

III. OPERATING EXPENSE

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

FR III.1

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

1. Prepare a summary of operating expenses by operating expense account for the historic test year and the two years proceeding the test year.

Answer: See attached schedule.

PENNSYLVANIA-AMERICAN WATER COMPANY
NORTHEAST WASTEWATER OPERATIONS
NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PREVIOUS YEAR ENDING 12/31/07	PREVIOUS YEAR ENDING 12/31/08	HISTORIC TEST YEAR ENDING 12/31/09
1		SOURCE OF SUPPLY EXPENSES			
2		-OPERATIONS-			
3	601.1	SALARY AND WAGES	\$3,002	\$0	\$0
4	601.2	SALARY AND WAGES	\$1,624	\$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	\$1,396	\$968	\$726
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	\$1,980	\$3,925	\$1,038
17	675.2	MISCELLANEOUS MAINTENANCE EXPENSE	\$499	\$1,028	\$992
18					
19		TOTAL SOURCE OF SUPPLY EXPENSES	8,501	5,921	2,756
20					
21		WATER TREATMENT			
22		-OPERATION-			
23	601.3	SALARY AND WAGES	\$90,086	\$132,208	\$155,854
24	601.4	SALARY AND WAGES	\$6,889	\$1,077	\$157
25	615.3	PURCHASED POWER	\$177,709	\$159,606	\$118,771
26	618.3	CHEMICALS	\$10,637	\$13,070	\$21,375
26	620.3	MATERIALS AND SUPPLIES	\$0	\$0	\$0
27	620.4	MATERIALS AND SUPPLIES	\$2,790	\$3,270	\$2,590
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	\$13,895	\$16,453	\$15,870
32	636.3	CONTRACT SERVICES	(\$2,587)	(\$3,005)	\$0
33	636.4	CONTRACT SERVICES	\$0	\$0	\$0
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	\$15,276	\$10,223	\$14,685
39		-MISCELLANEOUS-	\$0	\$0	\$0
40	675.3	MISCELLANEOUS OPERATING EXPENSE	\$153,804	\$175,934	\$202,616
41					
42		TOTAL WATER TREATMENT EXPENSE	468,499	508,836	531,918
43					
44					
45		TRANSMISSION AND DISTRIBUTION			
46		-OPERATION-			
47	601.5	SALARY AND WAGES	\$16	\$0	\$0
48	601.6	SALARY AND WAGES	\$3,863	\$5,489	\$6,346
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	\$1,362	\$258	\$0

PENNSYLVANIA-AMERICAN WATER COMPANY
 NORTHEAST WASTEWATER OPERATIONS
 NOTES TO STATEMENT OF INCOME

FR III.1

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PREVIOUS YEAR ENDING 12/31/07	PREVIOUS YEAR ENDING 12/31/08	HISTORIC TEST YEAR ENDING 12/31/09
		-MAINTENANCE-			
1	620.6	MATERIALS AND SUPPLIES	\$3,369	\$3,088	\$3,347
2	636.6	CONTRACT SERVICES	\$0	\$1,325	\$0
3	675.6	MISCELLANEOUS MAINTENANCE EXPENSE	\$13,912	\$8,878	\$26,750
4					
5		TOTAL TRANSMISSION AND DISTRIBUTION	22,522	19,038	36,443
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	\$35,653	\$24,443	\$45,297
17		-MISCELLANEOUS-	\$0	\$0	\$0
18	675.7	MISCELLANEOUS EXPENSE	\$3,166	\$6,316	\$2,741
19					
20		TOTAL CUSTOMER ACCOUNTING	38,819	30,759	48,038
21					
22					
23		ADMINISTRATIVE AND GENERAL			
24	601.8	SALARY AND WAGES	\$22,005	\$46,192	\$55,853
25	603.8	SALARY OF OFFICERS	\$0	\$0	\$0
26	604.8	EMPLOYEE PENSION AND BENEFITS	\$5,735	\$8,606	\$10,992
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	\$11,373	\$19,709	\$26,201
38	656.8	INSURANCE - VEHICLES	\$0	\$0	\$0
39	657.8	INSURANCE	\$34,113	\$38,506	\$38,180
40	658.8	WORKERS COMPENSATION	(\$27)	\$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	\$0
44	667.8	REGULATORY COMMISSION	\$0	\$0	\$0
45		-MISCELLANEOUS-	\$0	\$0	\$0
46	675.8	MISCELLANEOUS EXPENSE	\$3,131	\$2,575	\$3,542
47					
48		TOTAL ADMINISTRATIVE AND GENERAL	76,330	115,588	134,768
49					
50					
51					
52		TOTAL OPERATING EXPENSES	614,671	680,142	753,923

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

FR III.2

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

2. Prepare a summary of operating expenses for the historic test year providing annualizing and normalizing adjustments to arrive at adjusted future operating expenses for ratemaking, including supporting data.

Answer: Please refer to the Summary of Expense Accounts in Exhibit 3-A. Details of the Expense Accounts are provided in Exhibit 3-B.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Extraordinary Property Losses

FR III.3

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

3. List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization. Sufficient supporting data must be provided, such as explanation and breakdown of costs.

Answer: Northeast Wastewater Operations has incurred no extraordinary property losses.

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

FR III.4

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

4. Supply detailed calculations of normalization of rate case expense, including supporting data for outside services rendered. Provide the items comprising the rate case expense claim (include the actual billings or invoices in support of each kind of rate case expense) and the items comprising the actual expenses of the prior rate cases.

Answer: Please see 3-A Rate Case Adjustment. The company has no prior rate cases for Northeast Wastewater Operations.

Pennsylvania-American Water Company
Northeast Wastewater Operation
Data Requirements of the Pennsylvania Public Utility Commission
Salary, Wage, Fringe Benefit Adjustments (HTY and Future)

FR III.5

Pennsylvania-American Water Company
Northeast Wastewater Operation
III. Operating Expense

5. Submit detailed computation of adjustments to operating expenses for salary, wage and fringe benefit increases (union and non-union merit, progression, promotion and general) granted during the historic test year and during the 12 months subsequent to the historic test year. Supply data for the historic test year showing:
 - a. Actual payroll expense (regular and overtime separately) by categories of operating expenses, i.e., maintenance, operating transmission, distribution, other.
 - b. Date, percentage increase and annual amount of each general payroll increase during the historic test year and future test year.
 - c. Dates and annual amounts of merit increases or management salary adjustments.
 - d. Total annual payroll increases in the historic and future test years.
 - e. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data by categories of expenses.
 - f. Detailed list of employee benefits and cost thereof for union and non-union personnel. Specific benefits for executives and officers should be included, and costs thereof.
 - g. Support the annualized pension cost figures by providing the following:
 - (i) State whether these figures include any unfunded pension costs. Explain.
 - (ii) Provide latest actuarial study used for determining pension accrual rates.
 - h. Submit a schedule showing any deferred income and consultant fee, paid to both corporate officers and employees, in historic and future test years.

Answer:

- a-e. Please refer to the testimony of Daniel Hunnell and Exhibit No. 3-B.
- f. Please see attached.
- g. None
- h. None



AMERICAN WATER

AMERICAN WATER
SUMMARY OF FULL TIME UNION BENEFITS EFFECTIVE JANUARY 1, 2010
FOR EMPLOYEES HIRED ON OR AFTER 1/1/06
BENEFITS AT A GLANCE

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Preferred Provider Organization (PPO) Medical Plan Standard Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Plan typically pays 80% of covered expenses after coinsurance and deductible. Annual deductible Single/Family: \$1,000/\$3,000 Out of pocket: \$3,500/\$10,500 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single: \$60 Family: \$126
Preferred Provider Organization (PPO) Medical Plan Premium Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Plan typically pays 100% of covered expenses after co-payment. No annual deductible Out of pocket \$1,000/\$3,000 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single: \$77 Family: \$160
Exclusive Provider Organization (EPO)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	The EPO Plan includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount. <u>There are no out-of-network benefits under this plan.</u> No Annual Deductible Lifetime Maximum: unlimited	Single: \$83 Family: \$168
EyeMed Vision Plan This plan is bundled with the dental plan. You cannot choose vision and dental separately.	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	The Plan covers exams at 100% after \$15 copay Frames – In Network: 100% after \$50 copay Standard plastic lenses – In Network: covered after \$35 copay single lenses; all others \$50 copay Contact Lenses: In Network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C. Out-of-Network benefits are available. Plan pays less for these benefits. Frequency for frames, lenses and contacts: Once every 24 months	Included in the Medical Plan
Prescription Drug Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Two ways to buy: Retail (for acute medication): 10%-Generic Drugs 20%-Preferred Brand Name Drugs 20%-Non-Preferred Brand Name Drugs Mail Order (for maintenance or chronic conditions): Generic-\$14 Preferred Brand-\$30 Non-Preferred Brand: \$70	Included in the Horizon Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Flexible Spending Accounts (Pre-Tax Savings Accounts)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Health Care Savings Account: Set aside to pay for health services not covered by health plan such as: - Deductibles - Co-payments - Hearing aids - Routine physicals - Psychiatric treatment Annual amount that may be contributed: Minimum: \$120; Maximum: \$2,500 Use it or lose it Dependent Care Spending Account: Set aside to pay for dependent care expenses for working parent such as: - wages paid to babysitter or companion (expenses not covered if care is provided by someone claimed as a dependent) - Nursery school/day care center costs - Wages paid to a housekeeper for providing care for an eligible dependent (dependent child under 13) or any dependent who is physically or mentally incapable of self care - Annual amount that may be contributed is \$5,000 (\$2,500 if married and file separately) Use it or lose it	Voluntary Contribution
Group Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Basic life insurance equal to 1.25 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Accident Death & Dismemberment: Provides a benefit up to \$10,000. Travel Accident Insurance while on company business: - Salary over \$40,000: \$500,000 - Salary under \$40,000: \$400,000 - Spouse: \$250,000	None
Voluntary Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Voluntary Life Insurance is in addition to the company-paid Basic Life Insurance. You may purchase up to the lesser of either \$300,000 or 3 times your salary in coverage without having to provide evidence of good health, provided you enroll on a timely basis. Your choices are: - VL of 1 x base pay - VL of 2 x base pay - VL of 3 x base pay	Monthly contribution based on age.
Voluntary Dependent Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	VDL covers eligible dependents. You will be the beneficiary of the Dependent Term Life coverage you elect. The plan offers \$20,000 coverage for spouse; and \$10,000 coverage for each dependent child.	Voluntary Contribution \$5.00/mo. for spouse \$1.20/mo. for all children
Employee Assistance Plan (EAP)	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	Provides employee and each eligible dependent with up to six sessions per issue, per calendar year, for evaluation, short-term counseling and/or referral for behavioral health care issues at no cost, as well as legal, elder care and child care referral assistance.	None

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Short Term Disability	Benefits will start the first of the following month after one full month of service has been completed. (i.e., Start Date: 1/21/10. Benefits Eligibility: 3/1/10) <u>OR</u> As stated in your union contract.	STD benefit of \$340 per week for up to 52 weeks (rolling 12 months) for extended illness or injury. *This STD Benefit does not apply to St. Louis, MO UWUA Local 335	None
401(k)	Employees are eligible to participate as soon as possible after date of hire. Record Keeper/Trustee – Merrill Lynch	<ul style="list-style-type: none"> - A retirement and savings plan that allows you to save on a pre-tax basis. - Company matches 100% for every dollar you contribute during each pay period up to the first 3% of your base pay, and a 50% matching contribution on the next 2% of your base income you contribute during each pay period. - Company matching contributions will be invested in the same funds as you direct your employee contributions. - You may contribute up to 20% of your eligible compensation not exceeding IRS limits. - All contributions, earnings and dividends accumulate tax-free until you withdraw, usually at age 59 1/2 or when you retire. - Company matching contributions vest immediately. - There are eleven investment options. - If you need money before you retire, there are special provisions for loans or hardship withdrawals. - If you are age 50 or older, you will be able to make an additional "catch-up" contribution of \$5,500 to the plan in 2010. This means that if you are age 50 or older in 2010, you may be able to contribute up to \$22,000 (the \$16,500 IRS limit plus the \$5,500 catch-up contribution) to the Plan on a pre-tax basis in 2010. Matching contributions are not made on catch-up contributions. You may elect a pre-tax "catch-up" deferral rate of 1-20% of your eligible compensation up to the \$5,500 limit. For your contribution to be classified as "catch-up" contributions, you must have either a contribution equal to the plan maximum limit of 20% or actual pre-tax contributions of \$16,500 for 2010. At the end of the year, if your pre-tax contributions do not meet these requirements, the "catch-up" contributions (to the extent necessary) will automatically be re-characterized as regular pre-tax contributions in the Plan. If contributions are reclassified, they are not subject to receive a company match. 	Voluntary Contribution up to 20% of your eligible compensation not to exceed IRS limit of \$16,500 in 2010 Catch Up Contributions up to \$5,500 in 2010

Benefits	When You Are Eligible	What You Receive	Monthly Cost To Employee
Defined Contribution Account (This is part of the above 401(k) Plan)	Immediately Record Keeper/Trustee - Merrill Lynch	American Water will contribute 5.25% of your base pay into your account following each pay period. Just like the 401(k) plan, you manage the investment options of your account. You are fully vested in your account balance after one year of service. These contributions will be made as a separate segment within your 401(k) Savings Plan. Different provisions apply to this segment of your 401(k) Plan (i.e. no loans/hardships).	Contributions not to exceed IRS limit of \$12,862.50 in 2010.
Vacation	As stated in union contract.		None
Holidays	As stated in union contract.		None
Educational Assistance	Employees may take advantage of this benefit for eligible courses in which they enroll after their date of hire.	- Financial Assistance of 100% for tuition, registration and required fees. - Books, equipment, travel, parking, late registration and insurance are the responsibility of the employee (Graduate level course work may be taxable income). Limits include: - \$5,250.00 per year - Up to six credit hours per semester or six actual class hours if credits are not awarded - Proof of grade of C or better must be submitted at the completion of each course. Failure to submit transcript will exclude employee from future participation in the Plan.	None
*Retiree Medical Reimbursement Account	Immediately	Employees hired on or after 01-01-06 will receive a \$500 per year contribution by American Water to help pay for retiree medical expenses – you do not need to contribute anything. Once you retire, you can use your account to help pay for retiree medical expenses. If you leave the company prior to retirement, funds in this account will be forfeited.	None

These sheets provide a brief description of your benefits under each plan. Should there be a conflict between the benefits described on these sheets and those described in the legal plan documents, the terms of the legal documents will be used to determine coverage and benefits.

American Water reserves the right to amend or otherwise change the benefits contained in the Summary Plan Description at any time for any reason or, if applicable, subject to collective bargaining agreements.

*This benefit does not apply to employees in these Union locations: Alton Call Center and Pensacola Call Center.

Revised: 11/17/09



AMERICAN WATER

AMERICAN WATER

SUMMARY OF FULL TIME NON-UNION BENEFITS EFFECTIVE JANUARY 1, 2010 FOR EMPLOYEES HIRED ON OR AFTER 1/1/06 AND EMPLOYEES TRANSFERRED FROM NON-REGULATED COMPANIES TO REGULATED COMPANIES ON OR AFTER 1/1/06 BENEFITS AT A GLANCE

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Preferred Provider Organization (PPO) Medical Plan Standard Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Plan typically pays 80% of covered expenses after coinsurance and deductible. Annual deductible Single/Family: \$1,000/\$3,000 Out of pocket: \$3,500/\$10,500 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$60 Employee & Spouse \$140 Employee & Child(ren) \$129 Family \$148
Preferred Provider Organization (PPO) Medical Plan Premium Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Plan typically pays 100% of covered expenses after co-payment. No annual deductible Out of pocket \$1,000/\$3,000 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$69 Employee & Spouse \$159 Employee & Child(ren) \$147 Family \$178
Exclusive Provider Organization (EPO)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	The EPO Plan includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount. <u>There are no out-of-network benefits under this plan.</u> No Annual Deductible Lifetime Maximum: unlimited	Single \$69 Employee & Spouse \$158 Employee & Child(ren) \$146 Family \$182
EyeMed Vision Plan This plan is bundled with the dental plan.	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	The Plan covers exams at 100% after \$15 copay Frames – In Network: 100% after \$50 copay Standard plastic lenses – In Network: covered after \$35 copay single lenses; all others \$50 copay Contact Lenses: In Network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C. Out-of-Network benefits are available. Plan pays less for these benefits. Frequency for frames, lenses, contacts and exams: Once every 24 months	Included in the Medical Plan
Prescription Drug Plan	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Two ways to buy: Retail (for acute medication): 10% - Generic Drugs 20% - Preferred Brand Name Drugs 20% - Non-Preferred Brand Name Drugs Mail Order (for maintenance or chronic conditions): Generic - \$14 Preferred Brand - \$30 Non-Preferred Brand - \$70	Included in the Horizon Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Flexible Spending Accounts (Pre-Tax Savings Accounts)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Health Care Savings Account: Set aside to pay for health services not covered by health plan such as: - Deductibles - Co-payments - Hearing aids - Routine physicals - Psychiatric treatment Annual amount that may be contributed: Minimum: \$120; Maximum: \$3,000 Use it or lose it Dependent Care Spending Account: Set aside to pay for dependent care expenses for working parent such as: - Wages paid to babysitter or companion (expenses not covered if care is provided by someone claimed as a dependent) - Nursery school/day care center costs - Wages paid to a housekeeper for providing care for an eligible dependent (dependent child under 13) or any dependent who is physically or mentally incapable of self care - Annual amount that may be contributed is \$5,000 (\$2,500 if married and file separately) Use it or lose it	Voluntary Contribution
Group Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Basic life insurance equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Accident Death & Dismemberment: equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Travel Accident Insurance while on company business: - Salary over \$40,000: \$500,000 - Salary under \$40,000: \$400,000 - Spouse: \$250,000	None
Voluntary Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Voluntary Life Insurance is in addition to the company-paid Basic Life Insurance. You may purchase up to the lesser of either \$300,000 or 3 times your salary in coverage without having to provide evidence of good health, provided you enroll on a timely basis. Your choices are: - VL of 1 x base pay - VL of 2 x base pay - VL of 3 x base pay	Monthly Contribution based on age.
Voluntary Dependent Term Life Insurance	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	VDL covers eligible dependents. You will be the beneficiary of the Dependent Term Life coverage you elect. The plan offers \$20,000 coverage for spouse; and \$10,000 coverage for each dependent child.	Voluntary Contribution \$5.00/mo. for spouse \$1.20/mo. for all children
Employee Assistance Plan (EAP)	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	Provides employee and each eligible dependent with up to six sessions per issue, per calendar year, for evaluation, short-term counseling and/or referral for behavioral health care issues at no cost, as well as legal, elder care and child care referral assistance.	None

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Short Term Disability	Benefits will start the first of the following month after one full month of service has been completed. (i.e. Start Date: 1/21/10. Benefits Eligibility: 3/1/10)	You are eligible for 2 weeks of sick leave at full pay each year. If you are still disabled after 2 weeks, you will receive 75% of your base pay for an additional 24 weeks through the STD benefit.	None
Long Term Disability	Qualifying Period: Six months	<ul style="list-style-type: none"> - Provides 60% of base monthly income (not to exceed \$15,000) replacement if employee becomes disabled due to illness or accident - Offsets for other income benefits such as social security disability, income from any employer or any employment & disability, retirement, pension or annuity benefits from any group insurance or pension plan (including American Water), membership or association with any group association, union or other organization. 	None
401(k)	<p>Employees are eligible to participate as soon as possible after date of hire.</p> <p>Record Keeper/Trustee – Merrill Lynch</p>	<ul style="list-style-type: none"> - A retirement and savings plan that allows you to save on a pre-tax basis. - Company matches 100% for every dollar you contribute during each pay period up to the first 3% of your total pay, and a 50% matching contribution on the next 2% of your total income you contribute during each pay period. - Company matching contributions will be invested in the same funds as you direct your employee contributions. - You may contribute up to 20% of your eligible compensation not exceeding IRS limits. - All contributions, earnings and dividends accumulate tax-free until you withdraw, usually at age 59 1/2 or when you retire. - Company matching contributions vest immediately. - There are eleven investment options. - If you need money before you retire, there are special provisions for loans or hardship withdrawals. - If you are age 50 or older, you will be able to make an additional “catch-up” contribution of \$5,500 to the plan in 2010. This means that if you are age 50 or older in 2010, you may be able to contribute up to \$22,000 (the \$16,500 IRS limit plus the \$5,500 catch-up contribution) to the Plan on a pre-tax basis in 2010. Matching contributions are not made on catch-up contributions. You may elect a pre-tax “catch-up” deferral rate of 1-20% of your eligible compensation up to the \$5,500 limit. 	<p>Voluntary Contribution up to 20% of your eligible compensation not to exceed IRS limit of \$16,500 in 2010</p> <p>Catch Up Contributions Voluntary contribution up to \$5,500 in 2010</p>

Benefits	When You Are Eligible	What You Receive	Monthly Cost To Employee
401 (k) (continued)		<ul style="list-style-type: none"> - For your contribution to be classified as "catch-up" contributions, you must have either a contribution equal to the plan maximum limit of 20% or actual pre-tax contributions of \$16,500 for 2010. At the end of the year, if your pre-tax contributions do not meet these requirements, the "catch-up" contributions (to the extent necessary) will automatically be re-characterized as regular pre-tax contributions in the Plan. If contributions are reclassified, they are not subject to receive a company match. 	
Defined Contribution Account (This is part of the above 401(k) Plan)	Immediately Record Keeper/Trustee – Merrill Lynch	American Water will contribute 5.25% of your base pay into your account following each pay period. Just like the 401(k) plan, you manage the investment options of your account. You will be able to select the investment option that best meets your investment goals. You are fully vested in your account balance after one year of service. These contributions will be made as a separate segment within your 401(k) Savings Plan. Different provisions apply to this segment of your 401(k) Plan (i.e. no loans/hardships).	Contribution not to exceed IRS limit of \$12,862.50 in 2010
Employee Stock Purchase Plan (ESPP)	Employees are eligible to participate as soon as possible after date of hire. Recordkeeper – E*TRADE	<ul style="list-style-type: none"> - Ability to purchase shares of American Water Common Stock at a 10% discount off the New York Stock Exchange price. - You can contribute up to 10% of your base wages during each pay period on an after-tax basis via payroll deduction. - Enrollment is quarterly. - Vesting is immediate. - Shares are purchased quarterly. - The discount on the purchase price of the shares is taxable at the time of purchase through payroll. - Six-month holding period required before shares can be sold or transferred from your E*TRADE ESPP account. - Quarterly dividends are paid in cash to your E*TRADE brokerage account. 	<ul style="list-style-type: none"> - Voluntary contributions up to 10% of your eligible compensation not to exceed \$25,000 per year. For additional information, refer to your ESPP Brochure, ESPP Prospectus and New Hire Guide.
Vacation	Based on policy.		None
Holidays	Based on policy.		None
Educational Assistance	Employees may take advantage of this benefit for eligible courses in which they enroll after their date of hire.	<ul style="list-style-type: none"> - Financial Assistance of 100% for tuition, registration and required fees. - Books, equipment, travel, parking, late registration and insurance are the responsibility of the employee (Graduate level course work may be taxable income). Limits include: <ul style="list-style-type: none"> - \$5,250.00 per year - Up to six credit hours per semester or six actual class hours if credits are not awarded - Proof of grade of C or better must be submitted at the completion of each course. Failure to submit transcript will exclude employee from future participation in the Plan. 	None

These sheets provide a brief description of your benefits under each plan. Should there be a conflict between the benefits described on these sheets and those described in the legal plan documents, the terms of the legal documents will be used to determine coverage and benefits.

American Water reserves the right to amend or otherwise change the benefits contained in the Summary Plan Description.

Revised: 11/17/09



AMERICAN WATER

AMERICAN WATER
SUMMARY OF FULL TIME NON-UNION BENEFITS EFFECTIVE JANUARY 1, 2010
FOR REGULATED UNION EMPLOYEES HIRED BEFORE 1/1/01
AND WHO TRANSFER TO A REGULATED NON-UNION POSITION
OR FOR ALTON/PENSACOLA UNION EMPLOYEES HIRED BEFORE 1/1/06
WHO TRANSFER TO A REGULATED NON-UNION POSITION
Benefit Group AMERST

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Preferred Provider Organization (PPO) Medical Plan Standard Plan	Immediate	Plan typically pays 80% of covered expenses after coinsurance and deductible. Annual deductible Single/Family: \$1,000/\$3,000 Out of pocket: \$3,500/\$10,500 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$60 Employee & Spouse \$140 Employee & Child(ren) \$129 Family \$148
Preferred Provider Organization (PPO) Medical Plan Premium Plan	Immediate	Plan typically pays 100% of covered expenses after co-payment. No annual deductible Out of pocket \$1,000/\$3,000 Lifetime Maximum: unlimited Plan provides for preventive care services and encourages use of cost effective network providers; therefore, plan pays less for out of network services.	Single \$69 Employee & Spouse: \$159 Employee & Child(ren) \$147 Family \$178
Exclusive Provider Organization (EPO)	Immediate	The EPO Plan includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount. <u>There are no out-of-network benefits under this plan.</u> No Annual Deductible Lifetime Maximum: unlimited	Single \$69 Employee & Spouse: \$158 Employee & Child(ren) \$146 Family \$182
EyeMed Vision Plan This plan is bundled with the dental plan. You cannot choose vision and dental separately.	Immediate	The Plan covers exams at 100% after \$15 copay Frames – In Network: 100% after \$50 copay Standard plastic lenses – In Network: covered after \$35 copay single lenses; all others \$50 copay. Contact Lenses: In Network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C. Out-of-Network benefits are available. Plan pays less for these benefits. Frequency for frames, lenses, contacts and exams: Once every 24 months	Included in the Horizon Medical Plan

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Prescription Drug Plan	Immediate	Two ways to buy: Retail (for acute medication): 10%-Generic Drugs 20%-Preferred Brand Name Drugs 20%-Non-Preferred Brand Name Drugs Mail Order (for maintenance or chronic conditions): Generic-\$14 Preferred Brand-\$30 Non-Preferred Brand: \$70	Included in the Horizon Medical Plans
Wellness and Discount Program	Immediate	Just present your Horizon BCBSNJ ID card at these select businesses or mention that you are a Horizon BCBSNJ member when calling. For more information and easy online ordering, visit www.horizonblue.com/nationalaccounts <ul style="list-style-type: none"> • Discounts on chiropractic, acupuncture, massage therapy, nutrition counseling and vitamins through our Horizon Alternative Therapies Program. • Discounts on eye examinations, lenses, eyeglass frames and laser vision correction services at participating Cole Vision-affiliated outlets (located in the optical departments in such stores as Sears, JCPenney, Target and Pearle Vision Centers, as well as in many independent optometrist and ophthalmologist offices) and at Davis Vision providers. • Discounts on health club memberships, bicycle and in-line skating helmets, vacation packages and more. 	Included in the Horizon Medical Plans
Medical/Dental and Vision Opt-out Option	Immediate	Medical and Dental/Vision Plan Choices Dental/Vision PPO only: Single: (\$81) credit Employee & Spouse: (\$65) credit Employee & Child(ren): (\$65) credit Family: (\$65) credit Medical and Dental/Vision Opt-out Option Single: (\$100) credit Employee & Spouse: (\$100) credit Employee & Child(ren): (\$100) credit Family: (\$100) credit Please note: You must have equivalent medical coverage under another medical plan if you elect the medical opt-out option.	
Dental Plan Dental Standard PPO Plan which is included with the Standard PPO Medical Plan.	Immediate	Annual deductible: Individual - \$100 Family - \$200 Preventive Care: 80% of covered expenses after deductible (x-rays, cleanings and exam). Other covered services at 50% after deductible for major and basic services. Maximum calendar year benefit is \$1,000 Orthodontia: Not covered	Included as part of the Medical Plans

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Dental Plan Premium PPO Plan which is included with the Premium PPO & EPO Medical Plans.	Immediate	Annual deductible: Individual - \$50 Family - \$100 Preventive Care: 100% of covered expenses with no deductible (x-rays, cleanings and exam). Other covered services are 80% after deductible for basic services and 50% after deductible for major services. Maximum calendar year benefit is \$1,000 Orthodontia: - \$1,500.00 lifetime maximum. - Pays 50% of covered expenses after deductible - Covers employees and eligible dependents	Included as part of the Medical Plans
Flexible Spending Accounts (Pre-Tax Savings Accounts)	Immediate	Health Care Savings Account: Set aside to pay for health services not covered by health plan such as: - Deductibles - Co-payments - Hearing aids - Routine physicals - Psychiatric treatment Annual amount that may be contributed: Minimum: \$120; Maximum: \$3,000 Use it or lose it Dependent Care Spending Account: Set aside to pay for dependent care expenses for working parent such as: - wages paid to babysitter or companion (expenses not covered if care is provided by someone claimed as a dependent) - Nursery school/day care center costs - Wages paid to a housekeeper for providing care for an eligible dependent (dependent child under 13) or any dependent who is physically or mentally incapable of self care - Annual amount that may be contributed is \$5,000 (\$2,500 if married and file separately) Use it or lose it	Voluntary Contribution
Group Term Life Insurance	Immediate	Basic life insurance equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Accident Death & Dismemberment: equal to 1 1/2 times your base salary rounded up to next highest \$1,000 (Maximum Benefit is \$200,000) Travel Accident Insurance while on company business: - Salary over \$40,000: \$500,000 - Salary under \$40,000: \$400,000 - Spouse: \$250,000	None
Voluntary Term Life Insurance	Immediate	Voluntary Life Insurance is in addition to the company-paid Basic Life Insurance. You may purchase up to the lesser of either \$300,000 or 3 times your salary in coverage without having to provide evidence of good health, provided you enroll on a timely basis. Your choices are: - VL of 1 x base pay - VL of 2 x base pay - VL of 3 x base pay	Monthly Contribution based on age

Benefit	When You Are Eligible	What You Receive	Monthly Cost To Employee
Voluntary Dependent Term Life Insurance	Immediate	VDL covers eligible dependents. You will be the beneficiary of the Dependent Term Life coverage you elect. The plan offers \$20,000 coverage for spouse; and \$10,000 coverage for each dependent child.	Voluntary Contribution \$5.00 per month for spouse \$1.20 per month for all children
Employee Assistance Plan (EAP)	Immediate	Provides employee and each eligible dependent with up to six sessions per issue, per calendar year, for evaluation, short-term counseling and/or referral for behavioral health care issues at no cost, as well as legal, elder care and child care referral assistance.	None
Short Term Disability	Immediate	You are eligible for 2 weeks of sick leave at full pay each year. If you are still disabled after 2 weeks, you will receive 75% of your base pay for an additional 24 weeks through the STD benefit.	
Long Term Disability	Qualifying Period: Six months	<ul style="list-style-type: none"> - Provides 60% of base monthly income (not to exceed \$15,000) replacement if employee becomes disabled due to illness or accident - Offsets for other income benefits such as social security disability, income from any employer or any employment & disability, retirement, pension or annuity benefits from any group insurance or pension plan (including American Water), membership or association with any group association, union or other organization. 	None
401(k)	Immediate Record Keeper/Trustee - Merrill Lynch	<ul style="list-style-type: none"> - A retirement and savings plan that allows you to save on a pre-tax basis. - Company matches 50% of the first 5% of base pay you contribute. - Company matching contributions will be invested in the same funds as you direct your employee contributions. - You may contribute up to 20% of your eligible compensation not exceeding IRS limits. - All contributions, earnings and dividends accumulate tax-free until you withdraw, usually at age 59 1/2 or when you retire. - Company matching contributions vest immediately. - There are eleven investment options. - If you need money before you retire, there are special provisions for loans or hardship withdrawals. - If you are age 50 or older, you will be able to make an additional "catch-up" contribution of \$5,500 to the plan in 2010. This means that if you are age 50 or older in 2010, you may be able to contribute up to \$22,000 (the \$16,500 IRS limit plus the \$5,500 catch-up contribution) to the Plan on a pre-tax basis in 2010. Matching contributions are not made on catch-up contributions. You may elect a pre-tax "catch-up" deferral rate of 1-20% of your eligible compensation up to the \$5,500 limit. 	<p>Voluntary Contribution up to 20% of your eligible compensation not to exceed IRS limit of \$16,500 in 2010</p> <p>Catch Up Contributions Voluntary contribution up to \$5,500 in 2010</p>

Benefit	When You Are Eligible	What You Receive	Monthly Cost to Employee
401 (k) (continued)		<ul style="list-style-type: none"> - For your contribution to be classified as "catch-up" contributions, you must have either a contribution equal to the plan maximum limit of 20% or actual pre-tax contributions of \$16,500 for 2010. At the end of the year, if your pre-tax contributions do not meet these requirements, the "catch-up" contributions (to the extent necessary) will automatically be re-characterized as regular pre-tax contributions in the Plan. If contributions are reclassified, they are not subject to receive a company match. 	None
Employee Stock Purchase Plan (ESPP)	<p>Employees are eligible to participate as soon as possible after date of hire.</p> <p>Recordkeeper – E*TRADE</p>	<ul style="list-style-type: none"> - Ability to purchase shares of American Water Common Stock at a 10% discount off the New York Stock Exchange price. - You can contribute up to 10% of your base wages during each pay period on an after-tax basis via payroll deduction. - Enrollment is quarterly. - Vesting is immediate. - Shares are purchased quarterly. - The discount on the purchase price of the shares is taxable at the time of purchase through payroll. - Six-month holding period required before shares can be sold or transferred from your E*TRADE ESPP account. - Quarterly dividends are paid in cash to your E*TRADE brokerage account. 	<p>- Voluntary contributions up to 10% of your eligible compensation not to exceed \$25,000 per year.</p> <p>For additional information, refer to your ESPP Brochure, ESPP Prospectus and New Hire Guide.</p>
Vacation	Based on policy		None
Holidays	Based on policy		None
Educational Assistance	Employees may take advantage of this benefit for eligible courses in which they enroll	<ul style="list-style-type: none"> - Financial Assistance of 100% for tuition, registration and required fees. - Books, equipment, travel, parking, late registration and insurance are the responsibility of the employee (Graduate level course work may be taxable income). <p>Limits include:</p> <ul style="list-style-type: none"> - \$5,250.00 per year - Up to six credit hours per semester or six actual class hours if credits are not awarded - Proof of grade of C or better must be submitted at the completion of each course. Failure to submit transcript will exclude employee from future participation in the Plan. 	None

Benefit	When You Are Eligible	What You Receive	Monthly Cost to Employee
Defined Pension Plan		<p>Employees hired prior to 1/1/06 calculation is as follows:</p> <p>Employees hired before 7-1-01: For service prior to 7-1-01, benefit calculated using prior plan formula and final average pay as of retirement.</p> <p>For service on or after 7-1-01: 1.6% x final average pay up to social security taxable wages x service (up to 25 years) <u>plus</u> 2.1% of final average pay above social security taxable wage base for service (up to 25 years).</p>	None

These sheets provide a brief description of your benefits under each plan. Should there be a conflict between the benefits described on these sheets and those described in the legal plan documents, the terms of the legal documents will be used to determine coverage and benefits.

American Water reserves the right to amend or otherwise change the benefits contained in the Summary Plan Description at any time for any reason or, if applicable, subject to collective bargaining agreements.

NOTE: Does not apply to Sterling Union Local E51S.

Revised: 11/17/09

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

FR III.6

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

6. Supply an exhibit showing an analysis, by functional accounts, of the charges by affiliates (service corporations, etc.) for services rendered included in the operating expenses of the filing company for the historic and future test years and for the 12-month period ended prior to the historic test year:
- a. Supply a copy of contracts, if applicable.
 - b. Explain the nature of the services provided.
 - c. Explain the basis on which charges are made.
 - d. If charges allocated, identify allocation factors used.
 - e. Supply the components and amounts comprising the expense in this account.
 - f. Provide details of initial source of charge and reason thereof.

Answer: Not applicable for this filing.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Leasing Equipment, Computer Rentals, Office Space Costs

FR III.7

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

7. Describe costs relative to leasing equipment, computer rentals, and office space, including terms and conditions of the lease. Explain the method of calculating monthly or annual payments. If allocated from the parent company, provide the method of allocation.

Answer: Not applicable for the Northeast Wastewater operations.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Storm Damage

FR III.8

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

8. Submit detailed calculations (or best estimates) of the cost resulting from storm damage.

Answer: Northeast Wastewater Operations did not incur any storm damage.

Pennsylvania-American Water Company
 Northeast Wastewater Operations
 Data Requirements of the Pennsylvania Public Utility Commission
 Advertising Expense (HTY and 2 Precedent)

FR III.9

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

9. Submit details of expenditures for advertising (national, institutional and local media). Provide a schedule of advertising expense by media categories for the historic test year and the prior two comparable years with respect to:
- a. Public health and safety
 - b. Conservation of energy.
 - c. Explanation of billing practices, rates, rules and regulations.
 - d. Provision of factual and objective data programs in educational institutions.
 - e. Other advertising programs
 - f. Total advertising expense

Answer:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Advertising expenditures	\$0	\$0	\$0

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Social/Service Org Memberships (HTY)

FR III.10

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

10. Prepare a detailed schedule for the historic test year showing types of social and service organization memberships paid for by the Company and the cost thereof.

Answer: There were no costs for memberships for the Northeast Wastewater Operations.

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

FR III.11

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

III. Operating Expense

11. Submit a schedule showing a breakdown by the expenditures associated with Outside Services Employed, Regulatory Commission Expenses showing expenses relating to rate cases separately, and Miscellaneous General Expenses, for the historic test year and prior two comparable years.

Answer:

See attached.

NORTHEAST WASTEWATER

FR III.11

OUTSIDE SERVICES	2007	2008	2009
AUDITING			
COLLECTION AGENCY			
DISTRIBUTION SYSTEM	(2,587)	(3,005)	0
ENGINEERING			
GROUNDS CARE	3,447	1,911	721
JANITORIAL			
LEGAL			
MAINTENANCE	26,998	20,129	41,427
CONTRACT SERVICES MAINT	0	1,325	0
M&S	7,555	7,326	6,663
PAVING	2,689	0	1,000
SECURITY			
SERVICE COMPANY			
TEMPORARY			
LAB TESTING	13,895	16,453	15,870
WASTE DISPOSAL	142,340	167,664	194,232
	<u>194,337</u>	<u>211,803</u>	<u>259,913</u>

REGULATORY			
AMORTIZATION			
OTHER			
DEMAND STUDY			
	<u>-</u>	<u>-</u>	<u>-</u>

MISCELLANEOUS			
GENERAL OFFICE EXPENSE			
COMMUNITY ORGANIZATIONS			
NONDEDUCTIBLE COMPANY DUES			
MEMBERSHIPS			
AWWA DUES			
NAWC FEES			
CREDIT LINE FEES			
DIRECTOR FEES & EXPENSE			
CLUB DUES			
ELECTRIC EXPENSE			
EMPLOYEE EXPENSE			
DEDUCTIBLE MEALS			
ADVERTISING			
HEATING	0	317	0
INJURIES/DAMAGES			
LAB SUPPLIES	861	(12)	0
NONDEDUCTIBLE LOBBYING			
MAP & SURVEY			
TAXABLE MEALS			
CELLULAR PHONE	0	0	412
WIRELESS SERVICE	3,166	6,316	2741
OVERAGE/SHORTAGE			
OFFICE & ADMIN SUPPLIES			
MAILING	0	8	0
NONDEDUCTIBLE PENALTIES			
PERMITS			
BILLING POSTAGE			
CONFERENCE REGISTRATION			
RELOCATION			
AWWA RESEARCH			
R & D SERVICE COMPANY			
SUBSCRIPTIONS			
TELEPHONE	2,596	2,575	4937
TRASH REMOVAL	1,707	1,752	1470
TRUSTEE FEES			
UNIFORMS	25	0	0
WATER & WW EXPENSE	1,191	1,956	300
WATER			
MISC	8110	6521	5124
	<u>17,656</u>	<u>19,433</u>	<u>14,984</u>

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Research and Development

FR III.12

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

III. Operating Expense

12. Submit details of information covering research and development expenditures, by project, within the company and note forecasted company programs.

Answer: Pennsylvania-American Water Company has incurred research and development costs; however none of these costs have been allocated to the Northeast Wastewater operation.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Charitable and Civic Contributions (HTY)

FR III.13

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

III. Operating Expense

13. Provide a detailed schedule of all charitable and civic contributions by recipient and amount for the historic test year.

Answer:

Charitable and civic contributions for Northeast Wastewater were \$0 in calendar year 2009.

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

FR III.14

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

14. Please provide the two most recent actuarial studies for both pension expense and postretirement benefits other than pensions (OPEBs).

Answer: Pension and post retirement benefits were not allocated to Northeast WW for this filing. Copies of the actuarial studies are available upon request.

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

FR III.15

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

15. Please identify the total pension expense under Statement of Accounting Standards (SFAS 87) for the historic test year and the portion charged to Operation and Maintenance (O&M). Include an analysis showing the contribution to the pension plan and the amount deferred or expensed for each of the past two years and the historic test year. Provide any estimates for the future year.

Answer: Not applicable for this filing.

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

FR III.16

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

16. Please provide an analysis of OPEBs showing the accrual amount under SFAS 106 and the pay-as-you-go expense.

Answer: Not applicable for this filing.

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

FR III.17

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

17. Please reconcile the historic and future test year SFAS No. 106 expense levels with the amount identified in the actuarial report.

Answer: Not applicable for this filing.

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

FR III.18

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

18. Please identify the actual or projected amounts contributed to SFAS No. 106 funds for the historic and future test years. Identify the actual or projected dates and amounts of the contributions.

Answer: Not applicable for this filing.

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

FR III.19

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

19. Please explain the funding options or plans which are being used for SFAS No. 106 costs. Identify the portion of costs which are eligible for tax preferred funding.

Answer: Not applicable for this filing.

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

FR III.20

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

III. Operating Expense

20. State whether the Company is studying or anticipating any changes to its postretirement benefits offered to employees as a result of SFAS No. 106 or for other reasons? If yes, please provide the study and explain the anticipated change.

Answer: At this point, there are no changes planned in the postretirement benefits offered to our employees.

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

FR III.21

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

21. State whether the historic test year expenses reflect any accruals for post-employment benefits under SFAS 112. If yes, please provide complete details including supporting documentation, assumptions, and funding mechanisms.

Answer: The historic test year expenses for Northeast Wastewater does not reflect any accruals for post retirement benefits.

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

FR III.22

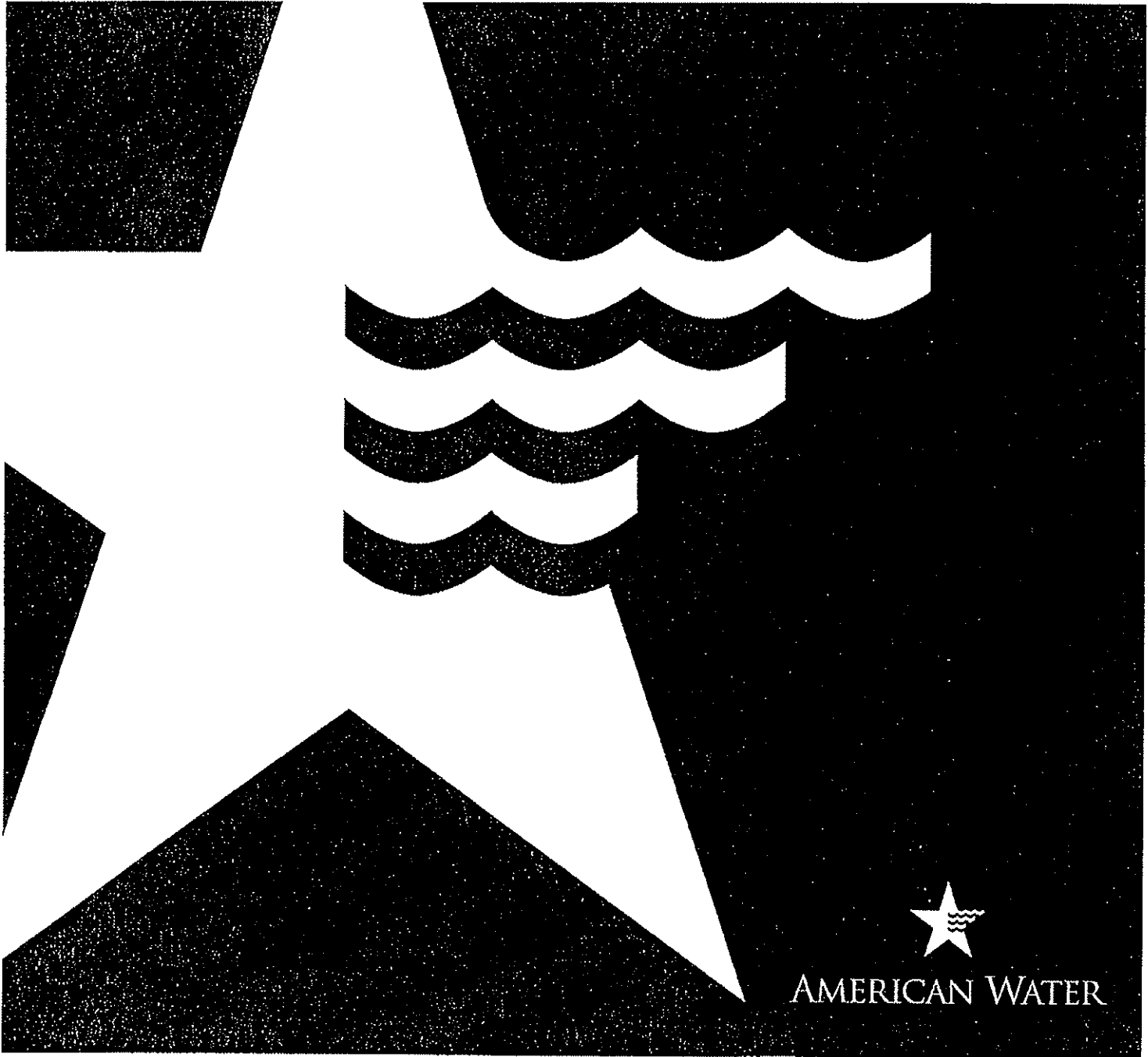
Pennsylvania-American Water Company
III. Operating Expense

22. Please provide a copy of all incentive compensation and bonus plans and provide the level of related bonus payments included in the cost of service. Provide information for the preceding two years and any changes since the last rate case.

Answer:

Attached please find a copy of the Company's annual incentive plan for the years 2008, and 2009. Please refer to the salary and wages expense adjustment detailed in Exhibit 3A for annual incentive pay expenses claimed in the cost of service.

**THE 2008
ANNUAL INCENTIVE PLAN
REWARDING
ACHIEVEMENT**



AMERICAN WATER

2008 American Water Annual Incentive Plan

The 2008 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our 2008 goals.

Who Is Eligible for the 2008 AIP

American Water employees eligible to participate in the 2008 AIP include: (a) all full-time management, professional and technical (exempt from overtime) employees; and (b) all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008.

Eligible employees who join American Water on or before September 30th of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis. Employees transferred from non-exempt to exempt status on or after September 30th are not eligible in the transfer year.

Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award. The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances.

Your Award Opportunity

All employees eligible for an award will receive written confirmation of their award opportunity from their manager. Awards for all full-time management, professional and technical (exempt from overtime) employees will be based on their salary as of December 31, 2008. Awards for all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008 will be based on their salary as of April 1, 2008.

If you are promoted during the plan year to a position with a higher target level, your bonus plan will be prorated to reflect participation at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your bonus plan will be prorated to reflect your participation at each award level.

What the Plan Measures

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: 'Financial' (Corporate, Divisional/Regional and State), 'Operational' and 'Individual'.

- The **Financial** component is based on Operating Income. The performance level will be determined at the Corporate and Divisional/Regional/State levels. For 2008, more than 85% of the Operating Income target for the entire Company must be achieved before any payment will be made on the Corporate financial component of the Plan (although a payment could be made on the Divisional/Regional/State financial component if the Divisional/Regional/State operating income exceeds 85% of target). In addition, more than 75% of the Corporate Operating Income target must be achieved before any payment will be made on any component of the Plan for the entire Company (including Divisional/Regional/State financial, operational and individual components).

Operating Income – is defined as earnings before interest, taxes and other non-operating expenses.

See Attachment A for the 2008 Target Level Achievement Schedule.

Your AIP letter will provide you with your Company component targets.

- The **Operational** component is based on the following:

Environmental Compliance (NOV)

Environmental Compliance is measured by "Notice of Violation" (NOV) count defined as the number of times an official notice is issued by a primacy agency for failure to comply with a federal, state, or local environmental statute or regulation that is covered under the scope of the American Water Environmental Management Policy.

Safety Performance

Safety performance will be measured on an OSHA Total Recordable Incident Rate (ORIR) which is defined as the rate of total injuries requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on total injury reduction which by extension improves Lost Work Day Case Rate (LWCR) and correlates more closely to workers compensation claims and costs. LWCR will remain a personal performance goal for the Operations and Operational Risk Management functions.

Customer Satisfaction

Customer Satisfaction is based on the results of the annual Customer Satisfaction Survey (CSS) conducted in the fourth quarter each year through randomly selected customer contacts in each State. This survey will ask our customers "Overall, how satisfied have you been with (Company Name) in general during the past twelve months?" This has a

five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied).

Service Quality

Service Quality is based on the annual results of the Service Quality Surveys (SQS) conducted throughout the year with customers having had recent contact with an AW Customer Service (CSR) or Field Service (FSR) Representative. This survey will ask the customer, "Overall, how satisfied were you with the outcome of your service contact?" having a five point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), is used to measure performance by evaluating the response percentage total for the top two categories (extremely or very satisfied).

Service Level

- Percentage of calls answered in the Customer Service Center within a certain timeframe.

Quality Measures (Shared Services Center - SSC):

- SSC Error Rate - Number of Financial Statements errors (Annual).
- Reconciliations - Calendar Year Average of accounts beyond policy.
- Timeliness of Processes - Annual percentage of processes conducted according to schedule -Tax Filings, Financial Statements available for consolidation, External Audit information submissions, days to image and process invoices, and Orcom rate changes.

Compliance (Shared Services Center - SSC):

- External Audit Findings - Number of unrecorded differences and topside entries.
 - Internal Audit Findings - Number of instances of deviations from policy/procedures during SOX testing.
 - External Filing Requirements - Annual Reports and Commission Reports completed by established deadlines for SSC.
- The **Individual** component includes Performance Targets as agreed by you and your manager within the companywide standard performance management process.

Your AIP letter will provide you with your Company component targets.

How Your Award Is Weighted

Your award opportunity is based on two, three or four performance components (see pages 3 and 4), depending on your role. However, you could earn part of your award based on individual, operational and divisional/regional/state financial components if Corporate

Operating Income is more than 75%. If Corporate Operating Income is 75% or less, no award will be paid on any component.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following charts show. The award has a target and a maximum opportunity.

BUSINESS CENTER 2008			
Level	Corporate Financial (30%)	Individual ⁽¹⁾ (70%)	Target Opportunity
L5 – L6	6.00%	14.00%	20%
L7	4.50%	10.50%	15%
L8 – L9	3.00%	7.00%	10%
*L10 – L14	1.50%	3.50%	5%

- Exempt only

(1) This component is defined as Target Agreement or Performance Targets.

DIVISION/REGION/STATE 2008					
Level	Corporate Financial (30%)	Divisional/ Regional/ State Financial (10%)	Individual ⁽¹⁾ (30%)	Operational ⁽²⁾ (30%)	Target Opportunity
Financial 30%					
Individual/ Operational/ Divisional/ Regional/ State Financial 70%					
L5 – L6	6.00%	2.00%	6.00%	6.00%	20%
L7	4.50%	1.50%	4.50%	4.50%	15%
L8 – L9	3.00%	1.00%	3.00%	3.00%	10%
*L10 – L14	1.50%	0.50%	1.50%	1.50%	5%

- Exempt only

(1) This component is defined as Target Agreement or Performance Targets.

(2) This component is defined by Customer Service Center as: 34% Customer Satisfaction; 33% Service Quality; 33% Service Level.

Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the performance measures, weightings and target maximums that apply to you.

SHARED SERVICES CENTER / CUSTOMER SERVICE CENTER 2008					
Level		Corporate Financial (30%)	Individual ⁽¹⁾ (35%)	Operational ⁽²⁾ (35%)	Target Opportunity
Financial 30%	Individual/ Operational 70%				
L5 – L6		6.00%	7.00%	7.00%	20%
L7		4.50%	5.25%	5.25%	15%
L8 – L9		3.00%	3.50%	3.50%	10%
*L10 – L14		1.50%	1.75%	1.75%	5%

* Exempt only

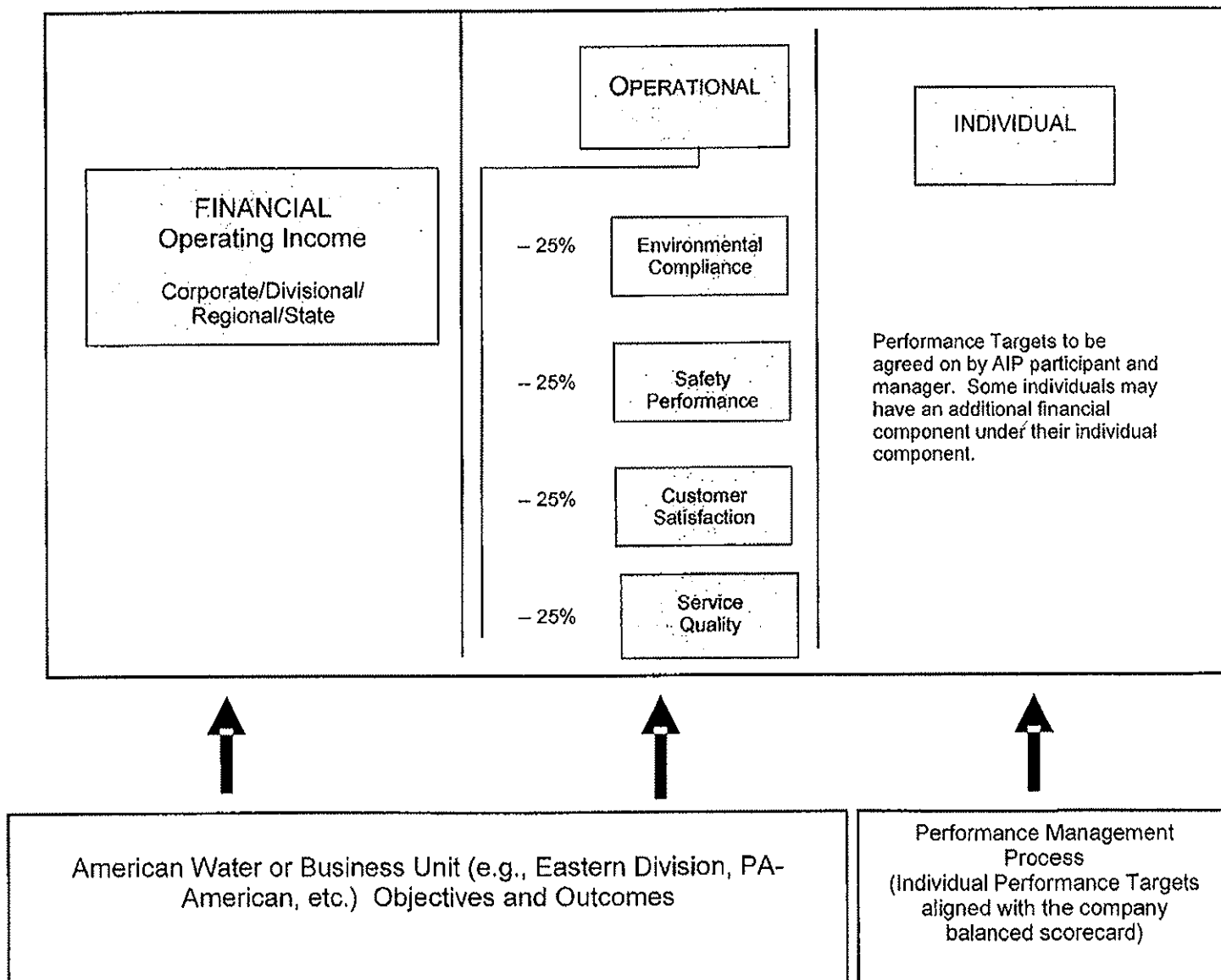
⁽¹⁾ This component is defined as Target Agreement or Performance Targets.

⁽²⁾ 50% of the Operational component is allocated to Customer Satisfaction/Customer Service Quality.

How the Weightings Come Together

Here is an **example** of how the performance components and their weightings come together. As you can see, the measures within each component are also weighted.

EXAMPLE



Operational

Divisional/Regional/State Operational components are performance measures tied to the American Water objectives. Each component percentage is as follows: Service Quality (25%); Environmental Compliance (NOVs) (25%); Safety Performance (25%); Customer Satisfaction (25%); and Shared Services and Customer Service operational components are described in Attachments B & C.

Operational components are evaluated on a range from 0 to 120%.

Performance You Can Impact

We believe it is essential that you are accountable for, measured on and rewarded for performance that you can directly impact or influence.

You and your manager have agreed on your individual performance targets. These targets should relate back to the performance scorecard for your business unit, division/region/state and should directly reflect your role.

Individual Performance

Individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. The first section of the PDR form contains a scorecard in which your individual Performance Targets will be documented. You and your supervisor will jointly identify and agree to your individual Performance Targets and relative weightings to be achieved during the year.

In overview, the PDR requires each individual to have 5 Performance Targets. The Performance Targets should be specific and measurable and aligned with the Company performance targets. Each target needs to be evaluated on a range of 0 to 120% according to its importance relative to other targets. In this way excelling at your highest priority target, which has the heaviest weighting, will drive a bigger award. At least one of the targets should be linked to a personal development objective. At the beginning of 2009, a structured performance review will be conducted to determine how well you performed against your targets in 2008. **It will be the Performance Scorecard Summary Rating for these 5 Performance Targets and NOT the "overall" performance rating that will be used for AIP award purposes (see below).**

Annual Performance and Development Review

Name: _____ Location: _____
 Position Title: _____ Appraisal Period: _____
 Performance Rating: Exceeds Expectations, Meets Expectations, Progressing, Does Not Meet Expectations, Too Soon To Rate

Double-click here to make selections.

BSC Quadrant	Performance Target	Target Measure	Weight %	Results/Comments	Emp. Rating	Sup. Rating
Finance						
Customer						
Process						
Employee						

Scorecard Summary Rating (click one box) Exceeds Meets Progressing Does Not Meet Too Soon

Performance Category

Each participant in the AIP plan should have 5 performance targets. An assessment should be made of performance against each target. Once evaluated, each individual performance target rating will be added and averaged to determine an overall rating.

Example #1

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount	Weighting	Subtotal
PT#1 (Meets Expectations)	Target fully achieved	100 x	20% =	20
PT#2 (Meets Expectations)	Target largely achieved	85 x	20% =	17
PT#3 (Does Not Meet Expectations)	Target not achieved	0 x	20% =	0
PT #4 (Progressing)	Target partially achieved	60 x	20% =	12
PT #5 (Exceeds Expectations)	Target exceeds expectations	120 x	20% =	24

Take each performance target percentage amount and multiply it by its assigned weight. Add the subtotal numbers = 73 (Individual Weighting Factor) 73% would be used as the INDIVIDUAL weighting factor in the AIP plan.

Example #2

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount	Weighting	Subtotal
PT#1 (Exceeds Expectations)	Target exceeds expectations	120 x	10% =	12
PT#2 (Meets Expectations)	Target largely achieved	90 x	20% =	18
PT#3 (Does Not Meet Expectations)	Target not achieved	0 x	10% =	0
PT #4 (Progressing)	Target partially achieved	55 x	20% =	11
PT #5 (Meets Expectations)	Target fully achieved	100 x	40% =	40

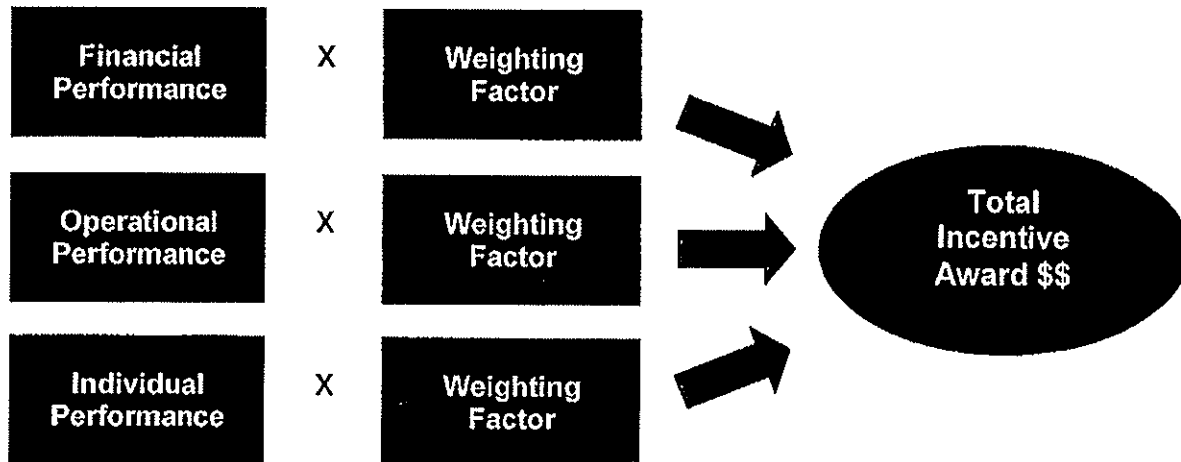
81 would be the subtotal and 81% would be used as the INDIVIDUAL weighting factor in the AIP plan.

2008 Target Rating Scale	
Rating	Scale
Exceeds Expectations	101 – 120%
Meets Expectations	
- Target Fully Achieved	100%
- Target Largely Achieved	75 – 99%
Progressing	
- Target Partially Achieved	25 – 74%
Does Not Meet Expectations	0%
- Not Achieved	
Too Soon to Rate	0%

Performance ratings can range from 0% - 120%. The degree of percentage given will be based on the supervisor's assessment of performance on the performance target. The maximum payment you can receive under the Individual component is 120%. This would only be awarded if an individual exceeded all 5 performance targets. This should be used only in cases of exceptional and outstanding performance against a target. If an individual received a "too soon to rate" or "does not meet expectations" on their performance scorecard they would not be eligible for an AIP award.

How Your Payout Is Determined

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. Here is a simplified way to think of it.



(See example on page 11.)

2008 AIP Payout Example

L9 REGION EXAMPLE:

Target Opportunity is 10% with 30% Corporate Operating Income, 10% Divisional/Regional/State Operating Income, 30% Operational and 30% Individual Components

Financial Performance

Corporate (Operating Income)

Achievement against financial target = 103.000% x 3.000% (Target) =3.090%

Divisional/Regional/State (Operating Income)

Achievement against financial target = 101.000% x 1.000% (Target) =1.010%

Operational Performance

Achievement against operational targets = 97.95% x 3.000% (Target) =2.939%

Individual Performance

Achievement against 5 Performance targets = 98.70% x 3.000% (Target) = 2.961%

Total AIP payable is 3.090% (Corporate Operating Income) + 1.010% (Divisional/Regional/State Operating Income) + 2.939% (Operational) + 2.961% (Individual) is 10.00% of annual base salary of \$65,000 or \$6,500

Salary	x	AIP Target	equals	Target Payout	Maximum Payout
\$65,000		10%		\$6,500	\$8,580
Corporate Operating Income (30%)				Financial/Operational/Individual (70%)	
Corporate Operating Income =3%		Divisional/Regional/State Operating Income =1.00%		Operational Results =3.00%	Individual Performance Targets =3.00%
Target		Target		Target	Target
\$1,950		\$650		\$1,950	\$1,950
Actual		Actual		Actual	Actual
\$2,009		\$657		\$1,910	\$1,925
Maximum = 150%		Maximum = 150%		Maximum= 120%	Maximum= 120%
\$2,925		\$975		\$2,340	\$2,340

Target Bonuses

You will have received a letter which states your target bonus opportunity. Target bonus is defined as the bonus paid at 100% for both financial and individual awards. This means business plan is achieved for the financial and operational element, and the employee has met his/her objectives for the individual element.

The maximum bonus you can receive is 150% of your Financial element (both Corporate and Divisional/Regional/State), 120% of Operational and 120% of your Individual element.

Adjustments for Uncontrollable Events

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2008, using the assumptions set at that time. As in previous years, the actual results used for assessment may be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Chief Executive Officer and the Chief Financial Officer, and if material, the Board, whose decision will be final. The following items are those most likely to be considered for amendment:

- Weather conditions having a material impact on the financial results
- The impact of movements in foreign exchange rates
- Disposal/acquisition of businesses not anticipated in the business plan, but subsequently mandated by the Board of Directors
- Goodwill impairments
- Costs related to the public offering

Award Payments

To be eligible to receive an AIP award, you must be actively employed on the date the payment is made. However, in case of disability, retirement, layoff or death during the plan year, a prorated award based on participation in the plan may be payable. Employees who resign or are terminated for cause at any time prior to payment are not eligible.

Awards are usually determined and paid in cash as soon as possible after the release of financial results. Awards are paid by March 15th of the following year. Awards are subject to all federal, state and local income tax withholdings.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect your participation in the plan.

The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances, such as failing to reach minimum financial goals. Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award.

Rewarding Achievement

Our AIP goals are challenging, but with your focus and contribution and effective teamwork, they can be achieved. Remember, your individual results do matter; our overall performance is the collective results of all our employees.

It is important that you clearly understand your goals, how we are performing against the goals, and how the AIP works so you know how you personally affect our performance. Be sure to talk to your manager or your local HR representative if you have questions.

This brochure describes the 2008 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.

Attachment A

Company bonus 2008 for American Water will be based on Operating Income. If the Operating Income results are met, the award payout will be based on the following:

Bonus payout curve: Range between 0% and 150%	
% of Operating Income Achieved	% Payout
115%	150%
112%	140%
109%	130%
106%	120%
103%	110%
100% *	100%
97%	80%
94%	60%
91%	40%
88%	20%
85%	0%

* Business Plan Operating Income

Operating Income is defined as earnings before interest, taxes and other non-operating expenses. The bonus payout curve applies to Corporate, Divisional/Regional and State Operating Income.

2008 AIP OPERATIONAL MEASURES & TARGETS

Environmental Compliance

For determining the Environmental Compliance AIP component, American Water will count Notices of Violation for which the Company is responsible as described in the Environmental Non-Compliance reporting Practice. Target allocation of NOV's is as follows: Eastern Division - 8, Western Division - 8, AWE - 4. AW Corporate holds 1 NOV in reserve for a total AW target of 21. For award, if the AW total is at or below the total target of 21 the AIP is awarded to all based on the AW total result. If the total AW target is exceeded the AIP will be evaluated and awarded by the individual Division and AWE target allocations.

Environmental Compliance Award Scale

<u>% of Target</u>	<u>Award</u>
≤ 50%	120%
75%	110%
100%	100%
110%	70%
120%	30%
≥ 130%	0%

Safety Performance

For the OSHA Total Recordable Incident Rate (ORIR), year over year reduction targets are as follows: 2008 - 5%, 2009 - 10%, 2010 - 10%. Performance will be evaluated individually for New Jersey, Pennsylvania, West Virginia, Kentucky, Illinois, Indiana, Missouri, Arizona, California, AWE Contract Operations, AWE Military Services, AWM, and AWE Canada. Performance evaluations will also be made for the following smaller State groupings: 1. Long Island Water Company, Tennessee, Maryland and Virginia (Eastern Division); 2. Ohio, Iowa, Michigan, Texas, New Mexico and Hawaii (Western Division).

ORIR Targets for 2008		
Business Unit	2007 Actual ORIR	2008 AIP Target
AWE	5.61	5.33
AWM	4.07	3.87
Military	6.67	6.34
NE Canadian O&M	4.86	4.62
AWE Total	5.24	4.98
Kentucky	6.06	5.76
New Jersey	10.38	9.86
Pennsylvania	8.62	8.19
West Virginia	5.8	5.51
LI, MD, TN, VA Consolidated	6.7	6.37
Eastern Total	8.09	7.69
Illinois	10.59	10.06
Indiana	10.2	9.69
Missouri	11.63	11.05
Arizona	9.11	8.65
California	11.29	10.73
IA, MI, OH, HI, NM, TX Consolidated	7.81	7.42
Western Total	9.68	9.20
American Water Total	7.11	6.75

Safety Performance Award Scale

<u>Result</u>	<u>Award</u>
> 20% Reduction from YE 2007	120%
> 10% Reduction from YE 2007	110%
>= 5% Reduction from YE 2007	100%
> 2.5% Reduction from YE 2007	70%
< 2.5% reduction from YE 2007	30%
Increase from YE 2007	0%

Customer Satisfaction

This operational metric measures through a survey the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages within the top two categories (extremely and very satisfied) are indicative of customer satisfaction levels associated with brand/product/service loyalty and advocacy. Focusing attention in this area will drive both this and overall satisfaction in a positive direction. For 2008 a challenging goal of 70% has been set for customer satisfaction in the top two response categories. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows: MD will be grouped with VA; MI with IN; HI and NM with AZ; and TX with MO.

Note: The top three response category % for this measure (extremely, very & somewhat satisfied) is also a meaningful measure for overall customer satisfaction and correlates to the former AIP metric and goal of 95% for survey question, "Overall, how satisfied are you with the service or services offered by (Company Name)?". While not an AIP metric for 2008, the existing overall customer satisfaction goal of 95% remains as a performance target from the COO and is to be cascaded throughout AW as personal performance targets.

Customer Satisfaction Award Scale

<u>% Achieved</u>	<u>Award</u>
≤ 65%	0%
66%	10%
67%	20%
68%	40%
69%	80%
70%	100%
71%	110%
≥ 72%	120%

Service Quality

The AW goal is to achieve "world class" status of performance system-wide within the next three years (market survey professionals indicate achieving 85% is approaching "world class" status). For 2008, targets will be based on actual 2007 performance levels as follows. For Companies not achieving the 2007 goal of 80%, 2008 is a performance improvement year with the target remaining at 80%. For Companies achieving 80% or better in 2007, 2008 targets are your 2007 final result with a target cap of 85%. These Companies will use a graduated incentive payout scale shown below. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows. MD will be grouped with VA; MI with IN; HI with AZ; and TX with MO.

Service Quality Satisfaction - 2008 Targets		
State	2007 Result	Target
New Jersey	78	80
New York	71	80
West Virginia	80	80
Kentucky	87	85
Tennessee	84	84
Pennsylvania	84	84
Virginia/Maryland	87	85
Indiana/Michigan	86	85
Ohio	85	85
Illinois	80	80
Iowa	86	85
Missouri/Texas	84	84
California	83	83
New Mexico	89	85
Arizona/Hawaii	84	84
American Water	83	

Service Quality Award Scale

2007 Result < 80%		Target Between 80% & 84%		Target = 85%	
Award	% Achieved	Award	% point change from 2007	Award	Actual % Achieved
120%	≥ 83%	120%	3%	120%	87%
110%	82%	110%	2%	110%	86%
100%	80%	100%	0%	100%	85%
70%	79%	70%	-1%	70%	83%
30%	78%	30%	-2%	30%	82%
0%	77%	0%	-3%	0%	81%

**Operational Parameters for 2008 AIP - Payout Scale and
Relative Weighting – Customer Service Centers**

I. Relative Weighting

34%

33%

33%

II. Payout Scales

**CUSTOMER
SATISFACTION**

% Achieved Payout (%)
See Page 17

SERVICE QUALITY

%
Achieved Payout (%)
See Page 18

**SERVICE
LEVEL**

% Achieved Payout (%)
< 72% 0%
72% - <80% 75%
80% 100%
>80% - <84% 105%
84% - < 86% 110%
86% 120%

**Operational Parameters for 2008 AIP - Payout Scale
and Relative Weighting – Shared Services Center**

I. Relative Weighting

55%

45%

II. Payout Scales

QUALITY

COMPLIANCE

<u>% Achieved *</u>	<u>Payout (%)</u>	<u>% Achieved *</u>	<u>Payout (%)</u>
<75%	0%	<75%	0%
75%	25%	75%	25%
80%	50%	80%	50%
85%	75%	85%	75%
90%	100%	90%	100%
95%	110%	95%	110%
100%	120%	100%	120%

* If the percentage achieved is between the range parameters of the scale, the payout percentage will be derived from the actual percentage achieved. For example, if the percentage achieved is 88%, the payout percentage will be 90%.



2009 Annual Incentive Plan Highlights Brochure

February 2009

Table of Contents

THE 2009 AMERICAN WATER ANNUAL INCENTIVE PLAN	1
Your Performance — Your Award	1
Eligibility	2
Why Change?	3
DETERMINING AIP AWARDS.....	4
Step 1: Establish initial award pool based on overall corporate performance	4
Step 2: Allocate overall corporate funding to organizational groups/ functional areas, and adjust specific organizational group/functional area funding to reflect results	6
Step 3: Determine individual AIP award based on (a) individual performance, and (b) available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool	7
WHAT THE 2009 AIP MEANS FOR YOU.....	8
Performance Ratings	8
Award Payout Examples	9
Receiving Your AIP Award.....	11
FREQUENTLY ASKED QUESTIONS.....	12

THE 2009 AMERICAN WATER ANNUAL INCENTIVE PLAN

Your Performance — Your Award

At American Water, your performance counts. We rely on our employees' knowledge and skills to help the Company achieve its business objectives.

The American Water 2009 Annual Incentive Plan (AIP) is designed to give eligible exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contributions to the Company's success. We have made significant changes to the AIP design to reinforce the link between Company and individual performance and award payouts. This means that Company and individual performance are both taken into account to determine cash awards under the plan. Starting with the 2009 AIP:

- We are adopting a **new approach to AIP funding** that directly ties the amount of available cash for AIP payouts to Company performance against specific metrics. Additionally, AIP funding for all eligible, exempt employees — regardless of role — will depend on the Company's achieving its financial and non-financial goals.
- Your **individual performance will play a greater role in determining the amount of your payout**. Employees who exceed their performance targets could receive significantly higher payouts. Conversely, employees who underperform and do not meet their performance targets could receive lower payouts or no payout at all. In short, *your* performance directly impacts the amount of *your* award.

The 2009 AIP is designed to challenge and motivate you to perform at your highest level, and promote the creation of shareholder value. Read this brochure to learn about how the 2009 plan works and what it means for you and your AIP award going forward.

The 2009 AIP	
What's Changing	What's Staying the Same
<ul style="list-style-type: none"> ■ Awards are more closely aligned with the Company's ability to fund the award and with individual performance. ■ AIP award pool funding is based on overall corporate performance against specific financial and non-financial goals (represented by the Corporate Multiplier), then allocated across organizational groups/functional areas — at senior management's discretion — depending on organizational group/functional area results. <ul style="list-style-type: none"> ■ AIP funding for all employees — regardless of your role or position in the Company — depends on the Company achieving its financial as well as non-financial goals. ■ Financial metrics updated to reflect Diluted Earnings per Share. ■ Individual award payouts will be based on individual performance against specific goals (represented by the Individual Performance Factor) and paid from available organizational group/functional area funding. ■ For 2009, the Individual Performance Factor range has been changed from 0%-120% to 0%-200%. Individual payouts will be capped at 200% of AIP target award. 	<ul style="list-style-type: none"> ■ Award opportunity (Target Award) is still expressed as a percentage of base salary. (See Attachment B). <ul style="list-style-type: none"> ■ Actual payout may be lower or higher than target depending on Company and individual performance against specific goals. ■ Individual performance is assessed by your manager and measured against your pre-determined performance goals. ■ Your AIP will be distributed as a cash award in March. <ul style="list-style-type: none"> ■ You must be actively employed with American Water on the date awards are made to receive your 2009 AIP payout. ■ If you are disabled, retire, experience a layoff or die, you or your beneficiary may be eligible to receive an award prorated to reflect your service during the plan year.

Eligibility

- You are eligible for an AIP award opportunity if you are a full-time exempt employee of American Water. Eligible exempt employees who join American Water on or before September 30, 2009 are also eligible to participate in the AIP on a prorated basis. Employees transferred from nonexempt to exempt status on or after September 30th are not eligible in the transfer year.

- You must be an active employee with American Water on the date the payout is made in order to receive the award. In certain circumstances, such as disability, retirement, layoff or death, an award may be made — prorated to reflect your service during the plan year.
- If you are promoted during the plan year to a position with a *higher* AIP target level, or if you are reclassified to a position with a *lower* AIP target level, your award payout will be based on your new target level as of December 14, 2009.
- If your performance or Company performance falls below “Adequate” or “Too Soon to Rate,” you will not receive a payout.

Why Change?

Since the value (as reflected in our share price and our return to shareholders) and success of our business depend on the achievement of annual Company and individual performance goals, American Water recognizes the need to differentiate and reward the performance of employees who enable us to reach these goals. The 2009 AIP is designed to ensure that award payouts are directly tied to measurable contributions — both Company and individual — to American Water’s success.

DETERMINING AIP AWARDS

AIP award payouts depend on individual performance; they also depend on overall corporate performance and organizational group/functional area results (which determine award pool funding).

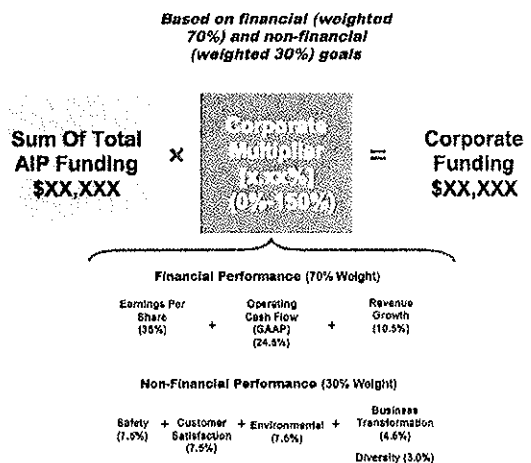
AIP awards will be determined according to the following three-step process:

- Step 1: Establish initial award pool based on overall corporate performance**
- Step 2: Allocate overall corporate funding to organizational groups/functional areas, and adjust specific organizational group/functional area funding to reflect results**
- Step 3: Determine AIP award based on individual performance; awards are paid from available organizational group/functional area funding**

Step 1: Establish initial award pool based on overall corporate performance

Each year, American Water establishes funding for the AIP award pool. Starting in 2009, the funding will be directly tied to Company performance and represented by the **Corporate Multiplier**. The

Corporate Multiplier can range from 0% to 150% depending on how well the Company performed against the financial and non-financial goals described below. Note that a pre-determined **threshold** for Company performance - **2009 Diluted Earnings Per Share (EPS) must be at least 90.9% of target** - must be met in order for funding and any award to be provided under the AIP.



- **Financial Metrics (Weighted 70%) (See Attachment A)**

- *Diluted Earnings Per Share (35%)* is a widely tracked measure of financial performance/profitability, and is calculated as follows:

$$\begin{array}{r}
 \text{Net Income to Common Stockholders} \\
 \div \\
 \text{Average Outstanding Shares (including dilutive securities such as} \\
 \text{stock options)} \\
 = \\
 \text{Diluted Earnings per Share}
 \end{array}$$

- *Operating Cash Flow (GAAP) (24.5%)* reflects the amount of cash generated from our operations and is used as an additional measure of profitability. Operating cash flow is calculated as follows:

$$\begin{array}{r}
 \text{Net Income} \\
 + \\
 \text{Depreciation and Amortization} \\
 - \\
 \text{Deferred Expenses} \\
 +/- \\
 \text{Changes in Payables and Receivables} \\
 = \\
 \text{Operating Cash Flow}
 \end{array}$$

- *Revenue Growth (10.5%)* is a measure of how quickly our business is growing and reflects the percentage of planned increase in revenues achieved.

- **Non-Financial Metrics (Weighted 30%)***

- Safety (7.5%)
 - Environmental (7.5%)
 - Customer Satisfaction (7.5%)
 - Business Transformation (4.5%)
 - Diversity (3.0%)

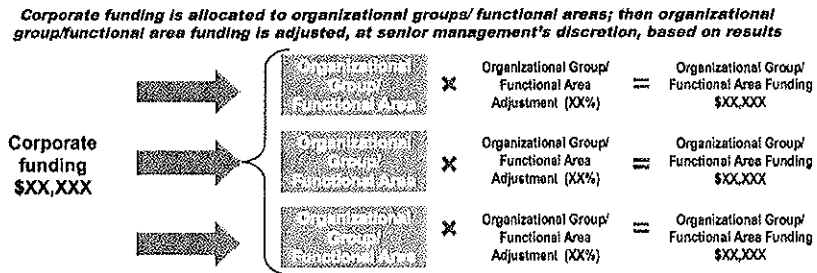
**These outcomes are based on a combination of surveys, end-of-year results, data and other annual reports (see Attachment A at the back of this brochure).*

Please note that AIP funding for all employees (regardless of role or position) will depend on how well the Company achieves its financial goals as well as non-financial goals.

The financial and non-financial metrics are added together to determine the Corporate Multiplier. So, even if certain metrics are not achieved, the funding may be reduced, but not eliminated altogether. However, if the Company's financial performance does not meet the threshold, the Corporate Multiplier will be reduced to zero, which would eliminate your award payout (as indicated in the examples on page 10). The Corporate Multiplier (and thus funding for payouts) may be adjusted to take into account "uncontrollable events" including — but not limited to — severe weather conditions that significantly impact financial results (i.e., hurricanes), impairment charges, dissolution or acquisition of businesses or costs related to public offerings.

Step 2: Allocate overall corporate funding to organizational groups/functional areas, and adjust specific organizational group/functional area funding to reflect results

Once the overall corporate funding is determined as described under Step 1, senior management will allocate the Corporate funding to American Water's organizational groups and functional areas. The funding for each organizational group/functional area may be increased or decreased, at senior management's discretion, to reflect specific organizational group/functional area results.



Step 3: Determine individual AIP award based on (a) individual performance, and (b) available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool

Your **AIP target award** (i.e., your award opportunity) is based on your role or position with the Company and is expressed as a percentage of your base salary. Your actual award payout may be higher or lower than target depending on whether individual and Company performance goals have been met, and your organizational group's/functional area's results. Contact your manager for information on your individual AIP Target Award.

Your individual performance factor is based on: (a) your performance against specific targets, and (b) the amount of organizational group/functional area funding available

$$\begin{array}{r}
 \$XX,XXX \\
 \text{Individual AIP} \\
 \text{Target (\% of} \\
 \text{Base Salary)}
 \end{array}
 \times
 \begin{array}{r}
 \text{Individual} \\
 \text{Performance} \\
 \text{Factor} \\
 [x.xx\%] \\
 (0\%-200\%)
 \end{array}
 =
 \begin{array}{r}
 \$XX,XXX \\
 \text{Individual} \\
 \text{Award}
 \end{array}
 \leftarrow \dots \begin{array}{l}
 \text{Award paid from} \\
 \text{applicable} \\
 \text{organizational} \\
 \text{group/functional} \\
 \text{area award pool}
 \end{array}$$

The sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.

The **Individual Performance Factor** represents how well you achieve your annual individual performance goals. Your Individual Performance Factor can range from 0% to 200%, depending on your performance for the plan year and the amount of organizational group/functional area funding available. This performance factor will then be multiplied by your Target Award to determine your 2009 AIP award payout. Individual payouts will be capped at 200% of AIP target award.

Individual AIP awards are then paid from the applicable organizational group/functional area award funding. The sum of all individual awards within a given organizational group/functional area may not exceed its allocated pool of dollars.

WHAT THE 2009 AIP MEANS FOR YOU

Performance Ratings

Most people are motivated to do their best; therefore the better you perform, the greater your potential award will be under the Plan. It is your responsibility to maximize your award opportunity by achieving or exceeding your goals.

Each year, you and your manager identify four to six high priority and challenging performance targets, which represent where you can directly impact the Company's success. These performance targets and their weightings should be specific, measurable and aligned with the Company's performance targets. During your year-end performance review, you and your manager will discuss how well you performed against the established targets, and rate your performance using one of the following performance ratings:

2009 Performance Rating Scale	
Rating	Description
Exceptional	Contributions are widely recognized as extraordinary. Results far exceed all defined expectations, producing important and substantial impact on the Company, Division, Operating Company, Line of Business or Function.
Significant	Contributions are widely recognized as distinguished. Results exceed all or most expectations, producing a tangible and material impact on the Company, Division, Operating Company, Line of Business or Function.
Commendable	Contributions are widely recognized as meaningful. Results meet, and in some cases exceed expectations, producing a positive and desirable impact on the Company, Division, Operating Company, Line of Business or Function.
Adequate	Contributions are widely recognized as limited. Results meet and in some cases fall slightly short of expectations, producing inconsistent and marginal impact on the Company, Division, Operating Company, Line of Business or Function.
Unacceptable	Contributions are widely recognized as unsatisfactory. Results fall considerably short of expectations, producing negligible or no impact on the Company, Division, Operating Company, Line of Business or Function.
Too Soon to Rate	Contributions cannot be measured at this time because more time is needed to see a result.

Later, during the AIP process, your manager will use your rating to determine your Individual Performance Factor. Depending on how you performed during the year, you could potentially earn a higher payout than in previous years — or you could earn a lower payout or no payout at all (as the examples on the following page demonstrate). In other words, the new AIP design gives you more power than ever before to impact the size of your award. It also means that you are more accountable than ever before for meeting your goals.

Award Payout Examples

Let's calculate possible award payouts for a sample AIP participant, under four possible scenarios:

AIP Participant Assumptions				
Salary Level	L07			
Annual Base Salary	\$90,000			
Individual AIP Target	\$13,500 (15% of Base Salary)			
Total of all AIP Targets	\$20,000,000			
Total AIP for Organizational Group	\$2,000,000			
	Performance			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
■ Company	Above Target	Target	Threshold	Below Threshold
— Financial Performance Factor	1.39	0.94	0.50	0.00
— Non-Financial Performance Factor	0.77	1.12	0.50	0.00
■ Individual	Adequate	Significant	Adequate	Commendable
— Individual Performance Factor	0.80	1.50	0.40	1.00

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
STEP 1: Establish corporate funding based on overall corporate performance				
Total of AIP Targets (A)	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000
Financial Performance Factor (i) (70% weight)	$1.39 \times 0.70 =$ 0.97	$0.94 \times 0.70 =$ 0.66	$0.50 \times 0.70 =$ 0.35	$0.00 \times 0.70 =$ 0.00
Non-Financial Performance Factor (ii) (30% weight)	$0.77 \times 0.30 =$ 0.23	$1.12 \times 0.30 =$ 0.34	$0.50 \times 0.30 =$ 0.15	$0.00 \times 0.30 =$ 0.00
i + ii = Corporate Multiplier (B)	1.20	1.00	0.50	0.00
A × B = Corporate Funding	$\$20,000,000 \times 1.20 =$ $= \$24,000,000$	$\$20,000,000 \times 1.00 =$ $= \$20,000,000$	$\$20,000,000 \times 0.50 =$ $= \$10,000,000$	$\$20,000,000 \times 0.00 =$ $= \$0$
STEP 2: Allocate overall corporate funding to organizational groups/functional areas; adjust specific organizational group/functional area funding to reflect results				
Organizational Group Pool (C) (Allocated from corporate funding)	\$2,400,000	\$2,000,000	\$1,000,000	\$0
Organizational Group Adjustment (D)	1.00 (Target)	.80 (Below Target)	1.20 (Above Target)	1.00 (Target)
C × D = Organizational Group Pool (adjusted based on results)	$\$2,400,000 \times 1.00 =$ $= \$2,400,000$	$\$2,000,000 \times 0.80 =$ $= \$1,600,000$	$\$1,000,000 \times 1.20 =$ $= \$1,200,000$	$\$0 \times 1.00 =$ $= \$0$
STEP 3: Determine individual award based on individual performance and available organizational group/functional area funding; awards are paid from applicable organizational group/functional area award pool				
Individual AIP Target (E)	\$13,500	\$13,500	\$13,500	\$13,500
Individual Performance Factor (F) (Range of 0 - 2.00)	0.80 (Adequate)	1.50 (Significant)	0.40 (Adequate)	1.00 (Commendable)
E × F = Individual Award	$13,500 \times 0.80 =$ \$10,800 (80% of AIP target)	$13,500 \times 1.50 =$ \$20,250 (150% of AIP target)	$13,500 \times 0.40 =$ \$5,400 (40% of AIP target)	$13,500 \times 1.00 =$ $= \$13,500$ however, payout will be \$0 since award pool = \$0

As you can see, both Company and individual performance can significantly impact your final payout. Also, remember that the sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.

Please discuss the new AIP process with your manager to ensure you clearly understand how the new formula works and how your performance impacts your potential award payout.

Receiving Your AIP Award

Awards will be paid in cash by March 15 of the year following the year in which they are earned. If you're eligible for an award payout, please keep in mind that:

- The payout will be based on your salary as of December 14, 2009 and subject to all federal, state and local income tax withholdings.
- The American Water Board, or its Designee, reserves the right to determine whether awards are payable to any individual or group of individuals; the Board may withhold all award payouts in certain circumstances.

Remember, it's your performance — and your award: The contributions you make to American Water's success throughout the year ultimately impact the size of your payout. Be sure to carefully review this brochure; then speak with your manager about the new AIP and about what you can do to improve your performance and share the financial rewards of American Water's success.

FREQUENTLY ASKED QUESTIONS

Question	Answer
<p>Why is American Water making changes to the AIP?</p>	<p>American Water changed the AIP to allow us to differentiate and reward the performance of employees who contribute to the achievement of the Company's goals. The 2009 AIP directly ties award payouts to measurable contributions (Company and individual) to American Water's success.</p>
<p>Who is eligible for the AIP?</p>	<p>All full-time exempt employees are eligible to participate. If you join American Water on or before September 30, 2009, you are also eligible to participate in the plan on a prorated basis.</p>
<p>What do I have to do to receive an AIP award?</p>	<p>If you are eligible for an AIP award opportunity, any payout you receive will depend largely on your performance, as well as on Company performance (including financial and non-financial), which determines funding.</p> <p>If your performance is rated "Adequate" or higher, you may receive an award payout — but only if threshold Company performance metrics have been met. If your performance or Company performance falls below "Adequate" or "Too Soon to Rate," you will not receive a payout. To maximize your award opportunity, it's important to meet with your manager to establish meaningful performance goals, then work hard throughout the year to achieve those goals.</p>
<p>How is my AIP target award opportunity determined? How can I find out what it is?</p>	<p>Your AIP target award opportunity is based on your role and expressed as a percentage of your base salary. Please see your manager to learn more about your target award opportunity for 2009.</p>
<p>How will my AIP award payout be calculated? How does this differ from the 2008 award calculation?</p>	<p>The size of the pool which funds your award is determined based on overall corporate performance, adjusted to reflect specific organizational group/functional area results. AIP funding for all employees, regardless of role or position, will depend on the Company achieving its non-financial as well as financial goals. Once individual awards are calculated, they are paid from the applicable organizational group/functional area funding.</p> <p>Under the 2008 AIP, financial, non-financial and individual results were weighted and the results were <i>added</i> together to determine the final payout. Also, non-financial goals did not</p>

Question	Answer
	<p>apply to all employees in all roles and positions.</p> <p>All AIP payouts are subject to approval by the American Water Board.</p>
<p>What is the minimum and maximum that could be paid under the plan (as a percent of target)?</p>	<p>AIP award payouts could range from zero, to a maximum of two times the participant's target award (i.e., Individual Performance Factor of 200%). Payouts are capped at 200% of AIP target award.</p>
<p>Will I receive an award payout if I meet my individual performance goals but the Company <i>does not</i> achieve minimum (threshold) performance?</p>	<p>No. Award payouts will be made only if both the Company and the individual have met the minimum (or threshold) performance goals for the year.</p>
<p>What happens if I leave American Water before I receive my award payout?</p>	<p>To receive the award payout to which you are entitled, you must be actively employed with American Water on the date the payment is to be made. If you are disabled, retire, experience a layoff or die during the plan year, you or your beneficiary may be eligible to receive an award, prorated to reflect your service during the year.</p>
<p>Do the AIP changes for 2009 affect my 2008 award?</p>	<p>No. The changes to the AIP for 2009 will be reflected in your March 2010 award payout.</p>
<p>What happens if I change job positions within American Water during the plan year?</p>	<p>If you are promoted during the plan year to a position with a <i>higher</i> AIP target level, or if you are reclassified to a position with a <i>lower</i> AIP target level, your award payout will be based on your salary and target level percentage as of December 14, 2009.</p>

This brochure provides an overview of the 2009 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.

2009 AIP FINANCIAL PAYOUT CURVE**Diluted Earnings Per Share (EPS), Operating Cash Flow, Revenue Growth**

<u>% Target Achieved</u>	<u>% Payout</u>
115%	150%
112%	140%
109%	130%
106%	120%
103%	110%
100%	100%
98.2%	90%
96.4%	80%
94.5%	70%
92.7%	60%
90.9%	50%
<90.9%	0%

2009 AIP NON-FINANCIAL MEASURES

Environmental Compliance

For determining environmental compliance, AW will count Notices of Violation (NOV) for which the Company is responsible as described in the Environmental Non-Compliance Reporting Practice. For 2009 AW will continue to use the NOV target of 21.

NOVs	Award
11	150%
13	140%
15	130%
17	120%
19	110%
21	100%
23	90%
25	80%
27	70%
29	60%
30	50%
>30	0%

Safety Performance

Safety performance will be determined using the total OSHA Recordable Incident Rate (ORIR) for American Water. ORIR measures all injuries and illnesses requiring treatment beyond first aid for every 200,000 hours worked. For 2009 the target has been set at 5.5 which is 5% below the Bureau of Labor Statistics (BLS) Water Utility Average ORIR of 5.8.

ORIR	Award
4.5	150%
4.7	140%
4.9	130%
5.1	120%
5.3	110%
5.5	100%
5.7	90%
5.9	80%
6.1	70%
6.3	60%
6.5	50%
>6.5	0%

2009 AIP NON-FINANCIAL MEASURES

Service Quality

This metric is measured by the Service Quality Survey (SQS) which is conducted throughout the year for customers having had recent contact with an AW Customer Service Representative (CSR) or Field Service Representative (FSR). The score is based on SQS Q29: "Overall, how satisfied were you with the outcome of your service contact?" taking the top two response categories (extremely satisfied or very satisfied) of a 5 point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). The AW target for 2009 is 85% which is 2% higher than the 2008 target.

SQS %	Award
90	150%
89	140%
88	130%
87	120%
86	110%
85	100%
84	90%
83	80%
82	70%
81	60%
80	50%
< 80	0%

Customer Satisfaction

This metric measures overall customer satisfaction through an annual survey containing the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages in the top three categories are indicative of overall customer satisfaction levels and a 90% target has been set.

CSS%	Award
95	150%
94	140%
93	130%
92	120%
91	110%
90	100%
89	90%
88	80%
87	70%
86	60%
85	50%
<85	0%

2009 AIP NON-FINANCIAL MEASURES

Business Transformation

- Approval and sign-off by each process area's Advisory Council. Each Council includes at least two state presidents, process owners, and significant internal customers.
- Also, approval and sign-off required by Business Transformation Steering Committee that includes President of AW Regulated Operations, President of AW Services Company, SVP & Chief Financial Officer, and SVP Human Resources.

Diversity

- Complete diversity awareness training for all ML-4 and above
- 25% of selection pool for L-5 positions will be diversity candidates
- 50% of strategic sourcing events will include a pre-qualified diverse supplier/contractor

2009 ANNUAL INCENTIVE PLAN TARGETS

EXEMPT POSITIONS	
Grade	AIP %
L5 – L6	20%
L7	15%
L8-L9	10%
L10 – L12	5%

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

FR III.23

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

23. Please provide the most recent insurance premiums for each type of insurance coverage, both employee benefit and those purchased for the Company, reflected in the Company's filing. If available, please provide estimated premiums for the subsequent calendar year.

Answer: The Company's filing does not include a request for recovery of the Insurance Other than Group, only employee health and life insurance. Attached is the January 2010 group insurance premium.

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2010)**

COMPANY: Pennsylvania American Water Co.
MONTH OF: January 2010

Insurance/Employees:		Rate	Premium
ACTIVE EMPLOYEES			
LIVES LIFE INSURANCE:			
453	37,647,000	1 Life - Basic (Non Bargaining)	\$0.153 per \$1,000 \$5,759.99
654	37,835,600	2 Life - Basic (Bargaining)	\$0.153 per \$1,000 5,788.85
654	6,540,000	3 A. D. & D. (\$10,000 cov. per employee)	\$0.020 per \$1,000 130.80
453	37,647,000	4 A. D. & D. (Non Bargaining)	\$0.020 per \$1,000 752.94
29	2,449,010	5 Life - Voluntary Under 30	\$0.063 per \$1,000 154.29
32	3,418,236	6 Life - Voluntary 30-34	\$0.084 per \$1,000 287.13
47	5,914,587	7 Life - Voluntary 35-39	\$0.105 per \$1,000 621.03
58	7,123,616	8 Life - Voluntary 40-44	\$0.126 per \$1,000 897.58
80	9,902,519	9 Life - Voluntary 45-49	\$0.200 per \$1,000 1,980.50
73	9,180,273	10 Life - Voluntary 50-54	\$0.336 per \$1,000 3,084.57
43	5,363,480	11 Life - Voluntary 55-59	\$0.620 per \$1,000 3,325.36
17	1,264,311	12 Life - Voluntary 60-64	\$0.788 per \$1,000 996.28
1	115,000	13 Life - Voluntary 65-69	\$1.439 per \$1,000 165.49
0	0	14 Life - Voluntary 70 and over	\$2.321 per \$1,000 0.00
302	6,040,000	15 Life - Dependent Spouse	\$5.000 per Spouse 1,510.00
224	3,950,000	16 Life - Dependent Children	\$1.200 per Family 268.80
0	0	17 Life - Supplemental	\$0.298 per \$1,000 0.00
34	998,000	18 Life - Optional	\$0.298 per \$1,000 297.40

DISABILITY:			
2,533,863	19	Long Term Disability (non union only)	\$0.400 per \$100 10,135.45
1,107	20	Short-term Managed Disability	\$2.66 per EMPLOYEE 2,944.62
0	21	A. & S.-Coverage for New Jersey only	\$0.302 per \$10 0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
171	22	Employees w/Single Coverage(Union)	\$419.00 71,649.00
0	23	Employee and Spouse Coverage(Union)	\$0.00 0.00
0	24	Employee and Children(Union)	\$0.00 0.00
449	25	Employee and Family(Union)	\$1,198.00 537,902.00
3	26	Employees with Single Dental coverage only(Union)	\$23.00 69.00
0	27	Employee and Spouse Coverage Dental(Union)	\$0.00 0.00
0	28	Employee and Children - Dental(Union)	\$0.00 0.00
4	29	Employee and Family Dental(Union)	\$70.00 280.00
99	30	Employees w/Single Coverage(Non-Union)	\$419.00 41,481.00
107	31	Employee and Spouse Coverage(Non-Union)	\$960.00 102,720.00
26	32	Employee and Children(Non-Union)	\$888.00 23,088.00
181	33	Employee and Family(Non-Union)	\$1,433.00 259,373.00
0	34	Employees with Single Dental Coverage only(Non-Union)	\$21.00 0.00
1	35	Employee and Spouse Coverage Dental(Non-Union)	\$45.00 45.00
0	36	Employee and Children - Dental(Non-Union)	\$55.00 0.00
1	37	Employee and Family Dental(Non-Union)	\$87.00 87.00

Actives' subtotal: \$1,075,795.08

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
2	42	Single-Union	\$419.00 838.00
0	43	Family (2 or more individuals)-Union	\$1,198.00 0.00
2	44	Single Dental coverage only-Union	\$23.00 46.00
0	45	Family with Dependent Dental coverage only-Union	\$70.00 0.00
2	46	Employee-Non-Union	\$419.00 838.00
0	47	Employee/Spouse (2 or more individuals)-Non-Union	\$960.00 0.00
0	48	Employee/Children-Non-Union	\$888.00 0.00
0	49	Employee/Family-Non-Union	\$1,433.00 0.00
1	50	Employee-Non-Union(Dental Only)	\$21.00 21.00
0	51	Employee/Spouse Non-Union(Dental Only)	\$45.00 0.00
0	52	Employee/Children-Non-Union (Dental Only)	\$55.00 0.00
0	53	Employee/Family-Non-Union(Dental Only)	\$87.00 0.00

Continuation of Coverage Subtotal: \$1,743.00

TOTAL PREMIUM TO BE PAID TO TRUST: \$1,077,538.08

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Industry Organization Payments

FR III.24

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

III. Operating Expense

24. Please provide the level of payments made to industry organizations included in the cost of service along with a description of each payee organization.

Answer: There were no payments made to industry organizations in 2009 for the Northeast Operations.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Cancelled Construction Projects

FR III.25

Pennsylvania-American Water Company
Northeast Wastewater Operations

III. Operating Expense

25. If the Company has included any costs associated with cancelled construction projects or obsolete inventory in requested rates, separately identify the items, provide the related amounts and explain the reason for the cancellation or obsolescence.

Answer: The Company has not included any costs associated with cancelled construction projects or obsolete inventory in requested rates.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Vacation Pay

FR III.26

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

III. Operating Expense

26. Please explain how the Company accounts for vacation pay for book and ratemaking purposes.

Answer: For book purposes, the Company maintains both an asset account for vacation pay and a liability account for vacation pay. The net effect for book purposes equals zero. The Company has made no claim for vacation pay for ratemaking purposes since a full year of salaries and wages for each employee has been included in the Company's claim.

Pennsylvania-American Water Company
Northeast Wastewater Operations
Data Requirements of the Pennsylvania Public Utility Commission
Eliminated Employee Positions

FR III.27

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

III. Operating Expense

27. Indicate whether any employee positions have been eliminated since the commencement of the historic test year or is expected to be eliminated during the future test year.

Answer: There were no employee positions eliminated in 2007 and the company does not anticipate eliminating any employee positions in 2008.

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

FR III.28

Pennsylvania-American Water Company
Northeast Wastewater Operations
III. Operating Expense

28. Furnish the name of each supplier, gallonage and expense for water purchased as recorded in Water Purchased for Resale- Account 706 for the historic test year and two preceding years.

Answer: Not applicable for this filing.