,397	5,150,397	
10	DEPRECIATED UTILITY PLANT IN SERVICE	16,429,462	18,822,315	18,822,315	
11	ADD:				
12	MATERIALS AND SUPPLIES	6,053	6,053	6,053	
13	CASH WORKING CAPITAL - EXPENSES	145,075	182,220	182,220	
14	ACCRUED AND PREPAID TAXES	21,925	22,021	33,467	
15	DEDUCT:				
16	CASH WORKING CAPITAL - INT AND DIV	49,419	66,412	66,452	
17	UNAMORTIZED ITC (3%)	0	0	0	
18	DEFERRED TAXES	0	338	338	
19	TOTAL RATE BASE ELEMENTS	\$16,553,096	\$18,965,859	\$18,977,265	
20	UTILITY OPERATING INCOME				
21	PER BOOKS	\$716,196	4.33%	3.78%	3.77%
22	PRESENT RATES AT 12-31-07	\$698,658	4.22%	-	-
23	PRESENT RATES AT 12-31-08	-\$520,431	-	-2.74%	-
24	PROPOSED RATES	\$1,637,785	-	-	8.63%

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUMMARY OF DETAILED PLANT ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	AMOUNT 31-Dec-07	ADDITIONS	RETIREMENTS	ESTIMATED BOOK COST 31-Dec-08
1		INTANGIBLE PLANT				
3	352.0	WW FRANCHISES	150,569	0	0	150,569
5		TOTAL INTANGIBLE PLANT	<u>150,569</u>	<u>0</u>	<u>0</u>	<u>150,569</u>
6		TANGIBLE PLANT				
7	353.4	WW LAND & LD RIGHTS TDP	<u>196,343</u>	<u>0</u>	<u>0</u>	<u>196,343</u>
8		TOTAL LAND AND LAND RIGHTS	196,343	0	0	196,343
9	354.2	WW STRUCT & IMP COLL	20,659	115,175	0	135,834
10	354.3	WW STRUCT & IMP SPP	1,914,029	0	0	1,914,029
11	354.4	WW STRUCT & IMP TDP	6,025,712	54,000	0	6,079,712
12	354.5	WW STRUCT & IMP GEN	163,202	0	0	163,202
13	354.5	WW STRUCT & IMP GEN LEASED	11,151	0	0	11,151
14	355.2	WW PWR GEN EQUIP COLL	1,846	0	0	1,846
17	355.4	WW PWR GEN EQUIP TDP	109,090	0	0	109,090
18	355.5	WW PWR GEN EQUIP RWTP	1,161	0	0	1,161
20	360.0	WW COLLECTIONS SEWERS FORCED	5,840,973	292,589	0	6,133,562
21	361.1	WW COLLECTING MAINS	13,513,451	5,917,048	(539,579)	18,890,920
22	363.0	WW SERVICES SEWER	3,284,988	314,298	(11,600)	3,587,686
23	364.0	WW FLOW MEASURING DEVICES	58,622	0	0	58,622
24	370.0	WW RECEIVING WELLS	7,370	0	0	7,370
25	371.1	WW PUMP EQUIP ELECT	90,761	16,000	0	106,761
26	371.2	WW PUMP EQUIP OTH POWER	426,770	0	0	426,770
27	380.4	WW TD EQUIP AUX EFFL TRMT	994,791	0	0	994,791
28	380.5	WW TD EQUIP CHEM TRMT PLT	230,699	0	0	230,699
29	380.6	WW TD EQUIP GEN TRMT	2,659	0	0	2,659
30	389.1	WW OTHER PLT & MISC EQUIP INT	123,201	0	0	123,201
32	389.6	WW OTHER P/E OPS	64,935	0	0	64,935
33	390.0	WW OFFICE FURNITURE & EQUIP	19,759	0	0	19,759
37	392.0	WW STORES EQUIP	6,779	0	0	6,779
38	393.0	WW TOOL SHOP & GARAGE EQUIP	28,395	0	0	28,395
39	394.0	WW LAB EQUIPMENT	52,437	0	0	52,437
40	395.0	WW POWER OPERATED EQUIP	80,079	0	0	80,079
42	396.0	WW COMMUNICATIONS EQUIP	20,435	6,000	0	26,435
43	397.0	WW MISC EQUIP	394,044	0	0	394,044
47		TOTAL TANGIBLE PROPERTY	<u>33,684,341</u>	<u>6,715,110</u>	<u>(551,179)</u>	<u>39,848,272</u>
48		TOTAL UTILITY PLANT IN SERVICE	<u>\$33,834,910</u>	<u>\$6,715,110</u>	<u>(\$551,179)</u>	<u>\$39,998,841</u>

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CONTRIBUTIONS IN AID OF CONSTRUCTION

The Company receives Contributions in Aid of Construction (CIAC) on an annual basis. The following adjustment reflects the projected CIAC to be received during the future test year.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-07	10,186,608
2	PLUS: PROJECTED CONTRIBUTIONS DURING 2008	3,263,944
3	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-08	<u>(\$13,450,552)</u>

WITNESS: JOHN R. COX
REFERENCE: FR V.16

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

MATERIALS AND SUPPLIES

The allowance for materials and supplies for Present Rates at December 31, 2007 is calculated on the basis of the average monthly balances in the materials and supplies account during the period December 2006 to December 2007.

LINE NO.	MONTH	DETAIL	PRESENT RATES 12/31/2007 AMOUNT
1	DECEMBER, 2006	1,603	
2	JANUARY, 2007	5,329	
3	FEBRUARY	3,949	
4	MARCH	4,538	
5	APRIL	4,424	
6	MAY	4,954	
7	JUNE	6,985	
8	JULY	11,570	
9	AUGUST	5,642	
10	SEPTEMBER	2,894	
11	OCTOBER	6,524	
12	NOVEMBER	9,700	
13	DECEMBER, 2007	10,582	
14	TOTAL	<u>78,693</u>	
15	AVERAGE		6,053
16	ALLOWANCE FOR MATERIALS AND SUPPLIES		<u> </u>
17	AT DECEMBER 31,2007		<u><u>\$6,053</u></u>

WITNESS: JOHN R. COX

NOTES TO RATE BASE ELEMENTS

CALCULATION OF CASH WORKING CAPITAL REQUIREMENTS

Charges for water and wastewater services are billed in arrears on a monthly basis. The calculation set forth below reflects summarized operating revenues billed for the twelve months ended December 31, 2007, and as annualized under present rates for the twelve months ending December 31, 2007 and 2008. The calculation further reflects the average lag in receipt of revenues less the lag in payment of operating expenses to determine cash working capital requirements.

LINE NO.	DESCRIPTION	PER BOOK AMOUNT	PRESENT RATES	PRESENT RATES
			12/31/07 AMOUNT	12/31/08 AMOUNT
1	OPERATING REVENUE BILLED DURING THE TWELVE MONTHS ENDED 12/31/07			
2	BI-MONTHLY BILLINGS			
3	LAG DAYS			
4	DOLLAR DAYS			
5	QUARTERLY			
6	LAG DAYS			
7	DOLLAR DAYS			
8	MONTHLY BILLINGS	2,314,500	2,314,500	2,349,882
9	LAG DAYS	51.7	51.7	51.7
10	DOLLAR DAYS	119,659,650	119,659,650	121,488,899
11	TOTAL BILLED REVENUE	\$2,314,500	\$2,314,500	\$2,349,882
12	TOTAL DOLLAR DAYS	\$119,659,650	\$119,659,650	\$121,488,899
13	AVERAGE LAG IN RECEIPT OF REVENUE			
14	(LINE 12 / LINE11)	51.7	51.7	51.7
15	DEDUCT:			
16	AVERAGE LAG IN PAYMENT			
17	OF OPERATING EXPENSES	21.8	21.8	21.7
18	AVERAGE LAG BETWEEN PAYMENT OF OPERATING			
19	EXPENSES AND RECEIPT OF REVENUES	29.9	29.9	30.0
20	WORKING CAPITAL REQUIREMENTS			
21	ANNUAL OPERATING EXPENSES		\$1,770,857	\$2,216,853
22	OPERATING EXPENSES PER DAY			
23	(LINE 18 / 365 DAYS)		4,852	6,074
24	CASH WORKING CAPITAL REQUIRED			
25	(LINE 16 * LINE 20)		\$145,075	\$182,220

WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUPPORT OF EXPENSE DAYS

LINE NO.	DESCRIPTION	LAG DAYS	PER BOOKS		PRESENT RATES 12-31-07		PRESENT RATES 12-31-08	
			AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS
1	CHEMICALS	30.0	\$75,964	\$2,278,920	\$75,964	\$2,278,920	\$97,180	\$2,915,400
2	GROUP INSURANCE	(11.7)	105,275	(1,231,718)	105,275	(1,231,718)	114,265	(1,336,901)
3	SALARY AND WAGES	12.5	421,436	5,267,950	421,436	5,267,950	530,842	6,635,525
4	LEASED EQUIPMENT	(4.4)	4,070	(17,908)	4,070	(17,908)	4,070	(17,908)
5	TRANSPORTATION	(1.3)	102,337	(133,038)	102,337	(133,038)	107,307	(139,499)
6	MISCELLANEOUS	25.2	625,942	15,773,738	625,942	15,773,738	930,584	23,450,717
7	PURCHASED POWER	27.8	252,570	7,021,446	252,570	7,021,446	249,342	6,931,708
8	WASTE DISPOSAL	53.0	183,263	9,712,939	183,263	9,712,939	183,263	9,712,939
9	TOTALS		<u>1,770,857</u>	<u>38,672,329</u>	<u>1,770,857</u>	<u>38,672,329</u>	<u>2,216,853</u>	<u>48,151,981</u>
10	AVERAGE LAG			<u>21.8</u>		<u>21.8</u>		<u>21.7</u>

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	NET LEAD/ LAG DAYS FUTURE	PRESENT RATES 12-31-07		PRESENT RATES 12-31-08		PROPOSED RATES	
			TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ
1	GENERAL ASSESSMENT	161.7	\$14,163	\$6,274	\$14,379	\$6,370	\$30,746	\$13,621
2	PROPERTY TAX	157.1	36,362	15,651	36,362	15,651	36,362	15,651
3								
4	STATE INCOME TAX	23.0	0	0	0	0	150,106	9,459
5	FEDERAL INCOME TAX	-6.9	0	0	0	0	278,458	-5,264
6	TOTALS			<u>\$21,925</u>		<u>\$22,021</u>		<u>\$33,467</u>

WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF LAG DAYS FOR ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	TAX PERIOD BEGINNING	TAX PERIOD ENDING	PAYMENTS 2007 TAX					TOTAL TAX LAG DAY
1	GENERAL ASSESSMENT	01-Jul-07	30-Jun-08	11-Sep-07					
			365						
2	PERCENT OF PAYMENT			100.00%					
3	LAG DAYS			(110.0)					(110.0)
4	PROPERTY TAX				<u>Amount</u>	<u>Pmt Date</u>	<u>LAG DAYS</u>	<u>DOLLAR DAYS</u>	
	BOROUGH OF SOUTH COATESVILLE	01-Jan-07	31-Dec-07	\$ 7,448	11-May-07	(51.5)	\$ (383,572)		
	CHESTER COUNTY	01-Jan-07	31-Dec-07	3,728	23-Mar-07	(100.5)	(374,664)		
	COATESVILLE AREA SCHOOL DIST	01-Jul-07	30-Jun-08	25,186	30-Aug-07	(122.0)	(3,072,692)		
				<u>\$ 36,362</u>			<u>\$ (3,830,928)</u>	(105.4)	
5									
6									
7	STATE INCOME TAX	01-Jan-07	31-Dec-07	15-Mar-07	15-Jun-07	15-Sep-07	15-Dec-07		
8	PERCENT OF PAYMENT			25.00%	25.00%	25.00%	25.00%		
9	LAG DAYS			(27.3)	(4.3)	18.8	41.5	28.7	
10	FEDERAL INCOME TAX	01-Jan-07	31-Dec-07	15-Apr-07	15-Jun-07	15-Sep-07	15-Dec-07	15-Mar-08	
11	PERCENT OF PAYMENT			22.50%	22.50%	22.50%	22.50%	10.00%	
12	LAG DAYS			(17.6)	(3.8)	16.9	37.4	25.7	

WITNESS: JOHN COX
REFERENCE: STMT 4R

NOTES TO RATE BASE ELEMENTS

CALCULATION OF CASH WORKING CAPITAL REQUIREMENTS

The payment of interest on the Company's long term debt is made six months in arrears. Payment of interest on the Company's short term debt is made monthly in arrears. The payment of dividends on the Company's preferred stock is made quarterly. The average lag days of interest and dividend payments and the deduction of the average lag days for the receipt of revenue is calculated below to determine capital requirements.

LINE NO.	DESCRIPTION	LONG TERM INTEREST	SHORT TERM INTEREST	PREFERRED DIVIDEND
1	AVERAGE LAG CALCULATION			
2	FUTURE REVENUE LAG DAYS	51.7	51.7	51.7
3	LESS: INTEREST PAYMENTS LAG DAYS	<u>91.3</u>	<u>15.2</u>	<u>45.6</u>
4	AVERAGE LAG BETWEEN THE PAYMENT OF INTEREST AND THE RECEIPT OF REVENUES	-39.6	36.5	6.1
7	LONG TERM DEBT	PRESENT RATES 12/31/07	PRESENT RATES 12/31/08	PROPOSED AMOUNT
8	WORKING CAPITAL REQUIREMENTS			
9	PRO FORMA ANNUAL INTEREST EXPENSE	\$489,828	\$614,016	\$614,385
10	INTEREST EXPENSE PER DAY			
11	(LINE 9 / 365 DAYS)	<u>1,342</u>	<u>1,682</u>	<u>1,683</u>
12	CASH WORKING CAPITAL REQUIRED			
13	(LINE 6 COL.1 x LINE 10)	(53,143)	(66,607)	(66,647)
14	SHORT TERM DEBT			
15	WORKING CAPITAL REQUIREMENTS			
16	PRO FORMA ANNUAL INTEREST EXPENSE	35,485	0	0
17	INTEREST EXPENSE PER DAY			
18	(LINE 16 / 365 DAYS)	<u>97</u>	<u>0</u>	<u>0</u>
19	CASH WORKING CAPITAL REQUIRED			
20	(LINE 6 COL.2 x LINE 17)	3,541	0	0
21	PREFERRED DIVIDENDS			
22	WORKING CAPITAL REQUIREMENTS			
23	PRO FORMA ANNUAL DIVIDEND EXPENSE	10,874	11,536	11,543
24	DIVIDEND EXPENSE PER DAY			
25	(LINE 23 / 365 DAYS)	<u>30</u>	<u>32</u>	<u>32</u>
26	CASH WORKING CAPITAL REQUIRED			
27	(LINE 6 COL.3 x LINE 24)	<u>183</u>	<u>195</u>	<u>195</u>
28	TOTAL CASH WORKING CAPITAL REQUIRED			
29	(LINE 13 + LINE 20 + LINE 27)	<u>(\$49,419)</u>	<u>(\$66,412)</u>	<u>(\$66,452)</u>

WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF DEFERRED INCOME TAXES

The following calculation is being made to reflect the tax difference between using accelerated and straight-line depreciation, and is carried as a rate base reduction.

LINE NO.	VINTAGE YEARS	TAX BASE PROPERTY	ACCELERATED TAX DEPRECIATION	STRAIGHT-LINE REMAINING LIFE	EXCESS DEPRECIATION	DEFERRED FEDERAL TAXES
1	1/01 - 12/08	\$14,738,641	\$1,056,363	\$1,055,397	\$966	\$338
2						
3						<u>338</u>
4		BALANCE OF DEFERRED INCOME TAXES AT 12-31-07				<u>0</u>
5		BALANCE OF DEFERRED INCOME TAXES AT 12-31-08				<u><u>(\$338)</u></u>

WITNESS: JOHN COX
REFERENCE: FR IV.4

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/07	PRESENT RATES 12/31/07	PRESENT RATES 12/31/08
1		SOURCE OF SUPPLY EXPENSES			
2		-OPERATIONS-			
3	601.1	SALARY AND WAGES	\$0	\$0	\$0
4	601.2	SALARY AND WAGES	0	0	0
5	610.1	PURCHASED WATER	0	0	0
6	615.1	PURCHASED POWER	27,387	27,387	24,159
7	616.1	PURCHASED FUEL	1,700	1,700	1,700
8	618.1	CHEMICALS	0	0	0
9	620.1	MATERIALS AND SUPPLIES	0	0	0
10	620.2	MATERIALS AND SUPPLIES	0	0	0
11	631.1	CONTRACT SERVICES - ENGINEERING	0	0	0
12	633.1	CONTRACT SERVICES - LEGAL	0	0	0
13	636.1	CONTRACT SERVICES	0	0	0
14	636.2	CONTRACT SERVICES MAINTENANCE	0	0	0
15	642.1	RENTAL OF EQUIPMENT	0	0	0
16	675.1	MISCELLANEOUS OPERATING EXPENSE	795	795	795
17	675.2	MISCELLANEOUS MAINTENANCE EXPENSE	0	0	0
18					
19		TOTAL SOURCE OF SUPPLY EXPENSES	29,882	29,882	26,654
20					
21		WASTEWATER TREATMENT			
22		-OPERATION-			
23	601.3	SALARY AND WAGES	200,350	200,350	249,899
24	601.4	SALARY AND WAGES	71,429	71,429	89,094
25	615.3	PURCHASED POWER	224,901	224,901	224,901
26	618.3	CHEMICALS	75,964	75,964	97,180
26	620.3	MATERIALS AND SUPPLIES	946	946	946
27	620.4	MATERIALS AND SUPPLIES	19,881	19,881	19,881
28	631.3	CONTRACT SERVICES - ENGINEERING	0	0	0
29	633.3	CONTRACT SERVICES - LEGAL	0	0	0
30	634.3	CONTRACT SERVICES - MANAGEMENT	0	0	0
31	635.3	CONTRACT SERVICES - TEST	9,573	9,573	10,479
32	636.3	CONTRACT SERVICES	1,721	1,721	1,721
33	636.4	CONTRACT SERVICES	3,115	3,115	3,115
34	641.3	RENTAL OF BUILDING	0	0	0
35	642.3	RENTAL OF EQUIPMENT	3,970	3,970	3,970
36	650.3	TRANSPORTATION	0	0	0
37	650.4	TRANSPORTATION	0	0	0
38	675.4	MISCELLANEOUS MAINTENANCE EXPENSE	2,806	2,806	2,806
39		-MISCELLANEOUS-			
40	675.3	MISCELLANEOUS OPERATING EXPENSE	257,635	257,635	257,635
41					
42		TOTAL WASTEWATER TREATMENT EXPENSE	872,291	872,291	961,627
43					
44					
45		TRANSMISSION AND DISTRIBUTION			
46		-OPERATION-			
47	601.5	SALARY AND WAGES	9,138	9,138	11,398
48	601.6	SALARY AND WAGES	117,260	117,260	146,260
49	604.5	EMPLOYEE PENSION AND BENEFITS	0	0	0
50	620.5	MATERIALS AND SUPPLIES	0	0	1,882
51	631.5	CONTRACT SERVICES - ENGINEERING	0	0	0
52	636.5	CONTRACT SERVICES	5,149	5,149	5,149
53	641.5	RENTAL OF BUILDING	0	0	0
54	642.5	RENTAL OF EQUIPMENT	0	0	0
55	650.5	TRANSPORTATION	0	0	0
56	675.5	MISCELLANEOUS OPERATING EXPENSE	40,841	40,841	44,707

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/07	PRESENT RATES 12/31/07	PRESENT RATES 12/31/08
		-MAINTENANCE-			
1	620.6	MATERIALS AND SUPPLIES	8,989	8,989	9,840
2	636.6	CONTRACT SERVICES	387,050	387,050	423,687
3	675.6	MISCELLANEOUS MAINTENANCE EXPENSE	41,753	41,753	45,705
4					
5		TOTAL TRANSMISSION AND DISTRIBUTION	610,180	610,180	688,628
6					
7		CUSTOMER ACCOUNTING			
8		-OPERATION-			
9	601.7	SALARY AND WAGES	(4,153)	(4,153)	0
10	620.7	MATERIALS AND SUPPLIES	0	0	0
11	633.7	CONTRACT SERVICES - LEGAL	0	0	0
12	634.7	CONTRACT SERVICES - MANAGEMENT	0	0	0
13	636.7	CONTRACT SERVICES	1,187	1,187	1,187
14	642.7	RENTAL OF EQUIPMENT	0	0	0
15	650.7	TRANSPORTATION	0	0	0
16	670.7	BAD DEBT	53,187	71,259	72,348
17		-MISCELLANEOUS-			
18	675.7	MISCELLANEOUS EXPENSE	4,103	4,103	4,491
19					
20		TOTAL CUSTOMER ACCOUNTING	54,324	72,396	78,026
21					
22					
23		ADMINISTRATIVE AND GENERAL			
24	601.8	SALARY AND WAGES	27,412	27,412	34,191
25	603.8	SALARY OF OFFICERS	0	0	0
26	604.8	EMPLOYEE PENSION AND BENEFITS	123,526	123,526	137,486
27	615.8	PURCHASED POWER	0	0	0
28	620.8	MATERIALS AND SUPPLIES	0	0	0
29	631.8	CONTRACT SERVICES	0	0	0
30	632.8	CONTRACT SERVICES - ACCOUNTING	0	0	0
31	633.8	CONTRACT SERVICES - LEGAL	0	0	0
32	634.8	CONTRACT SERVICES - MANAGEMENT	0	0	0
33	635.8	CONTRACT SERVICES - TEST	0	0	0
34	636.8	CONTRACT SERVICES	0	0	0
35	641.8	RENTAL OF BUILDING	0	0	0
36	642.8	RENTAL OF EQUIPMENT	100	100	100
37	650.8	TRANSPORTATION	102,337	102,337	98,116
38	656.8	INSURANCE - VEHICLES	0	0	0
39	657.8	INSURANCE	0	0	0
40	658.8	WORKERS COMPENSATION	(32)	(32)	(32)
41	659.8	INSURANCE	0	0	0
42	660.8	ADVERTISING	0	0	0
43	666.8	AMORTIZATION OF RATE CASE	0	0	260,000
44	667.8	REGULATORY COMMISSION	0	0	0
45		-MISCELLANEOUS-			
46	675.8	MISCELLANEOUS EXPENSE	4,024	4,024	4,405
47					
48		TOTAL ADMINISTRATIVE AND GENERAL	257,367	257,367	534,266
49					
50					
51					
52		TOTAL OPERATING EXPENSES	1,824,044	1,842,116	2,289,201

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF OPERATING EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	PRESENT RATES		PRESENT RATES	
		12/31/07 DETAIL	12/31/07 AMOUNT	12/31/08 DETAIL	12/31/08 AMOUNT
1	PER BOOKS		\$1,824,044		
2	PRESENT RATES AT 12-31-07				\$1,842,116
3	SALARIES AND WAGES	0		109,406	
4	GROUP INSURANCE	0		8,990	
5	401K & DEFINED CONTRIBUTION PLAN	0		4,970	
6	CHEMICALS	0		21,216	
7	PURCHASED POWER	0		(3,228)	
8	LEASED VEHICLES	0		(4,221)	
9	RATE CASE EXPENSE	0		260,000	
10	INFLATION	0		48,863	
11	UNCOLLECTABLES	<u>18,072</u>		<u>1,089</u>	
12	PRO FORMA ADJUSTMENTS		<u>18,072</u>		<u>447,085</u>
13	PRESENT RATES 12-31-07		<u>\$1,842,116</u>		
14	PRESENT RATES 12-31-08				<u>\$2,289,201</u>

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SALARY AND WAGES

The following adjustment sets forth a summary of the Company's annualization of labor expenses. The pro forma payroll for the future annualization was developed by applying pay rates and associated incentive pay that will become effective during the six month period immediately following the end of the future test year, as approved at Docket No. R-943231, to the Company's full complement of employees.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED SALARY AND WAGES	\$585,662
2	ANNUALIZED INCENTIVE PLAN (O & M EXPENSE)	8,022
3	LESS: 10.73% NOT CHARGED TO OPERATING EXPENSE	<u>62,842</u>
4	SUB-TOTAL	530,842
5	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
6	DURING THE TWELVE MONTHS ENDED 12-31-07	<u>421,436</u>
8	PRO FORMA ADJUSTMENT	<u>\$109,406</u>
	601.1 SALARY AND WAGES - SOURCE OF SUPPLY	\$0
	601.2 SALARY AND WAGES - SOURCE OF SUPPLY	0
	601.3 SALARY AND WAGES - WATER TREATMENT	49,549
	601.4 SALARY AND WAGES - WATER TREATMENT	17,665
	601.5 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	2,260
	601.6 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	29,000
	601.7 SALARY AND WAGES - CUSTOMER ACCOUNTING	4,153
	601.8 SALARY AND WAGES - ADMINISTRATIVE AND GENERAL	6,779
	603.8 SALARY AND WAGES - SALARY OF OFFICERS	0

REFERENCE: EXHIBIT NO. 3-B

WITNESS: JOHN R. COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

GROUP INSURANCE

The annualization of the group insurance cost was based on the March 2008 premiums annualized for the future test year number of employees less the annualized employee contribution. The following calculation reflects the annualization less the adjustment for that portion not charged to operations.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED GROUP INSURANCE COST	\$127,999
2	LESS: 10.73% NOT CHARGED TO OPERATING EXPENSE	13,734
3	SUB-TOTAL	114,265
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	105,275
5	PRO FORMA ADJUSTMENT	<u>\$8,990</u>
6	604.8 A&G EMPLOYEES PENSION AND BENEFITS	\$8,990

REFERENCE: EXHIBIT NO. 3-B
WITNESS: JOHN R. COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

401K & DEFINED CONTRIBUTION PLAN COST (DCP)

The following adjustment is being made to annualize the cost associated with the Company's contribution for 401k and DCP associated with the full complement of employees at December 31, 2008.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2007 AMOUNT
1	ANNUALIZED 401 K & DCP COST	\$23,098
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	<u>18,128</u>
3	PRO FORMA ADJUSTMENT	<u>\$4,970</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	\$4,970

REFERENCE: EXHIBIT NO. 3-B
WITNESS: JOHN R. COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CHEMICALS

The following adjustment annualizes chemical costs. Historic test year usage was reviewed, than applied to the actual bid prices in effect at January 1, 2008 to arrive at the pro forma level of expense.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED CHEMICAL COST	\$97,180
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	75,964
3	PRO FORMA ADJUSTMENT	<u>\$21,216</u>
	618.3 CHEMICALS - WASTEWATER TREATMENT	\$21,216

REFERENCE: EXHIBIT 3-B
WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

PURCHASED POWER

This adjustment reflects the application of rates for power to be in effect as of December 31, 2008 to anticipated billing units future test years. Accounts were adjusted to reflect 12 monthly bills .

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED POWER COST	\$249,342
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	<u>\$252,570</u>
3	PRO FORMA ADJUSTMENT	<u>(\$3,228)</u>
	615.1 PURCHASED POWER - SOURCE OF SUPPLY	(\$3,228)

REFERENCE: EXHIBIT 3-B
WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

LEASED VEHICLES

The following adjustment reflects the annualization of vehicle lease expense during the year ended December 31, 2008. The March 2008 monthly lease costs were annualized for the number of vehicle to be in service at December 31, 2008.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED LEASED VEHICLES COST	\$83,772
2	LESS: 10.73% NOT CHARGED TO OPERATING EXPENSE	8,989
3	SUB-TOTAL	74,783
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	79,004
5	PRO FORMA ADJUSTMENT	<u>(\$4,221)</u>
	650.8 A & G - MISCELLANEOUS GENERAL EXPENSE	(\$4,221)
	REFERENCE: EXHIBIT 3B	
	WITNESS: JOHN COX	

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

RATE CASE EXPENSE

The following adjustment reflects the estimated cost of this rate case at December 31, 2008.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	LEGAL FEES AND EXPENSES	\$140,000
2	RATE OF RETURN	25,000
3	COST OF SERVICE AND RATE DESIGN	30,000
4	DEPRECIATION	30,000
5		
6	MISCELLANEOUS	<u>35,000</u>
7	TOTAL	<u>260,000</u>
8	AMORTIZED OVER 1 YEAR	260,000
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
10	DURING THE TWELVE MONTHS ENDED 12-31-07	<u>0</u>
11	PRO FORMA ADJUSTMENT	<u><u>\$260,000</u></u>
	666.8 REGULATORY COMMISSION EXPENSE	\$260,000

REFERENCE: EXHIBIT 3B
WITNESS: JOHN COX

PENNSYLVANIA-AMERICAN WATER COMPANY

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

INFLATION

The Company has presented various pro forma adjustments for specific expense items. The remaining expense items are anticipated to continue to rise due to inflationary increases. The following adjustment reflects projection of increases due to inflation.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	TOTAL O & M EXPENSES	\$1,824,044
2	LESS: ADJUSTMENTS	<u>1,005,564</u>
3	EXPENSES SUBJECT TO INFLATION	818,480
4	INFLATION FACTOR	<u>5.97%</u>
5	PRO FORMA ADJUSTMENT	<u>\$48,863</u>
	620.5 MATERIALS AND SUPPLIES	\$1,882
	620.6 MATERIALS AND SUPPLIES	\$851
	635.3 CONTRACT SERVICES	\$906
	636.6 CONTRACT SERVICES	\$36,637
	675.5 MISCELLANEOUS EXPENSE	\$3,866
	675.6 MISCELLANEOUS EXPENSE	\$3,952
	675.7 MISCELLANEOUS EXPENSE	\$388
	675.8 MISCELLANEOUS EXPENSE	\$381

REFERENCE: EXHIBIT 3B
WITNESS: JOHN COX

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CALCULATION OF UNCOLLECTABLE ACCOUNTS EXPENSE

The following adjustment reflects the uncollectable accounts expense calculated on the ratio of actual per books revenue to net write-offs. This ratio is applied to pro forma water sales at present and proposed rates.

LINE NO	DESCRIPTION	PER BOOKS	PRESENT RATES 12/31/07 AMOUNT	PRESENT RATES 12/31/08 AMOUNT	PROPOSED RATES AMOUNT
1	WASTEWATER SALES	\$2,314,500	\$2,314,500	\$2,349,882	\$5,024,341
2	3 YEAR AVERAGE	0.030787945	0.030787945	0.030787945	0.030787945
3	ANNUALIZED UNCOLLECTABLE EXPENSE		\$71,259	\$72,348	\$154,689
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07		53,187	-	-
5	LESS: PRESENT RATES AT 12-31-07		-	71,259	-
6	LESS: PRESENT RATES AT 12-31-08		-	-	72,348
7	PRO FORMA ADJUSTMENT		18,072	\$1,089	\$82,341
670.7	CUSTOMER ACCOUNTING AND COLLECTING - BAD DEBT		18,072	\$1,089	\$82,341

WITNESS: JOHN COX
REFERENCE: EXHIBIT 3-B

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

ANNUAL DEPRECIATION CALCULATED BY STRAIGHT
 LINE-REMAINING LIFE OVER BOOK ANNUAL DEPRECIATION

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED DEPRECIATION	\$1,055,397
2	PER BOOKS AT 12/31/08	<u>358,656</u>
3	PRO FORMA ADJUSTMENT	<u>\$696,741</u>
	403 DEPRECIATION	\$696,741

REFERENCE: DEPRECIATION EXHIBIT
 WITNESS: JOHN J SPANOS

PENNSYLVANIA-AMERICAN WATER COMPANY - CWW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

PAYROLL TAXES

The following adjustment is being made to annualize payroll tax expense based on the annualized salary and wage claim at December 31, 2007 and December 31, 2008.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2008 AMOUNT
1	ANNUALIZED PAYROLL TAXES	\$50,290
2	LESS: 10.73% NOT CHARGED TO OPERATING EXPENSE	5,396
3	SUB-TOTAL	44,894
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-07	35,806
5	PRO FORMA ADJUSTMENT	<u>\$9,088</u>
6	408.12 - TAXES - PAYROLL	\$9,088
	REFERENCE: EXHIBIT NO. 3-B	
	WITNESS: JOHN R. COX	

NOTES TO STATEMENT OF INCOME

CALCULATION OF GENERAL ASSESSMENT BY THE PENNSYLVANIA PUBLIC UTILITY
COMMISSION, CONSUMER ADVOCATE AND SMALL BUSINESS ADVOCATE FEES

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/07 AMOUNT	PRESENT RATES 12/31/08 AMOUNT	PROPOSED AMOUNT
1	TOTAL WASTEWATER SALES	\$2,314,500	\$2,349,882	\$5,024,341
2	ESTIMATED GENERAL ASSESSMENT BY THE PENNSYLVANIA			
3	PUBLIC UTILITY COMMISSION AT .004473555927			
4	PER DOLLAR OF TOTAL WASTEWATER SALES SUBJECT TO TAX	10,354	10,512	22,477
5	CONSUMER ADVOCATE FEE AT .001473420785			
6	PER DOLLAR OF TOTAL WASTEWATER SALES	3,410	3,462	7,403
7	SMALL BUSINESS ADVOCATE FEE AT .000172419378			
8	PER DOLLAR OF TOTAL WASTEWATER SALES	399	405	866
		14,163	14,379	30,746
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSES DURING			
10	THE TWELVE MONTHS ENDED 12-31-07	14,697	-	-
11	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-07	-	14,163	-
12	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-08	-	-	14,379
13	PRO FORMA ADJUSTMENT	<u>-534</u>	<u>\$216</u>	<u>\$16,367</u>

507.1 TAXES OTHER THAN INCOME

\$16,049

WITNESS: JOHN COX

NOTES TO STATEMENT OF INCOME

PRO FORMA STATE AND FEDERAL INCOME TAXES UNDER PRESENT AND PROPOSED RATES

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/07 AMOUNT	PRESENT RATES 12/31/08 AMOUNT	PROPOSED AMOUNT
1	STATE INCOME TAX PER COMPUTATION			
2	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$150,106
3	LESS: STATE INCOME TAX PER BOOK			
4	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
5	LESS: PRESENT RATES 12-31-07	-	0	-
6	LESS: PRESENT RATES 12-31-08	-	-	0
7	PRO FORMA ADJUSTMENT	\$0	\$0	\$150,106
8	FEDERAL INCOME TAX PER COMPUTATION			
9	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$278,458
10	LESS: FEDERAL INCOME TAX PER BOOK			
11	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
12	LESS: PRESENT RATES 12-31-07	-	0	-
13	LESS: PRESENT RATES 12-31-08	-	-	0
14	PRO FORMA ADJUSTMENT	\$0	\$0	\$278,458

NOTES TO STATEMENT OF INCOME

CALCULATION OF STATE AND FEDERAL INCOME TAXES

LINE NO.	DESCRIPTION	PER BOOKS	PRESENT RATES	PRESENT RATES	PROPOSED AMOUNT
			12/31/07 AMOUNT	12/31/08 AMOUNT	
1	UTILITY OPERATING INCOME BEFORE TAXES	\$716,196	\$698,658	-\$520,431	\$2,066,349
2	LESS: INTEREST EXPENSE	525,313	525,313	614,016	614,385
3	TAXABLE OPERATING INCOME	190,883	173,345	-1,134,447	1,451,964
4	ADD:				
5	PREMATURE PROPERTY LOSSES	-506,981	-506,981	-506,981	-506,981
6	DEPR - STRAIGHT LINE-REMAINING LIFE	358,656	358,656	1,055,397	1,055,397
7	TAXABLE MEALS & ENTERTAINMENT	716	716	716	716
8		0	0	0	0
9	TOTAL	-147,609	-147,609	549,132	549,132
10	DEDUCT:				
11	TAX DEPRECIATION:				
12	ADR ON PRE 1981 ASSETS	0	0	0	0
13	ACRS ON POST 1980 ASSETS	0	0	0	0
14	MACRS ON POST 1986 ASSETS	430,372	430,372	498,537	498,537
15	COST OF REMOVAL	0	0	0	0
16	TOTAL	430,372	430,372	498,537	498,537
17	TAXABLE INCOME (IF NEGATIVE USE ZERO)	0	0	0	1,502,559
18	STATE INCOME TAX AT:				
19	HISTORIC - 9.99%, FUTURE - 9.99%	0	0	0	150,106
20	TAXABLE INCOME AFTER STATE INCOME TAX	0	0	0	1,352,453
21	ADD:				
22	COST OF REMOVAL NON ADR PROPERTY	0	0	0	0
23	ACRS ON POST 1980 ASSETS	0	0	0	0
24	MACRS ON POST 1986 ASSETS	430,372	430,372	498,537	498,537
25	DEDUCT:				
26	SLRL ON POST 1980 ASSETS	358,656	358,656	1,055,397	1,055,397
27	INCOME SUBJECT TO FEDERAL INCOME TAX (IF NEGATIVE USE 0)	0	0	0	795,593
28	FEDERAL INCOME TAX AT 35%	\$0	\$0	\$0	\$278,458
29	CONSOLIDATED TAX SAVINGS ADJUSTMENT	\$0	\$0	\$0	\$0
30	FEDERAL TAX LIABILITY	\$0	\$0	\$0	\$278,458

WITNESS: STEVE L. KLICK

NOTES TO STATEMENT OF INCOME

PRO FORMA INTEREST UNDER PRESENT AND PROPOSED RATES

LINE NO. DESCRIPTION	PRESENT RATES	PRESENT RATES	PROPOSED AMOUNT
	12/31/07 AMOUNT	12/31/08 AMOUNT	
1 INTEREST ON LONG TERM DEBT PER COMPUTATION 2 SHOWN ON FOLLOWING PAGE	\$489,828	\$614,016	\$614,385
3 LESS: INTEREST ON LONG TERM DEBT AS PER BOOK 4 COMPUTATION ON FOLLOWING PAGE	489,828	-	-
5 LESS: PRESENT RATES AT 12-31-07	-	489,828	-
6 LESS: PRESENT RATES AT 12-31-08	-	-	614,016
7 PRO FORMA ADJUSTMENT	\$0	\$124,188	\$369
8 INTEREST ON SHORT TERM DEBT PER COMPUTATION 9 SHOWN ON FOLLOWING PAGE	\$35,485	\$0	\$0
10 LESS: INTEREST ON SHORT TERM DEBT AS PER BOOK 11 COMPUTATION ON FOLLOWING PAGE	35,485	-	-
12 LESS: PRESENT RATES AT 12-31-07	-	35,485	-
13 LESS: PRESENT RATES AT 12-31-08	-	-	0
14 PRO FORMA ADJUSTMENT	\$0	(\$35,485)	\$0

WITNESS: STEVE KLINK

NOTES TO STATEMENT OF INCOME

APPLICATION OF INCOME DEDUCTIONS

LINE

NO. DESCRIPTION

1 CAPITAL STRUCTURE

2	PRESENT RATES AT DECEMBER 31, 2007			PRESENT RATES AT DECEMBER 31, 2008			
	3 4 AMOUNT	CAPITAL STRUCTURE	COST RATE	AMOUNT	CAPITAL STRUCTURE	COST RATE	
5	LONG TERM DEBT	\$849,613,514	48.59%	6.09%	\$994,482,482	52.90%	6.12%
6	SHORT TERM DEBT	70,909,110	4.06%	5.28%	0	0.0%	0.00%
7	TOTAL DEBT	920,522,624	52.65%		994,482,482	52.90%	
8	PREFERRED STOCK	14,171,700	0.81%	8.11%	14,171,700	0.75%	8.11%
9	COMMON EQUITY	813,827,422	46.54%		871,540,000	46.35%	
10	TOTALS	\$1,748,521,746	100.0%		\$1,880,194,182	100.0%	

	PRESENT RATES 12-31-07 AMOUNT	PRESENT RATES 12/31/2008 AMOUNT	PROPOSED AMOUNT
11 APPLICATION OF LONG TERM DEBT INTEREST:			
12 ORIGINAL COST RATE BASE	\$16,553,096	\$18,965,859	\$18,977,265
13 DEBT PERCENTAGE (FROM ABOVE)	48.59%	52.90%	52.90%
14 DEBT PORTION OF RATE BASE	8,043,149	10,032,939	10,038,973
15 INTEREST COST (FROM ABOVE)	6.09%	6.12%	6.12%
16 PRO FORMA LONG TERM INTEREST DEDUCTION	\$489,828	\$614,016	\$614,385
17 APPLICATION OF SHORT TERM DEBT INTEREST:			
18 ORIGINAL COST RATE BASE	\$16,553,096	\$18,965,859	\$18,977,265
19 DEBT PERCENTAGE (FROM ABOVE)	4.06%	0.00%	0.00%
20 DEBT PORTION OF RATE BASE	672,056	0	0
21 INTEREST COST (FROM ABOVE)	5.28%	0.00%	0.00%
22 PRO FORMA SHORT TERM INTEREST DEDUCTION	\$35,485	\$0	\$0