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CLAYSVILLE WW**

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PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

PRO FORMA STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2009

AND DECEMBER 31, 2010 UNDER PRESENT AND PROPOSED RATES

LINE NO.	DESCRIPTION	PER BOOKS		PRESENT RATES 12/31/09		12/31/10		PROPOSED RATES		LINE NO.	
		AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT			
1	OPERATING REVENUE	\$313,647	-\$2,290	\$311,357	-\$2,290	\$309,067		\$487,486		1	\$796,553
2	OPERATING REVENUE DEDUCTIONS:									2	
3	OPERATING EXPENSES	304,464	-614	303,850	-12,555	291,295		8,495		3	289,790
4	DEPRECIATION	63,822	29,067	92,889	37,949	130,838		0		4	130,838
5	AMORTIZATIONS	0	0	0	0	0		0		5	0
6	TAXES, OTHER THAN INCOME:									6	0
7	LOCAL PROPERTY AND MISCELLANEOUS	0	0	0	0	0		0		7	0
8	FEDERAL ENVIRONMENTAL TAX	0	0	0	0	0		0		8	0
9	PUBLIC UTILITY REALTY TAXES	0	0	0	0	0		0		9	0
10	PAYROLL TAXES	8,164	0	8,164	846	9,010		0		10	9,010
11	GENERAL ASSESSMENT	1,427	524	1,951	-14	1,937		3,054		11	4,981
12	STATE CAPITAL STOCK TAX	0	0	0	0	0		0		12	0
13	TOTAL TAXES OTHER THAN INCOME	9,591	524	10,115	832	10,947		3,054		13	14,001
14	UTILITY OPERATING INCOME BEFORE INCOME TAXES	-64,230	-31,267	-95,497	-28,516	-124,013		475,937		14	351,924
15	INCOME TAXES:									15	
16	STATE INCOME TAX	0	0	0	0	0		31,516		16	31,516
17	FEDERAL INCOME TAX	0	0	0	0	0		83,895		17	83,895
18	AMORTIZATION OF ITC & EXCESS DEFERRED TAXES	0	0	0	0	0		0		18	0
19	TOTAL INCOME TAXES	0	0	0	0	0		115,411		19	115,411
20	TOTAL OPERATING REVENUE DEDUCTIONS	377,877	28,977	406,854	26,226	433,080		126,960		20	560,040
21	UTILITY OPERATING INCOME	-64,230	-31,267	-95,497	-28,516	-124,013		360,526		21	236,513
22	INCOME DEDUCTIONS:									22	
23	INTEREST ON LONG TERM DEBT	64,111	0	64,111	16,885	80,996		33		23	81,029
24	AMORTIZATION OF DEBT DISCOUNT EXPENSE	0	0	0	0	0		0		24	0
25	INTEREST ON NOTES PAYABLE TO OTHERS	29	0	29	-29	0		0		25	0
26	TOTAL INCOME DEDUCTIONS	64,140	0	64,140	16,856	80,996		33		26	81,029
27	NET INCOME	-128,370	-31,267	-159,637	-45,372	-205,009		360,493		27	155,484
28	PREFERRED DIVIDENDS	1,241		1,241		1,560				28	1,561
29	NET INCOME TO COMMON	-\$129,611		-\$160,876		-\$206,569				29	-\$153,923

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

TOTAL INCREASE IN REVENUES BY TARIFF SUBDIVISIONS PROJECTED TO

AN ANNUAL BASIS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2009

LINE NO.	ACCT NO.	CUSTOMER CLASS	PER BOOKS 12/31/2009	CHANGE IN NUMBER OF CUSTOMERS	SPECIFIC CUSTOMER ADJUSTMENTS	OTHER REVENUE ADJUSTMENTS	(5)	(6)	(7)	(8)	PRO FORMA PRESENT RATES 12/31/2009
1		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
1		OPERATING REVENUES									
2		METERED SALES									
3	461.1	RESIDENTIAL	\$199,710	(\$1,379)	\$0	\$0	\$0	\$0	\$0	\$0	\$198,331
4	461.2	COMMERCIAL	88,951	(899)	0	0	0	0	0	0	88,052
5	461.3	INDUSTRIAL	0	0	0	0	0	0	0	0	0
6	464	MUNICIPAL	13,122	0	0	0	0	0	0	0	13,122
7	466	SALES FOR RESALE	0	0	0	0	0	0	0	0	0
9		TOTAL METERED SALES	301,783	(2,278)	0	0	0	0	0	0	299,505
10		UNMETERED SALES									
11	460	RESIDENTIAL	10,234	0	0	0	0	0	0	0	10,234
12	460	COMMERCIAL	0	0	0	0	0	0	0	0	0
13	460	INDUSTRIAL	0	0	0	0	0	0	0	0	0
14	460	MUNICIPAL	0	0	0	0	0	0	0	0	0
15	460	MISCELLANEOUS	0	0	0	0	0	0	0	0	0
16		TOTAL UNMETERED SALES	10,234	0	0	0	0	0	0	0	10,234
17	462.1	PRIVATE FIRE PROTECTION	0	0	0	0	0	0	0	0	0
18	462.2	PUBLIC FIRE PROTECTION	0	0	0	0	0	0	0	0	0
19		TOTAL WATER SALES	312,017	(2,278)	0	0	0	0	0	0	309,739
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	1,630	0	0	(12)	0	0	0	0	1,618
22	471	MISC SERVICE REVENUES	0	0	0	0	0	0	0	0	0
23	472	RENTS FROM PROPERTIES	0	0	0	0	0	0	0	0	0
24	474	OTHER WATER REVENUES	0	0	0	0	0	0	0	0	0
25		TOTAL OTHER OPERATING REVENUES	1,630	0	0	(12)	0	0	0	0	1,618
26		TOTAL OPERATING REVENUES	\$313,647	(\$2,278)	\$0	(\$12)	\$0	\$0	\$0	\$0	\$311,357
27											

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS
 TOTAL INCREASE IN REVENUES BY TARIFF SUBDIVISIONS PROJECTED TO
 AN ANNUAL BASIS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2010

LINE NO.	ACCT. NO.	CUSTOMER CLASSIFICATION	PRO FORMA PRESENT RATES 12/31/2010 (1)	CUSTOMER CHANGES (2)	SPECIFIC CUSTOMERS (3)	OTHER OPERATING REVENUES (4)	RECLASSIFY REVENUE (5)	PRO FORMA PRESENT RATES 12/31/2010 (6)	PERCENT (7)	AMOUNT (8)	PRO FORMA PROPOSED RATES (9)
1		OPERATING REVENUES									
2		METERED SALES									
3	461.1	RESIDENTIAL	\$198,331	(1,379)	\$0	\$0	\$0	\$196,952	137.60%	271,003	\$467,955
4	461.2	COMMERCIAL	88,052	(899)	0	0	0	87,153	190.14%	165,711	252,864
5	461.3	INDUSTRIAL	0	0	0	0	0	0	0.00%	0	0
6	464	MUNICIPAL	13,122	0	0	0	0	13,122	250.53%	32,875	45,997
7	466	SALES FOR RESALE	0	0	0	0	0	0	0.00%	0	0
9		TOTAL METERED SALES	299,505	(2,278)	0	0	0	297,227	157.99%	469,589	766,816
10		UNMETERED SALES									
11	460	RESIDENTIAL	10,234	0	0	0	0	10,234	150.13%	15,364	25,598
12	460	COMMERCIAL	0	0	0	0	0	0	0.00%	0	0
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	10,234	0	0	0	0	10,234	0.00%	15,364	25,598
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	308,739	(2,278)	0	0	0	307,461	157.73%	484,953	792,414
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	1,618	0	0	-12	0	1,606	157.72%	2,533	4,139
22	471	MISC SERVICE REVENUES	0	0	0	0	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	0	0	0	0	0	0	0.00%	0	0
25		TOTAL OTHER OPERATING REVENUE	1,618	0	0	-12	0	1,606	157.72%	2,533	4,139
26		TOTAL OPERATING REVENUES	\$311,357	(\$2,278)	\$0	-\$12	\$0	\$309,067	157.73%	\$487,486	\$796,553
27											

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

SUMMARY OF ADJUSTMENTS TO OPERATING REVENUES

LINE NO.	DESCRIPTION	PRESENT RATES		PRESENT RATES	
		ADJUSTMENT	12/31/09 AMOUNT	ADJUSTMENT	12/31/10 AMOUNT
1	PER BOOKS		\$313,647		
2	PRESENT RATES AT 12-31-09				\$311,357
3	OTHER OPERATING REVENUES				
4	470 - PENALTIES	(12)		(12)	
5	CHANGE IN CUSTOMERS ADJUSTMENT	(2,278)		(2,278)	
6	PRO FORMA ADJUSTMENT		<u>(2,290)</u>		<u>(2,290)</u>
7	PRO FORMA PRESENT RATES AT DECEMBER 31, 2009		<u>\$311,357</u>		
8	PRO FORMA PRESENT RATES AT DECEMBER 31, 2010				<u>\$309,067</u>

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

PENALTIES

The following adjustment reflects the annualization of penalty revenues associated with billed sales projected during 2010. Additionally, annualized late payment charges are calculated based on revenues at the proposed rate level.

LINE NO.	DESCRIPTION	PER BOOKS 12/31/09	PRESENT RATES 12/31/10	PROPOSED RATES
1	TOTAL BILLED SALES	\$312,017	\$307,461	\$792,414
2	% OF PENALTIES TO TOTAL			
3	SALES (3 YEAR AVERAGE)		0.5224000%	0.5224000%
4	PENALTIES	1,630	1,606	4,139
5	LESS: PER BOOKS AT 12-31-09		1,630	
6	LESS: PRESENT RATES AT 12-31-10			1,606
7	PRO FORMA ADJUSTMENTS		<u>(\$24)</u>	<u>\$2,533</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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, 2009.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2009 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED CUSTOMERS	FR II.2	(\$1,379)
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 2009 and the actual number of customers		
8	at December 2008. .		
9	COMMERCIAL METERED CUSTOMERS	FR II.2	(\$899)
10	An analysis of commercial accounts indicates that		
11	various accounts were lost, added or reclassified during		
12	the test year. The difference between the actual number of		
13	customers at December 2009 and the actual number of		
14	customers at December 2008.		
15	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE		\$0
16	METERED CUSTOMERS.	FR II.2	
17	Any change to these revenue classes large enough to warrant		
18	an adjustment will be shown as a specific customer adjustment.		
19	PRO FORMA ADJUSTMENT		<u>(\$2,278)</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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, 2010.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2010 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED CUSTOMERS	FR II.2	(\$1,379)
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 2010.		
6	COMMERCIAL METERED CUSTOMERS	FR II.2	(\$899)
7	Commercial revenue was adjusted by applying		
8	the average annual consumption per commercial		
9	customer to the projected increase in customers		
10	for the test year 2010.		
11	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE	FR II.2	\$0
12	METERED CUSTOMERS		
13	Those large enough to warrant an adjustment are		
14	shown as specific customer adjustments.		
15	PRO FORMA ADJUSTMENT		<u>(\$2,278)</u>

WITNESS: ROD NEVIRAUSSKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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, 2008 and 2009 and the estimated number of customers to be served at December 31, 2010. 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 12/31/2008	SERVED AT 12/31/2009	SERVED AT 12/31/2010			
1		METERED						
2	601.1	RESIDENTIAL	429	426	423	423	0	0
3	601.2	COMMERCIAL	49	48	47	47	0	0
4	601.3	INDUSTRIAL	0	0	0	0	0	0
5	606	MUNICIPAL	4	4	4	4	0	0
6	607	BULK	0	0	0	0	0	0
7	601.4	MISCELLANEOUS	0	0	0	0	0	0
8		METERED	482	478	474	474	0	0
9		UNMETERED						
10	602.1	RESIDENTIAL	22	22	22	22	0	0
11	602.2	COMMERCIAL	0	0	0	0	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	22	22	22	22	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	504	500	496	496	0	0

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	DEPRECIATED	DEPRECIATED	DEPRECIATED
		ORIGINAL COST 12/31/09	ORIGINAL COST 12/31/10	ORIGINAL COST PROPOSED
1	NON-DEPRECIABLE PLANT	\$162,010	\$162,010	\$162,010
2	DEPRECIABLE PLANT	3,551,570	4,340,879	4,340,879
3	TOTAL UTILITY PLANT IN SERVICE	3,713,580	4,502,889	4,502,889
4	DEDUCT:			
5	CONTRIBUTIONS IN AID OF CONSTRUCTION	0	179,966	179,966
6	CUSTOMER ADVANCES FOR CONSTRUCTION	24,000	0	0
7	SUB-TOTAL	24,000	179,966	179,966
8	NET UTILITY PLANT IN SERVICE	3,689,580	4,322,923	4,322,923
9	ACCRUED DEPRECIATION	1,593,129	1,636,795	1,636,795
10	DEPRECIATED UTILITY PLANT IN SERVICE	2,096,451	2,686,128	2,686,128
11	ADD:			
12	MATERIALS AND SUPPLIES	1,110	1,110	1,110
13	CASH WORKING CAPITAL - EXPENSES	26,258	25,526	25,526
14	ACCRUED AND PREPAID TAXES	668	663	1,752
15	DEDUCT:			
16	CASH WORKING CAPITAL - INT AND DIV	7,166	9,038	9,038
17	DEFERRED TAXES	50,054	32,430	32,430
18	TOTAL RATE BASE ELEMENTS	\$2,067,267	\$2,671,959	\$2,673,048
19	UTILITY OPERATING INCOME			
20	PER BOOKS	-\$64,230	-3.11%	-2.40%
21	PRESENT RATES AT 12-31-09	-\$95,497	-4.62%	-
22	PRESENT RATES AT 12-31-10	-\$124,013	-	-4.64%
23	PROPOSED RATES	\$236,513	-	8.85%

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUMMARY OF DETAILED PLANT ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	AMOUNT 31-Dec-09	ADDITIONS	RETIREMENTS	ESTIMATED BOOK COST 31-Dec-10
1		INTANGIBLE PLANT				
2	352.0	WW FRANCHISES	0	0	0	0
3		TOTAL INTANGIBLE PLANT	0	0	0	0
4		TANGIBLE PLANT				
5	353.2	WW LAND & LD RIGHTS COLL	120,569	0	0	120,569
6	353.4	WW LAND & LD RIGHTS TDP	41,441	0	0	41,441
7		TOTAL LAND AND LAND RIGHTS	162,010	0	0	162,010
8	354.2	WW STRUCT & IMP COLL	21,251	0	0	21,251
9	354.3	WW STRUCT & IMP SPP	41,753	0	0	41,753
10	354.4	WW STRUCT & IMP TDP	693,418	0	0	693,418
11	354.5	WW STRUCT & IMP GEN	72,712	0	0	72,712
12	360.1	WW COLLECTIONS SEWERS FORCED	69,098	0	0	69,098
13	361.1	WW COLLECTING MAINS	1,334,805	177,906	0	1,512,711
14	361.2	WW MANHOLES	123,058	83,577	(1,600)	205,035
15	363.0	WW SERVICES SEWER	216,505	27,000	(1,800)	241,705
16	371.0	WW PUMP EQUIP ELECT	3,345	132,000	(1,974)	133,371
17	380.0	WW TD EQUIP	827,421	2,200	0	829,621
18	389.1	WW OTHER PLANT & MISC EQUIP - INTANGIBLE		220,000	0	220,000
19	391.0	WW TRANS EQUIP	32,855	0	0	32,855
20	394.0	WW LAB EQUIPMENT	14,291	7,000	0	21,291
21	395.0	WW POWER OPERATED EQUIP	101,058	0	0	101,058
22	396.0	COMMUNICATION EQUIP		145,000		145,000
23		TOTAL TANGIBLE PROPERTY	3,713,580	794,683	(5,374)	4,502,889
24		TOTAL UTILITY PLANT IN SERVICE	\$3,713,580	\$794,683	(\$5,374)	\$4,502,889

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CONTRIBUTIONS IN AID OF CONSTRUCTION

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-09	0
2	PLUS: PROJECTED CONTRIBUTIONS DURING 2010	
3	DEVELOPER CONTRIBUTION - 1,284' SEWER MAIN EXTENTION	179,666
4	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-10	<u>(\$179,666)</u>

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CUSTOMER ADVANCES FOR CONSTRUCTION

The following adjustment reflects the projected change in Customer Advances during the future test year.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	CUSTOMER ADVANCES FOR CONSTRUCTION AT 12-31-09	24,000
2	LESS: TRANSFER TO CONTRIBUTIONS IN AID OF CONSTRUCTION DURING 2010	-24,000
3	(ADVANCE ASSOCIATED WITH THE DEVELOPER CONTRIBUTION	
4	OF THE 1,284' SEWER MAIN EXTENSION)	
5	CUSTOMER ADVANCES FOR CONSTRUCTION AT 12-31-10	<u>\$0</u>

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER

NOTES TO RATE BASE ELEMENTS

MATERIALS AND SUPPLIES

CLAYSVILLE WW OPERATIONS

The allowance for materials and supplies for Present Rates at December 31, 2009 is calculated on the basis of the average monthly balances in the materials and supplies account during the period December 2008 to December 2009.

LINE NO.	MONTH	DETAIL	PRESENT RATES 12/31/2009 AMOUNT
1	DECEMBER, 2008	771	
2	JANUARY, 2009	1,172	
3	FEBRUARY	1,180	
4	MARCH	1,417	
5	APRIL	1,449	
6	MAY	1,329	
7	JUNE	1,358	
8	JULY	1,331	
9	AUGUST	689	
10	SEPTEMBER	124	
11	OCTOBER	1,112	
12	NOVEMBER	727	
13	DECEMBER, 2009	1,773	
14	TOTAL	14,433	
15	AVERAGE		1,110
16	ALLOWANCE FOR MATERIALS AND SUPPLIES		
17	AT DECEMBER 31,2009		\$1,110

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

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, 2009, and as annualized under present rates for the twelve months ending December 31, 2009 and 2010. 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 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT
1	OPERATING REVENUE BILLED DURING THE TWELVE MONTHS ENDED 12/31/9			
2	BI-MONTHLY BILLINGS			
3	LAG DAYS			
4	DOLLAR DAYS			
5	QUARTERLY			
6	LAG DAYS			
7	DOLLAR DAYS			
8	MONTHLY BILLINGS	312,017	309,739	307,461
9	LAG DAYS	50.5	50.5	50.5
10	DOLLAR DAYS	15,756,859	15,641,820	15,526,781
11	TOTAL BILLED REVENUE	\$312,017	\$309,739	\$307,461
12	TOTAL DOLLAR DAYS	\$15,756,859	\$15,641,820	\$15,526,781
13	AVERAGE LAG IN RECEIPT OF REVENUE			
14	(LINE 12 / LINE11)	50.5	50.5	50.5
15	DEDUCT:			
16	AVERAGE LAG IN PAYMENT			
17	OF OPERATING EXPENSES	18.4	18.4	17.9
18	AVERAGE LAG BETWEEN PAYMENT OF OPERATING			
19	EXPENSES AND RECEIPT OF REVENUES	32.1	32.1	32.6
20	WORKING CAPITAL REQUIREMENTS			
21	ANNUAL OPERATING EXPENSES		\$298,424	\$285,909
22	OPERATING EXPENSES PER DAY			
23	(LINE 18 / 365 DAYS)		818	783
24	CASH WORKING CAPITAL REQUIRED			
25	(LINE 16 * LINE 20)		\$26,258	\$25,526

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUPPORT OF EXPENSE DAYS

LINE NO.	DESCRIPTION	LAG DAYS	PER BOOKS		PRESENT RATES 12-31-09		PRESENT RATES 12-31-10	
			AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS
1	CHEMICALS	30.0	\$13,592	\$407,760	\$13,592	\$407,760	\$14,660	\$439,800
2	GROUP INSURANCE	(13.4)	20,947	(280,690)	20,947	(280,690)	20,769	(278,305)
3	LABOR AND LABOR RELATED	12.5	107,571	1,344,638	107,571	1,344,638	112,709	1,408,863
4	LEASED EQUIPMENT	2.0	0	0	0	0	0	0
5	TRANSPORTATION	29.1	0	0	0	0	0	0
6	MISCELLANEOUS	25.3	99,357	2,513,732	99,357	2,513,732	79,886	2,021,116
7	PURCHASED POWER	26.5	26,570	704,105	26,570	704,105	29,346	777,669
8	WASTE DISPOSAL	26.1	30,387	793,101	30,387	793,101	28,539	744,868
9	TOTALS		298,424	5,482,646	298,424	5,482,646	285,909	5,114,011
10	AVERAGE LAG			18.4		18.4		17.9

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

ACCRUED AND PREPAID TAXES

LINE NO. DESCRIPTION	NET LEAD/ LAG DAYS FUTURE	PRESENT RATES 12-31-08		PRESENT RATES 12-31-10		PROPOSED RATES	
		TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ
1 GENERAL ASSESSMENT	125	\$1,951	\$668	\$1,937	\$663	\$4,991	\$1,709
2 STATE INCOME TAX	21.8	0	0	0	0	31,516	1,882
3 FEDERAL INCOME TAX	-8.0	0	0	0	0	83,895	-1,839
4 TOTALS			<u>\$668</u>		<u>\$663</u>		<u>\$1,752</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF LAG DAYS FOR ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	TAX PERIOD		PAYMENTS				TOTAL TAX LAG DAY
		BEGINNING	ENDING	2009 TAX				
1	GENERAL ASSESSMENT	01-Jul-09	30-Jun-10	16-Oct-09				
2	PERCENT OF PAYMENT			100.00%				
3	LAG DAYS			(74.5)				(74.5)
4	PROPERTY TAX			<u>Amount</u>	<u>Pmt Date</u>	<u>Lag Days</u>	<u>Dollar Days</u>	
5	NONE							
6				<u>\$ -</u>			<u>\$ -</u>	
7	STATE INCOME TAX	01-Jan-09	31-Dec-09	15-Mar-09	15-Jun-09	15-Sep-09	15-Dec-09	
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-09	31-Dec-09	15-Apr-09	15-Jun-09	15-Sep-09	15-Dec-09	15-Mar-10
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	25.6

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

**CALCULATION OF CASH WORKING CAPITAL REQUIREMENTS
INTEREST AND PREFERRED DIVIDENDS**

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	50.5	50.5	50.5
3	LESS: INTEREST PAYMENTS LAG DAYS	91.3	15.2	45.6
4	AVERAGE LAG BETWEEN THE PAYMENT			
5	OF INTEREST AND THE RECEIPT			
6	OF REVENUES	-40.8	35.3	4.9
		PRESENT RATES 12/31/09	PRESENT RATES 12/31/10	PROPOSED AMOUNT
7	LONG TERM DEBT			
8	WORKING CAPITAL REQUIREMENTS			
9	PRO FORMA ANNUAL INTEREST EXPENSE	\$64,111	\$80,996	\$81,029
10	INTEREST EXPENSE PER DAY			
11	(LINE 9 / 365 DAYS)	176	222	222
12	CASH WORKING CAPITAL REQUIRED			
13	(LINE 6 COL.1 x LINE 10)		(7,181)	(9,058)
14	SHORT TERM DEBT			
15	WORKING CAPITAL REQUIREMENTS			
16	PRO FORMA ANNUAL INTEREST EXPENSE	29	0	0
17	INTEREST EXPENSE PER DAY			
18	(LINE 16 / 365 DAYS)	0	0	0
19	CASH WORKING CAPITAL REQUIRED			
20	(LINE 6 COL.2 x LINE 17)		0	0
21	PREFERRED DIVIDENDS			
22	WORKING CAPITAL REQUIREMENTS			
23	PRO FORMA ANNUAL DIVIDEND EXPENSE	1,241	1,560	1,561
24	DIVIDEND EXPENSE PER DAY			
25	(LINE 23 / 365 DAYS)	3	4	4
26	CASH WORKING CAPITAL REQUIRED			
27	(LINE 6 COL.3 x LINE 24)		15	20
28	TOTAL CASH WORKING CAPITAL REQUIRED			
29	(LINE 13 + LINE 20 + LINE 27)	(\$7,166)	(\$9,038)	(\$9,038)

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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	7/08 - 12/10	\$2,247,124	\$71,021	\$121,375	-\$50,354	-\$17,624
2						<u>-17,624</u>
3	BALANCE OF DEFERRED INCOME TAXES AT 12-31-09					<u>(50,054)</u>
4	BALANCE OF DEFERRED INCOME TAXES AT 12-31-10					<u><u>(\$32,430)</u></u>

REFERENCE: SUPPORTING SCHEDULES
 WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/09	PRESENT RATES 12/31/09	PRESENT RATES 12/31/10
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	0	0	0
7	616.1	PURCHASED FUEL	0	0	0
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	220	220	220
17	675.2	MISCELLANEOUS MAINTENANCE EXPENSE	0	0	0
18					
19		TOTAL SOURCE OF SUPPLY EXPENSES	220	220	220
20					
21		WASTEWATER TREATMENT			
22		-OPERATION-			
23	601.3	SALARY AND WAGES	100,789	100,789	105,510
24	601.4	SALARY AND WAGES	1,962	1,962	2,054
25	615.3	PURCHASED POWER	26,570	26,570	29,346
26	618.3	CHEMICALS	13,592	13,592	14,660
26	620.3	MATERIALS AND SUPPLIES	0	0	0
27	620.4	MATERIALS AND SUPPLIES	70	70	70
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	0	0	0
32	636.3	CONTRACT SERVICES	4,765	4,765	5,937
33	636.4	CONTRACT SERVICES	762	762	762
34	641.3	RENTAL OF BUILDING	0	0	0
35	642.3	RENTAL OF EQUIPMENT	0	0	0
36	650.3	TRANSPORTATION	0	0	0
37	650.4	TRANSPORTATION	0	0	0
38	675.4	MISCELLANEOUS MAINTENANCE EXPENSE	24,207	24,207	7,042
39		-MISCELLANEOUS-			
40	675.3	MISCELLANEOUS OPERATING EXPENSE	68,096	68,096	60,428
41					
42		TOTAL WASTEWATER TREATMENT EXPENSE	240,813	240,813	225,809
43					
44					
45		TRANSMISSION AND DISTRIBUTION			
46		-OPERATION-			
47	601.5	SALARY AND WAGES	0	0	0
48	601.6	SALARY AND WAGES	0	0	0
49	604.5	EMPLOYEE PENSION AND BENEFITS	0	0	0
50	620.5	MATERIALS AND SUPPLIES	0	0	0
51	631.5	CONTRACT SERVICES - ENGINEERING	0	0	0
52	636.5	CONTRACT SERVICES	0	0	0
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	45	45	45

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/09	PRESENT RATES 12/31/09	PRESENT RATES 12/31/10
		-MAINTENANCE-			
1	620.6	MATERIALS AND SUPPLIES	0	0	0
2	636.6	CONTRACT SERVICES	0	0	0
3	675.6	MISCELLANEOUS MAINTENANCE EXPENSE	26,560	26,560	0
4					
5		TOTAL TRANSMISSION AND DISTRIBUTION	26,605	26,605	45
6					
7		CUSTOMER ACCOUNTING			
8		-OPERATION-			
9	601.7	SALARY AND WAGES	0	0	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	0	0	0
14	642.7	RENTAL OF EQUIPMENT	0	0	0
15	650.7	TRANSPORTATION	0	0	0
16	670.7	BAD DEBT	6,040	5,426	5,386
17		-MISCELLANEOUS-			
18	675.7	MISCELLANEOUS EXPENSE	625	625	0
19					
20		TOTAL CUSTOMER ACCOUNTING	6,665	6,051	5,386
21					
22					
23		ADMINISTRATIVE AND GENERAL			
24	601.8	SALARY AND WAGES	0	0	0
25	603.8	SALARY OF OFFICERS	0	0	0
26	604.8	EMPLOYEE PENSION AND BENEFITS	25,767	25,767	25,914
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	0	0	0
37	650.8	TRANSPORTATION	0	0	0
38	656.8	INSURANCE - VEHICLES	0	0	0
39	657.8	INSURANCE	0	0	0
40	658.8	WORKERS COMPENSATION	0	0	0
41	659.8	INSURANCE	0	0	0
42	660.8	ADVERTISING	0	0	0
43	666.8	AMORTIZATION OF RATE CASE	0	0	32,527
44	667.8	REGULATORY COMMISSION	0	0	0
45		-MISCELLANEOUS-			
46	675.8	MISCELLANEOUS EXPENSE	4,394	4,394	1,394
47					
48		TOTAL ADMINISTRATIVE AND GENERAL	30,161	30,161	59,835
49					
50					
51					
52		TOTAL OPERATING EXPENSES	304,464	303,850	291,295

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF OPERATING EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	PRESENT RATES		PRESENT RATES	
		12/31/09 DETAIL	12/31/09 AMOUNT	12/31/10 DETAIL	12/31/10 AMOUNT
1	PER BOOKS		\$304,464		
2	PRESENT RATES AT 12-31-09				\$303,850
3	SALARIES AND WAGES	0		4,813	
4	GROUP INSURANCE	0		(178)	
5	401K & DEFINED CONTRIBUTION PLAN	0		325	
6	CHEMICALS	0		1,068	
7	PURCHASED POWER	0		2,776	
8	RATE CASE EXPENSE	0		32,527	
9	INFLATION	0		700	
10	ELIMINATED ITEMS	0		(52,698)	
11	WASTE DISPOSAL	0		(1,848)	
12	UNCOLLECTABLES		<u>(614)</u>		<u>(40)</u>
13	PRO FORMA ADJUSTMENTS		<u>(614)</u>		<u>-12,555</u>
14	PRESENT RATES 12-31-09		<u>\$303,850</u>		
15	PRESENT RATES 12-31-10				<u>\$291,295</u>

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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 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 12/31/2010 AMOUNT
1	ANNUALIZED SALARY AND WAGES	\$107,564
2	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	<u>0</u>
3	SUB-TOTAL	107,564
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>102,751</u>
6	PRO FORMA ADJUSTMENT	<u><u>\$4,813</u></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	4,721
	601.4 SALARY AND WAGES - WATER TREATMENT	92
	601.5 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	0
	601.6 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	0
	601.7 SALARY AND WAGES - CUSTOMER ACCOUNTING	0
	601.8 SALARY AND WAGES - ADMINISTRATIVE AND GENERAL	0
	603.8 SALARY AND WAGES - SALARY OF OFFICERS	0

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

GROUP INSURANCE

The annualization of the group insurance cost was based on the January 2010 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 12/31/2010 AMOUNT
1	ANNUALIZED GROUP INSURANCE COST	\$20,769
2	LESS: 0.0% NOT CHARGED TO OPERATING EXPENSE	0
3	SUB-TOTAL	20,769
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	\$ 20,947
5	DURING THE TWELVE MONTHS ENDED 12-31-09	
6	PRO FORMA ADJUSTMENT	<u>(\$178)</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	(\$178)
	REFERENCE: SUPPORTING SCHEDULES	
	WITNESS: JOHN COX	

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED 401 K & DCP COST	\$5,145
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>4,820</u>
4	PRO FORMA ADJUSTMENT	<u>\$325</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	\$325

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CHEMICALS

The following adjustment annualizes chemical costs based on historic test year usage, adjusted for known changes and applying this usage to the actual bid prices in effect at January 1, 2010 to arrive at the pro forma level of expense.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED CHEMICAL COST	\$14,660
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	13,592
4	PRO FORMA ADJUSTMENT	<u>\$1,068</u>
	618.3 CHEMICALS - WASTEWATER TREATMENT	\$1,068

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

PURCHASED POWER

This adjustment reflects the application of rates for power in effect as of December 31, 2010 to anticipated billing units for the future test year.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED POWER COST	\$29,346
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>\$26,570</u>
4	PRO FORMA ADJUSTMENT	<u>\$2,776</u>
	615.3 PURCHASED POWER	\$2,776

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW 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, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	LEGAL FEES AND EXPENSES	\$40,000
2	RATE OF RETURN	7,000
3	COST OF SERVICE AND RATE DESIGN	4,941
4	DEPRECIATION	6,750
5	MISCELLANEOUS	6,362
		<hr/>
6	TOTAL	65,053
		<hr/>
7	NORMALIZED OVER 2 YEARS	32,527
8	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-09	0
		<hr/>
9	PRO FORMA ADJUSTMENT	<u>\$32,527</u>
		<hr/>
	666.8 REGULATORY COMMISSION EXPENSE	\$32,527

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

**PENNSYLVANIA AMERICAN WATER
CLAYSVILLE WASTEWATER OPERATIONS**

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 12/31/2010 AMOUNT
1	TOTAL O & M EXPENSES	\$304,464
2	LESS: ADJUSTMENTS	<u>257,805</u>
3	EXPENSES SUBJECT TO INFLATION	46,659
4	INFLATION FACTOR	<u>1.50%</u>
5	PRO FORMA ADJUSTMENT	<u>\$700</u>
	675.3 MISCELLANEOUS EXPENSE	\$700

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER
CLAYSVILLE WW OPERATIONS
NOTES TO STATEMENT OF INCOME
OPERATING EXPENSES
ELIMINATED ITEMS

The following adjustment is being made to eliminate certain items from pro forma expenses.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	FINES / PENALTIES	(3,625)
2	MANHOLE UPGRADES CHARGED TO EXPENSE IN ERROR	(36,146)
3	MAINTENANCE COST	(7,579)
4	LAB SUPPLIES	(6,520)
5	COPIER / FAX / SCANNER	1,172
6	PRO FORMA ADJUSTMENT	<u>(\$52,698)</u>
	636.3 CONT SERV OTHER OPER WT	1,172
	675.3 MISC EXP OPER WT	(6,520)
	675.4 MISC EXP MAINT WT	(17,165)
	675.6 MISC EXP MAINT TD	(26,560)
	675.7 MISC EXP CA	(625)
	675.8 MISC EXPENSE AG	(3,000)
	TOTAL	(52,698)

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER

CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

WASTE DISPOSAL

The following adjustment annualizes waste disposal costs. Historic test year usage was reviewed, than applied to the actual contract prices that will be in effect at January 1, 2011 to arrive at the pro forma level of expense.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED WASTE DISPOSAL COST	\$28,539
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	30,387
4	PRO FORMA ADJUSTMENT	<u>(\$1,848)</u>
	675.3 WASTE DISPOSAL EXPENSE - WW TREATMENT	-\$1,848

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

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 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED RATES AMOUNT
1	WASTEWATER SALES	\$312,017	\$309,739	\$307,461	\$792,414
2	2009 RATIO	0.017517	0.017517	0.017517	0.017517
3	ANNUALIZED UNCOLLECTABLE EXPENSE		\$5,426	\$5,386	\$13,881
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE				
5	DURING THE TWELVE MONTHS ENDED 12-31-09		6,040	-	-
6	LESS: PRESENT RATES AT 12-31-09		-	5,426	-
7	LESS: PRESENT RATES AT 12-31-10		-	-	5,386
8	PRO FORMA ADJUSTMENT		(614)	-\$40	\$8,495
670.7	CUSTOMER ACCOUNTING AND COLLECTING - BAD DEBT		(614)	-\$40	\$8,495

WITNESS: JOHN COX
REFERENCE: EXHIBIT 3-B

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

ANNUAL DEPRECIATION CALCULATED BY STRAIGHT

LINE-REMAINING LIFE OVER BOOK ANNUAL DEPRECIATION

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED DEPRECIATION	\$130,838
2	PER BOOKS AT 12/31/09	<u>63,822</u>
3	PRO FORMA ADJUSTMENT	<u>\$67,016</u>
	403 DEPRECIATION	\$67,016

REFERENCE: DEPRECIATION EXHIBIT
WITNESS: JOHN J SPANOS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE 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, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED PAYROLL TAXES	\$9,010
2	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	0
3	SUB-TOTAL	\$9,010
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	\$8,164
6	PRO FORMA ADJUSTMENT	<u>\$846</u>
	408.12 - TAXES - PAYROLL	\$846

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

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 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED AMOUNT
1	TOTAL WASTEWATER SALES	\$309,739	\$307,461	\$792,414
2	ESTIMATED GENERAL ASSESSMENT BY THE PENNSYLVANIA			
3	PUBLIC UTILITY COMMISSION AT .004777980298			
4	PER DOLLAR OF TOTAL WASTEWATER SALES SUBJECT TO TAX	1,480	1,469	3,786
5	CONSUMER ADVOCATE FEE AT .001388377500			
6	PER DOLLAR OF TOTAL WASTEWATER SALES	430	427	1,100
7	SMALL BUSINESS ADVOCATE FEE AT .000132518596			
8	PER DOLLAR OF TOTAL WASTEWATER SALES	41	41	105
		1,951	1,937	4,991
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSES DURING			
10	THE TWELVE MONTHS ENDED 12-31-09	1,427	-	-
11	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-09	-	1,951	-
12	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-10	-	-	1,937
13	PRO FORMA ADJUSTMENT	\$524	-\$14	\$3,054

507.1 TAXES OTHER THAN INCOME

\$3,564

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED AMOUNT
1	STATE INCOME TAX PER COMPUTATION			
2	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$31,516
3	LESS: STATE INCOME TAX PER BOOK			
4	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
5	LESS: PRESENT RATES 12-31-09	-	0	-
6	LESS: PRESENT RATES 12-31-10	-	-	0
7	PRO FORMA ADJUSTMENT	\$0	\$0	\$31,516
8	FEDERAL INCOME TAX PER COMPUTATION			
9	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$83,895
10	LESS: FEDERAL INCOME TAX PER BOOK			
11	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
12	LESS: PRESENT RATES 12-31-09	-	0	-
13	LESS: PRESENT RATES 12-31-10	-	-	0
14	PRO FORMA ADJUSTMENT	\$0	\$0	\$83,895

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

CALCULATION OF STATE AND FEDERAL INCOME TAXES

LINE NO.	DESCRIPTION	PER BOOKS	PRESENT RATES	PRESENT RATES	PROPOSED AMOUNT
			12/31/09 AMOUNT	12/31/10 AMOUNT	
1	UTILITY OPERATING INCOME BEFORE TAXES	-\$64,230	-\$95,497	-\$124,013	\$361,924
2	LESS: INTEREST EXPENSE	64,140	64,140	80,996	81,029
3	TAXABLE OPERATING INCOME	-128,370	-159,637	-205,009	270,895
4	ADD:				
5	PREMATURE PROPERTY LOSSES	0	0	0	0
6	DEPR - STRAIGHT LINE-REMAINING LIFE	63,822	92,889	130,838	130,838
7	TAXABLE MEALS & ENTERTAINMENT	321	321	321	321
8					
9	TOTAL	64,143	93,210	131,159	131,159
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	59,323	59,323	77,112	77,112
15	COST OF REMOVAL	0	0	9,463	9,463
16	TOTAL	59,323	59,323	86,575	86,575
17	TAXABLE INCOME (IF NEGATIVE USE ZERO)	0	0	0	315,479
18	STATE INCOME TAX AT:				
19	HISTORIC - 9.99%, FUTURE - 9.99%	0	0	0	31,516
20	TAXABLE INCOME AFTER STATE INCOME TAX	0	0	0	283,963
21	ADD:				
22	COST OF REMOVAL NON ADR PROPERTY	0	0	9,463	9,463
23	ACRS ON POST 1980 ASSETS	0	0	0	0
24	MACRS ON POST 1986 ASSETS	59,323	59,323	77,112	77,112
25	DEDUCT:				
26	SLRL ON POST 1980 ASSETS	63,822	92,889	130,838	130,838
27	INCOME SUBJECT TO FEDERAL INCOME TAX (IF NEGATIVE USE 0)	0	0	0	239,700
28	FEDERAL INCOME TAX AT 35%	\$0	\$0	\$0	\$83,895
29	FEDERAL TAX LIABILITY	\$0	\$0	\$0	\$83,895

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

PRO FORMA INTEREST UNDER PRESENT AND PROPOSED RATES

LINE NO. DESCRIPTION	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED AMOUNT
1 INTEREST ON LONG TERM DEBT PER COMPUTATION 2 SHOWN ON FOLLOWING PAGE	\$64,111	\$80,996	\$81,029
3 LESS: INTEREST ON LONG TERM DEBT AS PER BOOK 4 COMPUTATION ON FOLLOWING PAGE	64,111	-	-
5 LESS: PRESENT RATES AT 12-31-09	-	64,111	-
6 LESS: PRESENT RATES AT 12-31-10	-	-	80,996
7 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>\$16,885</u>	<u>\$33</u>
8 INTEREST ON SHORT TERM DEBT PER COMPUTATION 9 SHOWN ON FOLLOWING PAGE	\$29	\$0	\$0
10 LESS: INTEREST ON SHORT TERM DEBT AS PER BOOK 11 COMPUTATION ON FOLLOWING PAGE	29	-	-
12 LESS: PRESENT RATES AT 12-31-09	-	29	-
13 LESS: PRESENT RATES AT 12-31-10	-	-	0
14 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>(\$29)</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLAYSVILLE WW OPERATIONS

NOTES TO STATEMENT OF INCOME

APPLICATION OF INCOME DEDUCTIONS

LINE

NO. DESCRIPTION

1 CAPITAL STRUCTURE

PRESENT RATES AT DECEMBER 31, 2009

PRESENT RATES AT DECEMBER 31, 2010

	PRESENT RATES AT DECEMBER 31, 2009			PRESENT RATES AT DECEMBER 31, 2010		
	AMOUNT	CAPITAL STRUCTURE	COST RATE	AMOUNT	CAPITAL STRUCTURE	COST RATE
2 LONG TERM DEBT	\$951,447,759	49.62%	6.25%	\$966,055,512	49.21%	6.16%
3 SHORT TERM DEBT	7,496,277	0.39%	0.36%	0	0.0%	0.00%
4 TOTAL DEBT	958,944,036	50.01%		966,055,512	49.21%	
5 PREFERRED STOCK	14,171,700	0.74%	8.11%	14,171,700	0.72%	8.11%
6 COMMON EQUITY	944,413,846	49.25%		982,987,846	50.07%	
7 TOTALS	<u>\$1,917,529,582</u>	<u>100.0%</u>		<u>\$1,963,215,058</u>	<u>100.0%</u>	

	PRESENT RATES 12-31-09 AMOUNT	PRESENT RATES 12/31/2010 AMOUNT	PROPOSED AMOUNT
8 APPLICATION OF LONG TERM DEBT INTEREST:			
9 ORIGINAL COST RATE BASE	\$2,067,267	\$2,671,959	\$2,673,048
10 DEBT PERCENTAGE (FROM ABOVE)	49.62%	49.21%	49.21%
11 DEBT PORTION OF RATE BASE	1,025,778	1,314,871	1,315,407
12 INTEREST COST (FROM ABOVE)	6.25%	6.16%	6.16%
13 PRO FORMA LONG TERM INTEREST DEDUCTION	<u>\$64,111</u>	<u>\$80,996</u>	<u>\$81,029</u>
14 APPLICATION OF SHORT TERM DEBT INTEREST:			
15 ORIGINAL COST RATE BASE	\$2,067,267	\$2,671,959	\$2,673,048
16 DEBT PERCENTAGE (FROM ABOVE)	0.39%	0.00%	0.00%
17 DEBT PORTION OF RATE BASE	8,062	0	0
18 INTEREST COST (FROM ABOVE)	0.36%	0.00%	0.00%
19 PRO FORMA SHORT TERM INTEREST DEDUCTION	<u>\$29</u>	<u>\$0</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS