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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

October 27, 2010

VIA FEDERAL EXPRESS

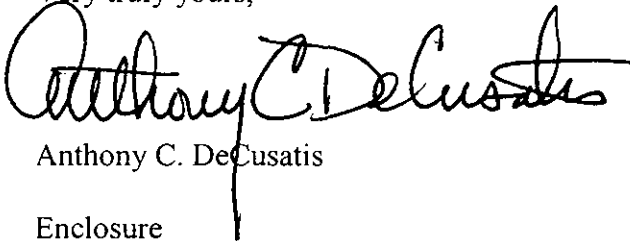
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Pennsylvania-American Water
Company (Coatesville Wastewater Operations)
Docket No. R-2010-2166212**

Dear Secretary McNulty:

Enclosed are an unbound original and three copies of the Joint Petition For Settlement Of All Issues In Rate Proceeding (Joint Petition) in the above-captioned matter. An additional copy of the Joint Petition and an additional copy of this letter are also enclosed, which we request that you date-stamp and return to us in the stamped, pre-addressed envelope provided. The Joint Petition has been served in the manner indicated on the enclosed Certificate of Service.

Very truly yours,


Anthony C. DeCusatis

Enclosure

cc: Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

V.

**PENNSYLVANIA-AMERICAN WATER
COMPANY – COATESVILLE
WASTEWATER OPERATIONS**

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DOCKET NO. R-2010-2166212, et al

**JOINT PETITION FOR SETTLEMENT
OF ALL ISSUES IN
RATE PROCEEDING**

TO CHIEF ADMINISTRATIVE LAW JUDGE, CHARLES E. RAINEY, JR.:

Pennsylvania-American Water Company - Coatesville Wastewater Operations (“PAWC,” “Company” or “Coatesville”), the Office of Trial Staff (“OTS”), the Office of Consumer Advocate (“OCA”), the Municipal Sewer Group (“MSG”)¹ and the City/Borough Alliance² (collectively, “Joint Petitioners”), by their respective counsel, respectfully submit this Joint Petition For Settlement Of All Issues In Rate Proceeding (“Joint Petition”) and request that Chief Administrative Law Judge Charles E. Rainey, Jr. (“Chief ALJ Rainey”) recommend

¹ For this proceeding, the MSG membership consists of the Township of Valley, West Brandywine Township Municipal Authority, Township of West Brandywine, Township of Sadsbury, Caln Township Municipal Authority and Township of Caln.

² For this proceeding, the City/Borough Alliance consists of the City of Coatesville, the Borough of Parkesburg and the Township of East Fallowfield.

approval of the settlement of this proceeding (“Settlement”) as set forth in this Joint Petition.³ Joint Petitioners also request that the Pennsylvania Public Utility Commission (“Commission”) thereafter adopt Chief ALJ Rainey’s recommended approval of the Settlement, permit PAWC to file the tariff supplement annexed hereto as Appendix A to become effective pursuant to the terms set forth therein, terminate its investigation at Docket No. R-2010-2166212 and mark the docket closed. In support of their request, the Joint Petitioners state as follows:

I. BACKGROUND

1. On April 23, 2010, PAWC filed with the Commission Supplement No. 2 to Tariff Wastewater-Pa. P.U.C. No. 8 (“Supplement No. 2”) requesting an increase in the Coatesville Wastewater Operations’ total annual operating revenues to become effective June 22, 2010. The amount of the requested increase equaled \$8,156,652, or approximately 197%. By Order entered June 16, 2010, the Commission instituted a formal investigation at the above Docket No. R-2010-2166212 to determine the lawfulness, justness and reasonableness of PAWC’s existing and proposed rates, rules and regulations. Supplement No. 2 was suspended by operation of law until January 22, 2011, unless permitted by Commission order to become effective at an earlier date. The case was then assigned to Administrative Law Judge Charles E. Rainey, Jr.⁴ for purposes of conducting hearings and issuing a Recommended Decision.

2. A total of eighteen (18) formal Complaints were filed against PAWC’s proposed rates, including Complaints filed by OCA, OSBA, the members of MSG and the members of

³ The Office of Small Business Advocate (“OSBA”) will file a letter stating that, while it is not a signatory to the Joint Petition, it does not oppose the Settlement.

⁴ Administrative Law Judge Rainey was appointed Chief Administrative Law Judge effective September 20, 2010. For purposes of this Joint Petition, the Joint Petitioners will address His Honor by his new title prospectively and refer to him as “ALJ Rainey” when noting events prior to his promotion to Chief ALJ.

CBA. OTS filed a Notice of Appearance at this docket and fully participated in the proceeding. Among the Complainants, OCA, OSBA, MSG and CBA participated as active parties throughout the proceeding and all are signatories to or, as to the OSBA, do not oppose, the Joint Petition.

3. A telephonic Prehearing Conference was conducted by ALJ Rainey on July 8, 2010. At the Prehearing Conference, PAWC agreed to voluntarily extend the suspension period to January 27, 2011, and subsequently filed a tariff supplement to effect that change to facilitate the establishment of the litigation schedule. At the Prehearing Conference, such a schedule was established for the submission of testimony and the conduct of evidentiary and public input hearings. Specifically, and consistent with Commission practice, a schedule was adopted whereby all written direct, rebuttal and surrebuttal testimony would be distributed in advance of hearings and oral rejoinder by PAWC witnesses could be provided at the evidentiary hearings. At the Prehearing Conference, the evidentiary hearings were scheduled for September 14-17 and 22, 2010, at which time all previously distributed testimony and exhibits would be offered into the record and the parties' individual witnesses would be made available for cross-examination.

4. During the course of the proceeding, ALJ Rainey conducted four highly attended Public Input Hearings in the service territory, as follows:

Date	Start Time	Location
August 24, 2010	1:00 p.m.	Coatesville City Hall
August 24, 2010	7:00 p.m.	Rainbow Elementary School (Coatesville)
August 31, 2010	1:00 p.m.	Parquesburg Borough Municipal Building
August 31, 2010	7:00 p.m.	Parquesburg Borough Municipal Building

All of the public input witnesses testified under oath, and their testimony was transcribed. The public input hearings generated approximately 534 pages of transcript.

5. Accompanying the original filing of Supplement No. 2, supporting information was provided by PAWC as required by the Commission's regulations at 52 Pa. Code § 53.52 et seq. for both the historic test year ended December 31, 2009, and the future test year ending December 31, 2010. PAWC's supporting information included the prepared direct testimony of nine initial witnesses and the respective exhibits sponsored by each. Considerable additional information was supplied in response to approximately 700 interrogatories and data requests submitted to PAWC by the active parties to the proceeding and through depositions conducted by counsel for MSG on July 22, 2010, of PAWC's President, Vice-President of Engineering and Director of Rates and Regulation. On August 5, 2010, in accordance with the previously established schedule, OTS, OCA, OSBA, MSG and CBA distributed their respective written Direct Testimonies and related Exhibits (a total of twelve written statements and numerous exhibits). CBA also submitted supplemental direct testimony on August 12, 2010. On August 26 and 27, 2010,⁵ PAWC distributed Rebuttal Testimony and related Exhibits from five of their expert witnesses and, on August 26, 2010, OSBA and CBA each distributed one piece of Rebuttal Testimony and related Exhibits for each of their witnesses. On September 8, 2010,⁶ Surrebuttal Testimony and Exhibits were distributed by OTS, OCA, OSBA and CBA.

6. Upon notification to ALJ Rainey from the active parties that a settlement in principle had been reached on a number of the major issues, the ALJ cancelled the evidentiary hearings previously scheduled for September 14-17, 2010.

⁵ A one-day extension was agreed to by the parties and approved by the Administrative Law Judge for PAWC to file one of its rebuttal statements.

⁶ A one-day extension was agreed to by the parties and approved by the Administrative Law Judge for the submission of surrebuttal testimony.

7. Negotiations continued among the active parties seeking to achieve a settlement of the remaining issues in the case. As a result of those negotiations, the parties were able to agree to resolve all issues, resulting in the comprehensive settlement terms and conditions set forth herein, and thereafter notified Chief ALJ Rainey, who then cancelled the sole remaining evidentiary hearing scheduled for September 22, 2010. Except to the extent specifically set forth herein, the Joint Petitioners acknowledge that, while they have not sought, nor would they be able, to agree upon the specific rate case adjustments presented in their respective testimony and exhibits, they are in full agreement that adoption of each and every term and condition of this instant Settlement is in the best interest of PAWC - Coatesville's wastewater customers and PAWC and, therefore is in the public interest.

II. TERMS AND CONDITIONS

8. The Settlement consists of the following terms and conditions:

a. Upon the Commission's approval of this Settlement, PAWC will be permitted to charge the rates for wastewater service set forth in the proposed Tariff Supplement annexed hereto as Appendix A (hereafter, the Settlement Rates), which reflect the phase-in described in Paragraph No. 8.b., hereafter. The Settlement Rates are designed to produce additional annual operating revenue of \$5,999,000,⁷ as shown on the proof of revenues annexed

⁷ Because of the phase-in: (1) the Settlement Rates to be in effect in 2011 and 2012 are designed to produce additional annual operating revenue of less than \$5,999,000; (2) the Settlement Rates to be in effect in 2014-2016 are designed to produce additional annual operating revenue that is more than \$5,999,000; and (3) the Settlement Rates to be in effect in 2013 and on and after January 1, 2017, are designed to produce additional annual operating revenue of \$5,999,000. On average, over the entire six-year phase-in period (January 1, 2011 through December 31, 2016), the Settlement Rates are designed to produce additional annual operating revenue of \$5,999,000, subject to the credit adjustments described in Paragraph 8.f. and 8.k., hereafter.

hereto as Appendix B, and are subject to credit adjustments described in Paragraph No. 8.f., hereafter. The Tariff Supplement set forth in Appendix A complies with the terms of the Settlement. As explained in footnote 8 below, the Settlement Rates are designed to produce, as an annual average over the six-year phase-in period, and annually, thereafter, approximately \$10,131,718 in total annual wastewater revenue (including Other Revenue) as shown in Appendix B, page 8, column 6, subject to the credit adjustments described in Paragraph No. 8.f., hereafter.

b. The Settlement reflects PAWC's agreement to phase in the total annual increase in the manner set forth in the schedule attached hereto as Appendix C. As shown in Appendix C, the phase-in plan covers a significant period of six (6) years beginning on the effective date of authorized implementation of the initial phased-in Settlement Rates, proposed for January 1, 2011, and continuing through December 31, 2016.

c. The Joint Petitioners respectfully request Chief ALJ Rainey and the Commission to act as expeditiously as possible to ensure implementation of the initial phased-in Settlement Rates on January 1, 2011. Upon the entry of a Commission Order approving this Joint Petition, PAWC will be permitted to file a tariff in the form attached hereto as Appendix A to become effective upon one day's notice.

d. PAWC will not file for another general wastewater rate increase for the Coatesville Wastewater Operations under Section 1308(d) of the Public Utility Code prior to March 31, 2016. However, if a legislative body or administrative agency, including the Commission, orders or enacts fundamental changes in policy or statutes which directly and substantially affect PAWC's rates, then this Settlement shall not prevent PAWC from filing tariff supplements to the extent necessitated by such action.

e. The Tariff Supplement set forth in Appendix A provides for an increase to \$4,000 per Equivalent Dwelling Unit (EDU) in the Capacity Reservation Fee set forth on Original Page 4A; in Paragraph 3 (but excluding subparagraphs a., b. and c.) on Pages 4B and 4C; and in Paragraph 4 on Page 4C. The exception for bona fide applicants for service, consistent with the Appendix A modifications of the definition thereof in 52 Pa. Code § 65.1, is being retained, as also reflected in Appendix A.

f. The Tariff Supplement set forth in Appendix A includes crediting mechanisms to reflect credits on customers' bills during the phase-in period for growth in number of customers occurring on and after January 1, 2011 and for Capacity Reservation Fees received on and after January 1, 2011. Regardless of the class of customers that may generate such credits from and after January 1, 2011, the concomitant credits, calculated in the manner set forth in Appendix A, will apply to the rates of all classes of customers.

(1) Under the Customer Growth Credit Adjustment, a credit will be applied to all customers' bills to reflect the additional net revenue (gross revenue less reasonable cost to serve additional customers, as set forth in Appendix A) that PAWC receives with respect to new customers added on and after January 1, 2011.

(2) Under the Capacity Reservation Fee Credit Adjustment, a credit will be applied to all customers' bills to reflect the revenue requirement impact of Capacity Reservation Fees received on and after January 1, 2011. The Capacity Reservation Fee credit will reflect the ratemaking impact of decreases in PAWC's investment in plant in service based on the receipt of Capacity Reservation Fees, with such ratemaking impact being calculated using the applicable depreciation rate and pre-tax overall rate of return.

(3) The customer growth and Capacity Reservation Fee credit adjustments will be calculated each year during the phase-in and will be filed with the Commission and served on the parties as of December 1, based on the customer growth that occurred and the Capacity Reservation Fees received through the period ending two months prior to that date. The resulting credit will be implemented for bills rendered on and after January 1 of each succeeding year.

g. The Joint Petitioners agree that PAWC will be authorized to establish depreciation rates calculated in the same manner set forth in PAWC Exhibit 8-B except that such rates will reflect the use of the Average Service Life procedure instead of the Equal Life Group procedure for the Coatesville Wastewater Operations' plant in service. This results in an approximately \$317,113 reduction to the PAWC's pro forma annual depreciation accrual in this case, which has been reflected in the Settlement Rates. The revised depreciation rates are set forth in Appendix D. Additionally, the Joint Petitioners agree that PAWC shall amortize its actual negative net salvage incurred through December 31, 2010 over ten years, rather than five years, as set forth in its initial filing. PAWC will use the depreciation rates as agreed to herein to calculate the depreciation expense it records on its regulated books of account. PAWC will record plant related amortizations as set forth in its filing, subject to the revision for net salvage agreed to herein. PAWC will file a new service life study of its Coatesville Wastewater Operations' utility property with its next base rate case for the Coatesville Wastewater Operations.

h. The Settlement Rates set forth in Appendix A reflect the Joint Petitioners' agreement with regard to rate structure, rate design and the distribution of the increase in revenues in this case, as follows:⁸

(1) The Settlement Rates reflect the allocation of the agreed increase in revenues among customer classes in the manner shown in Appendix B.

(2) Under the Settlement Rates, the customer charges are as follows:

Residential	\$7.50 Per Month
Commercial	\$7.50 Per Month (5/8" water meters)
	\$10.00 Per Month (3/4" to 1 1/2" water meters)
	\$20.00 Per Month (2" and over water meters)
Municipal and Industrial	\$20.00 Per Month
Large Industrial	\$250.00 Per Month
Bulk And Veterans Administration	\$250.00 Per Month
Hospital	

(3) Under the Settlement Rates, usage charges are calculated to recover the revenues allocated to each class that are not recovered through the customer charges set forth above.

i. As set forth in the Tariff Supplement attached as Appendix A, PAWC will provide a fifteen percent (15%) reduction in the total bill for eligible low-income residential customers under the low-income customer assistance program that PAWC is establishing under the Settlement. In its next base rate case for the Coatesville Wastewater Operations, PAWC will propose that this reduction be treated as a function of residential rate design and the revenue

⁸ Subparagraphs (1) - (3) provide a general description of the rate structure and rate design incorporated in the Settlement Rates. While every effort has been made to ensure that such description is accurate, if any inconsistency exists between such description and the rates set forth in Appendix A, then the latter shall take precedence.

foregone because of the low-income reduction for eligible low-income residential customers be recovered from the residential class; nothing in this Settlement will preclude any Joint Petitioner from opposing such proposal or offering an alternative. Additionally, PAWC is establishing an assistance fund, which PAWC will initially fund with a \$10,000 contribution and to which PAWC's employees and customers may make voluntary contributions, to help financially disadvantaged customers pay their wastewater bills.

j. PAWC commits to working with the members of MSG and other parties to implement procedures to terminate water service that PAWC provides to customers that are also wastewater customers of the members of the MSG for such customers' non-payment of their wastewater bills, as provided in 53 P.S. § 3102.502.

k. PAWC will explore debt re-financing options that might be available to re-finance its investment in the Coatesville Wastewater Treatment Plant at lower cost than its current debt financing and will report the results to the Joint Petitioners within six months of the Commission's approval of the Settlement. Additionally, PAWC agrees that, if either contributions in aid of construction or grants or funds in the nature of contributions in aid of construction are obtained through the efforts of MSG members, then PAWC will adjust its base rates for all customers to reflect appropriate credits in the manner set forth in applicable provisions of the Capacity Reservation Fee Adjustment in the tariff supplement attached as Appendix A.⁹

l. In the course of the Public Input Hearings, no service-related issues specific to wastewater service were raised by customers of Coatesville. Several witnesses at the

⁹ This provision will not apply to contributions in aid of construction that PAWC obtains in the ordinary course of business for extensions or additions to its facilities.

Public Input Hearings raised issues or concerns related to water service. PAWC has investigated each of the issues and concerns and has sent a letter to all active parties in this case explaining what PAWC has done, or committed to do, to address the issues and concerns of each of those public input witnesses.

III. SETTLEMENT IN THE PUBLIC INTEREST

9. PAWC, OTS, OCA, MSG and CBA have each prepared, and attached to this Joint Petition, their respective Statements in Support identified as Appendices E, F, G, H and I respectively, setting forth the bases upon which each believes that the Settlement, including the Settlement rates, is fair, just, reasonable, non-discriminatory, lawful and in the public interest.

10. The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

a. The Settlement provides for an increase in annual operating revenues, averaged over the six-year phase-in period and annually thereafter (see footnote 8) of \$5,999,000 in lieu of the \$8,156,652 increase originally requested. Additionally, the Settlement Rates provide for an extended phase-in of the negotiated increase that produces a series of smaller annual increases rather than a single large increase, thereby mitigating potential rate shock to customers. Under the phase-in provided for herein, no interest or any other carrying charges are included to compensate for the possible time value of money impact related to the timing of recovery of the proposed increase over the phase-in period. A comparison of an average residential customer's wastewater bill under: (1) current rates; (2) the rates initially proposed by the Company in Supplement No. 2 filed on April 23, 2010; and (3) the Settlement Rates, for each year of the phase-in, is set forth below:

CURRENT RATES	PROPOSED RATES	SETTLEMENT RATES				
		2011	2012	2013	2014-2016	2017
\$27.43	\$90.26	\$42.35	\$57.14	\$71.94	\$86.73	\$71.94

(Based on monthly usage of 4,253 gallons for an average residential customer.)

b. The Settlement Rates provide for Customer Growth and Capacity Reservation Fee Credit Adjustments, which make it possible for all current customers, effective January 1, 2012, to receive the benefit of growth that may occur within the areas served by PAWC's Coatesville Wastewater Treatment Plant.

c. As set forth in Paragraph 8.d., above, PAWC has agreed to not file another general base rate case under Section 1308(d) of the Public Utility Code for Coatesville before March 31, 2016. Accordingly, given the seven-month suspension provided for under Section 1308(d), another general base rate increase would not become effective during the six-year period of the phase-in.

d. As described in Paragraph 8.h.(2), above, under the Settlement Rates, customer charges for residential and small non-residential customers are reduced from \$20.00 per month, as initially proposed in Supplement No. 2, to \$7.50 per month. It is anticipated that this change will mitigate the effect of the increase on lower-use customers in those groups.

e. The Company has agreed to expand its residential low-income assistance plan from offering a 35% reduction of the applicable customer charge for eligible low-income customers, as proposed in Supplement No. 2, to 15% of eligible customers' total wastewater bill. The Company also agreed to revise the low-income assistance plan so that customers will not lose eligibility if they make reasonable good faith efforts to avoid a delinquency.

f. Acceptance of the Settlement will avoid the necessity of further administrative and possible appellate proceedings at substantial cost to the Joint Petitioners, other parties, and PAWC's customers.

g. The Settlement Rates will allocate the agreed upon revenue requirement in a manner that is reasonable in light of the rate structure/cost of service positions put forth by the active parties to the proceeding.

IV. ADDITIONAL TERMS AND CONDITIONS

11. This Settlement is proposed by the Joint Petitioners to settle the instant case and is made without any admission against, or prejudice to, any position which any Joint Petitioner might adopt during subsequent litigation, including further litigation of this case. It is understood, however, that provisions of Paragraph Nos. 8.g., above, which by their terms are to have on-going effect, shall be binding upon the Joint Petitioners in future proceedings upon the Commission's approval of the Settlement. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without any modification. If the Commission should disapprove the Settlement or modify the terms and conditions herein, then this Settlement may be withdrawn upon written notice to the Commission and all active parties within five business days following entry of the Commission's Order by any of the Joint Petitioners. In such event, the Settlement shall be of no force and effect. In the event that either the Commission disapproves the Settlement or PAWC or any other Joint Petitioner elects to withdraw as provided above, then the Joint Petitioners reserve their respective rights to fully litigate this case, including but not limited to presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

12. If in his Recommended Decision Chief Administrative Law Judge Rainey recommends that the Commission adopt the Settlement as herein proposed without modification, then the Joint Petitioners agree to waive the filing of Exceptions. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by Chief Administrative Law Judge Rainey in his Recommended Decision. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That Chief Administrative Law Judge Rainey recommend and the Commission approve the Settlement embodied in this Joint Petition, including all terms and conditions thereof;

2. That the Commission find the Settlement Rates to be just and reasonable and grant the PAWC permission to file the Tariff Supplement attached hereto as Appendix A, which will become effective on one day's notice for service rendered on and after January 1, 2011, which Tariff Supplement, *inter alia*, increases PAWC's rates so as to produce an increase in annual operating revenues, as an annual average over the six-year phase-in period (*see* footnote 8) and annually thereafter, of not more than \$5,999,000 in lieu of the \$8,156,652 originally requested and that thereby produce approximately \$10,131,718 in total annual wastewater revenue (including Other Revenue), as an annual average over the six-year phase-in period and annually thereafter, as shown in Appendix B, subject to the credit adjustment mechanisms provided for herein.

3. That the Commission terminate its inquiry and investigation at Docket No.

R-2010-2166212 and mark the file and related Complaints closed.

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

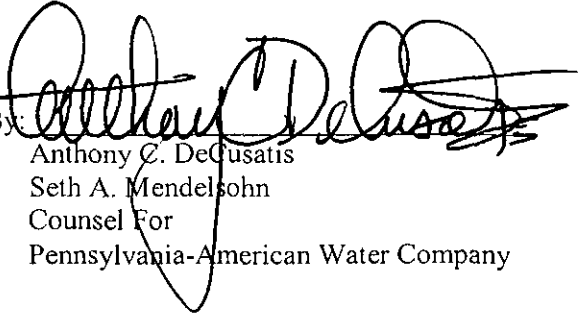
By: _____
Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

OFFICE OF CONSUMER ADVOCATE:

By: _____
Dianne E. Dusman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

Respectfully submitted,

PENNSYLVANIA-AMERICAN WATER
COMPANY

By: 
Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

MUNICIPAL SEWER GROUP

By: _____
Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By: _____
Charles E. Thomas, Jr.
Gilbert L. Hamberg
Counsel for the members of the
City/Borough Alliance

Dated: October 27, 2010

3. That the Commission terminate its inquiry and investigation at Docket No.

R-2010-2166212 and mark the file and related Complaints closed.

Respectfully submitted,

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

By: 

Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

PENNSYLVANIA-AMERICAN WATER
COMPANY

By: _____

Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

OFFICE OF CONSUMER ADVOCATE:

By: _____

Dianne E. Dusman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

MUNICIPAL SEWER GROUP

By: _____

Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By: _____

Charles E. Thomas, Jr.
Gilbert L. Hamberg
Counsel for the members of the
City/Borough Alliance

Dated: September __, 2010

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R-2010-2166212 and mark the file and related Complaints closed.

Respectfully submitted,

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

PENNSYLVANIA-AMERICAN WATER
COMPANY

By: _____
Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

By: _____
Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

OFFICE OF CONSUMER ADVOCATE:

MUNICIPAL SEWER GROUP

By: Sh. A. Sparks
Dianne E. Dushman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

By: _____
Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By: _____
Charles E. Thomas, Jr.
Gilbert L. Hamberg
Counsel for the members of the
City/Borough Alliance

Dated: October 4, 2010

3. That the Commission terminate its inquiry and investigation at Docket No. R-2010-2166212 and mark the file and related Complaints closed.

Respectfully submitted,

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

PENNSYLVANIA-AMERICAN WATER
COMPANY

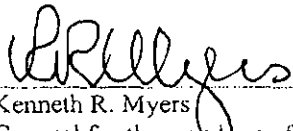
By: _____
Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

By: _____
Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

OFFICE OF CONSUMER ADVOCATE:

MUNICIPAL SEWER GROUP

By: _____
Dianne E. Dusman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

By:  _____
Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By: _____
Charles E. Thomas, Jr.
Gilbert L. Hamberg
Counsel for the members of the
City/Borough Alliance

Dated: October 27, 2010

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R-2010-2166212 and mark the file and related Complaints closed.

Respectfully submitted,

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

PENNSYLVANIA-AMERICAN WATER
COMPANY

By: _____
Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

By: _____
Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

OFFICE OF CONSUMER ADVOCATE:

MUNICIPAL SEWER GROUP

By: _____
Dianne E. Dusman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

By: _____
Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By: *Gilbert L. Hamberg*
Charles E. Thomas, Jr.
Gilbert L. Hamberg
Counsel for the members of the
City/Borough Alliance

October 27
Dated: ~~September~~ __, 2010

3. That the Commission terminate its inquiry and investigation at Docket No. R-2010-2166212 and mark the file and related Complaints closed.

Respectfully submitted,

OFFICE OF TRIAL STAFF OF THE
PENNSYLVANIA PUBLIC UTILITY
COMMISSION:

PENNSYLVANIA-AMERICAN WATER
COMPANY

By: _____
Charles Daniel Shields
Senior Prosecutor
Carrie Wright
Prosecutor
Johnnie E. Simms,
Chief Prosecutor

By: _____
Anthony C. DeCusatis
Seth A. Mendelsohn
Counsel For
Pennsylvania-American Water Company

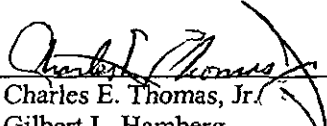
OFFICE OF CONSUMER ADVOCATE:

MUNICIPAL SEWER GROUP

By: _____
Dianne E. Dusman
Senior Assistant Consumer Advocate
Shaun A. Sparks
Assistant Consumer Advocate
For Irwin A. Popowsky
Consumer Advocate

By: _____
Kenneth R. Myers
Counsel for the members of the
Municipal Sewer Group

CITY/BOROUGH ALLIANCE

By:  _____
Charles E. Thomas, Jr.
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Counsel for the members of the
City/Borough Alliance

Dated: October 27, 2010

LIST OF APPENDICES

APPENDIX A	Proposed Tariff (Settlement Rates)
APPENDIX B	Proof of Revenues
APPENDIX C	Schedule -- Phase-In Plan
APPENDIX D	Recalculated Depreciation Rates
APPENDIX E	PAWC Statement
APPENDIX F	OTS Statement
APPENDIX G	OCA Statement
APPENDIX H	MSG Statement
APPENDIX I	CBA Statement

APPENDIX A

PROPOSED TARIFF (SETTLEMENT RATES)

Pennsylvania-American Water Company
City of Coatesville Division
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES, RULES AND REGULATIONS
GOVERNING THE FURNISHINGS OF
WASTEWATER COLLECTION AND DISPOSAL SERVICE
IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED
IN CHESTER COUNTY.

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

This tariff makes increases, decreases and changes to existing rates.

Filed in compliance with the Commission Order at R-2010-2166212,
Entered XXXXX XX, 2010.

Issued:

Effective: January 1, 2011

By: Kathy Pape, President
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033

LIST OF CHANGES

Increases/Decreases

This tariff supplement provides rates for the Company's Coatesville Wastewater Operations.

All metered and unmetered charges have been increased for an overall increase of 145%. Service charges and volumetric charges for each bill class are increased. The total rate increase will be phased in over a six year period, beginning January 1, 2011. Subsequent rates will be increased January 1, 2012, 2013, and 2014. The rates in effect on January 1, 2014, will remain in effect through the years 2014, 2015, and 2016. On January 1, 2017, the rates will be reduced to those in effect on January 1, 2013.

The rate for Rider VR has been removed. The Company has complied with the terms of the Joint Petition for Settlement at Docket No. R-2008-2032689, which established the rate to be used until the terms of the settlement were met.

The Parkesburg bond payment has been satisfied. The customers of the Parkesburg Area Wastewater Service District no longer pay a debt service charge and there are no additional conveyance fees. As such, Section F on page 4F has been removed.

The Company is reducing the fee paid by private contractors to the Company to dispose of private residential septage and commercial waste at the Company's wastewater treatment plant.

Capacity Reservation Fees have been increased to \$4,000 per pages 4A to 4C..

The Company is providing a discount of 15% on a customer's total wastewater bill for qualifying low income customers. This is shown on page 4F.

The Company is implementing a Customer Growth Credit Adjustment, refer to pages 5A through 5D.

The Company is implementing a Capacity Reservation Fee Credit Adjustment, refer to pages 5A, 5E and 5F.

(I) Indicates Increase, (D) Indicates Decrease, (C) Indicates Change

Issued:

Effective: January 1, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
Title Page	1
List of Changes	2 3rd Revised
Table of Contents	3 3rd Revised 3A 2nd Revised
Territories Served	3B
 Part I - Rates	
Metered and Unmetered Charges	4 2nd Revised
Metered and Unmetered Charges	4.1-4.4
Schedule of Miscellaneous Fees and Charges	4A 1st Revised
Schedule of Miscellaneous Fees and Charges	4B 1st Revised
Schedule of Miscellaneous Fees and Charges	4C 1st Revised
Schedule of Miscellaneous Fees and Charges	4D
Schedule of Miscellaneous Fees and Charges	4E 2nd Revised
Low Income Tariff	4F 2nd Revised
State Tax Adjustment Surcharge	5
Customer Growth and Capacity Reservation Fee Credit Adjustment	5A-5F
 Part II - Definitions	
	6-6C
 Part III - Rules and Regulations	
Section A - Applications for Service	7
Section B - Construction and Maintenance of Facilities	8 9
Section C - Discontinuance, Termination and Restoration of Service	10 11
Section D - Billing and Collection	12
Section E - Deposits	13 14

TABLE OF CONTENTS

	<u>Page Number</u>
Section F - Wastewater Control Regulations	15
	16
	17
	18
	19
Section G - Line Extensions	20
Section H - Service Continuity	21
Section I - Waivers	22
Section J - Amendment of Commission Regulations	22
Section K - Industrial/Commercial Service Limitations	22
	23
	24
Section L - Privilege to Investigate/Rights of Access	25

PART I: RATES - The rates as set forth below will be in effect from
January 1, 2011 through December 31, 2011.

Metered Charges

A. Residential *** (Based on Water Usage)

Service Charge per month: \$ 7.50 (I)

Usage Charge \$.8194 per 100 gallons (I)

B. Commercial (Based on Water Usage)

Service Charge per month:

5/8" meter \$ 7.50 (I)

3/4" - 1 1/2" meter \$10.00 (I)

2" meter and up \$20.00 (I)

Usage Charge \$.6543 per 100 gallons (I)

C. Municipal and Industrial (Based on Water Usage)

Service Charge per month: \$20.00 (I)

Usage Charge \$.6543 per 100 gallons (I)

D. Special Rate Charges

1. Bulk Metered Usage

Caln Township, Sadsbury Township, Valley Township, V.A. Hospital
and West Brandywine Township - One Monthly Service Charge Per
Customer of \$250.00 in addition to \$.5399 per 100 gallons of
metered water usage. (I)

Mittal Steel - Monthly Service Charge of \$250.00 in addition to
\$.5000 per 100 gallons of metered water usage. (I)

Unmetered Charges

This charge is a flat rate fee for customers not metered for water
consumption.

Residential *** \$42.35 per month, per EDU (I)

Commercial \$42.35 per month, per EDU (I)

*** As set forth in Page 4F, Residential Rates are subject to a
15% discount for qualifying low income customers.

Pennsylvania-American Water Company

PART I: RATES - The rates as set forth below will be in effect from
January 1, 2012 through December 31, 2012.

Metered Charges

E. Residential *** (Based on Water Usage)

Service Charge per month: \$ 7.50

Usage Charge \$1.1672 per 100 gallons (I)

F. Commercial (Based on Water Usage)

Service Charge per month:

5/8" meter \$ 7.50

3/4" - 1 1/2" meter \$10.00

2" meter and up \$20.00

Usage Charge \$.8869 per 100 gallons (I)

G. Municipal and Industrial (Based on Water Usage)

Service Charge per month: \$20.00

Usage Charge \$.8869 per 100 gallons (I)

H. Special Rate Charges

1. Bulk Metered Usage

Caln Township, Sadsbury Township, Valley Township, V.A. Hospital
and West Brandywine Township - One Monthly Service Charge Per
Customer of \$250.00 in addition to \$.7032 per 100 gallons of
metered water usage. (I)

Mittal Steel - Monthly Service Charge of \$250.00 in addition to
\$.6765 per 100 gallons of metered water usage. (I)

Unmetered Charges

This charge is a flat rate fee for customers not metered for water
consumption.

Residential *** \$57.14 per month, per EDU (I)

Commercial \$57.14 per month, per EDU (I)

*** As set forth in Page 4F, Residential Rates are subject to a
15% discount for qualifying low income customers.

Pennsylvania-American Water Company

PART I: RATES - The rates as set forth below will be in effect from
January 1, 2013 through December 31, 2013.

Metered Charges

I. Residential *** (Based on Water Usage)

Service Charge per month: \$ 7.50
Usage Charge \$1.5151 per 100 gallons (I)

J. Commercial (Based on Water Usage)

Service Charge per month:
5/8" meter \$ 7.50
3/4" - 1 1/2" meter \$10.00
2" meter and up \$20.00
Usage Charge \$1.1194 per 100 gallons (I)

K. Municipal and Industrial (Based on Water Usage)

Service Charge per month: \$20.00
Usage Charge \$1.1194 per 100 gallons (I)

L. Special Rate Charges

1. Bulk Metered Usage

Caln Township, Sadsbury Township, Valley Township, V.A. Hospital
and West Brandywine Township - One Monthly Service Charge Per
Customer of \$250.00 in addition to \$.8664 per 100 gallons of
metered water usage. (I)

Mittal Steel - Monthly Service Charge of \$250.00 in addition to
\$.8528 per 100 gallons of metered water usage. (I)

Unmetered Charges

This charge is a flat rate fee for customers not metered for water
consumption.

Residential *** \$71.94 per month, per EDU (I)
Commercial \$71.94 per month, per EDU (I)

*** As set forth in Page 4F, Residential Rates are subject to a
15% discount for qualifying low income customers.

Pennsylvania-American Water Company

PART I: RATES - The rates as set forth below will be in effect from
January 1, 2014 through December 31, 2016.

Metered Charges

M. Residential *** (Based on Water Usage)

Service Charge per month: \$ 7.50
Usage Charge \$1.8629 per 100 gallons (I)

N. Commercial (Based on Water Usage)

Service Charge per month:
5/8" meter \$ 7.50
3/4" - 1 1/2" meter \$10.00
2" meter and up \$20.00
Usage Charge \$1.3519 per 100 gallons (I)

O. Municipal and Industrial (Based on Water Usage)

Service Charge per month: \$20.00
Usage Charge \$1.3519 per 100 gallons (I)

P. Special Rate Charges

1. Bulk Metered Usage

Caln Township, Sadsbury Township, Valley Township, V.A. Hospital
and West Brandywine Township - One Monthly Service Charge Per
Customer of \$250.00 in addition to \$1.0298 per 100 gallons of
metered water usage. (I)

Mittal Steel - Monthly Service Charge of \$250.00 in addition to
\$1.0291 per 100 gallons of metered water usage. (I)

Unmetered Charges

This charge is a flat rate fee for customers not metered for water
consumption.

Residential *** \$86.73 per month, per EDU (I)
Commercial \$86.73 per month, per EDU (I)

*** As set forth in Page 4F, Residential Rates are subject to a
15% discount for qualifying low income customers.

Pennsylvania-American Water Company

PART I: RATES - The rates as set forth below will be in effect beginning January 1, 2017.

Metered Charges

Q. Residential *** (Based on Water Usage)

Service Charge per month: \$ 7.50

Usage Charge \$1.5151 per 100 gallons (D)

R. Commercial (Based on Water Usage)

Service Charge per month:

5/8" meter \$ 7.50

3/4" - 1 1/2" meter \$10.00

2" meter and up \$20.00

Usage Charge \$1.1194 per 100 gallons (D)

S. Municipal and Industrial (Based on Water Usage)

Service Charge per month: \$20.00

Usage Charge \$1.1194 per 100 gallons (D)

T. Special Rate Charges

1. Bulk Metered Usage

Caln Township, Sadsbury Township, Valley Township, V.A. Hospital and West Brandywine Township - One Monthly Service Charge Per Customer of \$250.00 in addition to \$.8664 per 100 gallons of metered water usage. (D)

Mittal Steel - Monthly Service Charge of \$250.00 in addition to \$.8528 per 100 gallons of metered water usage. (D)

Unmetered Charges

This charge is a flat rate fee for customers not metered for water consumption.

Residential *** \$71.94 per month, per EDU (D)

Commercial \$71.94 per month, per EDU (D)

*** As set forth in Page 4F, Residential Rates are subject to a 15% discount for qualifying low income customers.

Schedule of Miscellaneous Fees and Charges

A. Capacity Reservation Fee: A fee per EDU charged by the Company for the allocation of treatment, pumping, and transmission, trunk and interceptor main capacity.

1. Shared Service Lines: Each residential unit will be treated separately for purposes of determining an applicable capacity reservation fee -- whether such residential unit is served by a single service line or shares a common service line with one or more other residential units.

The following defines the application of the capacity reservation fee within the Company's service territory:

1. Within the Company's service territory, no capacity reservation fee will be charged for any applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code Section 65.1 (excluding clause (iii) of that definition) if "wastewater" were substituted for "water".

2. For development under previously signed Planning Modules that were allocated capacity prior to the expansion of the Company's wastewater treatment plant, a capacity reservation fee of \$525 per EDU will be charged and payable at the time of connection if the connection is made prior to January 1, 2012. If a connection is made on or after January 1, 2012, a capacity reservation fee of \$4,000 per EDU will be charged. (I) (C)

3. For development under previously signed Planning Modules that were allocated capacity available after expansion of the Company's wastewater treatment plant, a capacity reservation fee of \$4,000 per EDU will be charged and payable at the time of connection. (I)

4. For all Planning Modules signed after January 1, 2011, a capacity reservation fee of \$4,000 per EDU will be due and payable at the time the Planning Module is fully executed by the Company, the relevant municipality, and the Pennsylvania Department of Environmental Protection. (I) (C)

5. For commercial and industrial customers, the EDUs per customer will be those set forth in the Planning Module that includes such customer, as approved by the Company, the relevant municipality and the Pennsylvania Department of Environmental Protection. If, after a commercial or industrial customer's EDUs are established, in the manner previously described, and the associated capacity reservation fees are paid, changes in the customer's facilities or mode of operation result in an increase in the number of EDUs or an increase in the customer's estimated wastewater flow above the levels set forth in the Planning Module previously used to determine the customer's EDUs, the customer must update the applicable Planning Module and submit it for approval by the Company, the relevant municipality and the Pennsylvania Department of Environmental Protection, and the customer will be required to pay any additional capacity reservation fees that are due based upon the calculation of capacity reservation fees using the EDUs reflected in the revised, approved Planning Module.

The following defines the application of the capacity reservation fee for the Company's bulk customers who are members of the Municipal Sewer Group (MSG):

1. Within the service area of an MSG member, no capacity reservation fee will be charged for an applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code Section 65.1 (excluding clause (iii) of that definition) if "wastewater" were substituted for "water" and "bulk customer's service area" were substituted for "the utility's certificated service territory" in the definition of a Bona Fide Applicant.

2. A capacity reservation fee of \$525 per EDU will be used for determining the payments for capacity available prior to the expansion of the Company's wastewater treatment plant under existing agreements between the Company and its bulk customers.

3. A capacity reservation fee of \$4,000 per EDU will be used for determining payments for capacity available after the expansion of the Company's wastewater treatment plant under existing agreements except as follows: (I)

a. Valley Township will be charged \$525 per EDU for up to 100 EDUs of the 0.4 million gallons per day of post-expansion capacity under its existing agreement with the Company for which it has not yet paid.

b. Sadsbury Township will be charged \$525 per EDU for not more than 100 EDUs of post-expansion capacity under any future agreement it may enter into with PAWC for additional post-expansion capacity.

c. West Brandywine Township will be charged \$525 per EDU for 188,100 gallons per day of capacity under the Second Addendum dated December 11, 2008, to its sewage treatment agreement with the Company. (C)

4. A capacity reservation fee of \$4,000 per EDU will be used for all new agreements (including amendments to existing agreements) with bulk customers. The capacity reservation fees will be paid at the time Planning Modules are fully executed by the Company, the relevant municipality, and the Pennsylvania Department of Environmental Protection, although a bulk customer will have the option to pay earlier, if it so chooses.

Schedule of Miscellaneous Fees and Charges

E. Wastewater Plant, Residential Septage and Commercial Waste Disposal Fee.

The Fee to be paid by private contractors to the Company to dispose of private residential septage and commercial Wastes at the Company's wastewater treatment plant.

The following rates shall be charged to haulers of residential septic waste who deliver waste: (C)(D)

<u>%Solids</u>	<u>% Solids</u>	<u>Cost Per Gallon</u>
	< = 1%	\$.0250
> 1%	< = 2%	.0300
> 2%	< = 3%	.0345
> 3%	< = 4%	.0395
> 4%	< = 5%	.0445
> 5%	< = 6%	.0495
> 6%	< = 7%	.0545
> 7%	< = 8%	.0590

1. The Company reserves the right to limit the total amount of residential septage received in a day and /or the total numbers of loads received from a single hauler on a per day basis based on maintaining proper operation of the Company's wastewater treatment plant.

2. At the discretion of the Company, the Company reserves the right to accept or reject commercially generated waste based on the amount and constituents in the waste. The cost, as determined by the Company, for testing and disposal will be a multiple of the residential septage fee based on the type and strength of the waste.

Schedule of Rates Applicable to All Rate Zones
For Qualifying Low-Income Customers

Tariff Qualifications

In order to qualify to be billed under this tariff, a customer must meet the low-income criteria of 150% based on the Federal Poverty Level. After qualifying to be billed under this tariff, customers must continually make an effort to make timely payments on the discounted bills.

Rates for Service

Customers will receive a 15% discount off their total wastewater bill. (C)

CUSTOMER GROWTH AND CAPACITY RESERVATION FEE CREDIT ADJUSTMENTS (C)

In addition to the net charges provided for in this Tariff, a 0.00% credit adjustment will be uniformly applied to all classes of customers for bills rendered on and after the effective date of the tariff supplement subject to annual recalculation in the manner set forth in the Customer Growth Credit Adjustment and Capacity Reservation Fee Credit Adjustment, at pages 5B-5F.

CUSTOMER GROWTH CREDIT ADJUSTMENT (C)

1. General Description

The purpose of the Customer Growth Credit (CGC) Adjustment is to adjust all customers' bills to reflect annual revenue, calculated in the manner provided herein, associated with the growth in (1) the number of customers served directly by the Company (Direct Customers); and (2) the number of customers served by Bulk customers of the Company (Indirect Customers) (collectively, Direct and Indirect Customers) from and after the January 1, 2011 effective date of base rates established in the proceeding at Docket No. R-2010 - 2166212 through January 1, 2017. In the event the Company does not file for a general increase in base rates on March 31, 2016, which is the earliest that it can do so (subject to certain exceptions for extraordinary events) under the terms of the Joint Petition for Settlement at Docket No. R-2010-2166212, then the CGC in effect on January 1, 2017 will remain in effect until the effective date of new base rates established in the Company's next base rate case for the Coatesville Wastewater Operations.

2. Computation Of The CGC

The initial CGC will be calculated on the basis of Direct and Indirect Customers added from and after January 1, 2011 through October 31, 2011. Thereafter, the CGC will be calculated annually based on Direct and Indirect Customers added from and after January 1, 2011 through October 31 of the year in which the computation is made. The calculation and supporting information will be filed with the Commission and served on the active parties to the proceeding at Docket No. R-2010 - 2166212 by December 1 of each year and will become effective on, a bills rendered basis, one month later (January 1). Each such adjustment will reflect annual revenue, calculated as provided below, associated with the Direct and Indirect Customers added from and after January 1, 2011 through October 31 of the computation year.

The CGC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer under the Company's otherwise applicable rates and charges for wastewater service. The CGC percentage may be added to the Capacity Reservation Fee Credit Adjustment percentage and the resulting composite percentage applied to customers' bills as a single line item.

The formula for calculating the CGC is as follows:

CGC = $\frac{\text{Additional Net Revenue From Customer Growth}}{\text{Revenue Under Settlement Rates} + \text{Additional Revenue From Customer Growth}}$

Where:

Additional Net Revenue From Customer Growth = Annual Net Revenue from Direct and Indirect Customers that are added from and after January 1, 2011 through October 31 of the year the computation is performed.

Annual Net Revenue from Direct Customers = The applicable customer charge, per customer, plus the Annual Usage, per customer, multiplied by the applicable Direct Customer Annual Usage Rate, less Incremental Treatment Cost.

Annual Net Revenue from Indirect Customers = The Annual Usage, per customer, multiplied by applicable Indirect Customer Annual Usage Rate, less Incremental Treatment Cost.

Additional Revenue From Customer Growth = Annual Revenue from Direct and Indirect Customers that are added from and after January 1, 2011 through October 31 of the year the computation is performed, which shall be calculated in the same manner as Annual Net Revenue from Direct and Indirect Customers (above) except that Incremental Treatment Cost is not deducted.

Annual Usage = For Residential Direct and Indirect Customers:
Average annual usage per customer of 51,036 gallons.
For Commercial Direct and Indirect Customers:
Average annual usage of 210,000 gallons.
For Municipal and Industrial Direct and Indirect Customers: Actual usage by each such customer (1) during the period from when they became a Direct or Indirect Customer to October 31 of the first computation year that includes such customer, annualized to a full year's usage; and, thereafter (2) during the 12 months preceding October 31 of the computation year.

Direct Customer Annual Usage Rate = The usage rate for the class to which the customer belongs for the year the calculated CGC will be applied to customers' bills. For example, if the calculation were done as of December 1, 2011, the applicable Direct Customer Annual Usage Rate would be the usage rate that would be charged commencing January 1, 2012.

Indirect Customer Annual Usage Rate = The Bulk usage rate for the year the calculated CGC will be applied to customers' bills. For example, if the calculation were done as of December 1, 2011, the applicable Direct Customer Annual Usage Rate would be the usage rate that would be charged commencing January 1, 2012.

Incremental Treatment Cost = \$0.000896 per gallon of usage, which represents the average cost of electric power, chemicals and waste disposal for wastewater treatment for the twelve months ending December 31, 2010.

Revenue Under Settlement Rates = The annual revenues to be produced by the Settlement Rates (as hereafter defined) for each year of the phase-in period, as set forth by year in the Proof of Revenues attached as Appendix B to the Joint Petition For Settlement of Rate Investigation at Docket No. R-2010-2166212. The Settlement Rates are the rates set forth in such Proof of Revenues and are the same rates set forth at pages 4 and 4.1 through 4.4 of this Tariff.

3. Reporting Of Indirect Customers Added

Each of the Company's Bulk customers will provide to the Company, on or before November 15 of each year, a tabulation of the Indirect Customers, by class (Residential, Commercial, Municipal and Industrial), that were added during the preceding twelve months, except that the tabulation to be provided as of November 15, 2011 shall be for the ten months ended October 31, 2011. Upon request, a Bulk customer will provide to the Company, within seven days of such request, copies of a validly issued Occupancy Permit as verification for each of the Indirect Customers listed in its tabulation of Indirect Customers added.

CAPACITY RESERVATION FEE CREDIT ADJUSTMENT (C)

1. General Description

The purpose of the Capacity Reservation Fee Credit (CRFC) Adjustment is to adjust all customers' bills to reflect the revenue requirement impact, calculated in the manner provided herein, of Capacity Reservation Fees that the Company receives from and after the January 1, 2011 effective date of base rates established in the proceeding at Docket No. R-2010 - 2166212 through January 1, 2017. In the event the Company does not file for a general increase in base rates on March 31, 2016, which is the earliest that it can do so (subject to certain exceptions for extraordinary events) under the terms of the Joint Petition for Settlement at Docket No. R-2010-2166212, then the CGC in effect on January 1, 2017 will remain in effect until the effective date of new base rates established in the Company's next base rate case for the Coatesville Wastewater Operations.

2. Computation Of The CRFC

The initial CRFC will be calculated on the basis of Capacity Reservation Fees that the Company receives from and after January 1, 2011 through October 31, 2011. Thereafter, the CRFC will be calculated annually based on Capacity Reservation Fees received by the Company from and after January 1, 2011 through October 31 of the year in which the computation is made. The calculation and supporting information will be filed with the Commission and served on the active parties to the proceeding at Docket No. R-2010 - 2166212 by December 1 of each year and will become effective, on a bills rendered basis, one month later (January 1). Each such adjustment will reflect the revenue requirement impact, calculated in the manner provided below, associated with the Capacity Reservation Fees received by the Company from and after January 1, 2011 through October 31 of the computation year.

The CRFC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer under the Company's otherwise applicable rates and charges for wastewater service. The CRFC percentage may be added to the CGC percentage and the resulting composite percentage applied to customers' bills as a single line item.

The formula for calculating the CRFC is as follows:

$$\text{CRFC} = \frac{\text{Capacity Reservation Fee Revenue Requirement}}{\text{Total Base Rate Revenue}}$$

Where:

Capacity Reservation Fee Revenue Requirement = Capacity Reservation Fees received by the Company from and after January 1, 2011 through October 31 of the year in which the computation is made multiplied by the sum of (1) the applicable depreciation rate (1.94%) and (2) the pre-tax overall rate of return (8.36%).

Total Base Rate Revenue = Revenue under Settlement Rates + Additional Revenue From Customer Growth.

Revenue Under Settlement Rates = Shall have the same definition as under the CGC Adjustment.

Additional Revenue From Customer Growth = Shall have the same definition as in the CGC Adjustment.

Contributions in aid of construction or grants or funds in the nature of contributions in aid of construction with respect to the Coatesville Wastewater Treatment Plant that are furnished to the Company by, or through the efforts of, one or more of its Bulk customers will be treated the same as Capacity Reservation Fees for purposes of applying the Capacity Reservation Fee Credit Adjustment except that, as to such amounts, the Capacity Reservation Fee Revenue Requirement will be calculated using the applicable depreciation rate of 2.09% and the cost rate for the Pennsylvania Economic Development Financing Authority loan that was issued to finance the Coatesville Wastewater Treatment Plant.

APPENDIX B

PROOF OF REVENUES

PENNSYLVANIA AMERICAN WATER
COATESVILLE WASTEWATER OPERATIONS

SUMMARY OF PRESENT AND SETTLEMENT RATES

Customer Class	Present Rates		2011 Rates		2012 Rates		2013 and 2017 Rates		2014, 2015 and 2016 Rates	
	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons
Residential	\$4.50	\$0.5392	\$7.50	\$0.8194	\$7.50	\$1.1672	\$7.50	\$1.5151	\$7.50	\$1.8629
Residential - Low Income	4.50	0.5392	6.38	\$0.6965	6.38	\$0.9921	6.38	\$1.2878	6.38	\$1.5835
Commercial										
5/8"	8.50	0.4288	7.50	\$0.6543	7.50	\$0.8869	7.50	\$1.1194	7.50	\$1.3519
3/4"- 1 1/2"	8.50	0.4288	10.00	\$0.6543	10.00	\$0.8869	10.00	\$1.1194	10.00	\$1.3519
2" and Up	8.50	0.4288	20.00	\$0.6543	20.00	\$0.8869	20.00	\$1.1194	20.00	\$1.3519
Municipal and Industrial	8.50	0.4288	20.00	\$0.6543	20.00	\$0.8869	20.00	\$1.1194	20.00	\$1.3519
Bulk Customers	170.00	0.3777	250.00	\$0.5399	250.00	\$0.7032	250.00	\$0.8664	250.00	\$1.0298
Mittal Steel	170.00	0.3259	250.00	\$0.5000	250.00	\$0.6765	250.00	\$0.8528	250.00	\$1.0291
<u>Flat Rate Customers:</u>										
Residential	\$27.96		\$42.35		\$57.14		\$71.94		\$86.73	
Commercial	27.96		42.35		57.14		71.94		86.73	

PENNSYLVANIA AMERICAN WATER COMPANY
 COATESVILLE WASTEWATER OPERATIONS
 SUMMARY OF REVENUE UNDER PRESENT AND 2011 RATES

Customer Classification (1)	Proforma Present Rates Revenue 12/31/2010 (2)	Bill Analysis Revenues at Present Rates (3)	Adjustment Factor (4)=(2)/(3)	Bill Analysis Revenues 2011 Rates (5)	Revenues Under Proposed Rates (6)=(5)x(4)	Percentage Increase
Residential	\$1,915,433	\$1,922,365	0.99639414	\$2,954,580	\$2,943,926	53.7%
<u>Non-Residential</u>						
Commercial	320,692	320,943	0.99921942	475,171	474,800	48.1%
Public without VA Hospital	21,812	22,851	0.95453879	36,355	34,702	59.1%
Industrial	34,441	34,445	0.99989412	52,643	52,637	52.8%
Total Non-Residential	<u>376,946</u>	<u>378,239</u>		<u>564,169</u>	<u>562,140</u>	
Large Industrial (Mittal Steel)	134,418	134,418	1.00000000	206,096	206,096	53.3%
Bulk Users	1,505,200	1,501,216	1.00265385	2,146,236	2,151,931	43.0%
VA Hospital	121,586	121,586	1.00000000	173,885	173,885	43.0%
Total Bulk Users/VA Hospital	<u>1,626,786</u>	<u>1,622,802</u>		<u>2,320,121</u>	<u>2,325,816</u>	
Total Sales	\$4,053,582	\$4,057,823		\$6,044,965	\$6,037,978	49.0%
Other Operating Revenues	<u>79,175</u>	<u>79,175</u>		<u>94,611</u>	<u>94,611</u>	
Total	<u>\$ 4,132,757</u>	<u>\$ 4,136,998</u>		<u>\$ 6,139,577</u>	<u>\$ 6,132,590</u>	

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2011 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2011 Rate (6)	Proposed Revenue (7)
<u>Residential - Monthly</u>						
Customer Charge	66,991	0	\$4.50	\$301,462	\$7.50	\$502,436
Low Income	1,920	0	4.50	8,640	6.38	12,250
All Usage	0	2,849,323	0.5392	1,536,355	0.8194	2,334,735
Low Income*	0	81,658	0.5392	44,030	0.6965	56,875
Subtotal	0	2,930,981		1,580,385		2,391,610
Total	66,991	2,930,981		1,890,487		2,906,296
Unmetered Sales*	1,140	0	27.96	31,878	42.35	48,285
Total Residential	68,132	2,930,981		1,922,365		2,954,580
<u>Non-Residential - Commercial - Monthly</u>						
Customer Charge - 5/8 "	2,690	0	\$8.50	22,866	7.50	20,176
Customer Charge - 3/4"- 1 1/2"	852	0	\$8.50	7,242	10.00	8,520
Customer Charge - 2" and up	384	0	\$8.50	3,264	20.00	7,680
	3,926			33,372		36,376
All Usage	0	669,857	0.4288	287,235	0.6543	438,287
Subtotal	0	669,857		287,235		438,287
Total	3,926	669,857		320,607		474,663
Unmetered Sales	12	0	27.96	336	42.35	508
Total Commercial	3,938	669,857		320,943		475,171
<u>Non-Residential - Public - Monthly</u>						
Customer Charge*	212	0	8.50	1,799	20.00	4,233
All Usage	0	49,094	0.4288	21,052	0.6543	32,122
Subtotal	0	49,094		21,052		32,122
Total	212	49,094		22,851		36,355

* Based on average consumption of 4,253 gallons per month.

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2011 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2011 Rate (6)	Proposed Revenue (7)
<u>Non-Residential Quebecor - Monthly</u>						
Customer Charge	12	0	8.50	102.00	20.00	240
All Usage	<u>0</u>	<u>80,090</u>	0.4288	<u>34,343</u>	0.6543	<u>52,403</u>
Subtotal	0	80,090		34,343		52,403
Total	<u>12</u>	<u>80,090</u>		<u>34,445</u>		<u>52,643</u>
Total Non-Residential	<u>4,162</u>	<u>799,041</u>		<u>378,239</u>		<u>564,169</u>
<u>Large Industrial (Mittal Steel) - Monthly</u>						
Customer Charge	12	0	\$170.00	\$2,040	\$250.00	\$3,000
All Usage	<u>0</u>	<u>406,191</u>	0.3259	<u>132,378</u>	0.5000	<u>203,096</u>
Subtotal	0	406,191		132,378		203,096
Total - Large Industrial	12	406,191		134,418		206,096
<u>Bulk Users</u>						
Customer Charge	48	0	170.00	8,160	250.00	12,000
All Usage	<u>0</u>	<u>3,953,020</u>	0.3777	<u>1,493,056</u>	0.5399	<u>2,134,236</u>
Subtotal	0	3,953,020		1,493,056		2,134,236
Total	48	3,953,020		1,501,216		2,146,236
<u>VA Hospital - Monthly</u>						
Customer Charge	12	0	170.00	2,074	250.00	3,050
All Usage	<u>0</u>	<u>316,420</u>	0.3777	<u>119,512</u>	0.5399	<u>170,835</u>
Subtotal	0	316,420		119,512		170,835
Total	<u>12</u>	<u>316,420</u>		<u>121,586</u>		<u>173,885</u>
Total Bulk Users/VA Hospital	<u>60</u>	<u>4,269,440</u>		<u>1,622,802</u>		<u>2,320,121</u>
Total System	<u>72,366</u>	<u>8,405,653</u>		<u>\$4,057,823</u>		<u>\$6,044,965</u>

PENNSYLVANIA AMERICAN WATER COMPANY
 COATESVILLE WASTEWATER OPERATIONS
 SUMMARY OF REVENUE UNDER PRESENT AND 2012 RATES

Customer Classification (1)	Proforma Present Rates Revenue 12/31/2010 (2)	Bill Analysis Revenues at Present Rates (3)	Adjustment Factor (4)=(2)/(3)	Bill Analysis Revenues 2012 Rates (5)	Revenues Under Proposed Rates (6)=(5)x(4)	Percentage Increase
Residential	\$1,915,433	\$1,922,365	0.99639414	\$3,986,575	\$3,972,200	107.4%
<u>Non-Residential</u>						
Commercial	320,692	320,943	0.99921942	631,157	630,665	96.7%
Public without VA Hospital	21,812	22,851	0.95453879	47,774	45,602	109.1%
Industrial	34,441	34,445	0.99989412	71,272	71,264	106.9%
Total Non-Residential	<u>376,946</u>	<u>378,239</u>		<u>750,203</u>	<u>747,531</u>	
Large Industrial (Mittal Steel)	134,418	134,418	1.00000000	277,788	277,788	106.7%
Bulk Users	1,505,200	1,501,216	1.00265385	2,791,764	2,799,173	86.0%
VA Hospital	121,586	121,586	1.00000000	225,557	225,557	85.5%
Total Bulk Users/VA Hospital	<u>1,626,786</u>	<u>1,622,802</u>		<u>3,017,320</u>	<u>3,024,729</u>	
Total Sales	\$4,053,582	\$4,057,823		\$8,031,887	\$8,022,249	97.9%
Other Operating Revenues	<u>79,175</u>	<u>79,175</u>		<u>110,048</u>	<u>110,048</u>	
Total	<u>\$ 4,132,757</u>	<u>\$ 4,136,998</u>		<u>\$ 8,141,935</u>	<u>\$ 8,132,297</u>	

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2012 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2012 Rate (6)	Proposed Revenue (7)
<u>Residential - Monthly</u>						
Customer Charge	66,991	0	\$4.50	\$301,462	\$7.50	\$502,436
Low Income	1,920	0	4.50	8,640	6.38	12,250
All Usage*	0	2,849,323	0.5392	1,536,355	1.1672	3,325,730
Low Income	0	81,658	0.5392	44,030	0.9921	81,013
Subtotal	0	2,930,981		1,580,385		3,406,743
Total	66,991	2,930,981		1,890,487		3,921,428
Unmetered Sales*	1,140	0	27.96	31,878	57.14	65,147
Total Residential	68,132	2,930,981		1,922,365		3,986,575
<u>Non-Residential - Commercial - Monthly</u>						
Customer Charge - 5/8 "	2,690	0	\$8.50	22,866	7.50	20,176
Customer Charge - 3/4"- 1 1/2"	852	0	8.50	7,242	10.00	8,520
Customer Charge - 2" and up	384	0	8.50	3,264	20.00	7,680
	3,926			33,372		36,376
All Usage	0	669,857	0.4288	287,235	0.8869	594,096
Subtotal	0	669,857		287,235		594,096
Total	3,926	669,857		320,607		630,472
Unmetered Sales*	12	0	27.96	336	57.14	686
Total Commercial	3,938	669,857		320,943		631,157
<u>Non-Residential - Public - Monthly</u>						
Customer Charge	212	0	8.50	1,799	20.00	4,233
All Usage	0	49,094	0.4288	21,052	0.8869	43,541
Subtotal	0	49,094		21,052		43,541
Total	212	49,094		22,851		47,774

* Based on average consumption of 4,253 gallons per month.

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2012 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2012 Rate (6)	Proposed Revenue (7)
<u>Non-Residential Quebecor - Monthly</u>						
Customer Charge	12	0	8.50	102.00	20.00	240
All Usage	<u>0</u>	<u>80,090</u>	0.4288	<u>34,343</u>	0.8869	<u>71,032</u>
Subtotal	0	80,090		34,343		71,032
Total	<u>12</u>	<u>80,090</u>		<u>34,445</u>		<u>71,272</u>
Total Non-Residential	<u>4,162</u>	<u>799,041</u>		<u>378,239</u>		<u>750,203</u>
<u>Large Industrial (Mittal Steel) - Monthly</u>						
Customer Charge	12	0	\$170.00	\$2,040	\$250.00	\$3,000
All Usage	<u>0</u>	<u>406,191</u>	0.3259	<u>132,378</u>	0.6765	<u>274,788</u>
Subtotal	0	406,191		132,378		274,788
Total - Large Industrial	12	406,191		134,418		277,788
<u>Bulk Users</u>						
Customer Charge	48	0	170.00	8,160	250.00	12,000
All Usage	<u>0</u>	<u>3,953,020</u>	0.3777	<u>1,493,056</u>	0.7032	<u>2,779,764</u>
Subtotal	0	3,953,020		1,493,056		2,779,764
Total	48	3,953,020		1,501,216		2,791,764
<u>VA Hospital - Monthly</u>						
Customer Charge	12	0	170.00	2,074	250.00	3,050
All Usage	<u>0</u>	<u>316,420</u>	0.3777	<u>119,512</u>	0.7032	<u>222,507</u>
Subtotal	0	316,420		119,512		222,507
Total	<u>12</u>	<u>316,420</u>		<u>121,586</u>		<u>225,557</u>
Total Bulk Users/VA Hospital	<u>60</u>	<u>4,269,440</u>		<u>1,622,802</u>		<u>3,017,320</u>
Total System	<u>72,366</u>	<u>8,405,653</u>		<u>\$4,057,823</u>		<u>\$8,031,887</u>

PENNSYLVANIA AMERICAN WATER COMPANY
 COATESVILLE WASTEWATER OPERATIONS
 SUMMARY OF REVENUE UNDER PRESENT AND 2013 AND 2017 RATES

Customer Classification (1)	Proforma Present Rates Revenue 12/31/2010 (2)	Bill Analysis Revenues at Present Rates (3)	Adjustment Factor (4)=(2)/(3)	Bill Analysis Revenues 2013 and 2017 Rates (5)	Revenues Under Proposed Rates (6)=(5)x(4)	Percentage Increase
Residential	\$1,915,433	\$1,922,365	0.99639414	\$5,018,875	\$5,000,778	161.1%
<u>Non-Residential</u>						
Commercial	320,692	320,943	0.99921942	787,077	786,462	145.2%
Public without VA Hospital	21,812	22,851	0.95453879	59,189	56,498	159.0%
Industrial	34,441	34,445	0.99989412	89,893	89,883	161.0%
Total Non-Residential	<u>376,946</u>	<u>378,239</u>		<u>936,158</u>	<u>932,843</u>	
Large Industrial (Mittal Steel)	134,418	134,418	1.00000000	349,400	349,400	159.9%
Bulk Users	1,505,200	1,501,216	1.00265385	3,436,897	3,446,018	128.9%
VA Hospital	121,586	121,586	1.00000000	277,196	277,196	128.0%
Total Bulk Users/VA Hospital	<u>1,626,786</u>	<u>1,622,802</u>		<u>3,714,093</u>	<u>3,723,214</u>	
Total Sales	\$4,053,582	\$4,057,823		\$10,018,525	\$10,006,234	146.8%
Other Operating Revenues	<u>79,175</u>	<u>79,175</u>		<u>125,484</u>	<u>125,484</u>	
Total	<u>\$ 4,132,757</u>	<u>\$ 4,136,998</u>		<u>\$ 10,144,009</u>	<u>\$ 10,131,718</u>	

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2013 AND 2017 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2013 and 2017 Rate (6)	Proposed Revenue (7)
<u>Residential - Monthly</u>						
Customer Charge	66,991	0	\$4.50	\$301,462	\$7.50	\$502,436
Low Income	1,920	0	4.50	8,640	6.38	12,250
All Usage	0	2,849,323	0.5392	1,536,355	1.5151	4,317,010
Low Income*	<u>0</u>	<u>81,658</u>	0.5392	<u>44,030</u>	1.2878	<u>105,159</u>
Subtotal	0	2,930,981		1,580,385		4,422,168
Total	66,991	2,930,981		1,890,487		4,936,854
Unmetered Sales*	<u>1,140</u>	<u>0</u>	27.96	<u>31,878</u>	71.94	<u>82,021</u>
Total Residential	68,132	2,930,981		1,922,365		5,018,875
<u>Non-Residential - Commercial - Monthly</u>						
Customer Charge - 5/8 "	2,690	0	\$8.50	22,866	7.50	20,176
Customer Charge - 3/4"- 1 1/2"	852	0	8.50	7,242	10.00	8,520
Customer Charge - 2" and up	<u>384</u>	<u>0</u>	8.50	<u>3,264</u>	20.00	<u>7,680</u>
	3,926			33,372		36,376
All Usage	<u>0</u>	<u>669,857</u>	0.4288	<u>287,235</u>	1.1194	<u>749,838</u>
Subtotal	0	669,857		287,235		749,838
Total	3,926	669,857		320,607		786,213
Unmetered Sales*	<u>12</u>	<u>0</u>	27.96	<u>336</u>	71.94	<u>863</u>
Total Commercial	3,938	669,857		320,943		787,077
<u>Non-Residential - Public - Monthly</u>						
Customer Charge	212	0	8.50	1,799	20.00	4,233
All Usage	<u>0</u>	<u>49,094</u>	0.4288	<u>21,052</u>	1.1194	<u>54,956</u>
Subtotal	0	49,094		21,052		54,956
Total	212	49,094		22,851		59,189

* Based on average consumption of 4,253 gallons per month.

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2013 AND 2017 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2013 and 2017 Rate (6)	Proposed Revenue (7)
<u>Non-Residential Quebecor - Monthly</u>						
Customer Charge	12	0	8.50	102.00	20.00	240
All Usage	<u>0</u>	<u>80,090</u>	0.4288	<u>34,343</u>	1.1194	<u>89,653</u>
Subtotal	0	80,090		34,343		89,653
Total	<u>12</u>	<u>80,090</u>		<u>34,445</u>		<u>89,893</u>
Total Non-Residential	<u>4,162</u>	<u>799,041</u>		<u>378,239</u>		<u>936,158</u>
<u>Large Industrial (Mittal Steel) - Monthly</u>						
Customer Charge	12	0	\$170.00	\$2,040	\$250.00	\$3,000
All Usage	<u>0</u>	<u>406,191</u>	0.3259	<u>132,378</u>	0.8528	<u>346,400</u>
Subtotal	0	406,191		132,378		346,400
Total - Large Industrial	12	406,191		134,418		349,400
<u>Bulk Users</u>						
Customer Charge	48	0	170.00	8,160	250.00	12,000
All Usage	<u>0</u>	<u>3,953,020</u>	0.3777	<u>1,493,056</u>	0.8664	<u>3,424,897</u>
Subtotal	0	3,953,020		1,493,056		3,424,897
Total	48	3,953,020		1,501,216		3,436,897
<u>VA Hospital - Monthly</u>						
Customer Charge	12	0	170.00	2,074	250.00	3,050
All Usage	<u>0</u>	<u>316,420</u>	0.3777	<u>119,512</u>	0.8664	<u>274,146</u>
Subtotal	0	316,420		119,512		274,146
Total	<u>12</u>	<u>316,420</u>		<u>121,586</u>		<u>277,196</u>
Total Bulk Users/VA Hospital	<u>60</u>	<u>4,269,440</u>		<u>1,622,802</u>		<u>3,714,093</u>
Total System	<u>72,366</u>	<u>8,405,653</u>		<u>\$4,057,823</u>		<u>\$10,018,525</u>

PENNSYLVANIA AMERICAN WATER COMPANY
 COATESVILLE WASTEWATER OPERATIONS
 SUMMARY OF REVENUE UNDER PRESENT AND 2014, 2015 AND 2016 RATES

Customer Classification <u>(1)</u>	Proforma Present Rates Revenue 12/31/2010 <u>(2)</u>	Bill Analysis Revenues at Present Rates <u>(3)</u>	Adjustment Factor <u>(4)=(2)/(3)</u>	Bill Analysis Revenues 2014, 2015 and 2016 Rates <u>(5)</u>	Revenues Under Proposed Rates <u>(6)=(5)x(4)</u>	Percentage Increase
Residential	\$1,915,433	\$1,922,365	0.99639414	\$6,050,878	\$6,029,060	214.8%
<u>Non-Residential</u>						
Commercial	320,692	320,943	0.99921942	942,996	942,260	193.8%
Public without VA Hospital	21,812	22,851	0.95453879	70,603	67,393	209.0%
Industrial	34,441	34,445	0.99989412	108,514	108,502	215.0%
Total Non-Residential	<u>376,946</u>	<u>378,239</u>		<u>1,122,112</u>	<u>1,118,155</u>	
Large Industrial (Mittal Steel)	134,418	134,418	1.00000000	421,011	421,011	213.2%
Bulk Users	1,505,200	1,501,216	1.00265385	4,082,820	4,093,655	172.0%
VA Hospital	121,586	121,586	1.00000000	328,899	328,899	170.5%
Total Bulk Users/VA Hospital	<u>1,626,786</u>	<u>1,622,802</u>		<u>4,411,719</u>	<u>4,422,555</u>	
Total Sales	\$4,053,582	\$4,057,823		\$12,005,721	\$11,990,780	195.8%
Other Operating Revenues	<u>79,175</u>	<u>79,175</u>		<u>140,920</u>	<u>140,920</u>	
Total	<u>\$ 4,132,757</u>	<u>\$ 4,136,998</u>		<u>\$ 12,146,641</u>	<u>\$ 12,131,701</u>	

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2014, 2015 AND 2016 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2014, 2015 and 2016 Rate (6)	Proposed Revenue (7)
<u>Residential - Monthly</u>						
Customer Charge	66,991	0	\$4.50	\$301,462	\$7.50	\$502,436
Low Income	1,920	0	4.50	8,640	6.38	12,250
All Usage	0	2,849,323	0.5392	1,536,355	1.8629	5,308,004
Low Income*	<u>0</u>	<u>81,658</u>	0.5392	<u>44,030</u>	1.5835	<u>129,305</u>
Subtotal	0	2,930,981		1,580,385		5,437,309
Total	66,991	2,930,981		1,890,487		5,951,995
Unmetered Sales*	<u>1,140</u>	<u>0</u>	27.96	<u>31,878</u>	86.73	<u>98,883</u>
Total Residential	68,132	2,930,981		1,922,365		6,050,878
<u>Non-Residential - Commercial - Monthly</u>						
Customer Charge - 5/8 "	2,690	0	\$8.50	22,866	7.50	20,176
Customer Charge - 3/4"- 1 1/2"	852	0	8.50	7,242	10.00	8,520
Customer Charge - 2" and up	<u>384</u>	<u>0</u>	8.50	<u>3,264</u>	20.00	<u>7,680</u>
	3,926			33,372		36,376
All Usage	<u>0</u>	<u>669,857</u>	0.4288	<u>287,235</u>	1.3519	<u>905,579</u>
Subtotal	0	669,857		287,235		905,579
Total	3,926	669,857		320,607		941,955
Unmetered Sales*	<u>12</u>	<u>0</u>	27.96	<u>336</u>	86.73	<u>1,041</u>
Total Commercial	3,938	669,857		320,943		942,996
<u>Non-Residential - Public - Monthly</u>						
Customer Charge	212	0	8.50	1,799	20.00	4,233
All Usage	<u>0</u>	<u>49,094</u>	0.4288	<u>21,052</u>	1.3519	<u>66,370</u>
Subtotal	0	49,094		21,052		66,370
Total	212	49,094		22,851		70,603

* Based on average consumption of 4,253 gallons per month.

PENNSYLVANIA-AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

APPLICATION OF PRESENT RATES AND 2014, 2015 AND 2016 RATES TO CONSUMPTION ANALYSIS

Rate Block 100 Gallons (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Revenue (5)	2014, 2015 and 2016 Rate (6)	Proposed Revenue (7)
<u>Non-Residential Quebecor - Monthly</u>						
Customer Charge	12	0	8.50	102.00	20.00	240
All Usage	<u>0</u>	<u>80,090</u>	0.4288	<u>34,343</u>	1.3519	<u>108,274</u>
Subtotal	0	80,090		34,343		108,274
Total	<u>12</u>	<u>80,090</u>		<u>34,445</u>		<u>108,514</u>
Total Non-Residential	<u>4,162</u>	<u>799,041</u>		<u>378,239</u>		<u>1,122,112</u>
<u>Large Industrial (Mittal Steel) - Monthly</u>						
Customer Charge	12	0	\$170.00	\$2,040	\$250.00	\$3,000
All Usage	<u>0</u>	<u>406,191</u>	0.3259	<u>132,378</u>	1.0291	<u>418,011</u>
Subtotal	0	406,191		132,378		418,011
Total - Large Industrial	12	406,191		134,418		421,011
<u>Bulk Users</u>						
Customer Charge	48	0	170.00	8,160	250.00	12,000
All Usage	<u>0</u>	<u>3,953,020</u>	0.3777	<u>1,493,056</u>	1.0298	<u>4,070,820</u>
Subtotal	0	3,953,020		1,493,056		4,070,820
Total	48	3,953,020		1,501,216		4,082,820
<u>VA Hospital - Monthly</u>						
Customer Charge	12	0	170.00	2,074	250.00	3,050
All Usage	<u>0</u>	<u>316,420</u>	0.3777	<u>119,512</u>	1.0298	<u>325,849</u>
Subtotal	0	316,420		119,512		325,849
Total	<u>12</u>	<u>316,420</u>		<u>121,586</u>		<u>328,899</u>
Total Bulk Users/VA Hospital	<u>60</u>	<u>4,269,440</u>		<u>1,622,802</u>		<u>4,411,719</u>
Total System	<u>72,366</u>	<u>8,405,653</u>		<u>\$4,057,823</u>		<u>\$12,005,721</u>

Pennsylvania American Water
Coatesville Phase In - 6 Year

Requested Increase \$ 8,156,652

Number of Years: 6

Current Revenues	\$	4,132,757	
Revenue Requirement Increase	\$	5,999,000	35,994,000
Revenue Requirement	\$	10,131,757	60,790,542
% increase		145%	

	2011	2012	2013	2014	2015	2016	2017	Total
Current Annual Revenue	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757
Annual Increase In Rates	\$ 1,999,700	\$ 1,999,700	\$ 1,999,700	\$ -	\$ -	\$ -	\$ -	\$ -
Deferral Recovery	\$ -	\$ -	\$ -	\$ 1,999,700	\$ 1,999,700	\$ 1,999,700	\$ -	\$ -
Phase-in Rate Change From Current Rates	\$ 1,999,700	\$ 3,999,400	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 35,994,600
Rate Increase Year Over Year	\$ 1,999,700	\$ 3,999,400	\$ 5,999,100	\$ 7,998,800	\$ 7,998,800	\$ 7,998,800	\$ 5,999,100	\$ 5,999,100
Resulting Rates (Revenue Requirement)	\$ 6,132,457	\$ 8,132,157	\$ 10,131,857	\$ 12,131,557	\$ 12,131,557	\$ 12,131,557	\$ 10,131,857	\$ 60,791,142
% Increase In Rates Year over Year	48.39%	32.61%	24.59%	19.74%	0.00%	0.00%	-16.48%	
Cumulative % Increase From Current Rates	48.39%	96.77%	145.16%	193.55%	193.55%	193.55%	145.16%	
Revenue Requirement (Deficiency) / Recovery	\$ (3,999,300)	\$ (1,999,600)	\$ 100	\$ 1,999,800	\$ 1,999,800	\$ 1,999,800	\$ 100	\$ 100
Cumulative Revenue Requirement (deficiency) / Recovery	(3,999,300)	(5,998,900)	(5,998,800)	(3,999,000)	(1,999,200)	600	700	

	Present	2011	2012	2013	2014	2015
Residential	1,915,433	2,943,835	3,972,236	5,000,638	6,029,040	
Non-Residential	376,946	562,244	747,541	932,839	1,118,136	
Large Industrial	134,418	206,079	277,739	349,400	421,061	
Bulk/VA	1,626,786	2,325,656	3,024,525	3,723,395	4,422,265	
Subtotal	4,053,583	6,037,813	8,022,042	10,006,272	11,990,501	
Other Revenues	79,175	94,611	110,048	125,484	140,920	
Total	4,132,758	6,132,424	8,132,090	10,131,756	12,131,421	
		1,999,666	1,999,666	1,999,666	1,999,666	

APPENDIX C

SCHEDULE – PHASE IN PLAN

Pennsylvania American Water
Coatesville Phase In - 6 Year

Requested Increase \$ 8,156,652

Number of Years: 6

Current Revenues	\$	4,132,757	
Revenue Requirement increase	\$	5,999,000	35,994,000
Revenue Requirement	\$	10,131,757	60,790,542
% increase		145%	

	2011	2012	2013	2014	2015	2016	2017	Total
Current Annual Revenue	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757	\$ 4,132,757
Annual Increase In Rates	\$ 1,999,700	\$ 1,999,700	\$ 1,999,700	\$ -	\$ -	\$ -	\$ -	\$ -
Deferral Recovery	\$ -	\$ -	\$ -	\$ 1,999,700	\$ 1,999,700	\$ 1,999,700	\$ 1,999,700	\$ -
Phase-in Rate Change From Current Rates	\$ 1,999,700	\$ 3,999,400	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 5,999,100	\$ 35,994,600
Rate Increase Year Over Year	\$ 1,999,700	\$ 3,999,400	\$ 5,999,100	\$ 7,998,800	\$ 7,998,800	\$ 7,998,800	\$ 5,999,100	\$ 5,999,100
Resulting Rates (Revenue Requirement)	\$ 6,132,457	\$ 8,132,157	\$ 10,131,857	\$ 12,131,557	\$ 12,131,557	\$ 12,131,557	\$ 10,131,857	\$ 60,791,142
% Increase In Rates Year over Year	48.39%	32.61%	24.59%	19.74%	0.00%	0.00%	-16.48%	
Cumulative % Increase From Current Rates	48.39%	96.77%	145.16%	193.55%	193.55%	193.55%	145.16%	
Revenue Requirement (Deficiency) / Recovery	\$ (3,999,300)	\$ (1,999,600)	\$ 100	\$ 1,999,800	\$ 1,999,800	\$ 1,999,800	\$ 100	\$ 100
Cumulative Revenue Requirement (deficiency) / Recovery	(3,999,300)	(5,998,900)	(5,998,800)	(3,999,000)	(1,999,200)	600	700	

APPENDIX D

RECALCULATED DEPRECIATION RATES

PENNSYLVANIA AMERICAN WATER COMPANY
COATESVILLE WASTEWATER OPERATIONS

TABLE 1. ESTIMATED SURVIVOR CURVES, ORIGINAL COST, BOOK RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO ORIGINAL COST AT DECEMBER 31, 2010

DEPRECIABLE GROUP	SURVIVOR CURVE	NET ORIGINAL COST AT DECEMBER 31, 2010	BOOK RESERVE	FUTURE ACCRUALS	ANNUAL ACCRUAL AMOUNT	COMPOSITE REMAINING LIFE	ANNUAL ACCRUAL PERCENT	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
DEPRECIABLE PLANT								
354.20	STRUCTURES AND IMPROVEMENTS - COLLECTION	40-R3	145,922.06	11,580	134,342	3,584	37.5	2.46
354.30	STRUCTURES AND IMPROVEMENTS - SPP	30-S1.5	4,107,604.08	299,493	3,808,111	141,961	26.8	3.46
354.40	STRUCTURES AND IMPROVEMENTS - TDP	65-R3	28,259,784.83	(1,272,364)	29,532,149	589,590	50.1	2.09
354.70	STRUCTURES AND IMPROVEMENTS - GENERAL	35-S0	522,803.60	32,960	489,843	22,509	21.8	4.31
355.00	POWER GENERATION EQUIPMENT	25-R2.5	136,627.09	28,188	108,440	6,954	15.6	5.09
360.10	COLLECTION SEWERS - FORCE MAINS	65-S2.5	4,140,586.41	112,207	4,028,379	68,469	58.8	1.65
361.10	COLLECTION SEWERS - GRAVITY MAINS	65-S1.5	15,337,320.26	1,263,030	14,074,291	252,687	55.7	1.65
361.20	MANHOLES	45-R1.5	713,983.14	46,132	667,852	18,257	36.6	2.56
363.00	SERVICES	40-S2.5	2,440,816.79	255,328	2,185,489	72,845	30.0	2.98
364.00	FLOW MEASURING DEVICES	30-S0.5	53,656.09	14,130	39,525	1,616	24.5	3.01
365.00	FLOW MEASURING INSTALLATIONS	30-S0.5	13,146.00	613	12,533	518	24.2	3.94
370.00	RECEIVING WELLS	45-R3	15,133.97	1,037	14,097	369	38.2	2.44
371.00	PUMPING EQUIPMENT	40-S0	817,393.26	1,293	816,100	22,837	35.7	2.79
380.00	TREATMENT EQUIPMENT	40-S1	15,555,448.91	46,578	15,508,871	453,119	34.2	2.91
381.00	PLANT SEWERS	50-R3	6,297,809.00	223,518	6,074,291	128,605	47.2	2.04
389.10	OTHER PLANT AND MISC. EQUIPMENT - INTANGIBLE	20-SQ	11,488.82	894	10,595	817	13.0	7.11
390.00	OFFICE FURNITURE AND EQUIPMENT	20-SQ	109,083.00	11,322	97,761	5,912	16.5	5.42
392.00	STORES EQUIPMENT	25-SQ	6,778.64	2,424	4,355	275	15.8	4.06
393.00	TOOLS, SHOP AND GARAGE EQUIPMENT	20-SQ	25,055.57	6,658	18,396	1,398	13.2	5.58
394.00	LABORATORY EQUIPMENT	15-SQ	65,553.53	33,920	31,634	3,713	8.5	5.66
395.00	POWER OPERATED EQUIPMENT	15-L4	80,079.14	40,323	39,756	5,485	7.2	6.85
396.00	COMMUNICATION EQUIPMENT	15-SQ	784,820.56	76,860	707,961	52,557	13.5	6.70
397.00	MISCELLANEOUS EQUIPMENT	20-SQ	343,056.74	118,690	224,366	18,843	11.9	5.49
TOTAL DEPRECIABLE PLANT			79,983,951.49	1,354,814	78,629,137	1,872,920	42.0	2.34
NONDEPRECIABLE PLANT								
352.00	FRANCHISES		150,568.58					
353.40	LAND AND LAND RIGHTS - TDP		1,047,342.62					
TOTAL NONDEPRECIABLE PLANT			1,197,911.20					
AMORTIZATION OF NET SALVAGE					337,806			
TOTAL WASTEWATER COMPANY			81,181,862.69	1,354,814	78,629,137	2,210,726		

* Life Span Procedure used. Curve shown is Interim Survivor Curve.

APPENDIX E
PAWC STATEMENT

APPENDIX E

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 :
 v. : **DOCKET NO. R-2010-2166212**
 :
PENNSYLVANIA-AMERICAN WATER :
COMPANY – COATESVILLE :
WASTEWATER OPERATIONS :

**STATEMENT OF PENNSYLVANIA-AMERICAN WATER COMPANY
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT
OF RATE PROCEEDING**

Pennsylvania-American Water Company (PAWC or the Company) believes that the proposed Settlement is in the best interests of the Company and its customers, and is therefore in the public interest. The Settlement was achieved only after extensive discovery, submission of direct, rebuttal and surrebuttal testimony by the parties on a wide range of issues, and negotiations among the Joint Petitioners and the Office of Small Business Advocate (OSBA) as to the appropriate revenue level, rate structure, rate design and other matters. PAWC is in full agreement with each of the reasons set forth in the Joint Petition in support of the proposed Settlement. In addition, the Company offers the following reasons why the Settlement is in the public interest and should be approved.

I. INTRODUCTION AND OVERVIEW

This is only the second base rate case filed by PAWC for its Coatesville Wastewater Operations since PAWC, with the Commission’s approval, acquired the wastewater assets of the City of Coatesville Authority (CCA) in March 2001. The wastewater rates of the Coatesville

customers were last increased in November 2008, when an average residential customer's monthly wastewater bill increased from \$15.00 to \$27.43. Prior to that increase, the wastewater rates of the Coatesville customers were unchanged since October 1994. Consequently, if the rates set forth in the Joint Petition for Settlement (Joint Petition) become effective as proposed, the Coatesville wastewater customers will have experienced only two rate increases in sixteen years. Moreover, the Joint Petition (Paragraph 8.d.) contains a six-year stay-out provision under which the Company could not increase the Coatesville wastewater rates, absent certain extraordinary conditions, until January 1, 2017.

The Settlement provides that the Company will increase its rates to produce additional annual operating revenue of \$5,999,000, or approximately 145%, in lieu of the \$8,156,652, or 197%, proposed by the Company in its initial filing. Additionally, the Settlement Rates reflect the Company's agreement to a six-year phase-in plan. Under the phase-in plan, three increases of approximately \$1,999,700 will occur on January 1, 2011, 2012 and 2013 such that the rates that become effective on January 1, 2013 are designed to produce additional annual operating revenue of \$5,999,000. On January 1, 2014, an additional increase of \$1,999,700 will become effective and remain in effect until December 31, 2016. This increase will recover the difference between \$5,999,000 per year and the increases that were actually implemented for 2011 and 2012, without any interest or other carrying charges. As of January 1, 2017, Coatesville wastewater rates will be reduced to the same rates in effect in 2013, which, as explained above are designed to recover additional annual operating revenues of \$5,999,000. Consequently, the Settlement Rates are designed to recover, on average, over the entire six-year phase-in period, from January 1, 2011 through December 31, 2016, \$5,999,000 in additional annual operating revenue. The phase-in plan reflected in the Settlement Rates is similar to the six-year phase-in

plans that the Commission approved in base rates cases for Philadelphia Electric Company (PECO) in 1986 and Duquesne Light Company (Duquesne) in 1988,¹ except that, unlike the Duquesne phase-in plan, the phase-in plan set forth in the Settlement does not provide for interest or any other carrying charges.

Under the Settlement Rates, an average residential customer's monthly wastewater bill in 2011 will be approximately \$42.35 per month, compared to \$27.43 per month under current rates and \$90.26 under the rates PAWC initially proposed. Thereafter, under the Settlement Rates, an average residential customer's monthly wastewater bill will increase by approximately \$14.80 on January 1, 2012, 2013 and 2014 and will decrease by \$14.80 on January 1, 2017, as shown below:

Current Rates	Proposed Rates	Settlement Rates				
		2011	2012	2013	2014-2016	2017
\$27.43	\$90.26	\$42.35	\$57.14	\$71.94	\$86.73	\$71.94

(Based on monthly usage of 4,253 gallons for an average residential customer.)

The Settlement Rates also provide that the Company's rates for all customers will be subject to credit adjustments for growth in number of customers occurring on after January 1, 2011 through the end of the phase-in period and Capacity Reservation Fees received on and after January 1, 2011 through the end of the phase-in period. As a consequence, all Coatesville customers' wastewater bills are likely to be lower than the application of the unadjusted Settlement Rates to average customer usage would indicate. The amount of such credit adjustments will depend on future customer growth and future Capacity Reservation Fees.

¹ *Pa. P.U.C. v. Philadelphia Elec. Co.*, 61 Pa. P.U.C. 589, 672 (1986); *Pa. P.U.C. v. Duquesne Light Co.*, 66 Pa. P.U.C. 518, 701 (1988).

Additionally, under the Settlement, the Company is instituting a new low-income customer assistance program that will provide a 15% reduction from the wastewater bill of eligible low-income customers. Under this program eligibility will be determined on same criterion used for participation in the Low-Income Home Energy Assistance Program, which is currently 150% of the Federal Poverty Guideline.

The rate structure aspect of this case was also the subject of extensive negotiations among the parties. The rate structure and rate design elements, which are set forth in detail in Paragraph No. 8.h. of the Joint Petition, provide a fair, reasonable and non-discriminatory distribution of the revenue increase among the various customer classes.

II. REASONS FOR THE INCREASE AND THE COMPANY'S MITIGATION EFFORTS

The need to increase Coatesville wastewater rates is a consequence of the Company's investment of \$54.6 million to substantially reconstruct the Coatesville Wastewater Treatment Plant and to increase its rated capacity to 7.0 million gallons per day (MGD). As explained by PAWC's Vice President of Engineering, David R. Kaufman (PAW St. 2-R, pp. 2-3), the plant, which was constructed in 1932, was at the end of its life when the Company acquired the Coatesville system; was in bad condition; was experiencing failures of many key components; and could not meet proposed effluent standards. In addition, the plant was in a "projected hydraulic overload" condition at the time PAWC acquired it, which led to a Pennsylvania Department of Environmental Protection (Pa. DEP) Consent Decree being issued in November 2005 that obligated the Company to increase treatment capacity within two years from the date that all necessary permits for plant construction were issued.

During the course of this proceeding, the Municipal Sewer Group (MSG) and, to a lesser extent, the City Borough Alliance (CBA) questioned the Company's capacity planning and, in

particular, raised the issue of whether the Coatesville Wastewater Treatment Plant had “excess capacity.” The Company submitted extensive evidence that showed that its capacity planning was prudent and that the capacity of the upgraded Coatesville Wastewater Treatment Plant was the amount needed to satisfy the requirements of the Pennsylvania Sewage Facilities Act (Act 537) and Pa. DEP’s regulations issued under Act 537 at 25 Pa. Code Chapters 71 and 94 (PAW St. 2-R, pp. 9-14). Mr. Kaufman summarized this evidence, as follows (PAW St. 2-R, pp. 3-5):

- Treatment capacity has to be adequate to meet the projected flows set forth in the Act 537 Official Plans of the municipalities that send sewage flows to be treated by a wastewater treatment plant (tributary municipalities). The testimony of MSG’s witness seems to suggest otherwise. If that is his position, then he is simply wrong. No one familiar with Act 537 and Pa. DEP’s enforcement of the Act could reasonably dispute that municipal Act 537 Official Plans govern the need for wastewater treatment capacity. In fact, that is whole purpose of requiring municipalities to prepare and file Act 537 Official Plans.
- The ten tributary municipalities of the Coatesville Wastewater Treatment Plant were required by Pa. DEP to prepare individual Act 537 Official Plans that set forth projections of their anticipated growth and associated sewage flows. Pa. DEP also required that a Regional Act 537 Official Plan be prepared setting forth a plan for constructing the treatment capacity needed to meet the flows projected by the tributary municipalities in their individual Act 537 Official Plans. PAW and its consultant URS Corporation coordinated the preparation of the Regional Act 537 Official Plan. Pa. DEP also required that each tributary municipality approve and adopt the Regional Act 537 Official Plan.
- As required by Pa. DEP, the Regional Act 537 Official Plan included a detailed plan for increasing the capacity of the Coatesville Wastewater Treatment Plant to 7.0 MGD. The plant capacity of 7.0 MGD was based upon – but was actually somewhat lower than – the flows the municipalities projected in their Act 537 Official Plans over a *prospective ten-year planning horizon that began as of 2007 and extended to 2017*. Act 537 requires Official

Plans to include a ten-year projection of flows. Additionally, I would note that Pa. DEP guidance documents propose twenty years as an appropriate planning horizon in sizing wastewater treatment capacity for new treatment plants.

- The Regional Act 537 Official Plan was formally adopted and approved by resolutions passed by each of the ten tributary municipalities between April and June 2009. PAW Exhibit DRK-1R is a copy of each of the ten resolutions. Each of the resolutions stated that the Regional Act 537 Official Plan that the municipality was thereby approving and adopting “selects the alternative of expanding the existing PAWC stream discharge wastewater treatment plant utilizing oxidation ditch technology to achieve a treatment capacity of seven (7) million gallons per day annual average daily flow . . .” Additionally, each resolution states that the municipality “will ensure a complete and timely implementation of said plan by PAWC as required by law (Section 5, Pennsylvania Sewage Facilities Act, as amended).”
- The Regional Act 537 Official Plan was approved by Pa. DEP. By granting Act 537 approval for 7.0 MGD of wastewater treatment capacity, Pa. DEP found that the Regional Act 537 Official Plan satisfactorily documented the projected sewage needs of the tributary municipalities.

The Company was aware of the potential effect on Coatesville wastewater rates of the rate base addition represented by the new Coatesville Wastewater Treatment Plant and took several steps to mitigate the rate impact. As explained by the Company’s Director of Rates and Regulation, Rod P. Nevirauskas (PAW St. 3, pp. 6-7; PAW St. 3-R, 13-14), the most significant mitigation step taken by the Company was to seek, and to obtain, long-term (30-year) government financing of a large portion (\$47 million) of its investment in the new Coatesville Wastewater Treatment Plant from the Pennsylvania Economic Development Financing Authority (PEDFA) at a favorable interest rate of 6.20%. Additionally, in calculating its overall rate of return, the Company developed a pro forma capital structure that included the entire amount of PEDFA debt financing that was used to finance its investment in the new treatment plant. The

remainder of the capital structure was projected at the overall debt/equity ratios of the Company as a whole. This produced a proposed capital structure for ratemaking purposes of approximately 80% debt and 20% common equity (PAW St. 3, p. 7 and Exhibit RPN-2, p. 2). By securing the PEDFA financing, the Company was able to reduce what would otherwise have been its annual revenue requirement in this case by \$3.1 million.

III. THE SETTLEMENT

The Settlement provides for a lower overall increase in annual operating revenue than the Company requested in its initial filing. In addition, and as explained above, the Settlement provides for a six-year phase-in. The phase-in substantially mitigates the impact upon customers of the increase in annual operating revenue by replacing a single large increase with a series of smaller increases over the phase-in period. The Settlement also incorporates two other innovative elements, namely, the Customer Growth Credit (CGC) adjustment and the Capacity Reservation Fee Credit (CRFC) adjustment (Joint Petition ¶8.f.). These adjustments are designed to credit customers' bills to reflect, respectively, the growth in number of customers over the phase-in period and additional Capacity Reservation Fees received by the Company over the phase-in period. As a consequence, based on future customer growth and future development in the municipalities that are served by the Coatesville Wastewater Treatment Plant, the adjusted Settlement Rates actually paid by wastewater customers over the phase-in period could be materially lower than the unadjusted Settlement Rates set forth in Appendix A to the *Joint Petition*.

All of the substantive terms and conditions of the Settlement are set forth in Paragraph No. 8 of the Joint Petition. The principal terms and conditions are explained below.

Subparagraph a. expresses the Joint Petitioners' agreement to an increase of \$5,999,000 in annual wastewater revenue in lieu of the increase originally proposed by the Company and also evidences the Joint Petitioners' agreement to the specific rates, rules and terms of service set forth in the tariff annexed to the Joint Petition as Appendix A, which include both the phase-in plan and the credit adjustments discussed above. A detailed Proof of Revenues is provided as Appendix B.

Subparagraph b. expresses the Joint Petitioners' agreement to adopt the six-year phase-in plan described in Section I, above. Appendix C is a spreadsheet that shows the amount of the increase in annual operating revenue for each year of the phase-in. As previously explained, the six-year phase-in reflected in the Settlement is consistent with the six-year duration and pattern of increases employed in the phase-in plans the Commission approved for Philadelphia Electric Company and Duquesne Light Company when each of those companies brought a large new plant addition into rate base. However, unlike the Duquesne Light Company phase-in plan, the phase-in plan incorporated in the Settlement does not include any interest or carrying charges.

Subparagraph c. is the Joint Petitioners' request that Chief Administrative Law Judge Rainey and the Commission act as expeditiously as possible to try to ensure that the Settlement Rates become effective on January 1, 2011.

Subparagraph d. is PAWC's agreement not to file a general wastewater base rate case for the Coatesville Wastewater Operations under Section 1308(d) of the Public Utility Code, subject to the usual exceptions, prior to March 31, 2016. With the seven-month suspension provided for under Section 1308(d), if such a filing were made at the earliest date permitted, new base rates would not become effective until January 1, 2017. Thus, the stay-out provides that no additional increase in base rates would occur during the six-year phase-in period.

Subparagraph e. provides for an increase to \$4,000 per Equivalent Dwelling Unit in the Capacity Reservation Fee set forth in the indicated provisions of the Company's tariff. The increase does not apply to certain Capacity Reservation Fees that were already under agreement. The proposed tariff supplement maintains the exception that exempts bona fide applicants for service from paying any Capacity Reservation Fees.

Capacity Reservation Fees were approved and increased in the 2008 Coatesville wastewater base rate case. In that case, the purpose of Capacity Reservation Fees and the reasonableness of imposing such fees for wastewater treatment capacity were addressed at length on the record and in the Joint Petition and Supporting Statements of the Joint Petitioners. Simply stated, the Capacity Reservation Fee is a means of allocating costs to those who want to reserve capacity in the Coatesville Wastewater Operations' system. These capacity reservations drive the need for capacity to be available in advance of when the parties reserving that capacity (or those to whom they sell their developed properties) actually become customers and begin to pay user fees. The Capacity Reservation Fee provides the means for those who want to reserve capacity for future use to bear the costs of that reservation. The Capacity Reservation Fee is a fair and reasonable means of allocating capacity costs between current customers and those reserving capacity in the Company's system. Because the CRFC adjustment, which is discussed hereafter, will adjust customers' rates to reflect a credit for the revenue requirement effect of additional Capacity Reservation Fees received by the Company on and after January 1, 2011, the increase in Capacity Reservation Fees will benefit the Company's customers.

Subparagraph f. memorializes the Joint Petitioners' agreement regarding the CGC adjustment and the CRFC adjustment set forth in the tariff supplement provided as Appendix A to the Joint Petition.

CGC Adjustment. The CGC adjustment is designed to credit all customers' bills with revenue from customers added on and after January 1, 2011 in the Company's own service area, which are called "Direct Customers" in the tariff, and in the service areas of the MSG members, which are called "Indirect Customers" in the tariff. The revenue associated with customer additions will be based on class average usage for residential and commercial customers, which is the only practical approach for these groups. If any Municipal or Industrial customers are added, actual usage will be used.

For Direct Customers, the revenue per customer will be the sum of (1) the applicable customer charge; and (2) the applicable usage rate times the usage. Because of the phase-in, the usage rate changes each year. Therefore, for each annual calculation, the annual revenue associated with all customers that are added up to that point will employ the usage rate that will be in effect during the period the CGC will be in effect. For Indirect Customers, the revenue per customer consists only of the usage times the Bulk customer usage rate since the Company does not collect any customer charges from these customers and it collects usage revenue at the Bulk customer usage rate. The annual rate used each year will be the one appropriate for the application period, as explained above).

The Company will incur an incremental cost to treat the flows of customers added. The net revenue credited to customers for growth will reflect a deduction for the treatment cost of \$0.000896 per gallon, which is based solely on chemicals, power and waste disposal used in treatment, using test year data.

For each annual calculation, the additional revenue from customer growth will be divided by the annual revenues under the Settlement Rates plus the annual revenues from customer

growth to derive the credit percentage that applies to customers' bills. This ensures that the denominator always ties back into the revenues at Settlement Rates.

CRFC Adjustment. The CRFC adjustment is designed to credit all customers' bills with the revenue requirement effect of Capacity Reservation Fees received on and after January 1, 2011. The revenue requirement impact of additional Capacity Reservation Fees is calculated by applying a depreciation rate and pre-tax overall rate of return to the cumulative additions of post-2010 Capacity Reservation Fees. The depreciation rate reflected in the proposed tariff supplement is 1.94% which is a composite rate consisting principally of the rate for treatment assets and to a lesser extent transmission mains. The pretax overall rate of return is 8.36%, which employs the same capital structure and cost rates for debt and preferred as in the Company's filing. The cost of common equity is the common equity cost rate calculated by the Bureau of Fixed Utility Services for the DSIC as of March 31, 2010. The preferred and common equity cost rates were grossed-up for state and federal taxes.

For each annual calculation, the revenue requirement impact of the Capacity Reservation Fees will be divided by the annual revenues under the Settlement Rates plus the annual revenues from customer growth to derive the credit percentage that would apply to customers' bills. This ensures that the denominator always ties back into the revenues at Settlement Rates.

The CGC and CRFC adjustments address issues raised by the MSG and CBA. Specifically, MSG and CBA raised concerns that the increased capacity of the new Coatesville Wastewater Treatment Plant would permit growth in customers and growth in new development within the communities served by the plant that would not benefit current customers, if current customers' rates reflected the revenue requirement of the new plant. Because no one can predict whether or to what extent such future growth and development may occur, the parties strove to

find a mechanism that would recognize the effects of any growth and development occurring over the phase-in period in a reasonable manner that would not impose undue risk or benefits on either customers or the Company. The parties efforts resulted in the two credit mechanisms described above, which provide that the revenue requirement effects of customer growth and increases in Capacity Reservation Fees will flow-through to the benefit of customers.

Subparagraph g. memorializes the Joint Petitioners' agreement that the Company will revise its annual depreciation accrual rates and the amortization of net negative salvage. As to depreciation rates, the Company will adopt the Average Service Life procedure for the designated Coatesville wastewater assets in lieu of the Equal Life Group procedure employed in the Company's initial filing. The revised depreciation rates are set forth in Appendix D to the Joint Petition. This change resulted in an approximately \$317,113 reduction in pro forma depreciation accrual in this case, which is reflected in the increase in annual operating revenue that the Joint Petitioners have agreed to. Additionally, as also explained in Subparagraph g., the Company has agreed to amortize its actual net negative salvage incurred through December 31, 2010 over ten years instead of five years. Although five years is the amortization duration established by long-standing Commission policy and precedent, the Company and other Joint Petitioners agree that, given the facts and circumstances presented in this case, namely, the very large amount of cost of removal associated with demolishing and safely disposing of the components of the old wastewater treatment plant, a ten-year amortization is appropriate. Except for the modification of the amortization period for net salvage, PAWC will record per books and for future ratemaking purposes all other plant-related amortizations as set forth in the Company's filing, which were not disputed by any party.

Subparagraph h. consists of three parts. Part (1) acknowledges that the Settlement rates reflect the allocation of the agreed increase in revenues among customer classes in the manner shown in Appendix B, which is the Proof of Revenues for the Settlement Rates. Part (2) acknowledges that the Settlement rates provide for customer charges that are lower than those initially proposed by the Company. Part (3) explains that usage charges were increased to recover the revenues allocated to each class that were not recovered through the customer charges set forth above.

Subparagraph i. memorializes the residential low-income assistance program that the Company is instituting for wastewater customers. As proposed in its initial filing, the low-income assistance program would have provided a 35% reduction in the Company's customer charge for eligible customers. Under the Settlement, the low-income assistance program has been revised to provide a 15% discount on eligible customers' **entire** wastewater bill. Thus, the benefit to low-income customers has been significantly increased. Additionally, the Company has agreed to revise the terms of the program so that customers will not lose their eligibility if they become delinquent in paying a bill, so long as there is a good faith effort to avoid delinquency.

Also, the Company, as outlined in its initial filing, will implement and fund a hardship grant program that will be structured and administered in the same manner as the current program for water customers. The grant program will be funded by voluntary contributions from the Company, its employees and customers. Grants will be provided to assist needy customers in hardship situations.

Subparagraph j. memorializes PAWC's commitment to work with the members of MSG to implement procedures to terminate water service that PAWC provides to MSG

wastewater customers if MSG's wastewater customers do not pay their wastewater bills to MSG. There is statutory authority in 53 P.S. § 3102.2 for water utilities to terminate water service on this basis. In fact, the same statute obligates a water utility to terminate water service to municipal wastewater customers that do not pay their wastewater bills if the utility is asked by a municipal wastewater provider to do so, provided that the water utility and the municipal wastewater provider comply with the utility customer protection provisions of the statute. PAWC already provides this service to other municipal wastewater providers in the Commonwealth.

Subparagraph k. addresses the possibility that an opportunity might arise in the future for the Company to reduce the cost of financing the Coatesville Wastewater Treatment Plant. The Company agrees to explore debt re-financing options that might be available and report the results of its investigation to the Joint Petitioners within six months of the Commission's approval of the Settlement.

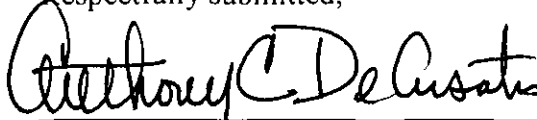
In addition, this subparagraph contains a provision that addresses the MSG members' belief that they may be able to obtain a grant or similar capital infusion that could be used in the manner of a contribution in aid of construction to reduce the revenue requirement associated with financing the new Coatesville Wastewater Treatment Plant. The Company has agreed to add a provision to the tariff supplement annexed as Appendix A providing that, if any such contribution is obtained by the Company, it will adjust its base rates to reflect the appropriate credits in the manner set forth in applicable provisions of the Capacity Reservation Fee Adjustment subject to revisions to the depreciation rate and cost of capital to reflect the composite depreciation applicable solely to its investment in the treatment plant and to reflect the cost of capital equal to the cost rate on the PEDFA loan that is financing that plant.

Subparagraph I is provided for information purposes only. As noted, no service related issues specific to wastewater service were raised by customers of Coatesville. Several public input witnesses raised issues about water service, which were investigated by the Company. The Company responded to the Office of Consumer Advocate's request to provide a letter explaining what it has done or committed to do to address all such issues and concerns.

IV. CONCLUSION

The Settlement is in the public interest. As the explanation of the Settlement terms clearly demonstrates, the Settlement reflects the agreement of parties that represent the interests of a broad range of customers, and the Settlement terms have been carefully designed to resolve in a reasonable fashion the issues and concerns that were raised by the testimony in this case. The Settlement provides a sound and reasonable resolution of this case without the need for additional costly litigation. Accordingly, the Joint Petition should be granted and the Settlement should be approved.

Respectfully submitted,



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Counsel for Pennsylvania-American
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Dated: October 27, 2010

APPENDIX F
OTS STATEMENT

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
	:	
v.	:	Docket No. R-2010-2166212
	:	
Pennsylvania American Water Company	:	
Coatesville Wastewater Operations	:	

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT
OF ALL ISSUES IN RATE PROCEEDING**

TO CHIEF ADMINISTRATIVE LAW JUDGE CHARLES E. RAINEY, JR.:

The Office of Trial Staff ("OTS") of the Pennsylvania Public Utility Commission, ("Commission") by and through Senior Prosecutor Charles Daniel Shields, Prosecutor Carrie Wright and Chief Prosecutor Johnnie E. Simms hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement of All Issues in Rate Proceeding ("Joint Petition" or "Settlement") are in the public interest and represent a fair, just, reasonable and equitable balance of the interest of Pennsylvania American Water Company, Coatesville Wastewater Operations ("PAWC" or "Company") and its wastewater customers.

1. All active parties to this proceeding participated in settlement discussions and as result, PAWC, OTS, the Office of Consumer Advocate ("OCA"), the Municipal Sewer Group ("MSG") and the City/Borough Alliance have agreed upon the terms

embodied in the foregoing Joint Petition. As noted in the Joint Petition, the Office of Small Business Advocate (“OSBA”) is not a signatory to the Joint Petition but does not oppose the Settlement.

2. The Office of Trial Staff^o is charged with the representation of the public interest in proceedings before the Commission relating to rates, rate-related services and other proceedings as directed by the Commission. Consequently, in negotiated settlements of all such proceedings, it is incumbent upon OTS to ensure that the public interest is served and to quantify to what extent amicable resolution of any such proceeding will benefit the public interest. OTS has met that responsibility here and has vigorously represented the public interest at all times during this base rate proceeding.

3. Prior to agreeing to the instant settlement, OTS legal and technical staff conducted a thorough review of the Company’s filing and supporting information, discovery responses and submitted filing data, and contributed to the forthright discussions among the parties during settlement talks. The provisions of this settlement represent an unprecedented length phase-in revenue increase that OTS agrees is just and reasonable and in the public interest, but is not based upon any specific adjustments or ratemaking approach, unless otherwise noted in the Joint Petition and/or tariff supplements.

4. On April 23, 2010, PAWC filed with the Commission Supplement No. 2 to Tariff Wastewater-Pa. P.U.C. No. 8 requesting an increase in the Coatesville Wastewater Operations’ total annual operating revenues to become effective June 22, 2010. The amount of the originally requested increase in annual revenues was \$8,156,652, or

approximately 197%. As noted in the Joint Petition, some eighteen complaints were filed against the rate increase request.

5. By Order entered June 16, 2010, the Commission instituted an investigation to determine the lawfulness, justness and reasonableness of the proposed rates, rules and regulations. Pursuant to 66 Pa. C.S. §1308(d), the filing was suspended by operation of law on June 22, 2010, until January 22, 2010, unless permitted by Commission Order to become effective at an earlier date. Said Order provided that the case be assigned to the Office of Administrative Law Judge for the prompt scheduling of such hearings as may be necessary and culminating in the issuance of a Recommended Decision. OTS filed a Notice of Appearance at this docket and the OTS Prosecutors and assigned technical staff experts have fully participated in this base rate proceeding.

6. A Prehearing Conference was subsequently conducted by Administrative Law Judge Charles E. Rainey, Jr. (“ALJ Rainey”) presiding telephonically from Philadelphia and the Harrisburg parties participating from a hearing room in the Keystone Building in Harrisburg. ALJ Rainey consolidated the instant proceeding solely for the purpose of hearings with the three (3) other currently filed Pennsylvania American Water Company (“PAWC”) wastewater proceedings, also with appearances entered by OTS Prosecutors Shields and Wright.

7. Extensive and detailed written and informal discovery was conducted by the active parties and the Company provided a large number of interrogatory responses during the proceeding. OTS scrutinized the provided responses in order to develop a thorough perspective and understanding of each relevant base rate issue.

8. On August 5, 2010, OTS distributed the Direct Testimonies and Exhibits of its three assigned OTS Technical Experts, Andrew O'Donnell, Christine Wilson, CPA and Joseph Kubas and distributed their Surrebuttal Testimonies and an Exhibit on September 7, 2010. These documents are to be entered into the record by stipulation of the parties. While the OTS testimonies and related exhibits were prepared to present the OTS positions in anticipation of the full litigation of this proceeding, they also serve to provide background record evidence for the negotiated terms and conditions of the resultant Settlement.

9. On August 24, 2010, ALJ Rainey initially conducted two public input hearings in the Coatesville service territory in order to give customers an opportunity to provide their comments and perspectives regarding the requested rate increase and the service provided by the Company. Two further public input sessions were conducted in the service territory by ALJ Rainey on August 31, 2010. One or the other of the OTS Prosecutors was present and actively participated in each of the four hearings.

10. In accordance with the Commission's policy favoring settlements, found at 52 Pa. Code § 5.231, the Joint Petitioners were eventually successful in achieving a full and complete settlement of all issues.

11. OTS considers Commission approval of the terms and conditions of the instant proposed Settlement to have the same effect as full and complete litigation and further recognizes that final resolution of this proceeding by approval of the Settlement will result in Commission-made rates.

12. OTS agrees that the terms and conditions of the Settlement are in the public interest for a number of reasons, including that the settlement:

- (a) provides for an **unprecedented lengthy phase-in** of additional operating revenues that OTS, as one of the Joint Petitioners, agrees is reasonable and lawful;
- (b) avoids the necessity of further administrative and possible appellate court proceedings, which would have been at substantial cost to the involved parties and the Company's ratepayers and thereby conserves time and expenses for all involved. Acceptance of the foregoing settlement will negate the need for the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions and the filing of possible appeals.
- (c) the Company cannot file for another base rate wastewater increase for the Coatesville Wastewater Operations under Section 1308(d) of the Public Utility Code before March 31, 2016 – a provision that provides a level of rate stability for that entire period;
- (d) contains noteworthy provisions whereby the Company agrees to certain crediting mechanisms that will serve to credit customers' bills during the phase-in period for the growth in number of customers occurring on and after January 1, 2011, and for Capacity Reservation Fees received by the Company on and after January 1, 2011;
- (e) provides that the Company will reflect a fifteen percent (15%) reduction in the total bill for eligible low-income residential customers under the low-income customer assistance program established under the Settlement.

13. The Settlement is conditioned upon the Commission's approval of all terms and conditions contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by any signatory party as provided therein.

14. OTS' agreement to settle this case is made without any admission or prejudice to any position that OTS might adopt during subsequent litigation in the event

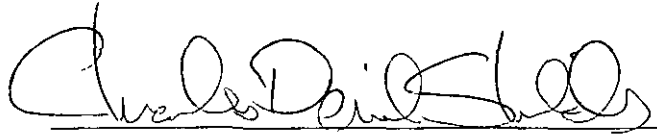
that the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

15. If Chief ALJ Rainey recommends that the Commission adopt the Settlement as proposed, OTS has agreed to waive the filing of Exceptions. However, OTS has not waived its rights to file Reply Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters that may be proposed by the Chief ALJ in the Recommended Decision. OTS has also reserved the right to file Reply Exceptions to any Exceptions that may be filed by any of the other parties.

16. In conclusion, the Office of Trial Staff has been thoroughly involved in the instant base rate proceeding for wastewater service provided by Pennsylvania American Water Company, Coatesville Wastewater Operations and respectfully asserts that it has demonstrated the accuracy and legitimacy of all representations provided in this OTS *Statement in Support* and has OTS testimonies and exhibits admitted into the record in this proceeding that can be relied upon as background and support for the foregoing Joint Petition.

WHEREFORE, the Commission's Office of Trial Staff represents that it fully supports the instant settlement as being in the public interest and respectfully requests that presiding Chief Administrative Law Judge Charles E. Rainey, Jr. recommend, and the Commission subsequently approve without modification, the proposed settlement as set forth in the Joint Petition and approve the respective tariff supplements as submitted with the settlement.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Charles Daniel Shields", written over a horizontal line.

Charles Daniel Shields
Senior Prosecutor
PA Attorney I.D. No. 29363

Carrie Wright
Prosecutor
PA Attorney I.D. No. 208185

Johnnie E. Simms
Chief Prosecutor
PA Attorney I.D. No. 33911

Office of Trial Staff
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265

Dated: September 30, 2010

APPENDIX G

OCA STATEMENT

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 :
V. : Docket No. R-2010-2166212
 :
PENNSYLVANIA-AMERICAN :
WATER COMPANY (COATESVILLE :
WASTEWATER OPERATIONS) :

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE PROPOSED SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory Parties to the proposed Joint Petition For Settlement Of Rate Investigation (Petition) filed in the above-referenced proceeding, submits that the terms and conditions of the proposed Petition are in the public interest. The OCA respectfully requests that the Pennsylvania Public Utility Commission (PUC or Commission) approve the Pennsylvania-American Water Company – Coatesville Wastewater Operations (PAWC-Coatesville or Company) Petition without modification for the following reasons.

I. INTRODUCTION AND BACKGROUND

With the addition of the following, the OCA believes that the background section

of the Petition accurately reflects the procedural history of this proceeding.

The OCA filed its Formal Complaint and Public Statement against the proposed increase on April 29, 2010. The OCA initiated very extensive formal and informal discovery after it filed its Complaint. The OCA issued fourteen sets of interrogatories, consisting of five hundred thirty-eight (538) questions, focusing on PAWC methods and claims; made an on-site inspection of the PAWC-Coatesville wastewater treatment plant, and participated in four Public Input Hearings in its effort to investigate the Company's revenue increase claims. The OCA is satisfied that it received sufficient information to develop well-supported and well-reasoned litigation issues, and that those issues would be satisfactorily resolved through the terms and conditions of the Petition, if approved without modification by the Commission.

More than seven hundred Coatesville and Parkesburgh residents and businesses submitted rate protests to the Commission in response to the PAWC-Coatesville rate increase request. Several legislators within whose districts PAWC-Coatesville operates also expressed interest in the proceeding, as did multiple local officials, businesses and other organizations within the service territory.

In its Formal Complaint, the OCA requested that the Commission conduct public input hearings in PAWC-Coatesville's service territory in response to these many objections. Consequently, the Commission conducted four public input hearings - two on August 24, 2010 in the City of Coatesville and two on August 31, 2010, in the Borough of Parkesburg. All told, one hundred twelve witnesses provided oral testimony related to PAWC-Coatesville's proposed rates and service. As the OCA will discuss below, the OCA believes that the Petition's terms and conditions, together with

the Company's letter to counsel of September 24, 2010 concerning its meetings with each of the witnesses that testified to service-related issues,¹ adequately address issues raised by those customer witnesses.

The Parties engaged in arduous yet fruitful settlement discussions; the terms and conditions expressed in the Petition are the result of those discussions. The OCA would also point out that each customer formal complainant will have opportunity for review and comment on the Petition prior to Judge Rainey issuing a Recommended Decision in *this proceeding*.

As the OCA will explain below, this Petition is novel in that it contains several rate-crediting mechanisms designed to lower rates over a six-year phase-in period. These aspects of the settlement, which have been devised to mitigate rate shock, stand in contrast to the typical base rate proceeding where the Commission would determine a utility's revenue requirement and set one set of rates that remain constant until reset in a subsequent base rate proceeding. Here, the Parties have developed two crediting mechanisms designed to lower the phased-in rate increases under certain circumstances during the six-year stay-out period, as more fully described below. From the OCA's perspective, these are the most important aspects of the proposed settlement presented.

The Petition's terms and conditions address all of the revenue requirement issues raised by the OCA expert witnesses in testimony. The Parties have also agreed to a compromise revenue allocation among the rate classes and the bulk customers to recover the proposed rate increase. *The OCA believes that the terms and conditions*

¹ Those witnesses were Lorenzo Adams, Denis Forrest, Nancy Coates, John Hartman, Petra Draushak, Diane Brownfield, George Evans, Connie Dixon, Sharon L. Wolf, Brian and Mary Seltzer and Khamisha al-Amin.

contained in the Petition are in the public interest and will provide for just and reasonable rates. The OCA therefore requests that the Commission approve the Settlement without modification for all the following reasons.

II. PUBLIC BENEFITS OF THE TERMS AND CONDITIONS OF THE JOINT SETTLEMENT PETITION

The OCA believes that the Petition, taken as a whole, is in the public interest and satisfactorily addresses the issues raised by the OCA analysis of the PAWC-Coatesville filing. While the Petition does not directly address all OCA proposed adjustments and recommendations, the OCA recognizes that settlements are the product of compromise. The OCA will discuss in detail below how the terms and conditions contained in the Petition address the OCA's concerns. To the extent that the OCA does not address the specific issues raised by other Parties' testimony in this Statement in Support, the OCA does not oppose the settlement terms and conditions designed to address them.

The OCA submits that the Joint Petition taken as a whole is a reasonable compromise in consideration of likely litigation outcomes and is otherwise in accord with Commission regulations and policy. 52 Pa. Code § 5.231; 52 Pa. Code § 69.401 *et seq.* Therefore, the OCA submits that the Joint Petition is in the public interest and supports Commission approval without modification. In support, the OCA provides as follows:

1. The Petition provides for significant rate limitations.

A major portion of the OCA analysis and recommendation in this proceeding

consisted of accounting adjustments to Coatesville's expense and rate base claims. OCA St. No. 1. Specifically, OCA Exhibit LA-1, page 3 of 31 contains a list of OCA proposed adjustments. Based on its analysis, the OCA recommended a \$2,214,311 reduction in PAWC-Coatesville's claim. OCA St. No. 1 at 6. The OCA points out that the settlement terms generally do not specify the adoption or rejection of any particular accounting or rate base adjustment proposed by the OCA. Nevertheless, the OCA will discuss how the terms and conditions of the Petition address its major recommended adjustments.

In addition to analyzing PAWC-Coatesville's expense and rate base claims, the OCA performed an extensive analysis of its rate of return claim, focusing on the request for an 11.50% return on equity. OCA St. No. 2 at 3. Based on its analysis, the OCA recommended a return on equity of 9.00% for PAWC-Coatesville. Id. While the Petition does not specify the adoption or rejection of any particular cost of debt or common equity cost rate, the OCA believes that the lower revenue requirement agreed to by the Parties reflects a substantial compromise on this aspect of the filing.

The combined effect of the OCA's accounting, rate base, and rate of return recommendation was to provide PAWC-Coatesville with an increase of no more than \$5,942,341 or approximately 72.8 %, of its original request of \$8,156,652. OCA St. No. 1 at 6. While the OCA believes that its adjustments are valid, there is never a guarantee that the Commission would adopt all of the OCA's proposed adjustments or its rate of return recommendations in litigation.

The Petition provides that Coatesville may collect \$5,999,000 in additional annual revenues, subject to the phase-in discussed below. This revenue increase is, in effect, the OCA litigation position as the difference between the settlement revenue requirement

and the OCA litigation position is less than one percent. The OCA points out that Mr. Smith based his recommended revenue requirement of \$5,942,341 on Dr. Woolridge's recommended return on equity of 9% -- thus, a settlement revenue requirement of only \$56,659 more than the OCA recommended revenue requirement represents a complete resolution of these two critical aspects of the OCA presentation in this proceeding.

In addition, the Petition contains additional terms and conditions that would be unavailable in the event of full litigation before the Commission. The OCA is nevertheless confident that the Petition, as a whole, is lawful and that the agreed-upon revenue requirement will provide PAWC-Coatesville adequate resources to provide safe and adequate service to its customers. For these reasons, and the reasons discussed below, the Commission should approve the Petition without modification as being in the public interest.

2. The Petition provides for a phase-in of rates over a six-year period.

The Petition provides that PAWC-Coatesville would phase-in the settlement revenue requirement over a period of six years, ending December 31, 2016. Petition at 5. In addition, the Parties propose a stay-out to run with the phase-in, such that rates other than those discussed here will not go into effect prior to January 1, 2017. This phase-in and stay-out are of the longest experienced by Pennsylvania wastewater ratepayers. The OCA will briefly explain how the phase-in will work for the benefit of both the Commission and the PAWC-Coatesville consumers who may look to the OCA Statement in Support for guidance on these issues.

As an initial matter, the Petition acknowledges that Coatesville will have an

overall revenue requirement of approximately \$10,131,737 after the \$5,999,000 increase and would be entitled to collect this amount in rates following a Commission Order approving that revenue requirement. Here, Coatesville will not forgo this revenue; rather, the Company will postpone the collection of that full revenue amount to limit the initial rate shock that would otherwise occur. This revenue shifting will occur over the six-year period of the phase-in -- from January 2011 through December 2016. For convenience, the following chart uses rounded numbers (exact figures are available in the Petition attachments) to illustrate how this will occur:

	2011	2012	2013	2014	2015	2016	Total
Revenue Requirement	\$ 10,131,000	\$ 10,131,000	\$ 10,131,000	\$ 10,131,000	\$ 10,131,000	\$ 10,131,000	\$ 60,786,000
Rate Increase	\$ 1,999,000	\$ 1,999,000	\$ 1,999,000	\$ 1,999,333	\$ 0	\$ 0	
Allowed Phase-in Revenue	\$ 6,132,000	\$ 8,132,000	\$ 10,131,000	\$ 12,130,333	\$ 12,130,333	\$ 12,130,333	\$ 60,786,000
Revenue Requirement Deficiency	\$ (3,999,000)	\$ (1,999,000)	\$ -	\$ 1,999,333	\$ 1,999,333	\$ 1,999,333	\$ (0)

The revenue requirement in the chart shows that the utility may collect a total of \$60,786,000 through rates from 2011 through 2016. Similar to the PAWC-Coatesville phase-in, the chart shows how rates would gradually increase to recover this amount over time. The chart shows that while the utility has a revenue requirement deficiency in 2011-2012 and no deficiency in 2013, the phased-in increases would make the deficiency up in 2014, 2015, and 2016. The OCA points out that the overall revenue requirement deficiency in years 2011 through 2013 approximates the Petition's

\$5,999,000 annual revenue increase. In short, the phase-in mechanism uses the principle of gradualism to mitigate rate shock while making the utility whole over time. The chart also shows how the phase-in and recovery period will not result in an over-or-under collection.

3. The Petition provides that PAWC-Coatesville will forgo carrying charges on the revenue deficiency it will experience in the first three years of the phase-in.

As the OCA explained above, a phase-in acknowledges that a utility is entitled to collect a certain amount in rates, here approximately \$10,131,737. The phase-in mechanism, however, generates annual revenue shortfalls from that amount -- in this case in years 2011 and 2012. In other words, when a utility operates under phased-in rates, it effectively provides its ratepayers with a "loan" equivalent to the amount of any revenue deficiency. Ratepayers then pay this amount back to the utility in the latter years of the phase-in. Under established ratemaking and utility accounting principles, a utility may be entitled to receive "carrying charges" (interest) on these amounts. Here, however, PAWC-Coatesville has agreed to forgo any carrying charges it would otherwise collect for the \$5,999,000 shortfall generated in years 2011 and 2012 of the phase-in. This aspect of the settlement will produce a significant public benefit and work to mitigate rate shock for the PAWC-Coatesville customers.

4. The Petition contains a significant stay-out.

The Petition provides that PAWC-Coatesville will not file for an additional increase in revenues before March 31, 2016, subject to certain narrow exceptions. This

will effectively provide for a “cap” on revenue requirement for six years from January 1, 2011 until January 1, 2017.

To be clear, it is important to distinguish between “revenues” and “rates.” The settlement anticipates an increase in *rates* from current levels in each of the first five years of the phase-in period -- that is in the very nature of a phase-in -- but the overall revenue requirement that will produce those rates may not be increased. Under ordinary circumstances, the use of a phase-in process would *not* automatically preclude the filing of an increase request during the term of the phase-in; however, in this case, PAWC-Coatesville has made that commitment. The agreement by PAWC-Coatesville to “stay-out” here, in addition to the phase-in proposal, is a considerable benefit to the PAWC-Coatesville ratepayers.

5. The effective average rates produced by the Petition are reasonable.

If approved, the Petition will produce the following rates for the average residential customer, with a 5/8” meter, using approximately 4,200 gallons of water per month.

<u>Current</u> <u>Average Rate</u>	<u>Average Rate</u> <u>As Filed</u>	<u>2011</u>	<u>Average Settlement Rate</u>		
			<u>2012</u>	<u>2013</u>	<u>2014 -2016</u>
\$27.43/month	\$90.26/month	\$42.35/month	\$57.14/month	\$71.94/month	\$86.73/month

These settlement rates include a fixed customer charge of \$7.50 per month for customers with 5/8” meters. This too is an important compromise from the proposed customer charge of \$20.00 per month requested through the Coatesville filing. PAWC-Coatesville Filing, Volume 1. With the customer

charge comprising a far smaller percentage of the overall bill than that proposed by the Company, customers who engage in conservation of water will have a greater impact on both their water and wastewater bills (since wastewater bills are based upon metered amounts of water usage).

6. The Petition provides for a 15% overall bill discount for low-income customers.

Witnesses at the four public input hearings in the PAWC-Coatesville territory overwhelmingly identified affordability of wastewater bills as their chief concern. The OCA likewise raised affordability as a primary consideration in this proceeding. OCA St. No. 2 at 18. To address this issue, OCA witness Rubin proposed that PAWC-Coatesville provide customers with an income of 150% or less of the federal poverty level with a 15% discount on their entire wastewater bill, rather than a discount on just the customer charge component. The Parties agreed to adopt this recommendation in the Petition. This approach is novel in that low-income water discounts are often reductions to the fixed service charge, as PAWC-Coatesville initially proposed and not a reduction to both the customer and volumetric charges of the customer bill. As such, the OCA expects this low-income program to provide more relief to payment-troubled customers than the program as initially proposed. Petition at 8, ¶ i.

The OCA believes this to be a reasonable and responsible approach to help mitigate the affordability issues affecting the Company's low-income customers. The OCA believes that the Commission should encourage utilities to take a proactive approach to combating disconnections related to affordability. As such, the OCA submits that this aspect of the Petition is in the public interest and supports Commission

approval of the Petition without modification.

7. The Petition provides for a new customer growth adjustment designed to help mitigate rate shock by lowering rates for all customers.

The Petition contains a mechanism to provide a “customer growth credit adjustment” designed to credit customer bills with revenue from new customers added beginning January 1, 2011. Petition at 6. This provision of the proposed settlement illustrates the inherent value of the settlement as, to the OCA’s knowledge, such a program is unprecedented in litigation before the Commission.

The calculation of the credit will include customers added in the PAWC-Coatesville service area (direct customers), and those added in the service areas of bulk customers (indirect customers), here represented largely by the Municipal Sewer Group (MSG). This novel crediting mechanism represents a significant benefit to PAWC-Coatesville ratepayers. The OCA submits that the Commission should wholeheartedly endorse this mechanism as a public benefit by approving the Petition.

To calculate the credit, the Company will calculate revenue associated with new customers on a class average usage basis for residential and commercial customers. PAWC-Coatesville will measure actual usage for new municipal or industrial customers (since this usage is metered). Regarding the direct customers, the Company will calculate revenue per customer as the sum of:

- (1) the applicable customer charge; and
- (2) the applicable usage rate times the average usage for members of the class.

The proposed phase-in will change customer rates once annually, as described above. The annual change in rates will require each calculation of annual revenue associated with all customers added up to that point in time and will employ the usage rate in effect during the period the customer growth credit is in effect. For example, the customer growth credit calculated as of December 1, 2011 will use the 2012 usage rate when it becomes effective January 1, 2012.

Regarding the indirect customers, the revenue per customer consists of their usage multiplied by the bulk customer usage rate, since Coatesville has no direct relationship to the bulk customer end-users. The annual rate used each year will be the appropriate rate for the application period, as explained above.

This aspect of the Petition recognizes that Coatesville will incur incremental costs to provide wastewater treatment for all new customers, whether direct or indirect. The crediting mechanism will reflect a deduction for these treatment costs of \$0.000896 per gallon. This rate is based solely on chemicals, power, and waste disposal expenses, using test year data.

For each annual calculation, additional revenue from customer growth will be divided by the annual revenues under the Settlement Rates, plus the annual revenues from customer growth, to derive the credit percentage applicable to customer bills. This will reflect the appropriate revenue credit to all customers (including the new customers) and ensures that rates collect no more than the settlement revenue requirement.

This proposed crediting mechanism will do more than help mitigate rate shock. The crediting mechanism will provide a benefit to Coatesville's ratepayers and the

public by more appropriately allocating the costs of facilities designed to accommodate the future growth of PAWC-Coatesville's collection system. It will also help mitigate capacity-related intergenerational cost allocations among the Coatesville ratepayers. For this reason, the Commission should approve this aspect of the Petition without modification.

8. The Petition provides for a capacity fee credit adjustment designed to help mitigate rate shock by lowering rates for all customers.

As an initial matter, the OCA points out that capacity reservation fees, here increased to \$4,000 per Equivalent Dwelling Unit (EDU), do not apply to those service applicants meeting the definition of a bona fide residential or commercial service applicant under Section 65.1 of the Commission's regulations, substituting the word "wastewater" for "water" and excluding clause (iii) of that section. Petition at 6. The fee applies to proposed developments for which regulatory approval requires the reservation of sewage treatment capacity in the future.

The capacity fee credit adjustment is designed to credit customer bills with the revenue requirement effect of capacity reservation fees received by PAWC-Coatesville beginning January 1, 2011. Petition at 6-7. Like the novel customer growth adjustment, this provision of the proposed settlement illustrates the inherent value of the settlement because, to the best of the OCA's knowledge, such a mechanism is unprecedented in rate case litigation before the Commission.

PAWC-Coatesville will calculate the revenue requirement effect of additional capacity reservation fees by applying a depreciation rate and pre-tax overall rate of

return to the cumulative additions to those fees for the post-2010 period. The Company will use its composite depreciation rate of 1.94% and its pretax overall rate of return of 8.36%, based on the same capital structure and cost rates for debt and preferred stock used in the filing. The Company will, however, use the cost of common equity calculated by the Commission's Bureau of Fixed Utility Services for the water Distribution System Improvement Charge, as of March 31, 2010.

For each annual calculation, the revenue requirement impact of the Capacity Reservation Fees will be divided by the annual revenues under the Settlement Rates (plus the annual revenues from customer growth) to derive the credit percentage that would apply to customers' bills. This ensures that the denominator always ties back to the revenues at Settlement Rates for the specific period.

The proposed increase in the capacity reservation fee will do more than help mitigate rate shock. The increased fee and the crediting mechanism will provide a benefit to Coatesville's ratepayers and the public by more appropriately allocating the costs of facilities designed to accommodate the future growth of PAWC-Coatesville's collection system. For this reason, the Commission should approve this aspect of the Petition without modification.

9. The Petition provides for depreciation rates based on Average Service Life rather than the Equal Life Group procedure to provide an immediate rate reduction to Coatesville ratepayers.

In its accounting testimony, OCA witness Smith questioned PAWC-Coatesville's use of the Equal Life Group procedure, which results in depreciation expense that starts high and declines over the life of the plant. OCA St. No. 1 at 66. The effect of using the

procedure here was to exacerbate, rather than mitigate, the rate shock customers would have experienced under the rates as filed. The Petition resolves this issue consistent with the OCA's position. PAWC-Coatesville will use the Average Service Life method, which results in a reduction of \$317,113 in its depreciation expense claim. Petition at 7.

10. The Petition provides for a 10-year amortization of net negative salvage using the depreciation rates established in this proceeding.

In its accounting testimony, OCA witness Smith stated that PAWC-Coatesville's net negative salvage claim amounted to a double-recovery of the same expense amounts and proposed to eliminate the over-collection of that expense. OCA St. No. 1 at 60. The Petition provides a reasonable compromise on this issue. Under the terms of the Petition, Coatesville will amortize its net negative salvage incurred through December 31, 2010 over a 10-year period, rather than the 5-year period proposed in the filing. Petition at 7. When viewed in light of the Petition's revenue requirement of \$5,999,000 (essentially the OCA litigation position including its net negative salvage adjustment) and the length of the stay-out, the OCA believes that this compromise on the Company's net negative salvage claim is reasonable. Approval of this condition without modification is in the public interest.

11. The terms of the Petition resolve the cost of service and rate design issues developed by the OCA and will work to provide further cost allocation efficiencies in Coatesville's next rate case.

The OCA argued that PAWC-Coatesville's proposed cost of service study was flawed and that its rate allocations did not equitably allocate rates among its residential, commercial, and industrial customer classes. OCA St. No. 3 at 3, 12-14. The OCA

specifically argued that the Company's allocation of costs from inflow and infiltration was flawed. *Id.* at 4-12. The OCA also argued that Coatesville's proposed \$20.00 residential customer charge was excessive and included costs not appropriately related to providing customers with a service line and bill, and that the proposed rate design was therefore flawed. *Id.* at 12-14.

The Petition resolves these issues in a manner consistent with likely litigation outcomes. First, the Petition provides for a residential customer charge of \$7.50, as noted above, a compromise from the OCA's recommendation of \$5.50. Petition at 8; OCA St. No. 2 at 17. Next, the Petition's proposed rate design achieves two ends - it is a compromise of the rate design proposals of all the parties, and it moves all classes of service closer to their true cost of service. Petition at 8, referencing Appendix A.

The terms and conditions of these portions of the Petition have the effect of working to have each class of customer -- residential, commercial, bulk, and industrial -- pay their fair share of the Company's costs of serving that class. The OCA submits that this aspect of the Petition is in the public interest and supports Commission approval of the Petition without modification.

12. The Petition provides for the exploration of debt refinancing options to reduce revenue under the period of the phase in and stay-out.

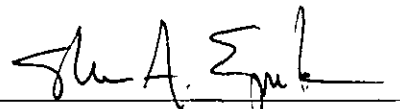
OCA rate of return witness Dr. Woolridge acknowledged PAWC-Coatesville's extensive use of debt financing in its capital structure and adopted its debt-to-equity ratio and debt cost rate as his proposed capital structure. OCA St. No. 3 at 14. Nevertheless, the Company procured its debt financing in 2008 at the height of the

credit crisis and submitted the instant filing to the Commission in April 2010, while the Petition proposes a stay-out period of over 5 years. Credit markets have made beneficial adjustments since 2008 and may fluctuate over the stay-out period. The Petition recognizes that credit markets may present opportunities for PAWC-Coatesville to refinance existing debt, or to acquire cost-free capital in the form of stimulus grants during that time. Petition at 9. The Petition provides for a six-month window for the Company to explore these options and to report back to the Parties on its findings. Should the opportunity arise, the Petition provides that PAWC-Coatesville will flow savings back to ratepayers under the model developed for the capacity reservation fee credit described above. This too is a public benefit and supports Commission approval of the Petition without modification.

III. CONCLUSION

For the foregoing reasons, the OCA respectfully requests that the Administrative Law Judge and the Public Utility Commission approve the terms and conditions of the Joint Petition For Settlement Of Rate Investigation submitted in this proceeding without modification as being in the public interest.

Respectfully Submitted,



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October 4, 2010

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APPENDIX H

MSG STATEMENT

Appendix H
Municipal Sewer Group
Statement in Support of Settlement

The Municipal Sewer Group (MSG) comprised of four Townships and two Authorities submits the following statement in support of the *Joint Petition for Settlement of Rate Investigation* in this proceeding.

The Municipal Sewer Group includes two Townships and two Municipal Authorities that provide sewer collection services to their residents, serving a total of approximately 8,250 residences and 500 commercial, industrial and governmental customers. Members of the group utilize the services of PAWC which transports, treats and discharges their wastewater. The Townships and Authorities of the MSG include the four largest customers of PAWC.

The MSG filed formal complaints on behalf of the interests and needs of its residents and its own economic interests. The MSG undertook extensive discovery and presented three expert witnesses to testify against the rate increase. The MSG participated in the public hearings, and at all times vigorously opposed the rate increase.

PAWC raised its rates in 2008, just two years ago, by approximately 78%. According to PAWC's own figures, a typical residential customer paid approximately \$15 per month for sewer service before that increase. Under the PAWC sewer rate increase filed this year, that typical residential customer was confronted with the possibility of a bill exceeding \$90 per month, overall an increase of more than 500% in slightly over two years. Customers served by the MSG faced the prospect of lesser but still very significant financial impacts from the requested rate increase.

Despite its opposition to the rate increase, MSG has decided to support the present settlement. The settlement somewhat moderates the amount of the rate increase, but this alone would not adequately address the rate shock and affordability issues presented by PAWC's rate filing.

However, the settlement also provides an extended 6 year phase-in period without imposing carrying charges on the public. It contains protection against a further sewer rate increase during that extended period. Moreover, in paragraph 8(f) of the Settlement Terms and Conditions and paragraph 11 of the Additional Terms and Conditions, the parties have initiated steps that can and must be taken to provide rate relief to all customers. These provisions include rate rollbacks as future customers reserve capacity provided by PAWC, and as new customers tie into the wastewater system. Moreover, PAWC commits to seek lower cost debt financing, and concurrently, members of the MSG will seek both lower cost financing and sewer grants. Success in either of these steps should result in further rate rollbacks. These rollbacks should offset, at least in part, the rate increases scheduled in Appendix A in future years.

These provisions address the rate shock and affordability issues in creative and innovative ways that depart from traditional utility rate practice. The MSG could not expect to achieve comparable results in a fully litigated rate proceeding. In order to secure these benefits and mitigate impacts of this rate increase on their customers, the MSG have decided to enter the present settlement, and to urge the Administrative Law Judge and the Commission to approve the same.

APPENDIX I

CBA STATEMENT

Appendix I

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Chief Administrative Law Judge
Charles E. Rainey, Jr., Presiding

Pennsylvania Public Utility Commission, <i>et al.</i>	:	
	:	
	:	
v.	:	Docket No. R-2010-2166212, <i>et al.</i>
	:	
Pennsylvania American Water Company, City of Coatesville Division	:	
	:	

THE CITY/BOROUGH ALLIANCE'S STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT OF ALL ISSUES

AND NOW, comes the City of Coatesville ("Coatesville"), the Borough of Parkesburg ("Parkesburg") and the Township of East Fallowfield ("East Fallowfield"), Complainants in the above captioned proceeding (collectively referred to as the "City/Borough Alliance" or "CBA"), and by their attorneys submit the following statement in support of the settlement ("Settlement") proposed in the Joint Petition for Settlement of All Issues ("Joint Settlement Petition").

I. BACKGROUND

1. On April 23, 2010, Pennsylvania American Water Company ("PAWC") filed with the Pennsylvania Public Utility Commission ("Commission") Supplement No. 2 to its Tariff Wastewater-Pa. P.U.C. No. 8 ("Supplement No. 2") requesting a 197% increase of \$8,156,652 in its Coatesville Wastewater Operations' total annual operating revenues to become effective June 22, 2010. By Order, entered June 16,

2010, the Commission instituted a formal investigation at Docket No. R-2010-2166212 to determine the lawfulness, justness and reasonableness of PAWC's existing and proposed rates, rules and regulations. Supplement No. 2 was suspended by operation of law until January 22, 2011, unless permitted by Commission order to become effective at an earlier date. The case then was assigned to the Honorable Charles E. Rainey, Jr., now Chief Administrative Law Judge, to conduct hearings and issue a Recommended Decision.

2. A total of eighteen (18) formal Complaints were filed against PAWC's proposed rates, including Complaints filed by Coatesville, Parkesburg and East Fallowfield. Among the Complainants, the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Municipal Sewer Group ("MSG"), consisting of four municipalities and two associated authorities, and CBA participated as active parties throughout the proceeding, as did the Office of Trial Staff ("OTS"). All are signatories to the Joint Settlement Petition, except for OSBA, which does not oppose the settlement proposed therein.

3. On July 8, 2010, Judge Rainey conducted a telephonic Prehearing Conference. PAWC agreed voluntarily to extend the suspension period to January 27, 2011 to facilitate the establishment of a litigation schedule for the submission of written direct, rebuttal and surrebuttal testimony and the conduct of evidentiary and public input hearings. Evidentiary hearings were scheduled for September 14-17 and 22, 2010, at which time all previously distributed testimony and exhibits would be offered into the record, and the parties' individual witnesses would be made available for cross-examination.

4. Judge Rainey conducted four Public Input Hearings in the service territory, as follows:

Date	Start Time	Location
August 24, 2010	1:00 p.m.	Coatesville City Hall
August 24, 2010	7:00 p.m.	Rainbow Elementary School (Coatesville)
August 31, 2010	1:00 p.m.	Parkesburg Borough Municipal Building
August 31, 2010	7:00 p.m.	Parkesburg Borough Municipal Building

Due to the magnitude of the proposed rates, which would have increased the monthly bill for an average residential customer by approximately 229%, a substantial number of customers attended and presented direct testimony under oath at the Public Input Hearings. Their testimony totals more than 500 pages of transcript and is part of the record in this proceeding. Most customers expressed concern about the detrimental impact if such a large rate increase were permitted to be effective each year. This heartfelt testimony from so many individuals, primarily residential customers, played a significant role in laying a foundation for the Settlement.

5. *Accompanying the original filing of Supplement No. 2* was the supporting information required by the Commission's regulations at 52 Pa. Code § 53.52 *et seq.* for both the historic test year ended December 31, 2009, and the future test year ending December 31, 2010. PAWC's supporting information included the prepared direct testimony of nine initial witnesses and the respective exhibits sponsored by each. Considerable additional information was supplied in

response to approximately 700 interrogatories and data requests submitted to PAWC by the active parties to the proceeding and through depositions conducted by counsel for MSG on July 22, 2010. Also, additional interrogatories were served by active parties on some of the other active parties, and responses were provided. On August 5, 2010, OTS, OCA, OSBA, MSG and CBA distributed their respective statements of written direct testimony and related exhibits (a total of twelve written statements and numerous exhibits). On August 12, 2010, CBA also submitted supplemental direct testimony.

6. CBA's witnesses were Robert D. Ambrose, P.E., and Wayne G. Reed, Coatesville's City Manager. Mr. Ambrose testified concerning rate base and cost of service issues. Mr. Ambrose's proposal as to capacity reservation fees was agreed to in modified form as part of the Settlement. As capacity fees are triggered, they will serve to reduce the revenue requirement on and after January 1, 2012. Mr. Reed testified concerning affordability of service and the severe detrimental impact of the large increase originally proposed by PAWC upon residential customers, especially impoverished customers within Coatesville.

7. On August 26 and 27, 2010, PAWC distributed rebuttal testimony and related exhibits from five of its witnesses. On August 26, 2010, OSBA and CBA each distributed one statement of rebuttal testimony and related exhibits. On September 8, 2010, OTS, OCA, OSBA and CBA distributed surrebuttal testimony and exhibits.

8. Upon notification to Judge Rainey from the active parties that a settlement in principle had been reached on a number of the major issues, he cancelled the evidentiary hearings, previously scheduled for September 14-17, 2010.

9. Negotiations continued among the active parties seeking to achieve a settlement of the remaining issues in the case. As a result of those negotiations, the parties reached agreement resolving all issues, resulting in the comprehensive settlement terms and conditions set forth in the Joint Settlement Petition. The parties thereafter notified Judge Rainey, who then cancelled the sole remaining evidentiary hearing scheduled for September 22, 2010.

**II. THE SETTLEMENT IS CONSISTENT WITH THE
REQUIREMENTS OF THE PUBLIC UTILITY CODE
AND IS IN THE PUBLIC INTEREST**

10. The Commission's policy is to encourage parties in contested proceedings to enter into settlements. 52 Pa. Code § 5.231(a). A settlement mitigates the time and expense of litigating the matter to its ultimate conclusion. This directly benefits all parties.

11. The settlement terms and conditions in the Joint Settlement Petition are incorporated herein by reference. Except to the extent specifically set forth in the Joint Settlement Petition, the settling parties acknowledge that while they have not sought, nor would they be able, to agree upon the specific rate case adjustments presented in their respective testimony and exhibits, they are in full agreement that adoption of each and every term and condition of the Settlement is in the best interest of PAWC - Coatesville's wastewater customers and, therefore, is in the public interest.

12. CBA respectfully submits that the Settlement is consistent with the requirements of the Pennsylvania Public Utility Code and is in the public interest for the reasons set forth in the Joint Settlement Petition, which are incorporated herein by reference, and for the reasons set forth in this Statement in Support.

13. The Settlement allocates the agreed upon revenue requirement in a manner that is reasonable in light of the rate structure/cost of service positions of all parties.

14. The Settlement provides for a phased-in increase over a period of six years, rather than a single large increase -- thereby lessening the rate shock to customers.

15. Upon completion of the phase-in, the Settlement is designed to produce additional annual operating revenues of \$5,999,000, a reduction of more than \$2 million in the increase originally proposed.

16. Through the six year phase-in process, the Settlement rates comply with the ratemaking concept of gradualism; namely, to temper the rate shock to customers from increasing rates too much in any one year. This substantially lessens the impact upon monthly invoices in each of the years of the phase-in. Significantly, the percentage increase to residential customers under the phase-in plan is much less than the 229% average increase originally proposed by PAWC for year one and every year thereafter.

17. Under the rates originally proposed by PAWC, the average residential customer's monthly bill would have increased to \$90.26, from \$27.43. Under the

Settlement, the monthly bill for the average residential customer would be: \$42.35 for Year 2011, \$57.14 for Year 2012, \$71.94 for Year 2013, \$86.73 for Years 2014 to 2016, and \$71.94 for Year 2017. The Settlement rates were designed to promote the principle of gradualism. As opposed to an average monthly residential bill of \$90.26 in each of years 2011 through 2017, the materially lower Settlement rates not only provide for a lesser increase but also do so gradually. Consequently, the Settlement promotes just and reasonable rates.

18. While under applicable accounting principles, a utility which is subject to a Commission ordered phase-in may be entitled to assess carrying costs to recover the time value of money for the amount of the full settlement increase not effectuated in the early years, PAWC, under the Settlement, has agreed to forego any and all carrying costs, thereby further lessening the amount of the increase in each year of the phase-in. This will result in savings to all customers.

19. Under the Settlement, the customer charges for the residential customers will be \$7.50 per month, rather than the \$20 per month originally proposed, thereby creating incentives and opportunities for conservation.

20. Under the Settlement, residential customers, with an annual income within 150% of the federal poverty level and who use their best efforts to pay all monthly invoices on a timely basis, will receive a 15% discount against their total monthly invoices, not just a discount on the service/capacity charge, as originally proposed by PAWC. Instead of having to timely pay all monthly invoices, as required under PAWC's original proposal, these customers need only employ their best efforts to do so.

21. The Settlement provides for: (a) crediting mechanisms to reflect credits on all customers' bills during the phase-in period for growth in the number of customers occurring on and after January 1, 2011; and (b) Capacity Reservation Fees received on and after January 1, 2011. Under the Customer Growth Credit adjustment, a credit will be applied to all customers' bills to reflect the additional net revenue that PAWC receives with respect to new customers added on and after January 1, 2011. Under the Capacity Reservation Fee Credit adjustment, a credit will be applied to all customers' bills to reflect the revenue requirement impact of Capacity Reservation Fees received on and after January 1, 2011. Accordingly, the Settlement permits current customers to receive the benefit of service territory growth.

22. PAWC has agreed to explore debt re-financing options that might be available to re-finance its investment in the Coatesville Wastewater Treatment Plant at lower cost than its current debt financing and has agreed to report the results to the settling parties within six months of the Commission's approval of the Settlement.

23. If contributions in aid of construction or grants or funds in the nature of contributions in aid of construction are obtained through the efforts of MSG members, then PAWC will adjust its base rates for all customers' bills to reflect appropriate credits in the manner set forth in applicable provisions of the Capacity Reservation Fee Adjustment in the Tariff Supplement annexed as Appendix A to the Joint Settlement Petition.

24. Barring fundamental changes in policy or statutes, the Settlement prohibits PAWC from filing another general wastewater rate increase for its

Coatesville Wastewater Operations under Section 1308(d) of the Public Utility Code prior to March 31, 2016. With a sixty day statutory notice period and a seven month statutory suspension period, this would mean that PAWC's rates would not increase as a consequence of a general base rate increase before January 1, 2017.

25. CBA believes that the parties participating in the Settlement could not expect to achieve comparable results through full litigation before the Commission, and/or upon appeal to the Pennsylvania Commonwealth Court, and/or appeal to the Pennsylvania Supreme Court.

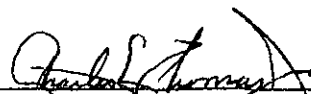
26. Approval of the Settlement will avoid the necessity of further administrative and possible appellate proceedings, thereby affording substantial cost savings to the Commission, the parties and PAWC customers.

27. In summary, the Joint Settlement Petition proposes a comprehensive resolution of all issues in this general rate proceeding and secures for ratepayers in Coatesville, Parkesburg and East Fallowfield a better result than if the proceeding were fully litigated. Where the active parties in a proceeding have reached a settlement, the principal issue for Commission consideration is whether the agreement reached is in the public interest. Pa. P.U.C. v. CS Water & Sewer Associates, 74 Pa. P.U.C. 767, 771 (1991). Based upon the evidence submitted, the Settling Parties agree that the resolution of the issues proposed in the Joint Settlement Petition is in the public interest and consistent with the Public Utility Code and the Commission's rules and regulations.

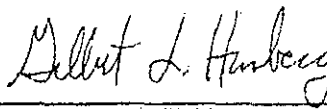
III. CONCLUSION

WHEREFORE, for the foregoing reasons, the City of Coatesville, the Borough of Parkesburg and the Township of East Fallowfield respectfully request that Chief Administrative Law Judge Charles E. Rainey, Jr., recommend approval of the Joint Settlement Petition, and thereafter, the Pennsylvania Public Utility Commission adopt Chief Administrative Law Judge Rainey's recommendation and permit Pennsylvania American Water Company to file the Tariff Supplement annexed as Appendix A to the Joint Settlement Petition to become effective pursuant to the terms and conditions set forth therein.

Respectfully submitted,



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DATE: October 6, 2010

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**PENNSYLVANIA-AMERICAN WATER
COMPANY – Coatesville Wastewater
Operations**

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DOCKET NO. R-2010-2166212

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served copies of the Joint Petition For Settlement Of All Issues In Rate Proceeding upon the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

RECEIVED

OCT 27 2010

VIA FEDERAL EXPRESS

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SECRETARY'S BUREAU**

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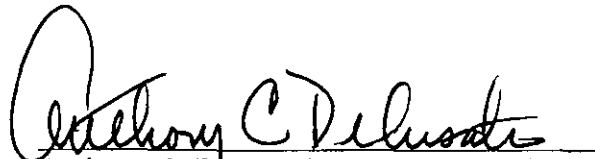
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