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NORTHEAST WW**

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PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS
PRO FORMA STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2009
AND DECEMBER 31, 2010 UNDER PRESENT AND PROPOSED RATES

LINE NO.	DESCRIPTION	PER BOOKS		PRESENT RATES 12/31/10		12/31/10		PROPOSED RATES LINE NO.	
		AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT	AMOUNT	ADJUSTMENT
1	OPERATING REVENUE	\$916,589	-\$9,392	\$907,197	-\$33,378	\$873,819		\$2,973,309	
2	OPERATING REVENUE DEDUCTIONS:								
3	OPERATING EXPENSES	753,923	-21,567	732,356	17,144	749,500	54,917	804,417	
4	DEPRECIATION	172,033	160,497	332,530	278,036	610,566	0	610,566	
5	AMORTIZATIONS	0	0	0	0	0	0	0	
6	TAXES, OTHER THAN INCOME:								
7	LOCAL PROPERTY AND MISCELLANEOUS	8,419	0	8,419	103,799	112,218	0	112,218	
8	FEDERAL ENVIRONMENTAL TAX	0	0	0	0	0	0	0	
9	PUBLIC UTILITY REALTY TAXES	0	0	0	0	0	0	0	
10	PAYROLL TAXES	16,778	0	16,778	1,072	17,850	0	17,850	
11	GENERAL ASSESSMENT	4,031	1,504	5,535	-203	5,332	12,811	18,143	
12	STATE CAPITAL STOCK TAX	0	0	0	0	0	0	0	
13	TOTAL TAXES OTHER THAN INCOME	29,228	1,504	30,732	104,668	135,400	12,811	148,211	
14	UTILITY OPERATING INCOME BEFORE INCOME TAXES	-38,595	-149,826	-188,421	-433,226	-621,647	2,031,762	1,410,115	
15	INCOME TAXES:								
16	STATE INCOME TAX	0	0	0	0	0	118,058	118,058	
17	FEDERAL INCOME TAX	0	0	0	0	0	337,794	337,794	
18	AMORTIZATION OF ITC & EXCESS DEFERRED TAXES	0	0	0	0	0	0	0	
19	TOTAL INCOME TAXES	0	0	0	0	0	455,852	455,852	
20	TOTAL OPERATING REVENUE DEDUCTIONS	955,184	140,434	1,095,618	399,848	1,495,466	523,580	2,019,046	
21	UTILITY OPERATING INCOME	-38,595	-149,826	-188,421	-433,226	-621,647	1,575,910	954,263	
22	INCOME DEDUCTIONS:								
23	INTEREST ON LONG TERM DEBT	229,078	0	229,078	97,731	326,809	121	326,930	
24	AMORTIZATION OF DEBT DISCOUNT EXPENSE	0	0	0	0	0	0	0	
25	INTEREST ON NOTES PAYABLE TO OTHERS	104	0	104	-104	0	0	0	
26	TOTAL INCOME DEDUCTIONS	229,182	0	229,182	97,627	326,809	121	326,930	
27	NET INCOME	-267,777	-149,826	-417,603	-530,853	-948,456	1,575,789	627,333	
28	PREFERRED DIVIDENDS	4,433		4,433		6,295		6,298	
29	NET INCOME TO COMMON	-\$272,210		-\$422,036		-\$954,751		\$621,035	

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

TOTAL INCREASE IN REVENUES BY TARIFF SUBDIVISIONS PROJECTED TO

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

LINE NO.	ACCT. NO.	CUSTOMER CLASS	PER BOOKS 12/31/2009	CHANGE IN NUMBER OF CUSTOMERS	SPECIFIC CUSTOMER ADJUSTMENTS	OTHER REVENUE ADJUSTMENTS	(5)	(6)	(7)	(8)	PRO FORMA PRESENT RATES 12/31/2009
1		OPERATING REVENUES									(9)
2		METERED SALES									
3	461.1	RESIDENTIAL	\$735,204	(3,022)	\$0	\$0	\$0	\$0	\$0	\$0	\$732,182
4	461.2	COMMERCIAL	69,829	0	0	0	0	0	0	0	69,829
5	461.3	INDUSTRIAL	0	0	0	0	0	0	0	0	0
6	464	MUNICIPAL	0	0	0	0	0	0	0	0	0
7	466	SALES FOR RESALE	0	0	0	0	0	0	0	0	0
9		TOTAL METERED SALES	805,033	(3,022)	0	0	0	0	0	0	802,011
10		UNMETERED SALES									
11	460	RESIDENTIAL	76,429	407	0	0	0	0	0	0	76,836
12	460	COMMERCIAL	0	0	0	0	0	0	0	0	0
13	460	INDUSTRIAL	0	0	0	0	0	0	0	0	0
14	460	MUNICIPAL	0	0	0	0	0	0	0	0	0
15	460	MISCELLANEOUS	0	0	0	0	0	0	0	0	0
16		TOTAL UNMETERED SALES	76,429	407	0	0	0	0	0	0	76,836
17	462.1	PRIVATE FIRE PROTECTION	0	0	0	0	0	0	0	0	0
18	462.2	PUBLIC FIRE PROTECTION	0	0	0	0	0	0	0	0	0
19		TOTAL WATER SALES	881,462	(2,615)	0	0	0	0	0	0	878,847
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	35,127	0	0	(6,777)	0	0	0	0	28,350
22	471	MISC SERVICE REVENUES	0	0	0	0	0	0	0	0	0
23	472	RENTS FROM PROPERTIES	0	0	0	0	0	0	0	0	0
24	474	OTHER WATER REVENUES	0	0	0	0	0	0	0	0	0
25		TOTAL OTHER OPERATING REVENUES	35,127	0	0	(6,777)	0	0	0	0	28,350
26		TOTAL OPERATING REVENUES	\$916,589	(\$2,615)	\$0	(\$6,777)	\$0	\$0	\$0	\$0	\$907,197
27		TOTAL OPERATING REVENUES									

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

LINE NO.	ACCT. NO.	CUSTOMER CLASSIFICATION	PRO FORMA PRESENT RATES 12/31/2010	CUSTOMER CHANGES	ELIMINATE AVAILABILITY	OTHER OPERATING REVENUES	RECLASSIFY REVENUE	PRO FORMA PRESENT RATES 12/31/2010	PERCENT	AMOUNT	PRO FORMA PROPOSED RATES
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1		OPERATING REVENUES									
2		METERED SALES									
3	461.1	RESIDENTIAL	\$732,182	\$13,512	\$0	\$0	\$27,367	\$773,061	231.50%	1,789,632	\$2,562,693
4	461.2	COMMERCIAL	69,829	0	0	0	0	69,829	337.70%	235,815	305,644
5	461.3	INDUSTRIAL	0	0	0	0	0	0	0.00%	0	0
6	464	MUNICIPAL	0	0	0	0	0	0	0.00%	0	0
7	466	SALES FOR RESALE	0	0	0	0	0	0	0.00%	0	0
9		TOTAL METERED SALES	802,011	13,512	0	0	27,367	842,890	240.30%	2,025,447	2,868,337
10		UNMETERED SALES									
11	460	RESIDENTIAL	76,836	776	(46,623)	0	(27,367)	3,622	232.85%	8,434	12,056
12	460	COMMERCIAL	0	0	0	0	0	0	0.00%	0	0
13	460	INDUSTRIAL	0	0	0	0	0	0	0.00%	0	0
14	460	MUNICIPAL	0	0	0	0	0	0	0.00%	0	0
15	460	MISCELLANEOUS	0	0	0	0	0	0	0.00%	0	0
16		TOTAL UNMETERED SALES	76,836	776	(46,623)	0	(27,367)	3,622	0.00%	8,434	12,056
17	462.1	PRIVATE FIRE PROTECTION	0	0	0	0	0	0	0.00%	0	0
18	462.2	PUBLIC FIRE PROTECTION	0	0	0	0	0	0	0.00%	0	0
19		TOTAL WASTEWATER SALES	878,847	14,288	(46,623)	0	0	846,512	240.27%	2,033,881	2,880,393
20		OTHER OPERATING REVENUES									
21	470	PENALTIES	28,350	0	0	(1,043)	0	27,307	240.26%	65,609	92,916
22	471	MISC SERVICE REVENUES	0	0	0	0	0	0	0.00%	0	0
23	472	RENTS FROM PROPERTIES	0	0	0	0	0	0	0.00%	0	0
24	474	OTHER REVENUES	0	0	0	0	0	0	0.00%	0	0
25		TOTAL OTHER OPERATING REVENUE	28,350	0	0	(1,043)	0	27,307	240.26%	65,609	92,916
26		TOTAL OPERATING REVENUES	\$907,197	\$14,288	(\$46,623)	(1,043)	\$0	\$873,819	240.27%	\$2,099,490	\$2,973,309
27											

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

SUMMARY OF ADJUSTMENTS TO OPERATING REVENUES

LINE NO.	DESCRIPTION	PRESENT RATES		PRESENT RATES	
		ADJUSTMENT	12/31/09 AMOUNT	ADJUSTMENT	12/31/10 AMOUNT
1	PER BOOKS		\$916,589		
2	PRESENT RATES AT 12-31-09				\$907,197
3	OTHER OPERATING REVENUES				
4	470 - PENALTIES	(6,777)		(1,043)	
5	CHANGE IN CUSTOMERS ADJUSTMENT	(2,615)		14,288	
6	ELIMINATE AVAILABILITY CUSTOMERS			(46,623)	
7	PRO FORMA ADJUSTMENT		<u>(9,392)</u>		<u>-33,378</u>
8	PRO FORMA PRESENT RATES AT DECEMBER 31, 2009		<u>\$907,197</u>		
9	PRO FORMA PRESENT RATES AT DECEMBER 31, 2010				<u>\$873,819</u>

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

PENALTIES

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

LINE NO.	DESCRIPTION	PER BOOKS 12/31/09	PRESENT RATES 12/31/10	PROPOSED RATES
1	TOTAL BILLED SALES	\$881,462	\$846,512	\$2,880,393
2	% OF PENALTIES TO TOTAL			
3	SALES (3 YEAR AVERAGE)		3.2258000%	3.2258000%
4	PENALTIES	35,127	27,307	92,916
5	LESS: PER BOOKS AT 12-31-09		35,127	
6	LESS: PRESENT RATES AT 12-31-10			27,307
7	PRO FORMA ADJUSTMENTS		<u>(\$7,820)</u>	<u>\$65,609</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

ELIMINATION OF AVAILABILITY REVENUE

During this rate proceeding, the Company is proposing to eliminate all charges to availability customers. This adjustment removes all availability revenues from the Company's pro forma present rates.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	UNMETERED AVAILABILITY SALES	
2	RESIDENTIAL	<u>(\$46,623)</u>
3	TOTAL UNMETERED AVAILABILITY REVENUES	<u>(46,623)</u>
4	PRO FORM ADJUSTMENT	<u>(\$46,623)</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

CHANGE IN REVENUES DUE TO CHANGE IN NUMBER OF CUSTOMERS

The following adjustment reflects the change in revenues due to the average change in number of customers during the twelve months ended December 31, 2009.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2009 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED CUSTOMERS	FR II.2	(\$3,022)
2	An analysis of residential accounts indicates that		
3	various accounts were lost, added or reclassified during		
4	the test year. Revenue was adjusted by applying the		
5	average annual consumption per residential customer		
6	to the difference between the actual number of customers		
7	at December 2009 and the average number of customers		
8	between December 2008 and December 2009.		
9	RESIDENTIAL UNMETERED CUSTOMERS		
10	An adjustment was made to annualize the number of		
11	flat rate EDU's at December 2009.		
12	COMMERCIAL METERED CUSTOMERS	FR II.2	\$0
13	An analysis of commercial accounts indicates that		
14	various accounts were lost, added or reclassified during		
15	the test year. The difference between the actual number of		
16	customers at December 2009 and the average number of		
17	customers between December 2008 and December 2009		
18	was zero, therefore an adjustment was not made.		
19	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE		\$0
20	METERED CUSTOMERS.	FR II.2	
21	Any change to these revenue classes large enough to warrant		
22	an adjustment will be shown as a specific customer adjustment.		
23	PRO FORMA ADJUSTMENT		<u>(\$2,615)</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

CHANGE IN REVENUES DUE TO CHANGE IN NUMBER OF CUSTOMERS

The following adjustment reflects the change in revenues due to the projected change in number of customers during the twelve months ending December 31, 2010.

LINE NO.	DESCRIPTION	CALCULATION REFERENCE	PRESENT RATES 12/31/2010 REVENUE ADJUSTMENT
1	RESIDENTIAL METERED	FR II.2	
2	Residential revenue was adjusted by applying		\$13,512
3	the average annual consumption per residential		
4	customer to the projected change in customers for		
5	the test year 2010.		
6	Flat rate revenue for Winona Lakes will be changed		27,367
7	to metered.		
8	RESIDENTIAL FLAT RATE CUSTOMERS		
9	Residential revenue was adjusted by applying		776
10	the flat rate per residential residential customers		
11	to the projected change in customers for the		
12	test year 2010.		
13	Flat rate revenue for Winona Lakes will be changed		(27,367)
14	to metered.		
15	COMMERCIAL METERED CUSTOMERS	FR II.2	\$0
16	The Company does not expect an increase in		
17	commercial customers for 2010.		
18	INDUSTRIAL, MUNICIPAL AND SALE FOR RESALE	FR II.2	\$0
19	METERED CUSTOMERS		
20	Those large enough to warrant an adjustment are		
21	shown as specific customer adjustments.		
22	PRO FORMA ADJUSTMENT		<u>\$14,288</u>

WITNESS: JO ANNE LONTZ

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING REVENUES

NUMBER OF CUSTOMERS

The following is a list of the number of customers served at December 31, 2008 and 2009 and the estimated number of customers to be served at December 31, 2010. Also shown are the number of customers in each class whose bills will increase, decrease or remain unchanged as a result of the rate changes proposed in this filing.

LINE NO.	ACCT. NO.	DESCRIPTION	SERVED AT			TO BE		
			12/31/2008	12/31/2009	12/31/2010	INCREASED BILLS	DECREASED BILLS	UNCHANGED BILLS
1		METERED						
2	601.1	RESIDENTIAL	3,290	3,274	3,329	3,329	0	0
3	601.2	COMMERCIAL	10	10	10	10	0	0
4	601.3	INDUSTRIAL	0	0	0	0	0	0
5	606	MUNICIPAL	0	0	0	0	0	0
6	607	BULK	0	0	0	0	0	0
7	601.4	MISCELLANEOUS	0	0	0	0	0	0
8		METERED	3,300	3,284	3,339	3,339	0	0
9		UNMETERED						
10	602.1	RESIDENTIAL	653	627	94	94	0	0
11	602.2	COMMERCIAL	0	0	0	0	0	0
12	602.3	INDUSTRIAL	0	0	0	0	0	0
13	606	MUNICIPAL	0	0	0	0	0	0
14	602.4	MISCELLANEOUS	0	0	0	0	0	0
15		UNMETERED	653	627	94	94	0	0
16	604	PRIVATE FIRE	0	0	0	0	0	0
17	605	PUBLIC FIRE	0	0	0	0	0	0
18	TOTAL CUSTOMERS		3,953	3,911	3,433	3,433	0	0

WITNESS: JO ANNE LONTZ

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	DEPRECIATED ORIGINAL COST 12/31/09	DEPRECIATED ORIGINAL COST 12/31/10	DEPRECIATED ORIGINAL COST PROPOSED
1	NON-DEPRECIABLE PLANT	\$8	\$8	\$8
2	DEPRECIABLE PLANT	11,591,467	13,806,761	13,806,761
3	TOTAL UTILITY PLANT IN SERVICE	11,591,475	13,806,769	13,806,769
4	DEDUCT:			
5	CONTRIBUTIONS IN AID OF CONSTRUCTION	2,176,836	2,176,836	2,176,836
6	CUSTOMER ADVANCES FOR CONSTRUCTION	20,000	20,000	20,000
7	SUB-TOTAL	2,196,836	2,196,836	2,196,836
8	NET UTILITY PLANT IN SERVICE	9,394,639	11,609,933	11,609,933
9	ACCRUED DEPRECIATION	1,101,161	17,325	17,325
10	DEPRECIATED UTILITY PLANT IN SERVICE	8,293,478	11,592,608	11,592,608
11	ADD:			
12	MATERIALS AND SUPPLIES	4,190	4,190	4,190
13	CASH WORKING CAPITAL - EXPENSES	59,783	61,323	61,323
14	ACCRUED AND PREPAID TAXES	5,241	46,406	50,440
15	DEDUCT:			
16	CASH WORKING CAPITAL - INT AND DIV	25,563	36,433	36,474
17	DEFERRED TAXES	950,487	887,081	887,081
18	TOTAL RATE BASE ELEMENTS	\$7,386,642	\$10,781,013	\$10,785,006
19	UTILITY OPERATING INCOME			
20	PER BOOKS	-\$38,595	-0.52%	-0.36%
21	PRESENT RATES AT 12-31-09	-\$188,421	-2.55%	-
22	PRESENT RATES AT 12-31-10	-\$621,647	-	-5.77%
23	PROPOSED RATES	\$954,263	-	8.85%

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUMMARY OF DETAILED PLANT ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	AMOUNT 31-Dec-09	ADDITIONS	RETIREMENTS	ESTIMATED BOOK COST 31-Dec-10
1		INTANGIBLE PLANT				
2	352.0	WW FRANCHISES	0	0	0	0
3		TOTAL INTANGIBLE PLANT	0	0	0	0
4		TANGIBLE PLANT				
5	353.2	WW LAND & LD RIGHTS COLL	3	0	0	3
6	353.3	WW LAND & LD RIGHTS SPP	2	0	0	2
7	353.4	WW LAND & LD RIGHTS TDP	3	0	0	3
8		TOTAL LAND AND LAND RIGHTS	8	0	0	8
9	354.2	WW STRUCT & IMP COLL	2,712	0	0	2,712
10	354.3	WW STRUCT & IMP SPP	282,936	0	0	282,936
11	354.4	WW STRUCT & IMP TDP	1,956,272	1,461,315	(57,625)	3,359,962
12	354.7	WW STRUCT & IMP GEN	371,634	39,433	0	411,067
13	355.0	WW PWR GEN EQUIP COLL	84,619	0	0	84,619
14	360.1	WW COLLECTIONS SEWERS FORCED	3,511,307	10,000	0	3,521,307
15	361.1	WW COLLECTING MAINS	93,011	18,000	(1,800)	109,211
16	361.2	WW MANHOLES	173,217			173,217
17	363.0	WW SERVICES SEWER	1,738,278	50,000	0	1,788,278
18	364.0	WW FLOW MEASURING DEVICES	33,727	0	0	33,727
19	371.0	WW PUMP EQUIP ELECT	574,944	54,655	0	629,599
20	380.0	WW TD EQUIP	1,999,787	1,129,769	(667,162)	2,462,394
21	381.0	WW PLANT SEWERS	409,415	143,490	0	552,905
22	382.0	WW OUTFALL SEWER LINES	32,729	24,097	(32,729)	24,097
23	390.0	WW OFFICE FURNITURE & EQUIP	14,047	0	0	14,047
24	391.1	WW TRANS EQUIP LT DTY TRKS	0	22,500	0	22,500
25	393.0	WW TOOL SHOP & GARAGE EQUIP	5,227	0	0	5,227
26	394.0	WW LABORATORY EQUIPMENT	53,549	21,351	0	74,900
27	396.0	COMMUNICATION EQUIP	244,078	0	0	244,078
28	397.0	WW MISC EQUIPMENT	9,979	0	0	9,979
29		TOTAL TANGIBLE PROPERTY	11,591,475	2,974,610	(759,316)	13,806,769
30		TOTAL UTILITY PLANT IN SERVICE	\$11,591,475	\$2,974,610	(\$759,316)	\$13,806,769

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

MATERIALS AND SUPPLIES

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

LINE NO.	MONTH	DETAIL	PRESENT RATES 12/31/2009 AMOUNT
1	DECEMBER, 2008	2,018	
2	JANUARY, 2009	6,368	
3	FEBRUARY	6,121	
4	MARCH	4,657	
5	APRIL	3,434	
6	MAY	4,717	
7	JUNE	4,016	
8	JULY	4,233	
9	AUGUST	3,628	
10	SEPTEMBER	4,026	
11	OCTOBER	3,601	
12	NOVEMBER	3,878	
13	DECEMBER, 2009	3,771	
14	TOTAL	54,468	
15	AVERAGE		4,190
16	ALLOWANCE FOR MATERIALS AND SUPPLIES		
17	AT DECEMBER 31,2009		\$4,190

WITNESS: JOHN R. COX

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF CASH WORKING CAPITAL REQUIREMENTS

Charges for water and wastewater services are billed in arrears on a monthly basis. The calculation set forth below reflects summarized operating revenues billed for the twelve months ended December 31, 2009, and as annualized under present rates for the twelve months ending December 31, 2009 and 2010. The calculation further reflects the average lag in receipt of revenues less the lag in payment of operating expenses to determine cash working capital requirements.

LINE NO.	DESCRIPTION	PER BOOK AMOUNT	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT
1	OPERATING REVENUE BILLED DURING THE TWELVE MONTHS ENDED 12/31/09			
2	BI-MONTHLY BILLINGS			
3	LAG DAYS			
4	DOLLAR DAYS			
5	QUARTERLY			
6	LAG DAYS			
7	DOLLAR DAYS			
8	MONTHLY BILLINGS	881,462	878,847	846,512
9	LAG DAYS	50.5	50.5	50.5
10	DOLLAR DAYS	44,513,831	44,381,774	42,748,856
11	TOTAL BILLED REVENUE	\$881,462	\$878,847	\$846,512
12	TOTAL DOLLAR DAYS	\$44,513,831	\$44,381,774	\$42,748,856
13	AVERAGE LAG IN RECEIPT OF REVENUE			
14	(LINE 12 / LINE 11)	50.5	50.5	50.5
15	DEDUCT:			
16	AVERAGE LAG IN PAYMENT			
17	OF OPERATING EXPENSES	19.7	19.7	19.7
18	AVERAGE LAG BETWEEN PAYMENT OF OPERATING			
19	EXPENSES AND RECEIPT OF REVENUES	30.8	30.8	30.8
20	WORKING CAPITAL REQUIREMENTS			
21	ANNUAL OPERATING EXPENSES		\$708,626	\$726,643
22	OPERATING EXPENSES PER DAY			
23	(LINE 18 / 365 DAYS)		1,941	1,991
24	CASH WORKING CAPITAL REQUIRED			
25	(LINE 16 * LINE 20)		\$59,783	\$61,323

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

SUPPORT OF EXPENSE DAYS

LINE NO.	DESCRIPTION	LAG DAYS	PER BOOKS		PRESENT RATES 12-31-09		PRESENT RATES 12-31-10	
			AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS	AMOUNT	DOLLAR DAYS
1	CHEMICALS	30.0	\$21,375	\$641,250	\$21,375	\$641,250	\$24,144	\$724,320
2	GROUP INSURANCE	(13.4)	39,810	(533,454)	39,810	(533,454)	39,105	(524,007)
3	LABOR AND LABOR RELATED	12.5	227,572	2,844,650	227,572	2,844,650	233,909	2,923,863
4	LEASED EQUIPMENT	2.0	0	0	0	0	0	0
5	TRANSPORTATION	29.1	26,201	762,449	26,201	762,449	19,816	576,646
6	MISCELLANEOUS	25.3	80,665	2,040,825	80,665	2,040,825	158,599	4,012,555
7	PURCHASED POWER	26.5	118,771	3,147,432	118,771	3,147,432	113,804	3,015,806
8	WASTE DISPOSAL	26.1	194,232	5,069,455	194,232	5,069,455	137,266	3,582,643
9	TOTALS		<u>708,626</u>	<u>13,972,607</u>	<u>708,626</u>	<u>13,972,607</u>	<u>726,643</u>	<u>14,311,826</u>
10	AVERAGE LAG			<u>19.7</u>		<u>19.7</u>		<u>19.7</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	NET LEAD/ LAG DAYS FUTURE	PRESENT RATES 12-31-08		PRESENT RATES 12-31-10		PROPOSED RATES	
			TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ	TAXES PAYABLE	ACCRUED TAXES ADJ
1	GENERAL ASSESSMENT	125	\$5,535	\$1,896	\$5,332	\$1,826	\$18,143	\$6,213
2	PROPERTY TAX	145.0	8,419	3,345	112,218	44,580	112,218	44,580
3	STATE INCOME TAX	21.8	0	0	0	0	118,058	7,051
4	FEDERAL INCOME TAX	-8.0	0	0	0	0	337,794	-7,404
5	TOTALS			<u>\$5,241</u>		<u>\$46,406</u>		<u>\$50,440</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF LAG DAYS FOR ACCRUED AND PREPAID TAXES

LINE NO.	DESCRIPTION	TAX PERIOD		PAYMENTS 2009 TAX					TOTAL TAX LAG DAY
		BEGINNING	ENDING						
1	GENERAL ASSESSMENT	01-Jul-09	30-Jun-10	16-Oct-09					
2	PERCENT OF PAYMENT			100.00%					
3	LAG DAYS			(74.5)					(74.5)
4	PROPERTY TAX				<u>Amount</u>	<u>Pmt Date</u>	<u>Lag Days</u>	<u>Dollar Days</u>	
5	PIKE COUNTY	01-Jan-09	31-Dec-09	\$ 817	23-Apr-09	(69.5)	\$ (56,782)		
6	PIKE COUNTY	01-Jan-09	31-Dec-09	350	23-Apr-09	(69.5)	(24,325)		
7	PIKE COUNTY	01-Jan-09	31-Dec-09	7	23-Apr-09	(69.5)	(487)		
8	E. STROUDSBURG/LEHMAN TWF	01-Jul-09	30-Jun-10	5,039	22-Sep-09	(98.5)	(496,342)		
9	E. STROUDSBURG/LEHMAN TWF	01-Jul-09	30-Jun-10	2,161	22-Sep-09	(98.5)	(212,859)		
10	E. STROUDSBURG/LEHMAN TWF	01-Jul-09	30-Jun-10	44	22-Sep-09	(98.5)	(4,334)		
				<u>\$ 8,418</u>			<u>\$ (795,127)</u>		(94.5)
11	STATE INCOME TAX	01-Jan-09	31-Dec-09	15-Mar-09	15-Jun-09	15-Sep-09	15-Dec-09		
12	PERCENT OF PAYMENT			25.00%	25.00%	25.00%	25.00%		
13	LAG DAYS			(27.3)	(4.3)	18.8	41.5		28.7
14	FEDERAL INCOME TAX	01-Jan-09	31-Dec-09	15-Apr-09	15-Jun-09	15-Sep-09	15-Dec-09	15-Mar-10	
15	PERCENT OF PAYMENT			22.50%	22.50%	22.50%	22.50%	10.00%	
16	LAG DAYS			(17.6)	(3.8)	16.9	37.4	25.6	58.5

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

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

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

LINE NO.	DESCRIPTION	LONG TERM INTEREST	SHORT TERM INTEREST	PREFERRED DIVIDEND
1	AVERAGE LAG CALCULATION			
2	FUTURE REVENUE LAG DAYS	50.5	50.5	50.5
3	LESS: INTEREST PAYMENTS LAG DAYS	<u>91.3</u>	<u>15.2</u>	<u>45.6</u>
4	AVERAGE LAG BETWEEN THE PAYMENT			
5	OF INTEREST AND THE RECEIPT			
6	OF REVENUES	-40.8	35.3	4.9
		PRESENT RATES	PRESENT RATES	PROPOSED
7	LONG TERM DEBT	12/31/09	12/31/10	AMOUNT
8	WORKING CAPITAL REQUIREMENTS			
9	PRO FORMA ANNUAL INTEREST EXPENSE	\$229,078	\$326,809	\$326,930
10	INTEREST EXPENSE PER DAY			
11	(LINE 9 / 365 DAYS)	<u>628</u>	<u>895</u>	<u>896</u>
12	CASH WORKING CAPITAL REQUIRED			
13	(LINE 6 COL.1 x LINE 10)		(25,622)	(36,516)
14	SHORT TERM DEBT			
15	WORKING CAPITAL REQUIREMENTS			
16	PRO FORMA ANNUAL INTEREST EXPENSE	104	0	0
17	INTEREST EXPENSE PER DAY			
18	(LINE 16 / 365 DAYS)	<u>0</u>	<u>0</u>	<u>0</u>
19	CASH WORKING CAPITAL REQUIRED			
20	(LINE 6 COL.2 x LINE 17)		0	0
21	PREFERRED DIVIDENDS			
22	WORKING CAPITAL REQUIREMENTS			
23	PRO FORMA ANNUAL DIVIDEND EXPENSE	4,433	6,295	6,298
24	DIVIDEND EXPENSE PER DAY			
25	(LINE 23 / 365 DAYS)	<u>12</u>	<u>17</u>	<u>17</u>
26	CASH WORKING CAPITAL REQUIRED			
27	(LINE 6 COL.3 x LINE 24)		<u>59</u>	<u>83</u>
28	TOTAL CASH WORKING CAPITAL REQUIRED			
29	(LINE 13 + LINE 20 + LINE 27)	<u>(\$25,563)</u>	<u>(\$36,433)</u>	<u>(\$36,474)</u>

WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO RATE BASE ELEMENTS

CALCULATION OF DEFERRED INCOME TAXES

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

LINE NO.	VINTAGE YEARS	TAX BASE PROPERTY	ACCELERATED TAX DEPRECIATION	STRAIGHT-LINE REMAINING LIFE	EXCESS DEPRECIATION	DEFERRED FEDERAL TAXES
1	04/02 - 12/10	\$10,708,614	\$290,318	\$471,478	-\$181,160	-\$63,406
2						<u>-63,406</u>
3						<u>(950,487)</u>
4						<u>(\$887,081)</u>

WITNESS: JOHN COX
 REFERENCE: FR IV.4

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/09	PRESENT RATES 12/31/09	PRESENT RATES 12/31/10
1		SOURCE OF SUPPLY EXPENSES			
2		-OPERATIONS-			
3	601.1	SALARY AND WAGES	\$0	\$0	\$0
4	601.2	SALARY AND WAGES	0	0	0
5	610.1	PURCHASED WATER	0	0	0
6	615.1	PURCHASED POWER	0	0	0
7	616.1	PURCHASED FUEL	0	0	0
8	618.1	CHEMICALS	0	0	0
9	620.1	MATERIALS AND SUPPLIES	0	0	0
10	620.2	MATERIALS AND SUPPLIES	726	726	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	1,038	1,038	1,038
17	675.2	MISCELLANEOUS MAINTENANCE EXPENSE	992	992	992
18					
19		TOTAL SOURCE OF SUPPLY EXPENSES	2,756	2,756	2,756
20					
21		WASTEWATER TREATMENT			
22		-OPERATION-			
23	601.3	SALARY AND WAGES	155,854	155,854	157,378
24	601.4	SALARY AND WAGES	157	157	159
25	615.3	PURCHASED POWER	118,771	118,771	113,804
26	618.3	CHEMICALS	21,375	21,375	24,144
26	620.3	MATERIALS AND SUPPLIES	0	0	0
27	620.4	MATERIALS AND SUPPLIES	2,590	2,590	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	15,870	15,870	15,870
32	636.3	CONTRACT SERVICES	0	0	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	14,685	14,685	14,685
39		-MISCELLANEOUS-			
40	675.3	MISCELLANEOUS OPERATING EXPENSE	202,616	202,616	147,100
41					
42		TOTAL WASTEWATER TREATMENT EXPENSE	531,918	531,918	475,730
43					
44					
45		TRANSMISSION AND DISTRIBUTION			
46		-OPERATION-			
47	601.5	SALARY AND WAGES	0	0	0
48	601.6	SALARY AND WAGES	6,346	6,346	6,408
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	0	0	0

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF EXPENSE ACCOUNTS

LINE NO.	ACCT. NO.	ACCOUNT TITLE	PER BOOKS 12/31/09	PRESENT RATES 12/31/09	PRESENT RATES 12/31/10
		-MAINTENANCE-			
1	620.6	MATERIALS AND SUPPLIES	3,347	3,347	3,347
2	636.6	CONTRACT SERVICES	0	0	0
3	675.6	MISCELLANEOUS MAINTENANCE EXPENSE	26,750	26,750	26,750
4					
5		TOTAL TRANSMISSION AND DISTRIBUTION	36,443	36,443	36,505
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	45,297	23,730	22,857
17		-MISCELLANEOUS-			
18	675.7	MISCELLANEOUS EXPENSE	2,741	2,741	2,741
19					
20		TOTAL CUSTOMER ACCOUNTING	48,038	26,471	25,598
21					
22					
23		ADMINISTRATIVE AND GENERAL			
24	601.8	SALARY AND WAGES	55,853	55,853	56,400
25	603.8	SALARY OF OFFICERS	0	0	0
26	604.8	EMPLOYEE PENSION AND BENEFITS	49,172	49,172	52,669
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	26,201	26,201	19,816
38	656.8	INSURANCE - VEHICLES	0	0	0
39	657.8	INSURANCE	0	0	0
40	658.8	WORKERS COMPENSATION	0	0	0
41	659.8	INSURANCE	0	0	0
42	660.8	ADVERTISING	0	0	0
43	666.8	AMORTIZATION OF RATE CASE	0	0	76,484
44	667.8	REGULATORY COMMISSION	0	0	0
45		-MISCELLANEOUS-			
46	675.8	MISCELLANEOUS EXPENSE	3,542	3,542	3,542
47					
48		TOTAL ADMINISTRATIVE AND GENERAL	134,768	134,768	208,911
49					
50					
51					
52		TOTAL OPERATING EXPENSES	753,923	732,356	749,500

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SUMMARY OF OPERATING EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	PRESENT RATES		PRESENT RATES	
		12/31/09 DETAIL	12/31/09 AMOUNT	12/31/10 DETAIL	12/31/10 AMOUNT
1	PER BOOKS		\$753,923		
2	PRESENT RATES AT 12-31-09				\$732,356
3	SALARIES AND WAGES	0		2,135	
4	GROUP INSURANCE	0		(705)	
5	401K & DEFINED CONTRIBUTION PLAN	0		4,202	
6	CHEMICALS	0		2,769	
7	PURCHASED POWER	0		(4,967)	
8	LEASED VEHICLES	0		(6,385)	
9	RATE CASE EXPENSE	0		76,484	
10	INFLATION	0		1,450	
11	WASTE DISPOSAL	0		(56,966)	
12	UNCOLLECTABLES		<u>(21,567)</u>		<u>-873</u>
13	PRO FORMA ADJUSTMENTS		<u>(21,567)</u>		<u>17,144</u>
14	PRESENT RATES 12-31-09		<u>\$732,356</u>		
15	PRESENT RATES 12-31-10				<u>\$749,500</u>

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

SALARY AND WAGES

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED SALARY AND WAGES	\$230,945
2	LESS: 4.59% NOT CHARGED TO OPERATING EXPENSE	<u>10,600</u>
3	SUB-TOTAL	220,345
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>218,210</u>
6	PRO FORMA ADJUSTMENT	<u>\$2,135</u>
	601.1 SALARY AND WAGES - SOURCE OF SUPPLY	\$0
	601.2 SALARY AND WAGES - SOURCE OF SUPPLY	0
	601.3 SALARY AND WAGES - WATER TREATMENT	1,524
	601.4 SALARY AND WAGES - WATER TREATMENT	2
	601.5 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	0
	601.6 SALARY AND WAGES - TRANSMISSION & DISTRIBUTION	62
	601.7 SALARY AND WAGES - CUSTOMER ACCOUNTING	0
	601.8 SALARY AND WAGES - ADMINISTRATIVE AND GENERAL	547
	603.8 SALARY AND WAGES - SALARY OF OFFICERS	0

REFERENCE: EXHIBIT NO. 3-B

WITNESS: DANIEL P. HUNNELL II

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

GROUP INSURANCE

The annualization of the group insurance cost was based on the January 2010 premiums annualized for the future test year number of employees less the annualized employee contribution. The following calculation reflects the annualization less the adjustment for that portion not charged to operations.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED GROUP INSURANCE COST	\$40,986
2	LESS: 4.59% NOT CHARGED TO OPERATING EXPENSE	1,881
3	SUB-TOTAL	39,105
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	39,810
6	PRO FORMA ADJUSTMENT	<u>(\$705)</u>
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	(\$705)

REFERENCE: EXHIBIT NO. 3-B
WITNESS: DANIEL P. HUNNELL II

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

401K & DEFINED CONTRIBUTION PLAN COST (DCP)

The following adjustment is being made to annualize the cost associated with the Company's contribution for 401k and DCP associated with the full complement of employees at December 31, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED 401 K & DCP COST	\$14,217
2	LESS: 4.59% NOT CHARGED TO OPERATING EXPENSE	653
3	SUBTOTAL	13,564
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	9,362
6	PRO FORMA ADJUSTMENT	\$4,202
	604.8 A&G EMPLOYEES PENSION AND BENEFITS	\$4,202

REFERENCE: EXHIBIT NO. 3-B
WITNESS: DANIEL P. HUNNELL II

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CHEMICALS

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED CHEMICAL COST	\$24,144
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	21,375
4	PRO FORMA ADJUSTMENT	<u>\$2,769</u>
	618.3 CHEMICALS - WASTEWATER TREATMENT	2,769

REFERENCE: EXHIBIT 3-B
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

PURCHASED POWER

This adjustment reflects the application of rates for power in effect as of December 31, 2009 and December 31, 2010, to anticipated billing units for the future test year.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED POWER COST	\$113,804
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
3	DURING THE TWELVE MONTHS ENDED 12-31-09	<u>\$118,771</u>
4	PRO FORMA ADJUSTMENT	<u>(\$4,967)</u>
	615.3 PURCHASED POWER	(\$4,967)

REFERENCE: EXHIBIT 3-B
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

LEASED VEHICLES

Starting in 2010 the Company will begin purchasing vehicles utilized in its operations. The following adjustment reflects the elimination of lease expense for those vehicles to be replaced during 2010. In addition, the December 2009 monthly lease costs were annualized for the number of leased vehicles that remain in service at December 31,2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED LEASED VEHICLES COST	\$3,972
2	LESS: 4.59% NOT CHARGED TO OPERATING EXPENSE	182
3	SUB-TOTAL	3,790
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	10,175
6	PRO FORMA ADJUSTMENT	<u>(\$6,385)</u>
	650.8 A & G - MISCELLANEOUS GENERAL EXPENSE	(\$6,385)
	REFERENCE: EXHIBIT 3B	
	WITNESS: JOHN R. COX	

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

RATE CASE EXPENSE

The following adjustment reflects the estimated cost of this rate case at December 31, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	LEGAL FEES AND EXPENSES	\$120,000
2	RATE OF RETURN	7,000
3	COST OF SERVICE AND RATE DESIGN	6,449
4	DEPRECIATION	6,750
5	MISCELLANEOUS	12,769
		<hr/>
6	TOTAL	152,968
		<hr/>
7	NORMALIZED OVER 2 YEARS	76,484
8	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-09	0
		<hr/>
9	PRO FORMA ADJUSTMENT	\$76,484
		<hr/> <hr/>
	666.8 REGULATORY COMMISSION EXPENSE	\$76,484
	REFERENCE: EXHIBIT 3B	
	WITNESS: JOHN COX	

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

INFLATION

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	TOTAL O & M EXPENSES	\$753,923
2	LESS: ADJUSTMENTS	<u>657,232</u>
3	EXPENSES SUBJECT TO INFLATION	96,691
4	INFLATION FACTOR	<u>1.50%</u>
5	PRO FORMA ADJUSTMENT	<u>\$1,450</u>
	675.3 MISCELLANEOUS EXPENSE	\$1,450

REFERENCE: EXHIBIT 3B
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

WASTE DISPOSAL

The following adjustment annualizes waste disposal costs. Historic test year usage was reviewed and adjusted to reflect twelve months of usage, than applied to the actual contract prices that will be in effect at December 31, 2010 to arrive at the pro forma level of expense.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED WASTE DISPOSAL COST	\$137,266
2	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	194,232
3	DURING THE TWELVE MONTHS ENDED 12-31-09	
4	PRO FORMA ADJUSTMENT	<u>(\$56,966)</u>
	675.3 WASTE DISPOSAL EXPENSE - WW TREATMENT	-\$56,966

REFERENCE: EXHIBIT 3-B
WITNESS: JOHN COX

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

CALCULATION OF UNCOLLECTABLE ACCOUNTS EXPENSE

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

LINE NO	DESCRIPTION	PER BOOKS	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED RATES AMOUNT
1	WASTEWATER SALES	\$881,462	\$878,847	\$846,512	\$2,880,393
2	3 YEAR AVERAGE	0.027001091	0.027001091	0.027001091	0.027001091
3	ANNUALIZED UNCOLLECTABLE EXPENSE		\$23,730	\$22,857	\$77,774
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE DURING THE TWELVE MONTHS ENDED 12-31-09		45,297	-	-
5	LESS: PRESENT RATES AT 12-31-09		-	23,730	-
6	LESS: PRESENT RATES AT 12-31-10		-	-	22,857
7	PRO FORMA ADJUSTMENT		(21,567)	-\$873	\$54,917
670.7	CUSTOMER ACCOUNTING AND COLLECTING - BAD DEBT		(21,567)	-\$873	\$54,917

WITNESS: JOHN COX
REFERENCE: EXHIBIT 3-B

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

ANNUAL DEPRECIATION CALCULATED BY STRAIGHT

LINE-REMAINING LIFE OVER BOOK ANNUAL DEPRECIATION

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED DEPRECIATION	\$610,566
2	PER BOOKS AT 12/31/09	<u>172,033</u>
3	PRO FORMA ADJUSTMENT	<u>\$438,533</u>
	403 DEPRECIATION	\$438,533

REFERENCE: DEPRECIATION EXHIBIT
WITNESS: JOHN J SPANOS

PENNSYLVANIA AMERICAN WATER- NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

OPERATING EXPENSES

PAYROLL TAXES

The following adjustment is being made to annualize payroll tax expense based on the annualized salary and wage claim at December 31, 2010.

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/2010 AMOUNT
1	ANNUALIZED PAYROLL TAXES	\$18,709
2	LESS: 4.59% NOT CHARGED TO OPERATING EXPENSE	\$859
3	SUB-TOTAL	\$17,850
4	LESS: AMOUNT CHARGED TO OPERATING EXPENSE	
5	DURING THE TWELVE MONTHS ENDED 12-31-09	\$16,778
6	PRO FORMA ADJUSTMENT	<u>\$1,072</u>
	408.12 - TAXES - PAYROLL	\$1,072

REFERENCE: EXHIBIT NO. 3-B
WITNESS: DANIEL P. HUNNELL II

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED AMOUNT
1	TOTAL WASTEWATER SALES	\$878,847	\$846,512	\$2,880,393
2	ESTIMATED GENERAL ASSESSMENT BY THE PENNSYLVANIA			
3	PUBLIC UTILITY COMMISSION AT .004777980298			
4	PER DOLLAR OF TOTAL WASTEWATER SALES SUBJECT TO TAX	4,199	4,045	13,762
5	CONSUMER ADVOCATE FEE AT .001388377500			
6	PER DOLLAR OF TOTAL WASTEWATER SALES	1,220	1,175	3,999
7	SMALL BUSINESS ADVOCATE FEE AT .000132518596			
8	PER DOLLAR OF TOTAL WASTEWATER SALES	116	112	382
		5,535	5,332	18,143
9	LESS: AMOUNT CHARGED TO OPERATING EXPENSES DURING			
10	THE TWELVE MONTHS ENDED 12-31-09	4,031	-	-
11	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-09	-	5,535	-
12	LESS: PRO FORMA UNDER PRESENT RATES AT 12-31-10	-	-	5,332
13	PRO FORMA ADJUSTMENT	\$1,504	-\$203	\$12,811
	507.1 TAXES OTHER THAN INCOME			\$14,112
	WITNESS: JOHN COX			

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

TAXES, OTHER THAN INCOME

PENNSYLVANIA PROPERTY TAX

The following adjustment reflects the estimated Property Tax expense for the year ending December 31, 2009 at the last known tax rates; Lehman Pike 2009 rates: county tax rate of 16.29 mills, school tax rate of 118.94, and borough tax rate of 3.0 mills; Blue Mountain 2010 rates: county tax rate of 17.25 mills, school tax rate of 145.45 mills, and township tax rate of 14.6 mills.

LINE NO.	DESCRIPTION			PRESENT RATES 12/31/2010 AMOUNT
		Market Value	Pro forma Assessment Value	
1	NET TAXABLE PROPERTY PLANT UPGRADES - LEHMAN PIKE	\$1,123,371	\$287,848	
2	COUNTY TAX RATE 0.01629			\$4,689
3	SCHOOL TAX RATE 0.11894			34,237
4	BOROUGH TAX RATE 0.003			864
5	OTHER PROPERTY - LEHMAN PIKE			5,907
6	NET TAXABLE PROPERTY PLANT UPGRADES - BLUE MOUNTAIN	\$1,500,749	\$375,187	
7	COUNTY TAX RATE 0.01725			6,472
8	SCHOOL TAX RATE 0.14545			54,571
9	BOROUGH TAX RATE 0.0146			5,478
10	TOTAL PRO FORMA TAXES			<u>112,218</u>
11	LESS: AMOUNT CHARGED TO OPERATING EXPENSE			
12	DURING THE TWELVE MONTHS ENDED 12-31-09			8,419
13	PRO FORMA ADJUSTMENT			<u>\$103,799</u>
	408.11 TAXES, OTHER THAN INCOME - PROPERTY TAX			\$103,799
	REFERENCE: EXHIBIT 3-B			
	WITNESS: JOHN COX			

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

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

LINE NO.	DESCRIPTION	PRESENT RATES 12/31/09 AMOUNT	PRESENT RATES 12/31/10 AMOUNT	PROPOSED AMOUNT
1	STATE INCOME TAX PER COMPUTATION			
2	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$118,058
3	LESS: STATE INCOME TAX PER BOOK			
4	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
5	LESS: PRESENT RATES 12-31-09	-	0	-
6	LESS: PRESENT RATES 12-31-10	-	-	0
7	PRO FORMA ADJUSTMENT	\$0	\$0	\$118,058
8	FEDERAL INCOME TAX PER COMPUTATION			
9	SHOWN ON FOLLOWING PAGE	\$0	\$0	\$337,794
10	LESS: FEDERAL INCOME TAX PER BOOK			
11	COMPUTATION SHOWN ON FOLLOWING PAGE	0	-	-
12	LESS: PRESENT RATES 12-31-09	-	0	-
13	LESS: PRESENT RATES 12-31-10	-	-	0
14	PRO FORMA ADJUSTMENT	\$0	\$0	\$337,794

WITNESS: ROD NEVIRAUSSKAS

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

CALCULATION OF STATE AND FEDERAL INCOME TAXES

LINE NO.	DESCRIPTION	PER BOOKS	PRESENT RATES	PRESENT RATES	PROPOSED AMOUNT
			12/31/09 AMOUNT	12/31/10 AMOUNT	
1	UTILITY OPERATING INCOME BEFORE TAXES	-\$38,595	-\$188,421	-\$621,647	\$1,410,115
2	LESS: INTEREST EXPENSE	229,182	229,182	326,809	326,930
3	TAXABLE OPERATING INCOME	-267,777	-417,603	-948,456	1,083,185
4	ADD:				
5	PREMATURE PROPERTY LOSSES	0	0	0	0
6	DEPR - STRAIGHT LINE-REMAINING LIFE	172,033	332,530	610,566	610,566
7	TAXABLE MEALS & ENTERTAINMENT	0	0	0	0
8					
9	TOTAL	172,033	332,530	610,566	610,566
10	DEDUCT:				
11	TAX DEPRECIATION:				
12	ADR ON PRE 1981 ASSETS	0	0	0	0
13	ACRS ON POST 1980 ASSETS	0	0	0	0
14	MACRS ON POST 1986 ASSETS	333,894	333,894	372,902	372,902
15	COST OF REMOVAL	0	0	139,088	139,088
16	TOTAL	333,894	333,894	511,990	511,990
17	TAXABLE INCOME (IF NEGATIVE USE ZERO)	0	0	0	1,181,761
18	STATE INCOME TAX AT:				
19	HISTORIC - 9.99%, FUTURE - 9.99%	0	0	0	118,058
20	TAXABLE INCOME AFTER STATE INCOME TAX	0	0	0	1,063,703
21	ADD:				
22	COST OF REMOVAL NON ADR PROPERTY	0	0	139,088	139,088
23	ACRS ON POST 1980 ASSETS	0	0	0	0
24	MACRS ON POST 1986 ASSETS	333,894	333,894	372,902	372,902
25	DEDUCT:				
26	SLRL ON POST 1980 ASSETS	172,033	332,530	610,566	610,566
27	INCOME SUBJECT TO FEDERAL INCOME TAX (IF NEGATIVE USE 0)	0	0	0	965,127
28	FEDERAL INCOME TAX AT 35%	\$0	\$0	\$0	\$337,794
29	FEDERAL TAX LIABILITY	\$0	\$0	\$0	\$337,794

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

PRO FORMA INTEREST UNDER PRESENT AND PROPOSED RATES

LINE NO. DESCRIPTION	PRESENT RATES	PRESENT RATES	PROPOSED AMOUNT
	12/31/09 AMOUNT	12/31/10 AMOUNT	
1 INTEREST ON LONG TERM DEBT PER COMPUTATION			
2 SHOWN ON FOLLOWING PAGE	\$229,078	\$326,809	\$326,930
3 LESS: INTEREST ON LONG TERM DEBT AS PER BOOK			
4 COMPUTATION ON FOLLOWING PAGE	229,078	-	-
5 LESS: PRESENT RATES AT 12-31-09	-	229,078	-
6 LESS: PRESENT RATES AT 12-31-10	-	-	326,809
7 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>\$97,731</u>	<u>\$121</u>
8 INTEREST ON SHORT TERM DEBT PER COMPUTATION			
9 SHOWN ON FOLLOWING PAGE	\$104	\$0	\$0
10 LESS: INTEREST ON SHORT TERM DEBT AS PER BOOK			
11 COMPUTATION ON FOLLOWING PAGE	104	-	-
12 LESS: PRESENT RATES AT 12-31-09	-	104	-
13 LESS: PRESENT RATES AT 12-31-10	-	-	0
14 PRO FORMA ADJUSTMENT	<u>\$0</u>	<u>(\$104)</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS

PENNSYLVANIA AMERICAN WATER - NORTHEAST WW OPERATIONS

NOTES TO STATEMENT OF INCOME

APPLICATION OF INCOME DEDUCTIONS

LINE

NO. DESCRIPTION

1 CAPITAL STRUCTURE

PRESENT RATES AT DECEMBER 31, 2009

PRESENT RATES AT DECEMBER 31, 2010

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

PRESENT RATES 12-31-09 AMOUNT	PRESENT RATES 12/31/2010 AMOUNT	PROPOSED AMOUNT
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8 APPLICATION OF LONG TERM DEBT INTEREST:

9 ORIGINAL COST RATE BASE	\$7,386,642	\$10,781,013	\$10,785,006
10 DEBT PERCENTAGE (FROM ABOVE)	49.62%	49.21%	49.21%
11 DEBT PORTION OF RATE BASE	3,665,252	5,305,336	5,307,301
12 INTEREST COST (FROM ABOVE)	6.25%	6.16%	6.16%
13 PRO FORMA LONG TERM INTEREST DEDUCTION	<u>\$229,078</u>	<u>\$326,809</u>	<u>\$326,930</u>

14 APPLICATION OF SHORT TERM DEBT INTEREST:

15 ORIGINAL COST RATE BASE	\$7,386,642	\$10,781,013	\$10,785,006
16 DEBT PERCENTAGE (FROM ABOVE)	0.39%	0.00%	0.00%
17 DEBT PORTION OF RATE BASE	28,808	0	0
18 INTEREST COST (FROM ABOVE)	0.36%	0.00%	0.00%
19 PRO FORMA SHORT TERM INTEREST DEDUCTION	<u>\$104</u>	<u>\$0</u>	<u>\$0</u>

WITNESS: ROD NEVIRASKAS