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CLARION WW**

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PENNSYLVANIA AMERICAN WATER - CLARION 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	PRESENT RATES		12/31/10		PROPOSED RATES	
		PER BOOKS	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT
1	OPERATING REVENUE	\$1,185,260	-\$2,446	\$1,182,814	-\$24,049	\$1,158,765	\$968,817
2	OPERATING REVENUE DEDUCTIONS:						
3	OPERATING EXPENSES	677,649	-18,637	659,012	-52,375	606,637	5,760
4	DEPRECIATION	209,130	71,954	281,084	116,056	397,140	0
5	AMORTIZATIONS	0	0	0	0	0	0
6	TAXES, OTHER THAN INCOME:						
7	LOCAL PROPERTY AND MISCELLANEOUS	0	0	0	0	0	0
8	FEDERAL ENVIRONMENTAL TAX	0	0	0	0	0	0
9	PUBLIC UTILITY REALTY TAXES	0	0	0	0	0	0
10	PAYROLL TAXES	15,301	0	15,301	2,998	18,299	0
11	GENERAL ASSESSMENT	5,410	2,026	7,436	-150	7,286	6,092
12	STATE CAPITAL STOCK TAX	0	0	0	0	0	0
13	TOTAL TAXES OTHER THAN INCOME	20,711	2,026	22,737	2,848	25,585	6,092
14	UTILITY OPERATING INCOME BEFORE INCOME TAX	277,770	-57,789	219,981	-90,578	129,403	956,955
15	INCOME TAXES:						
16	STATE INCOME TAX	7,080	1,415	8,495	-8,495	0	93,533
17	FEDERAL INCOME TAX	18,609	-18,609	0	0	0	259,720
18	AMORT. OF ITC & EXCESS DEFERRED TAXES	0	0	0	0	0	0
19	TOTAL INCOME TAXES	25,689	-17,194	8,495	-8,495	0	353,253
20	TOTAL OPERATING REVENUE DEDUCTIONS	933,179	38,149	971,328	58,034	1,029,362	365,105
21	UTILITY OPERATING INCOME	252,081	-40,595	211,486	-82,083	129,403	603,712
22	INCOME DEDUCTIONS:						
23	INTEREST ON LONG TERM DEBT	217,809	0	217,809	33,295	251,104	61
24	AMORTIZATION OF DEBT DISCOUNT EXPENSE	0	0	0	0	0	0
25	INTEREST ON NOTES PAYABLE TO OTHERS	99	0	99	-99	0	0
26	TOTAL INCOME DEDUCTIONS	217,908	0	217,908	33,196	251,104	61
27	NET INCOME	34,173	-40,595	-6,422	-115,279	-121,701	603,651
28	PREFERRED DIVIDENDS	4,215		4,215		4,837	
29	NET INCOME TO COMMON	\$29,958		-\$10,637		-\$126,538	\$477,112

PENNSYLVANIA AMERICAN WATER - CLARION 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		OPERATING REVENUES									
2		METERED SALES									
3	461.1	RESIDENTIAL	\$564,166	\$1,549	\$0	\$0		\$0	\$0	\$0	\$565,715
4	461.2	COMMERCIAL	381,089	(3,981)	0	0		0	0	0	377,098
5	461.3	INDUSTRIAL	21,605	0	0	0		0	0	0	21,605
6	464	MUNICIPAL	195,364	0	0	0		0	0	0	195,364
7	466	BULK	0	0	0	0		0	0	0	0
9		TOTAL METERED SALES	1,162,224	(2,442)	0	0	0	0	0	0	1,159,782
10		UNMETERED SALES									
11	460	RESIDENTIAL	1,200	0	0	0		0	0	0	1,200
12	460	COMMERCIAL	240	0	0	0		0	0	0	240
13	460	INDUSTRIAL	0	0	0	0		0	0	0	0
14	460	MUNICIPAL	19,500	0	0	0		0	0	0	19,500
15	460	MISCELLANEOUS	0	0	0	0		0	0	0	0
16		TOTAL UNMETERED SALES	20,940	0	0	0	0	0	0	0	20,940
17	462.1	PRIVATE FIRE PROTECTION	0	0	0	0		0	0	0	0
18	462.2	PUBLIC FIRE PROTECTION	0	0	0	0		0	0	0	0
19		TOTAL WATER SALES	1,183,164	(2,442)	0	0	0	0	0	0	1,180,722
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	2,096	0	0	(4)		0	0	0	2,092
22	471	MISC SERVICE REVENUES	0	0	0	0		0	0	0	0
23	472	RENTS FROM PROPERTIES	0	0	0	0		0	0	0	0
24	474	OTHER WATER REVENUES	0	0	0	0		0	0	0	0
25		TOTAL OTHER OPERATING REVENUES	2,096	0	0	(4)	0	0	0	0	2,092
26		TOTAL OPERATING REVENUES	\$1,185,260	(\$2,442)	\$0	(\$4)	\$0	\$0	\$0	\$0	\$1,182,814
27		TOTAL OPERATING REVENUES									

PENNSYLVANIA AMERICAN WATER - CLARION 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	CUSTOMER CHANGES	SPECIFIC CUSTOMERS	OTHER OPERATING REVENUES	RECLASSIFY REVENUE	PRO FORMA PRESENT RATES 12/31/2010	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	\$565,715	\$258	\$0	\$0	\$0	\$565,973	59.72%	338,013	\$903,986
4	461.2	COMMERCIAL	377,098	(2,660)	0	0	0	374,438	104.62%	391,746	\$766,184
5	461.3	INDUSTRIAL	21,605	0	(21,605)	0	0	0	0.00%	0	\$0
6	464	MUNICIPAL	195,364	0	0	0	0	195,364	112.32%	219,438	\$414,802
7	466	SALES FOR RESALE	0	0	0	0	0	0	0.00%	0	\$0
9		TOTAL METERED SALES	1,159,782	(2,402)	(21,605)	0	0	1,135,775	83.57%	949,197	2,084,972
10		UNMETERED SALES									
11	460	RESIDENTIAL	1,200	0	0	0	0	1,200	101.83%	1,222	2,422
12	460	COMMERCIAL	240	0	0	0	0	240	176.67%	424	664
13	460	INDUSTRIAL	0	0	0	0	0	0	0.00%	0	0
14	460	MUNICIPAL	19,500	0	0	0	(19,500)	0	0.00%	0	0
15	460	BULK	0	0	0	0	19,500	19,500	83.38%	16,260	35,760
16		TOTAL UNMETERED SALES	20,940	0	0	0	0	20,940	0.00%	17,906	38,846
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	1,180,722	(2,402)	(21,605)	0	0	1,156,715	83.61%	967,103	2,123,818
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	2,092	0	0	(42)	0	2,050	83.61%	1,714	3,764
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	2,092	0	0	(\$42)	0	2,050	83.61%	1,714	3,764
26		TOTAL OPERATING REVENUES	\$1,182,814	(\$2,402)	(\$21,605)	(\$42)	\$0	\$1,158,765	83.61%	\$968,817	\$2,127,582
27											

PENNSYLVANIA AMERICAN WATER - CLARION 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		\$1,185,260		
2	PRESENT RATES AT 12-31-09				\$1,182,814
3	SPECIFIC CUSTOMER ADJUSTMENT	0		(21,605)	
4	OTHER OPERATING REVENUES				
5	470 - PENALTIES	(4)		(42)	
6	CHANGE IN CUSTOMERS ADJUSTMENT	(2,442)		(2,402)	
7	PRO FORMA ADJUSTMENT		<u>(2,446)</u>		<u>(24,049)</u>
8	PRO FORMA PRESENT RATES AT DECEMBER 31, 2009		<u>\$1,182,814</u>		
9	PRO FORMA PRESENT RATES AT DECEMBER 31, 2010				<u>\$1,158,765</u>

PENNSYLVANIA AMERICAN WATER - CLARION WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

RECLASSIFY REVENUES

This adjustment reclassifies Strattanville Borough's revenues from the municipal bill class to the bulk bill class.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	UNMETERED REVENUES	
2	MUNICIPAL REVENUES	(\$19,500)
3	BULK REVENUES	\$19,500
4	TOTAL REVENUES	<u>0</u>
5	PRO FORM ADJUSTMENT	<u>\$0</u>

WITNESS: ROD NEVIRASAS

PENNSYLVANIA AMERICAN WATER - CLARION WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

SPECIFIC CUSTOMER ADJUSTMENTS

This adjustment reflects the plant closure for Owens Illinois Glass Company.

LINE NO.	DESCRIPTION	PRESENT RATES 12-31-10 AMOUNT
1	RESIDENTIAL	
2	COMMERCIAL	
3	INDUSTRIAL	
4	OWENS ILLINOIS GLASS	(21,605)
5	MUNICIPAL	
6	BULK	
7	TOTAL	<u><u>(\$21,605)</u></u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$1,549
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	(\$3,991)
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 BULK		\$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><u>(\$2,442)</u></u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$258
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	(\$2,660)
7	The Company expects a decrease in		
8	commercial customers for 2010.		
9	INDUSTRIAL, MUNICIPAL AND BULK	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>(\$2,402)</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$1,183,164	\$1,156,715	\$2,123,818
2	% OF PENALTIES TO TOTAL			
3	SALES FOR 2009		0.1772000%	0.1772000%
4	PENALTIES	2,096	2,050	3,764
5	LESS: PER BOOKS AT 12-31-09		2,096	
6	LESS: PRESENT RATES AT 12-31-10			2,050
7	PRO FORMA ADJUSTMENTS		(\$46)	\$1,714

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	SERVED AT 12/31/2008	SERVED AT 12/31/2009	TO BE SERVED AT 12/31/2010	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
1		METERED						
2	601.1	RESIDENTIAL	1,883	1,884	1,885	1,885	0	0
3	601.2	COMMERCIAL	307	305	303	303	0	0
4	601.3	INDUSTRIAL	1	1	0	0	0	0
5	606	MUNICIPAL	18	18	18	18	0	0
6	607	BULK	0	0	0	0	0	0
7	601.4	MISCELLANEOUS	0	0	0	0	0	0
8		METERED	2,209	2,208	2,206	2,206	0	0
9		UNMETERED						
10	602.1	RESIDENTIAL	5	5	5	5	0	0
11	602.2	COMMERCIAL	2	1	1	1	0	0
12	602.3	INDUSTRIAL	0	0	0	0	0	0
13	606	MUNICIPAL	1	1	0	0	0	0
14	602.4	MISCELLANEOUS	0	0	1	1	0	0
15		UNMETERED	8	7	7	7	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	2,217	2,215	2,213	2,213	0	0

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$607,822	\$625,822	\$625,822	
2	DEPRECIABLE PLANT	10,633,199	11,962,679	11,962,679	
3	TOTAL UTILITY PLANT IN SERVICE	11,241,021	12,588,501	12,588,501	
4	DEDUCT:				
5	CONTRIBUTIONS IN AID OF CONSTRUCTION	326,420	360,060	360,060	
6	CUSTOMER ADVANCES FOR CONSTRUCTION	0	0	0	
7	SUB-TOTAL	326,420	360,060	360,060	
8	NET UTILITY PLANT IN SERVICE	10,914,601	12,228,441	12,228,441	
9	ACCRUED DEPRECIATION	3,692,470	3,783,273	3,783,273	
10	DEPRECIATED UTILITY PLANT IN SERVICE	7,222,131	8,445,168	8,445,168	
11	ADD:				
12	MATERIALS AND SUPPLIES	1,935	1,935	1,935	
13	CASH WORKING CAPITAL - EXPENSES	56,259	53,398	53,398	
14	ACCRUED AND PREPAID TAXES	3,054	2,495	4,476	
15	DEDUCT:				
16	CASH WORKING CAPITAL - INT AND DIV	24,299	28,006	28,006	
17	DEFERRED TAXES	235,816	191,365	191,365	
18	TOTAL RATE BASE ELEMENTS	\$7,023,264	\$8,283,625	\$8,285,606	
19	UTILITY OPERATING INCOME				
20	PER BOOKS	\$252,081	3.59%	3.04%	3.04%
21	PRESENT RATES AT 12-31-09	\$211,486	3.01%	-	-
22	PRESENT RATES AT 12-31-10	\$129,403	-	1.56%	-
23	PROPOSED RATES	\$733,115	-	-	8.85%

PENNSYLVANIA AMERICAN WATER - CLARION 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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
4		TANGIBLE PLANT				
5	353.2	WW LAND & LD RIGHTS COLL	606,815	0	0	606,815
6	353.3	WW LAND & LD RIGHTS SPP	5	0	0	5
7	353.4	WW LAND & LD RIGHTS TDP	1,002	18,000	0	19,002
8		TOTAL LAND AND LAND RIGHTS	<u>607,822</u>	<u>18,000</u>	<u>0</u>	<u>625,822</u>
9	354.3	WW STRUCT & IMP SPP	864,214	226,375	0	1,090,589
10	354.4	WW STRUCT & IMP TDP	452,193	113,559	(8,923)	556,829
11	354.5	WW STRUCT & IMP GEN	15,771	0	0	15,771
12	355.2	WW PWR GEN EQUIP COLL	66,483	0	0	66,483
13	360.0	WW COLLECTIONS SEWERS FORCED	130,364	0	0	130,364
14	361.1	WW COLLECTING MAINS	4,708,994	319,850	(800)	5,028,044
15	361.2	WW MANHOLES	811,516	0	0	811,516
16	363.0	WW SERVICES SEWER	266,499	78,000	(2,400)	342,099
17	364.0	WW FLOW MEASURING DEVICES	292,902	0	0	292,902
18	365.0	WW FLOW MEASURING INSTALLS	14,938	0	0	14,938
19	371.1	WW PUMP EQUIP ELECT	527,856	0	0	527,856
20	380.0	WW TD EQUIP	2,172,089	0	0	2,172,089
21	381.0	WW PLANT SEWERS	1,959	0	0	1,959
22	382.0	WW OUTFALL SEWER LINES	201,124	0	0	201,124
23	389.1	WW OTHER PLANT & MISC EQUIP - INTANGIBLE		498,868	0	498,868
24	391.1	WW TRANS EQUIP LT DTY TRKS	19,000	63,000	(19,000)	63,000
25	393.0	WW TOOL SHOP & GARAGE EQUIP	72,334	0	0	72,334
26	394.0	WW LABORATORY EQUIPMENT	14,963	817	(695)	15,085
	396.0	COMMUNICATION EQUIP		60,829	0	60,829
27		TOTAL TANGIBLE PROPERTY	<u>11,241,021</u>	<u>1,379,298</u>	<u>(31,818)</u>	<u>12,588,501</u>
28		TOTAL UTILITY PLANT IN SERVICE	<u>\$11,241,021</u>	<u>\$1,379,298</u>	<u>(\$31,818)</u>	<u>\$12,588,501</u>

PENNSYLVANIA AMERICAN WATER - CLARION 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 for sewer capacity.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-09	326,420
2	PLUS: PROJECTED CONTRIBUTIONS DURING 2010	33,640
	Sewer Capacity Mary Landi \$ 1,000 RI -10141330	
	Sewer Capacity Zofia Tynski 1,000 RI -10141324	
	Sewer Capacity Corecetti 4,000 RI -10141329	
	Sewer Capacity Guo Enterprises 1,000 RI -10141326	
	Sewer Capacity Clarion Hospital 24,000 Letter	
	Sewer Capacity NW Savings 2,440 RI -10142800	
	Sewer Capacity Rick Martin (Deposit) 200 RI -10142799	
	<u>\$ 33,640</u>	
3	CONTRIBUTIONS IN AID OF CONSTRUCTION AT 12-31-10	<u>(\$360,060)</u>

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER

NOTES TO RATE BASE ELEMENTS

MATERIALS AND SUPPLIES

CLARION WASTEWATER 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	923	
2	JANUARY, 2009	1,589	
3	FEBRUARY	1,832	
4	MARCH	1,299	
5	APRIL	1,521	
6	MAY	2,176	
7	JUNE	2,684	
8	JULY	2,386	
9	AUGUST	1,971	
10	SEPTEMBER	2,593	
11	OCTOBER	1,750	
12	NOVEMBER	2,805	
13	DECEMBER, 2009	1,629	
14	TOTAL	25,159	
15	AVERAGE		1,935
16	ALLOWANCE FOR MATERIALS AND SUPPLIES		
17	AT DECEMBER 31,2009		\$1,935

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	PRESENT RATES
			12/31/09 AMOUNT	12/31/10 AMOUNT
1	OPERATING REVENUE BILLED DURING THE TWELVE MONTHS ENDED 12/31/09			
2	BI-MONTHLY BILLINGS			
3	LAG DAYS			
4	DOLLAR DAYS			
5	QUARTERLY			
6	LAG DAYS			
7	DOLLAR DAYS			
8	MONTHLY BILLINGS	1,183,164	1,180,722	1,156,715
9	LAG DAYS	50.5	50.5	50.5
10	DOLLAR DAYS	59,749,782	59,626,461	58,414,108
11	TOTAL BILLED REVENUE	\$1,183,164	\$1,180,722	\$1,156,715
12	TOTAL DOLLAR DAYS	\$59,749,782	\$59,626,461	\$58,414,108
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	19.0	19.0	18.0
18	AVERAGE LAG BETWEEN PAYMENT OF OPERATING			
19	EXPENSES AND RECEIPT OF REVENUES	31.5	31.5	32.5
20	WORKING CAPITAL REQUIREMENTS			
21	ANNUAL OPERATING EXPENSES		\$651,980	\$599,748
22	OPERATING EXPENSES PER DAY			
23	(LINE 18 / 365 DAYS)		1,786	1,643
24	CASH WORKING CAPITAL REQUIRED			
25	(LINE 16 * LINE 20)		\$56,259	\$53,398

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$10,941	\$328,230	\$10,941	\$328,230	\$10,186	\$305,580
2	GROUP INSURANCE	-13.4	\$40,142	-\$537,903	\$40,142	-\$537,903	\$38,863	-\$520,764
3	LABOR AND LABOR RELATED	12.5	\$222,110	\$2,776,375	\$222,110	\$2,776,375	\$244,058	\$3,050,725
4	LEASED EQUIPMENT	2.0	\$124	\$248	\$124	\$248	\$124	\$248
5	TRANSPORTATION	29.1	\$7,696	\$223,954	\$7,696	\$223,954	\$4,271	\$124,286
6	MISCELLANEOUS	25.3	\$146,344	\$3,702,503	\$146,344	\$3,702,503	\$123,102	\$3,114,481
7	PURCHASED POWER	26.5	\$129,992	\$3,444,788	\$129,992	\$3,444,788	\$126,509	\$3,352,489
8	WASTE DISPOSAL	26.1	\$94,631	\$2,469,869	\$94,631	\$2,469,869	\$52,635	\$1,373,774
9	TOTALS		651,980	12,408,064	651,980	12,408,064	599,748	10,800,819
10	AVERAGE LAG			19.0		19.0		18.0

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$7,436	\$2,547	\$7,286	\$2,495	\$13,378	\$4,582
2 STATE INCOME TAX	21.8	8,495	507	0	0	93,533	5,586
3 FEDERAL INCOME TAX	-8.0	0	0	0	0	259,720	-5,692
4 TOTALS			<u>\$3,054</u>		<u>\$2,495</u>		<u>\$4,476</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF LAG DAYS FOR ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	TAX PERIOD		PAYMENTS 2009 TAX					TOTAL TAX LAG DAY
		BEGINNING	ENDING						
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	58.5

PENNSYLVANIA AMERICAN WATER - CLARION 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	<u>91.3</u>	<u>15.2</u>	<u>45.6</u>
4	AVERAGE LAG BETWEEN THE PAYMENT			
5	OF INTEREST AND THE RECEIPT			
6	OF REVENUES	-40.8	35.3	4.9
		PRESENT RATES	PRESENT RATES	PROPOSED
7	LONG TERM DEBT	12/31/09	12/31/10	AMOUNT
8	WORKING CAPITAL REQUIREMENTS			
9	PRO FORMA ANNUAL INTEREST EXPENSE	\$217,809	\$251,104	\$251,165
10	INTEREST EXPENSE PER DAY			
11	(LINE 9 / 365 DAYS)	<u>597</u>	<u>688</u>	<u>688</u>
12	CASH WORKING CAPITAL REQUIRED			
13	(LINE 6 COL.1 x LINE 10)		(24,358)	(28,070)
14	SHORT TERM DEBT			
15	WORKING CAPITAL REQUIREMENTS			
16	PRO FORMA ANNUAL INTEREST EXPENSE	99	0	0
17	INTEREST EXPENSE PER DAY			
18	(LINE 16 / 365 DAYS)	<u>0</u>	<u>0</u>	<u>0</u>
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	4,215	4,837	4,838
24	DIVIDEND EXPENSE PER DAY			
25	(LINE 23 / 365 DAYS)	<u>12</u>	<u>13</u>	<u>13</u>
26	CASH WORKING CAPITAL REQUIRED			
27	(LINE 6 COL.3 x LINE 24)	<u>59</u>	<u>64</u>	<u>64</u>
28	TOTAL CASH WORKING CAPITAL REQUIRED			
29	(LINE 13 + LINE 20 + LINE 27)	<u>(\$24,299)</u>	<u>(\$28,006)</u>	<u>(\$28,006)</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	10/08 - 12/10	\$6,850,944	\$235,892	\$362,897	-\$127,005	-\$44,451
2						<u>-44,451</u>
3	BALANCE OF DEFERRED INCOME TAXES AT 12-31-09					<u>(235,816)</u>
4	BALANCE OF DEFERRED INCOME TAXES AT 12-31-10					<u><u>(\$191,365)</u></u>

REFERENCE: SUPPORTING SCHEDULES
 WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	673	673	673
17	675.2	MISCELLANEOUS MAINTENANCE EXPENSE	0	0	0
18					
19		TOTAL SOURCE OF SUPPLY EXPENSES	673	673	673
20					
21		WASTEWATER TREATMENT			
22		-OPERATION-			
23	601.3	SALARY AND WAGES	194,138	194,138	212,682
24	601.4	SALARY AND WAGES	0	0	0
25	615.3	PURCHASED POWER	129,992	129,992	122,345
26	618.3	CHEMICALS	10,941	10,941	9,836
26	620.3	MATERIALS AND SUPPLIES	11,334	11,334	11,334
27	620.4	MATERIALS AND SUPPLIES	8,659	8,659	8,659
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	8,503	8,503	4,251
32	636.3	CONTRACT SERVICES	3,605	3,605	3,605
33	636.4	CONTRACT SERVICES	71,038	71,038	30,710
34	641.3	RENTAL OF BUILDING	0	0	0
35	642.3	RENTAL OF EQUIPMENT	124	124	124
36	650.3	TRANSPORTATION	0	0	0
37	650.4	TRANSPORTATION	0	0	0
38	675.4	MISCELLANEOUS MAINTENANCE EXPENSE	0	0	0
39		-MISCELLANEOUS-			
40	675.3	MISCELLANEOUS OPERATING EXPENSE	109,106	109,106	61,839
41					
42		TOTAL WASTEWATER TREATMENT EXPENSE	547,440	547,440	465,385
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	528	528	528
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	434	434	434

PENNSYLVANIA AMERICAN WATER - CLARION 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	808	808	808
2	636.6	CONTRACT SERVICES	5,036	5,036	3,072
3	675.6	MISCELLANEOUS MAINTENANCE EXPENSE	7,798	7,798	7,798
4					
5		TOTAL TRANSMISSION AND DISTRIBUTION	14,604	14,604	12,640
6					
7		CUSTOMER ACCOUNTING			
		-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	25,669	7,032	6,889
17		-MISCELLANEOUS-			
18	675.7	MISCELLANEOUS EXPENSE	0	0	0
19					
20		TOTAL CUSTOMER ACCOUNTING	25,669	7,032	6,889
21					
22					
23		ADMINISTRATIVE AND GENERAL			
24	601.8	SALARY AND WAGES	11,778	11,778	12,904
25	603.8	SALARY OF OFFICERS	0	0	0
26	604.8	EMPLOYEE PENSION AND BENEFITS	56,336	56,336	57,335
27	815.8	PURCHASED POWER	0	0	0
28	620.8	MATERIALS AND SUPPLIES	116	116	116
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	7,696	7,696	4,271
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	42,984
44	667.8	REGULATORY COMMISSION	0	0	0
45		-MISCELLANEOUS-			
46	675.8	MISCELLANEOUS EXPENSE	13,337	13,337	3,440
47					
48		TOTAL ADMINISTRATIVE AND GENERAL	89,263	89,263	121,050
49					
50					
51					
52		TOTAL OPERATING EXPENSES	677,649	659,012	606,637

PENNSYLVANIA AMERICAN WATER - CLARION 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		\$677,649		
2	PRESENT RATES AT 12-31-09				\$659,012
3	SALARIES AND WAGES	0		19,670	
4	GROUP INSURANCE	0		(1,279)	
5	401K & DEFINED CONTRIBUTION PLAN	0		2,278	
6	CHEMICALS	0		(755)	
7	PURCHASED POWER	0		(3,483)	
8	LEASED VEHICLES	0		(3,425)	
9	RATE CASE EXPENSE	0		42,984	
10	INFLATION	0		1,360	
11	ELIMINATED ITEMS	0		(60,041)	
12	WASTE DISPOSAL	0		(41,996)	
13	CHANGE IN CONSUMPTION	0		(7,545)	
14	UNCOLLECTABLES		<u>(18,637)</u>		<u>(143)</u>
15	PRO FORMA ADJUSTMENTS		<u>(18,637)</u>		<u>(52,375)</u>
16	PRESENT RATES 12-31-09		<u>\$659,012</u>		
17	PRESENT RATES 12-31-10				\$606,637

PENNSYLVANIA AMERICAN WATER - CLARION 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 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 12/31/2010 AMOUNT
1	ANNUALIZED SALARY AND WAGES	\$218,871
2	ANNUALIZED INCENTIVE PLAN (O & M EXPENSE)	6,715
3	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	<u>0</u>
4	SUB-TOTAL	225,586
5	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
6	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>205,916</u>
7	PRO FORMA ADJUSTMENT	<u><u>\$19,670</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	18,544
	601.4 SALARY AND WAGES - WATER TREATMENT	0
	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	1,126
	603.8 SALARY AND WAGES - SALARY OF OFFICERS	0

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED GROUP INSURANCE COST	\$38,863
2	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	0
3	SUB-TOTAL	38,863
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-09	40,142
5	PRO FORMA ADJUSTMENT	<u>(1,279)</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	(1,279)
	REFERENCE: SUPPORTING SCHEDULES	
	WITNESS: JOHN COX	

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$18,472
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>16,194</u>
4	PRO FORMA ADJUSTMENT	<u>\$2,278</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	\$2,278

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$10,186
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	10,941
4	PRO FORMA ADJUSTMENT	<u>(\$755)</u>
	618.3 CHEMICALS - WASTEWATER TREATMENT	(755)

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$126,509
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>\$129,992</u>
4	PRO FORMA ADJUSTMENT	<u>(\$3,483)</u>
	615.3 PURCHASED POWER	(\$3,483)

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

LEASED VEHICLES

Starting in 2010 the Company will begin purchasing vehicles utilized in its operations. The following adjustment reflects the elimination of lease expense for those vehicles to be replaced during 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED LEASED VEHICLES COST	\$0
2	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	0
3	SUB-TOTAL	0
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	3,425
6	PRO FORMA ADJUSTMENT	<u>(\$3,425)</u>
	650.8 A & G - MISCELLANEOUS GENERAL EXPENSE	(\$3,425)
	REFERENCE: SUPPORTING SCHEDULES	
	WITNESS: JOHN R. COX	

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$60,000
2	RATE OF RETURN	7,000
3	COST OF SERVICE AND RATE DESIGN	4,941
4	DEPRECIATION	6,750
5	MISCELLANEOUS	7,277
		<hr/>
7	TOTAL	85,968
8	NORMALIZED OVER 2 YEARS	42,984
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
10	DURING THE TWELVE MONTHS ENDED 12-31-09	0
		<hr/>
11	PRO FORMA ADJUSTMENT	\$42,984
		<hr/> <hr/>
	666.8 REGULATORY COMMISSION EXPENSE	\$42,984
	REFERENCE: SUPPORTING SCHEDULES	
	WITNESS: JOHN COX	

**PENNSYLVANIA AMERICAN WATER
CLARION 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 12/31/2009 AMOUNT
1	MEMBERSHIPS	(347)
2	FINES / PENALTIES	(11,150)
3	REFUND TAP IN FEE	(2,000)
4	DIGESTER CLEANING	(36,945)
5	MAINTENACE REPAIRS	(5,347)
6	LAB SUPPLIES	(4,252)
7	PRO FORMA ADJUSTMENT	<u>(60,041)</u>
	635.3 CONT SERV TESTING OPER WT	(4,252)
	636.4 CONT SERV OTHER MAINT WT	(40,328)
	636.6 CONT SERV OTHER MAINT TD	(1,964)
	675.3 MISC EXP OPER WT	(3,600)
	675.8 MISC EXPENSE AG	(9,897)
	TOTAL	(60,041)

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER
CLARION 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	\$677,649
2	LESS: ADJUSTMENTS	<u>586,951</u>
3	EXPENSES SUBJECT TO INFLATION	90,698
4	INFLATION FACTOR	<u>1.50%</u>
5	PRO FORMA ADJUSTMENT	<u>\$1,360</u>
	675.3 MISCELLANEOUS EXPENSE	\$1,360

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER
CLARION 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 December 31, 2010 to arrive at the pro forma level of expense.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED WASTE DISPOSAL COST	\$52,635
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	94,631
4	PRO FORMA ADJUSTMENT	<u>(\$41,996)</u>
	675.3 WASTE DISPOSAL EXPENSE - WW TREATMENT	(41,996)

REFERENCE: SUPPORTING SCHEDULE
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CHANGE IN USAGE

At various times during the historic and future test years, the Company experiences changes in usage due to net addition or loss of customers and other specific customer adjustments. This adjustment recognizes that changes in usage result in a change in expense. The calculation shown below reflects an estimate of the change in operating expenses that will be realized by these changes in usage.

LINE NO.	DESCRIPTION	PER BOOKS	PRESENT RATES 12/31/2010 AMOUNT
1	usage (00 GALLONS)	2,218,170	2,147,120
2	CHANGE IN USAGE		(71,050)
3	POWER COSTS	129,992	
4	CHEMICAL COSTS	10,941	
5	WASTE DISPOSAL	94,631	
6	TOTAL	235,564	
7	RATE OF PRODUCTION COSTS (00 GALLONS)		0.106
8	PRO FORMA ADJUSTMENT		(\$7,545)
	615.3 PURCHASED POWER		(\$4,164)
	618.3 CHEMICALS - WASTEWATER TREATMENT		(\$350)
	675.3 WASTE DISPOSAL EXPENSE - WW TREATMENT		(\$3,031)

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$1,183,164	\$1,180,722	\$1,156,715	\$2,123,818
2	2009 RATIO	0.005955655	0.005955655	0.005955655	0.005955655
3	ANNUALIZED UNCOLLECTABLE EXPENSE		\$7,032	\$6,889	\$12,649
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE				
5	DURING THE TWELVE MONTHS ENDED 12-31-09		25,669	-	-
6	LESS: PRESENT RATES AT 12-31-09		-	7,032	-
7	LESS: PRESENT RATES AT 12-31-10		-	-	6,889
8	PRO FORMA ADJUSTMENT		(18,637)	-\$143	\$5,760
670.7	CUSTOMER ACCOUNTING AND COLLECTING - BAD DEBT		(18,637)	-\$143	\$5,760

WITNESS: JOHN COX
REFERENCE: EXHIBIT 3-B

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$397,140
2	PER BOOKS AT 12/31/09	<u>209,130</u>
3	PRO FORMA ADJUSTMENT	<u>\$188,010</u>
	403 DEPRECIATION	\$188,010

REFERENCE: DEPRECIATION EXHIBIT
WITNESS: JOHN J SPANOS

PENNSYLVANIA-AMERICAN WATER COMPANY - CLARION 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	\$18,299
2	LESS: 0.00% NOT CHARGED TO OPERATING EXPENSE	0
3	SUB-TOTAL	\$18,299
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	\$15,301
6	PRO FORMA ADJUSTMENT	<u>\$2,998</u>
7	408.12 - TAXES - PAYROLL	\$2,998

REFERENCE: SUPPORTING SCHEDULES
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$1,180,722	\$1,156,715	\$2,123,818
2	ESTIMATED GENERAL ASSESSMENT BY THE PENNSYLVANIA			
3	PUBLIC UTILITY COMMISSION AT .004777980298			
4	PER DOLLAR OF TOTAL WASTEWATER SALES SUBJECT TO TAX	5,641	5,527	10,148
5	CONSUMER ADVOCATE FEE AT .001388377500			
6	PER DOLLAR OF TOTAL WASTEWATER SALES	1,639	1,606	2,949
7	SMALL BUSINESS ADVOCATE FEE AT .000132518596			
8	PER DOLLAR OF TOTAL WASTEWATER SALES	156	153	281
		7,436	7,286	13,378
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSES DURING			
10	THE TWELVE MONTHS ENDED 12-31-09	5,410	-	-
11	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-09	-	7,436	-
12	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-10	-	-	7,286
13	PRO FORMA ADJUSTMENT	\$2,026	-\$150	\$6,092
	507.1 TAXES OTHER THAN INCOME			\$7,968
	WITNESS: JOHN COX			

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$8,495	\$0	\$93,533
3	LESS: STATE INCOME TAX PER BOOK			
4	COMPUTATION SHOWN ON FOLLOWING PAGE	7,080	-	-
5	LESS: PRESENT RATES 12-31-09	-	8,495	-
6	LESS: PRESENT RATES 12-31-10	-	-	0
7	PRO FORMA ADJUSTMENT	\$1,415	(\$8,495)	\$93,533
8	FEDERAL INCOME TAX PER COMPUTATION			
9	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$259,720
10	LESS: FEDERAL INCOME TAX PER BOOK			
11	COMPUTATION SHOWN ON FOLLOWING PAGE	18,609	-	-
12	LESS: PRESENT RATES 12-31-09	-	0	-
13	LESS: PRESENT RATES 12-31-10	-	-	0
14	PRO FORMA ADJUSTMENT	(\$18,609)	\$0	\$259,720

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$277,770	\$219,981	\$129,403	\$1,086,368
2	LESS: INTEREST EXPENSE	217,908	217,908	251,104	251,165
3	TAXABLE OPERATING INCOME	59,862	2,073	-121,701	835,203
4	ADD:				
5	PREMATURE PROPERTY LOSSES	0	0	0	0
6	DEPR - STRAIGHT LINE-REMAINING LIFE	209,130	281,084	397,140	397,140
7	TAXABLE MEALS & ENTERTAINMENT	386	386	386	386
8	TOTAL	209,516	281,470	397,526	397,526
9	DEDUCT:				
10	TAX DEPRECIATION:				
11	ADR ON PRE 1981 ASSETS	0	0	0	0
12	ACRS ON POST 1980 ASSETS	0	0	0	0
13	MACRS ON POST 1986 ASSETS	198,512	198,512	262,222	262,222
14	COST OF REMOVAL	0	0	34,243	34,243
15	TOTAL	198,512	198,512	296,465	296,465
16	TAXABLE INCOME (IF NEGATIVE USE ZERO)	70,866	85,031	0	936,264
17	STATE INCOME TAX AT:				
18	HISTORIC - 9.99%, FUTURE - 9.99%	7,080	8,495	0	93,533
19	TAXABLE INCOME AFTER STATE INCOME TAX	63,786	76,536	0	842,731
20	ADD:				
21	COST OF REMOVAL NON ADR PROPERTY	0	0	34,243	34,243
22	ACRS ON POST 1980 ASSETS	0	0	0	0
23	MACRS ON POST 1986 ASSETS	198,512	198,512	262,222	262,222
24	DEDUCT:				
25	SLRL ON POST 1980 ASSETS	209,130	281,084	397,140	397,140
26	INCOME SUBJECT TO FEDERAL INCOME TAX (IF NEGATIVE USE 0)	53,168	0	0	742,056
27	FEDERAL INCOME TAX AT 35%	\$18,609	\$0	\$0	\$259,720
28	FEDERAL TAX LIABILITY	\$18,609	\$0	\$0	\$259,720

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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	\$217,809	\$251,104	\$251,165
3 LESS: INTEREST ON LONG TERM DEBT AS PER BOOK 4 COMPUTATION ON FOLLOWING PAGE	217,809	-	-
5 LESS: PRESENT RATES AT 12-31-09	-	217,809	-
6 LESS: PRESENT RATES AT 12-31-10	-	-	251,104
7 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>\$33,295</u>	<u>\$61</u>
8 INTEREST ON SHORT TERM DEBT PER COMPUTATION 9 SHOWN ON FOLLOWING PAGE	\$99	\$0	\$0
10 LESS: INTEREST ON SHORT TERM DEBT AS PER BOOK 11 COMPUTATION ON FOLLOWING PAGE	99	-	-
12 LESS: PRESENT RATES AT 12-31-09	-	99	-
13 LESS: PRESENT RATES AT 12-31-10	-	-	0
14 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>(\$99)</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - CLARION 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		
	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	\$7,023,264	\$8,283,625	\$8,285,606
10 DEBT PERCENTAGE (FROM ABOVE)	49.62%	49.21%	49.21%
11 DEBT PORTION OF RATE BASE	3,484,944	4,076,372	4,077,347
12 INTEREST COST (FROM ABOVE)	6.25%	6.16%	6.16%
13 PRO FORMA LONG TERM INTEREST DEDUCTION	<u>\$217,809</u>	<u>\$251,104</u>	<u>\$251,165</u>
14 APPLICATION OF SHORT TERM DEBT INTEREST:			
15 ORIGINAL COST RATE BASE	\$7,023,264	\$8,283,625	\$8,285,606
16 DEBT PERCENTAGE (FROM ABOVE)	0.39%	0.00%	0.00%
17 DEBT PORTION OF RATE BASE	27,391	0	0
18 INTEREST COST (FROM ABOVE)	0.36%	0.00%	0.00%
19 PRO FORMA SHORT TERM INTEREST DEDUCTION	<u>\$99</u>	<u>\$0</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS