



April 23, 2010
James J. McNulty, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: General Base Rate Filing for Claysville Wastewater Operations
Docket No. R-2010-2166210

Dear Secretary McNulty:

The Claysville Wastewater Operations (the "Company") of Pennsylvania American Water is herewith filing for an increase in wastewater rates based on a future test year ending December 31, 2010. In support of that request, PAW submits the following documents:

1. Eight copies of the Original Tariff Wastewater Pa P.U.C. No. 11, bearing a proposed effective date of June 22, 2010.
2. Eight copies of a news release regarding this filing that will be published in newspapers of general circulation in each of the Company's service areas.
3. Eight copies of the supporting information required by the Commission's proposed regulations, including pre-filed direct testimony, supporting exhibits and filing requirements of the Pa. Code Section 53.52.
4. Eight copies of the notice that was direct mailed to all Customers on April 22, 2010 informing them of the afore-mentioned tariff filing.

In accordance with the Commission's regulations, we are serving concurrently four copies of this rate filing on the Office of Consumer Advocate and two copies on the Office of Small Business Advocate. By prior agreement, we are also today furnishing four copies of this filing to the Commission's Office of Trial Staff and one copy to the Bureau of FUS.

If you have any questions, please do not hesitate to call me.

Sincerely,

Rod Nevirauskas

Director - Rates and Regulations



PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania American Water: Docket No. R-2010-2166214
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing documents upon the following persons, in the manner indicated below:

VIA HAND DELIVERY

William R. Lloyd, Jr., Esquire
Office of Small Business Advocate
Suite 1102 - Commerce Building
300 North Second Street
Harrisburg, PA 17101

Dianne E. Dusman Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place Fifth Floor
Harrisburg, PA 17101-1923

John Simms, Esquire
Office of Trial Staff
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Robert Wilson
Bureau of Fixed Utility Services
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Rod Neviraukas
Director -- Rates and Regulations
Pennsylvania American Water
800 West Hershey Park Drive
Hershey, PA 17033
(717) 531-3340

Dated: April 23, 2010



NOTICE OF PROPOSED WASTEWATER RATE CHANGES

Dear Customer:

On April 23, 2010, Pennsylvania American Water filed a request with the Pennsylvania Public Utility Commission (PUC) to increase your wastewater rates as of June 22, 2010. A full investigation of this request could delay the change until January 22, 2011. This notice describes our request, the PUC's role, and what actions you can take.

RATE REQUEST

Pennsylvania American Water is requesting an overall rate increase of \$487,486 per year. Here is an example of the proposed change for a typical customer's monthly bill.

Customer Type	Current Monthly Bill	Proposed Monthly Bill
Residential	\$38.30	\$92.75
Commercial	\$74.95	\$241.60

To find out how the request might change your wastewater bill, or to address any other questions you might have, please contact Pennsylvania American Water's customer service center at 1-800-565-7292. You can also find the rates requested by Pennsylvania American Water in Wastewater Tariff PA P.U.C. No. 11, filed with the PUC and on our Web site at www.pennsylvaniaamwater.com. You can also review the material filed with the PUC at our office at 800 West Hersheypark Drive, Hershey, PA 17033. In addition, you can request that we mail you a copy of Pennsylvania American Water's Statement of Reasons, which is a plain language summary of why we need to raise rates.

BACKGROUND

This request is Pennsylvania American Water's first since acquiring the system in July 2008. The proposed increase is required to begin to recover approximately \$940,000 that the company will have invested since acquiring your system, as well as to recover increased operating and maintenance expenses. Both the capital investment and operating expenses are necessary to address past environmental issues and to improve the quality and reliability of your wastewater service. This capital investment equates to spending more than \$1,800 per customer.

Specifically, Pennsylvania American Water's capital improvements since acquiring your wastewater system include upgrades to the treatment facilities and improvements to the collection system. The upgrades are required to begin to resolve environmental issues that the Pennsylvania Department of Environmental Protection identified in a Consent Order dated July 31, 2008, pertaining to an overload of the sanitary sewer system and effluent limitations at the wastewater treatment plant.

PUC ROLE

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

ACTIONS YOU CAN TAKE

You can challenge Pennsylvania American Water's request by:

- 1) Sending a letter to the PUC – You can tell the PUC why you object to the requested rate increase in your letter. You can also tell the PUC about any other concerns you have about the company. This information can be helpful when the PUC investigates the rate request. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Attending or presenting testimony at PUC public input hearings – You can attend or be a witness at a PUC public hearing. The PUC holds public input hearings if it opens an investigation of Pennsylvania American Water's rate increase request and if there is enough interest in the case. At these hearings, you can present your views in person to the PUC judge and to company representatives. Testimony under oath becomes part of the rate case record. The PUC holds these hearings in the service area of the company. For more information, call the PUC at 1-800-692-7380.
- 3) Becoming a party by filing a formal complaint – If you want to be a party to the case, you must file a formal complaint. You then have an opportunity to take part in all the hearings about the rate increase request. You can receive copies of all materials distributed by the other parties. Formal complaints should be filed with the PUC before June 22, 2010. If no one files a formal complaint, the Commission may grant all, some or none of the request without holding a hearing before a PUC judge. You can request a formal complaint form by writing to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265, or by going to its Web site at www.puc.state.pa.us.

Pennsylvania American Water
Claysville Wastewater District

PENNSYLVANIA AMERICAN WATER – CLAYSVILLE WASTEWATER

ORIGINAL TARIFF WASTEWATER – PA. P.U.C. NO. 11

RESPONSES TO FILING REQUIREMENTS

§53.52. APPLICABILITY; PUBLIC UTILITIES OTHER THAN CANAL, TURNPIKE, TUNNEL, BRIDGE AND WHARF COMPANIES

(a) **Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:**

- (1) **The specific reasons for each change.**
Please see Specific Reasons.
- (2) **The total number of customers served by the utility.**
Please see Exhibit No. 1, page 8.
- (3) **A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.**
Please see Exhibit No. 1, page 8.
- (4) **The effect of the change on the utility's customers.**
The proposed increase to customers' bills is approximately 157.73%.
- (5) **The direct or indirect effect of the proposed change on the utility's revenue and expenses.**
The proposed rates will increase the Claysville Wastewater Operation's revenues by \$487,486.
- (6) **The effect of the change on the service rendered by the utility.**
There will be no change in the service rendered.
- (7) **A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308 (relating to voluntary changes in rates).**
Please see Specific Reasons.
- (8) **Studies undertaken by the utility in order to draft its proposed**

change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308.

See the response to 52 Pa. Code §53.52 (a) (7), supra.

- (9) **Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.**

No customer polls were conducted.

- (10) **Plans the utility has for introducing or implementing the changes with respect to its ratepayers.**

Please see Supporting Schedules, Notice of Proposed Rate Changes.

- (11) **FCC, FERC or Commission orders or rulings applicable to the filing.**

None.

- (b) **Whenever a public utility other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revisions or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the tariff, revision or supplement, statements showing all of the following:**

- (1) **The specific reasons for each increase or decrease.**

See the response to 52 Pa. Code §53.52 (a) (1), supra.

- (2) **The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing. Water and sewer utilities with annual revenues under \$100,000 and municipal corporations subject to Commission jurisdiction may provide operating income statements for a 12-month period, the end of which may not be more than 180 days prior to the filing.**

Please See Exhibit 1, page 1.

- (3) **A calculation of the number of customers, by tariff subdivision, whose bills will be increased.**

Refer to the response to §53.52 (a) (3), supra.

- (4) **A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.**

Please refer to Exhibit No.1, page 3.

- (5) **A calculation of the number of customers, by tariff subdivision, whose**

bills will be decreased.

No customers will receive a decrease.

- (6) **A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.**

Not applicable.

- (c) **If a public utility files a tariff, revision or supplement which it is calculated will increase the bills of a customer or a group of customers by an amount, when projected to an annual basis, exceeding 3.0% of the operating revenues of the utility – subsection (b)(4) divided by the operating revenues of the utility for a 12-month period as defined in subsection (b)(2) – or which it is calculated will increase the bills of 5.0% or more of the number of customers served by the utility – subsection (b)(3) divided by subsection (a)(2) – it shall submit to the Commission with the tariff, revision or supplement, in addition to the statements required by subsections (a) and (b), all of the following information:**

- (1) **A statement showing the utility's calculation of the rate of return earned in the 12-month period referred to in subsection (b)(2), and the anticipated rate of return to be earned when the tariff, revision or supplement becomes effective. The rate base used in this calculation shall be supported by summaries of original cost.**

Please refer to page 9 of Exhibit No. 1, which shows a -4.62% return at present rates 12/31/09 and a proposed overall return of 8.85%.

- (2) **A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)(2).**

Please see Supporting Schedules, Balance Sheet.

- (3) **A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).**

Please see Exhibit No. 1, page 10.

- (4) **A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).**

Please see Exhibit No. 1, page 9.

- (5) A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the date of the balance sheet required by paragraph (2).**

Please see Exhibit No. 1, page 1, pages 2-3, and pages 20-21.

- (6) A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision or supplement. As used in this paragraph, a major change is one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1) – (5).**

None

**STATEMENT OF SPECIFIC REASONS
FOR PROPOSED INCREASE IN RATES**

PENNSYLVANIA AMERICAN WATER
Claysville Wastewater Operations

Statement of Specific Reasons
for Proposed Increase in Rates

The Claysville Wastewater operations ("CWW" or "Company") of Pennsylvania American Water ("PAW") is filing herewith Original Tariff Wastewater-Pa. P.U.C. No. 11, canceling Tariff Wastewater-Pa. P.U.C. No. 6. This tariff, which bears a proposed effective date of June 22, 2010, would increase the Company's total annual operating revenues by \$487,486 or approximately 158%, above the level of pro forma revenues for the future test year ending December 31, 2010. The reasons for the proposed increase in rates are summarized below.

RATE INCREASE

The primary factor accounting for the need for rate relief is the Company's recovery of operating costs and the substantial investment in utility plant. By the end of the future year, CWW will have invested approximately \$1 million in new utility plant since its acquisition by PAWC in 2008. Return on and of capital investments comprises almost \$150,000 of the requested increase.

Absent rate relief, the overall rate of return for the Company for the future test year is negative. This result is obviously far less than required, by any standard, to permit a

reasonable return on common equity and to provide a reasonable opportunity for the Company to attract the additional capital required to finance needed plant additions.

Mr. Paul R. Moul, Managing Consultant of P. Moul and Associates and an expert on the subject of rate of return on common equity ("ROE"), has recommended an ROE of 11.75%. Mr. Rod P. Nevirauskas, Director of Rates and Regulation and Assistant Treasurer of PAW, has calculated an overall rate of return of 8.85% for the Company incorporating an ROE of 11.5% in recognition of the magnitude of the requested increase in this case. Mr. Moul's rate of return on common equity recommendations are being filed herewith as PAWC Statement No. 6 and Exhibit No. 6-A and Mr. Nevirauskas' rate of return recommendation is being filed as PAWC Statement No. 3. The requested rate of return may be summarized as follows:

TYPE OF CAPITAL	RATIO	COST RATE	WEIGHTED COST RATE
Long Term Debt	49.21%	6.16%	3.03%
Preferred Stock	0.72%	8.11%	0.06%
Common Equity	50.07%	11.50%	5.76%
Overall Rate of Return			8.85%

The Company is filing herewith all of the supporting data required by the Commission's regulations, both for the historic test year ended December 31, 2009 and the future test year ending

December 31, 2010. The Company is basing its claim principally on future test year data and, therefore, the discussion that follows will essentially address such data.

The revenue and expense data for the year ending December 31, 2010 have been prepared in a manner consistent with the accepted practices of the Commission. To establish anticipated operating revenues under the proposed rates, operating revenues for the historic test year ended December 31, 2009 were adjusted (1) for required annualization adjustments (2) to reflect changes in the number of customers and usage by specific customers during the historic and future test years.

After extensive and careful review of the Company's accounts, actual operating expenses for the historic test year ended December 31, 2009 were adjusted to reflect currently effective and anticipated changes in expense levels, as summarized in Exhibit No. 1 of Volume 1. Such adjustments capture, among other things, increases in labor (salaries and wages) and labor-related expense; production costs and general inflation.

Operating revenue deductions other than expenses have also been adjusted to reflect increases and changes in taxes other than income taxes, including the General Assessments for the Commission, the Office of Consumer Advocate and the Office of Small Business Advocate. Federal and State income taxes have been calculated on a pro forma basis to reflect the effect on the

Company's taxable income of the proposed rates, the various expense adjustments made for ratemaking purposes and the use of currently effective state and federal income tax rates.

Annual depreciation charges included for ratemaking have been calculated using the straight line remaining life method for most plant accounts. Provision has also been made for the deferred federal income taxes resulting from the use of the Modified Accelerated Cost Recovery System for qualifying property additions in accordance with the Tax Reform Act of 1986.

After making the proper allowances for all necessary adjustments to determine the appropriate levels of revenue and expense for ratemaking purposes, the Company's anticipated operating income under the proposed rates will be:

Operating Revenues	\$796,553
Operating Revenue Deductions	<u>560,040</u>
Operating Income	\$236,513

The rate base elements which are submitted as part of this filing reflect the original cost of the Company's utility plant, as taken from its continuing property records, together with anticipated additions and retirements. The Company's claim for accrued depreciation applicable to original cost has been determined on the basis of the ratemaking book reserve, consistent

with the procedures approved by the Commission in the past. The resulting claim for depreciated utility plant in service encompasses the Company's planned investment of approximately \$795,000 million in new utility plant.

From the depreciated utility plant in service figures, the Company has deducted contributions-in-aid-of-construction. Also deducted is the net cash working capital amount of long-term debt interest and preferred stock dividends accrued prior to payment, and the balance of deferred taxes attributable to 2010 accelerated depreciation. In addition, allowances for materials and supplies, cash working capital, and prepaid taxes net of accrued taxes, are reflected in the Company's rate base claim. As so developed, the estimated original cost measure of value at December 31, 2010 is \$2,673,048.

It is evident from the above and from the voluminous supporting data filed herewith that the proposed rate increase is just and reasonable and represents the minimum rate increase necessary to enable the Company to earn a reasonable return on the fair value of its property used and useful in the public service and to maintain the integrity of its existing capital.

RATE STRUCTURE

As part of its supporting data, the Company has submitted, as Volume 2, testimony submitted by the engineering firm of Gannett Fleming Valuation and Rate Consultants, Inc, in support of their rate design study.

The principal elements of that study consist of the following:

- An increase of monthly service charges to be more consistent with customer costs; including the elimination of the 1,000 gallons per month minimum allowance.
- Volumetric rates were designed to recover the remaining cost of service not recovered by the service charge, for each classification so that the proposed revenues by class will move toward the cost of service.

CONCLUSION

In summary, the proposed increase in revenues is the minimum increase necessary to permit the Company to preserve public health and safety and to maintain the integrity of its existing capital, attract additional necessary capital at reasonable costs and have an opportunity to actually achieve a fair rate of return, particularly on its common equity capital. For these and the other reasons set forth above, the proposed rates should be permitted to become effective as filed.