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March 23, 2011

VIA FEDERAL EXPRESS

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

RECEIVED

MAR 23 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: C. Leslie Pettko v. Pennsylvania-American Water Company
Docket No. C-2011-2226096

Dear Secretary Chiavetta:

Pursuant to 52 Pa. Code §§ 1.11(a), 1.56 and 5.102, enclosed for filing in the above-captioned matter are an unbound original and three copies of Pennsylvania-American Water Company's (PAWC) **Motion For Judgment On The Pleadings**.

As provided in 52 Pa. Code § 1.11(a)(2), March 23, 2011, which is the date shown on the express delivery receipt attached to or included with the envelope containing this letter and enclosures, is the date of filing of PAWC's Motion, and the Motion should be date-stamped accordingly.

We are also enclosing one extra copy of this letter and PAWC's Motion, which we request be date-stamped as of March 23, 2011 and returned to us in the stamped, pre-addressed envelope provided for that purpose.

As evidenced by the original and three copies of the Certificate of Service enclosed herewith, copies of PAWC's Motion have been served upon counsel for C. Leslie Pettko and upon the Office of Administrative Law Judge.

Rosemary Chiavetta
Secretary - Pennsylvania Public Utility Commission
March 23, 2011
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If there are any questions concerning the enclosures or any matters discussed herein, please feel free to contact the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "Anthony C. DeCusatis". The signature is written in a cursive style with a large initial "A".

Anthony C. DeCusatis

Enclosures

c: Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

C. LESLIE PETTKO

V.

**PENNSYLVANIA-AMERICAN WATER
COMPANY**

:
:
:
:
:
:

Docket No. C-2011-2226096

CERTIFICATE OF SERVICE

I hereby certify that I have this date served true copies of **Pennsylvania-American Water Company's Motion For Judgment On The Pleadings** upon the individual(s) and office(s) listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

SERVICE BY ELECTRONIC MAIL AND FEDERAL EXPRESS

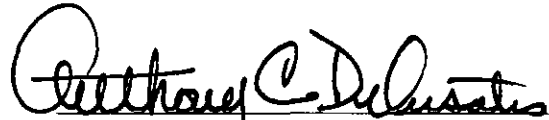
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MAR 23 2011

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**



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Dated: March 23, 2011

Counsel for Pennsylvania-American Water Company

Rosemary Chiavetta
Secretary – Pennsylvania Public Utility Commission
March 23, 2011
Page 3

bc: Seth Mendelsohn
Rod Nevirauskas
Jo Anne Lontz

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

C. LESLIE PETTKO

v.

**PENNSYLVANIA-AMERICAN WATER
COMPANY**

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DOCKET NO. C-2011-2226096

NOTICE TO PLEAD

Pursuant to 52 Pa. Code § 5.103(b), you are hereby notified to file a written response to the enclosed **Motion Of Pennsylvania-American Water Company For Judgment On The Pleadings** within twenty (20) days of the date of service of such Motion.



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*Attorney for Pennsylvania-American Water
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Dated: March 23, 2011

RECEIVED

MAR 23 2011

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

C. LESLIE PETTKO :
 :
 v. : **DOCKET NO. C-2011-2226096**
 :
PENNSYLVANIA-AMERICAN WATER :
COMPANY :

**MOTION OF PENNSYLVANIA-AMERICAN WATER COMPANY
FOR JUDGMENT ON THE PLEADINGS
With Respect To The Complaint Of C. Leslie Pettko**

I. INTRODUCTION AND OVERVIEW

Pursuant to 52 Pa. Code § 5.102, Pennsylvania-American Water Company (“PAWC” or the “Company”) moves for judgment on the pleadings with respect to the Complaint of C. Leslie Pettko at the above-referenced docket.

The gravamen of Mr. Pettko’s Complaint is that PAWC improperly implemented “increases” in its Distribution System Improvement Charge (“DSIC”) and State Tax Adjustment Surcharge (“STAS”) on a “bills-rendered” basis instead of pro-rating those rate changes on a “service-rendered” basis.¹ The assumption underlying Mr. Pettko’s Complaint is that the application of changes in PAWC’s DSIC and STAS on a bills-rendered basis has not been “authorized” by the Commission (*e.g.*, Pettko Complaint, ¶¶ 27, 32, 34, 36 and 41). That assumption is incorrect as a matter of law.

The Commission’s Order approving the DSIC expressly states that changes in the DSIC are to be implemented on a bills-rendered basis, and the Commission’s Bureau of Audits has

¹ Mr. Pettko couched his Complaint only in terms of “increases” in the DSIC and STAS. As more fully explained in PAWC’s Answer to the Pettko Complaint, which was filed on March 9, 2011, Mr. Pettko did not know, or chose to ignore, the fact that DSIC and STAS charges are subject to both increases **and decreases** and that the STAS can be a **credit** to customers’ bills as well as a charge. See PAWC Answer (“Introduction And Overview,” ¶¶ 31-36 and 44; and Appendix C).

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affirmed that directive in its report on the operation of PAWC's DSIC for the first year it was in effect.

Similarly, the Commission addressed the issue of service-rendered versus bills-rendered application of the STAS in its Secretarial Letter issued December 18, 1986 and directed that only utilities with billing cycles exceeding one month are required to "pro rate" changes in the STAS. Accordingly, utilities, like PAWC, that employ monthly billing are authorized to apply changes in STAS rates on a bills-rendered basis. PAWC has been applying changes in the STAS (increases and decreases, including bill credits) on a bills-rendered basis in conjunction with monthly billing.² As required, PAWC has filed with the Commission retrospective reconciliations of STAS costs and billed revenues as well as proposed, prospective changes in its STAS rates. All of such retrospective statements of reconciliation and prospective rate changes were reviewed by the Commission's Bureau of Fixed Utility Services and Bureau of Audits and were consistently approved.

Additionally, as adjustment clauses authorized under Section 1307 of the Public Utility Code, both the DSIC and STAS are subject to comprehensive end-of-period reconciliation of recoverable costs and billed revenues, as noted above with respect to the STAS. As a result, both rate mechanisms recover the amount of allowed costs on a dollar-for-dollar basis – neither more nor less. Therefore, applying changes in those rates on a bills-rendered rather than a service-rendered basis cannot, and does not, result in the Company over-collecting any allowed costs. This Commission has previously determined that, where a cost is recoverable under a surcharge mechanism that reconciles cost recovery with billed revenues, the application of such a surcharge

² As also explained in the Company's Answer, for most of the six-year period that Mr. Pettko contends is relevant to his Complaint, PAWC's STAS was either zero or a credit to customers' bills and, during that six-year period, there were eight changes in PAWC's STAS, of which six were reductions. See PAWC Answer, Paragraph 44 and Appendix C.

on a bills-rendered basis is appropriate and will not cause customers to overpay. *See Petition of Nat'l Fuel Gas Distrib. Corp. Requesting Permission To File A Tariff Supplement To Become Effective On One-Day's Notice Establishing A Recoupment Surcharge*, Docket No. P-850075, 1986 Pa. PUC LEXIS 132 (February 28, 1986) (¶ 10).

II. BACKGROUND

1 On or about March 19, 2010, Mr. Pettko, by his counsel, filed a Complaint in the Court of Common Pleas of Washington County, Pennsylvania, which was styled as a putative “class action.” In that Complaint, Mr. Pettko alleged that PAWC had improperly implemented increases in its DSIC and STAS on a “bills-rendered” basis instead of pro-rating those rate changes on a “service rendered” basis. Mr. Pettko also alleged that the Company had improperly “rounded up” the amounts billed to customers under the DSIC.

2. The STAS and DSIC are adjustment clauses established under 66 Pa. C.S. §§ 1307(b) and 1307(g), respectively. As such, the STAS and DSIC are subject to end-of-period reconciliation of actual costs and billed revenues, as more fully explained hereafter.

3. The STAS and DSIC can either increase or **decrease**. Thus, the DSIC is reduced to zero each time new base rates are established and may also be reduced under other circumstances specified by the Commission. *Petition Of Pennsylvania-American Water Company For Approval To Implement A Tariff Supplement Establishing A Distribution System Improvement Charge*, Docket No. P-00961031 (August 14, 1996), 26 Pa. Bulletin 4485 (hereafter, the “DSIC Order”) (A copy of the DSIC Order is attached hereto as **Appendix A**.) The STAS rate is reduced to zero at the conclusion of a base rate case and is also reduced – and may become a **credit** to customers’ bills – when the tax rates actually imposed by the

Commonwealth are less than the state tax rates used to establish the Company's base rates. *State Tax Adjustment Procedure*, 44 Pa. P.U.C. 534 (1970) and 52 Pa. Code §§ 69.53 and 69.55.

4. Before filing his Complaint in the Court of Common Pleas, Mr. Pettko did not contact the Company either to object to the way DSIC and STAS rate changes had been implemented or to ask the Company to provide the authority it relied upon to implement those changes in the manner that it did. The "class action" Complaint filed by Mr. Pettko's counsel was the first contact between Mr. Pettko and the Company respecting the issue that allegedly troubles him.

5. In his Common Pleas Complaint, Mr. Pettko, by his counsel, averred that the Company's billing practices were improper and contrary to law, violated the Pennsylvania Unfair Trade Practices and Consumer Protection Law and constituted unlawful "conversion." On or about April 23, 2010, Mr. Pettko, by his counsel, filed an Amended Complaint that added a claim for breach of an alleged, but unidentified, "contract" between the Company and its customers.

6. Mr. Pettko's Amended Complaint, like his initial Complaint, sought actual damages, punitive damages, statutory damages of \$100 "per occurrence" per "class member" under the Pennsylvania Unfair Trade Practices and Consumer Protection Law, and assorted costs and fees.

7. PAWC filed Preliminary Objections to the Amended Complaint on the grounds that the matter Mr. Pettko complained of, namely, the way PAWC implemented changes in its DSIC and STAS rates, is within the primary and exclusive jurisdiction of this Commission. On August 27, 2010, the Court of Common Pleas of Washington County, per Judge Debbie O'Dell Seneca, issued an Opinion and Order sustaining PAWC's Preliminary Objections and finding

that the Amended Complaint raised issues that are within the PUC's primary and exclusive jurisdiction. (A copy of Judge O'Dell Seneca's Opinion and Order is attached to the Company's Answer to the Pettko Complaint.) Accordingly, Judge O'Dell Seneca directed that Mr. Pettko's case be transferred to the Commission.

8. On or about September 3, 2010, Mr. Pettko, by his counsel, filed with the Superior Court of Pennsylvania a Notice of Appeal of the Court of Common Pleas' Opinion and Order. The appeal has been fully briefed, but a date for oral argument has not yet been established.

9. On or about February 8, 2011, Mr. Pettko, by his counsel, filed a Complaint with this Commission that purports to initiate a "class action" on his own behalf and "all others similarly situated." The PUC formally served the Complaint on PAWC by first class mail on February 17, 2011.

10. In his PUC Complaint, Mr. Pettko, by his counsel, avers that PAWC has implemented changes in its DSIC and STAS that violate the Pennsylvania Unfair Trade Practices and Consumer Protection Law, constitute unlawful "conversion," and breach an alleged, but unspecified "contract." Mr. Pettko seeks, for himself and the putative "class": (1) "statutory damages" under the Pennsylvania Unfair Trade Practices and Consumer Protection Law; (2) compensation for alleged "losses;" (3) "punitive damages;" (4) "all permissible fees, costs and other relief;" (5) a "refund" of the amounts Mr. Pettko and the putative "class" allegedly were "wrongfully required to pay;" (6) "interest" from the date of the allegedly wrongfully-imposed

charges; (7) a “penalty of 50% of the amount of the refund;”³ (8) “court costs;” and (9) of course, “attorney’s (*sic.*) fees.” *See* Complaint, pp. 8-11.

11. On March 9, 2011, PAWC filed and served its Answer to Mr. Pettko’s Complaint in which it averred, *inter alia*, that Mr. Pettko is not entitled to bring his Complaint as a “class action;” is not entitled to the relief he requests therein; and, therefore, his Complaint should be dismissed.

III. MOTION FOR JUDGMENT ON THE PLEADINGS

12. The Commission’s regulations at 52 Pa. Code § 5.102 expressly permit a party to file a Motion for Judgment on the Pleadings and provide that such a Motion should be granted where the pleadings show that “there is no genuine issue as to a material fact and that the moving party is entitled to a judgment as a matter of law.”

13. As explained hereafter, the criteria for judgment on the pleadings are satisfied in this case because, among other reasons, the Commission has previously authorized the application of changes in the DSIC and STAS on a bills-rendered basis.

IV. THE DSIC

14. The Commission authorized PAWC to implement a DSIC by its DSIC Order (**Appendix A**). As part of the DSIC Order, the Commission approved “Sample Tariff Language” which sets forth the terms of the DSIC. *See Appendix A*, pp. 7-10.

15. The PUC-approved Sample Tariff Language provides as follows with respect to the effective date(s) of DSIC charges and the manner in which such charges are to be applied:

³ As the Commission is aware, while it is authorized to impose “penalties” under specified circumstances – and PAWC denies that any penalties would be authorized in this case – all such penalties are payable to the Commonwealth and not to an individual complainant. *See* 66 Pa. C.S. § 3315.

Effective Date: The DSIC will become *effective for bills rendered* on and after January 1, 1997.

II. *Computation of the DSIC*

Calculation: The initial charge, *effective January 1, 1997*, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between September 1, 1996, and November 30, 1996. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the *effective date* of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

<u>Effective Date of Change</u>	<u>Date to which DSIC-Eligible Plant Additions Reflected</u>
April 1	February 28
July 1	May 31
October 1	August 31
January 1	November 30

DSIC Order (Appendix A, p. 8 (emphasis added)).

16. The Commission-approved Sample Tariff Language also provides as follows concerning the application of the DSIC to customers' bills:

DSIC Surcharge Amount: the charge 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, excluding amounts billed for public fire protection service and the State Tax Adjustment Surcharge (STAS). (Emphasis added.)

DSIC Order (Appendix A, p. 8 (emphasis added)).

17. The DSIC Rider that PAWC filed, and the Commission approved, contains the language that is set forth in the DSIC Order. A copy of the DSIC Rider from the Company's tariff is attached hereto as **Appendix B**. Pursuant to 52 Pa. Code § 5.406, the Company's tariff,

which is on file with the Commission, is a public document, upon which the Commission is entitled to rely.

18. On March 5, 1999, the Commission authorized the release of the Report issued by its Bureau of Audits with respect to the audit of PAWC's DSIC for the year ended December 31, 1997. The Report was filed at PUC Docket No. D-97S023 and is a public document under 52 Pa. Code § 5.406. In that Report, a copy of which is attached hereto as **Appendix C**, the Bureau of Audits stated (p. 9), as follows:

The Commission approved DSIC was on a "bills rendered" basis. Subsequent testing verified that the DSIC was in fact applied as properly approved and that the wording on all of the quarterly filings was incorrect.

RECOMMENDATION:

We recommend that the Company's future quarterly filings have the proper wording reflecting DSIC application on a bills rendered basis.

The Company agrees with this recommendation.

19. The Company has consistently applied changes in the DSIC on a bills-rendered basis since the inception of that rate mechanism.

20. Section III. of the Commission-approved Sample Tariff Language, which has been incorporated in PAWC's DSIC Rider (*see Appendices A and B*) provides as follows:

Audit/Reconciliation: The DSIC will be subject to audit at intervals determined by the Commission. It will also be subject to annual reconciliation based on a reconciliation period consisting of the 12 months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with section 1307(e), over

a 1 year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such overcollections will be refunded with interest. Interest on the overcollections will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P. S. § 101, et seq.) and will be refunded in the same manner as an overcollection.

21. PAWC filed with the PUC, and served upon the Commission's Offices of Trial Staff and Audits, the Pennsylvania Office of Consumer Advocate and the Pennsylvania Office of Small Business Advocate, its annual reconciliations of DSIC-eligible costs and billed revenues for each reconciliation year since the DSIC was initiated. Shown below are the docket numbers, assigned by the PUC, to each of the DSIC reconciliation statements filed by PAWC for the six years that Mr. Pettko avers are relevant to his Complaint:

Docket No.	Reconciliation Period (12 months ended)
M-2011-2221442	2010
M-2010-2153933	2009
M-2009-2087917	2008
M-2008-2028438	2007
M-FACW0701	2006
M-FACW0608	2005

Each of PAWC's DSIC reconciliation statements are on file at the Commission and, pursuant to 52 Pa. Code § 5.406, are public documents.

22. Contrary to the averments and claims set forth in Mr. Pettko's Complaint, the implementation of changes (both increases and decreases) in the DSIC on a bills-rendered basis has been authorized by the Commission. Accordingly, PAWC is entitled to judgment on the pleadings with respect to all such averments and claims.

V. THE STAS

23. The Commission authorized all Pennsylvania utilities to implement a STAS pursuant to its Order entered March 10, 1970. *State Tax Adjustment Procedure*, 44 Pa. P.U.C. 545 (1970). The Commission expanded and clarified its order on the state tax adjustment procedure in its Secretarial Letters issued on December 18, 1986, August 15, 1991 and June 2, 1992.

24. PAWC and its corporate predecessors have had a STAS provision in their respective tariffs since the STAS was authorized.

25. On December 18, 1986, the Commission issued a Secretarial Letter concerning state tax adjustment procedures to reflect a change in state tax rates to become effective January 1, 1987. In that Secretarial Letter, the Commission stated:

For utilities with billing cycles of more than one month, the tax shall be applied on a pro-rata basis.

A copy of the Commission's Secretarial Letter is attached as **Appendix D**.

26. PAWC employs monthly billing, as defined in 52 Pa. Code § 56.2. During the entire period that Mr. Pettko asserts is relevant to his Complaint, Mr. Pettko has been billed on a monthly basis, as he admitted (Complaint, ¶ 21). Accordingly, the Company's application of changes in its STAS (increases and decreases, charges and credits) to Mr. Pettko's bill on a bills-rendered basis is consistent with the Commission's prior authorization.

27. By Secretarial Letter issued August 15, 1991 at Docket No. M-910296, the Commission directed Pennsylvania utilities "to maintain records that are adequate to provide a

reconciliation of the STAS revenues collected.” (A copy of the Secretarial Letter is attached as **Appendix E.**)

28. By Secretarial Letter issued June 2, 1992 at Docket No. M-910296, the Commission directed Pennsylvania utilities: (1) to file, each year that a STAS charge or credit is in effect, an annual reconciliation of costs that were eligible for recovery under their STAS Riders and the revenues billed for the recovery of such costs; and (2) to adjust their prospective STAS charge to refund any over-collection or recoup any under-collection. (A copy of the Secretarial Letter is attached as **Appendix F.**)

29. During the six-year period, commencing January 1, 2005, that Mr. Pettko contends is relevant to his Complaint, PAWC made eight changes in its STAS of which: (1) six were either zero or a credit; and (2) five represented a decrease in the amount billed to customers, as shown below:

EFFECTIVE DATE	STAS RATE
01/01/11	0.32%
01/01/10	0.45%
01-01-09	-0.15%
11/30/07	0.00%
01/01/07	-0.44%
08/14/06	-0.33%
01/01/06	-0.29%
01/01/05	-0.14%

30. Each of the changes referenced in Paragraph 29 was made pursuant to a tariff supplement filed with the Commission. The change made on November 30, 2007 was made to “zero-out” the STAS pursuant to the Commission’s Order entered November 29, 2007, at Docket

No. R-00072229, establishing new base rates for PAWC. That change was reflected in the Company's compliance tariff, which was also approved by the Commission's November 29, 2007 Order.

31. For each of the changes in the STAS that were made outside of a base rate case (*see* Paragraphs 29 and 30, above), the Company filed with the Commission: (1) a computation of the STAS rate proposed to be placed into effect; and (2) a reconciliation of costs the Company was permitted to recover under the STAS and revenues actually billed under the STAS during the historic reconciliation period, such that over-collections were refunded to customers and under-collections were recouped from customers. Copies of the filings made by PAWC with the Commission, which are public documents, are attached hereto as **Appendix G**. At the same time such filings were made with the Commission, they were served upon the Commission's Bureau of Fixed Utility Services, the Commission's Bureau of Audits, the Pennsylvania Office of Consumer Advocate and the Pennsylvania Office of Small Business Advocate.

32. As to each filing in **Appendix G**, the Commission issued a Secretarial Letter accepting such filing and permitting the tariff changes stating the new STAS rate to go into effect. Copies of all such Secretarial Letters, evidencing official action of the Commission, are attached hereto as **Appendix H**.

33. Contrary to the averments and claims set forth in Mr. Pettko's Complaint, the implementation of changes (increases and decreases, charges and credits) in the STAS on a bills-rendered basis has been authorized by the Commission. Accordingly, PAWC is entitled to judgment on the pleadings with respect to all such averments and claims.

VI. MANDATORY RECONCILIATION OF COSTS AND BILLED REVENUE

34. The revenues billed by PAWC under its DSIC are reconciled, for each reconciliation period, with the costs eligible for recovery actually incurred by PAWC during that reconciliation period, as required by the DSIC Order. *See Appendix A*, p. 9, and ¶ 20, *supra*. The difference between revenue billed and actual costs is refunded or recouped, as applicable, in the manner required by the DSIC Order and Section 1307(e) of the Public Utility Code, 66 Pa. C.S. § 1307(e). *Id.*

35. The revenues billed by PAWC under its STAS are reconciled, for each reconciliation period, with the costs eligible for recovery actually incurred by PAWC during that reconciliation period, as required by the Commission's Secretarial Letters issued on August 15, 1991 and June 2, 1992. *See Appendices E and F* and ¶¶ 27, 28, 30 and 31, *supra*. The difference between revenue billed and actual costs is refunded or recouped, as applicable, in the manner required by the aforementioned Secretarial Letters and Section 1307(e) of the Public Utility Code, 66 Pa. C.S. § 1307(e). *Id.*

36. Because of mandatory reconciliation and mandatory refund/recoupment of differences between actual costs and actual billed revenues incorporated in both the DSIC and STAS, neither rate mechanism can result in PAWC collecting more than its actual, allowed costs regardless of whether changes in the DSIC and STAS rates are implemented on a bills-rendered or service-rendered basis. If billed revenues exceed actual costs during the reconciliation period, the amount of the excess must be refunded to customers with interest. If the billed revenues are less than actual costs during the reconciliation period, the Company is entitled to recoup such difference.

37. The Commission has previously determined that the reconciliation of costs and revenues assures that the application of a surcharge on a bills-rendered basis will not result in a utility collecting from customers more than its authorized costs. As a consequence, the Commission has expressly authorized the bills-rendered application of surcharges under such circumstances:

8. NFGD [National Fuel Gas Distribution Corporation] proposes to recover the amounts it seeks in recoupment by means of a separate surcharge for each customer class. The amount of each such surcharge will be calculated based upon estimated sales over the one-year period March 1, 1986 February 28, 1987 and, therefore, is designed to provide for the recovery over a one-year period. The proposed tariff supplement, attached to NFGD's Petition as Appendix "E", specifically provides, however, *that the applicable surcharge will be applied to customer's bills, for each customer class, only until the total amount to be received from each customer class as detailed in Appendix "D" has been charged to such customer class.*

* * *

10. NFGD proposed to institute the proposed surcharges on a *bills-rendered basis* for bills on and after November 4, 1985. *NFGD stated that application of the applicable surcharge on a bills-rendered basis does not place any customer at a disadvantage, because each surcharge is designed to recover the recoupment amount over a one-year period. We agree.*

Petition of Nat'l Fuel Gas Distrib. Corp. Requesting Permission To File A Tariff Supplement To Become Effective On One-Day's Notice Establishing A Recoupment Surcharge, supra.

38. Because of the requirement for reconciliation and refunding/recoupment of over and under-collections, respectively, neither the DSIC nor the STAS can recover from customers more than PAWC's allowed costs regardless of whether changes in the DSIC and STAS rates are implemented on a bills-rendered or service-rendered basis. Consequently, averments in Mr. Pettko's Complaint that he suffered any harm, over-paid or suffered any other "damages" as a

consequence of PAWC's implementation of changes in the DSIC and STAS on a bills-rendered basis are wrong as a matter of law. *See Petition of Nat'l Fuel Gas Distrib. Corp. supra.*

VII. CONCLUSION

WHEREFORE, for the foregoing reasons, Pennsylvania-American Water Company is entitled to Judgment on the Pleadings: (1) finding and determining that its application of changes in its DSIC and STAS rates on a bills-rendered basis during each period relevant to the Complaint filed by C. Leslie Pettko was authorized by the Commission and was just and reasonable; and (2) dismissing the Complaint of C. Leslie Pettko with prejudice.

Respectfully Submitted



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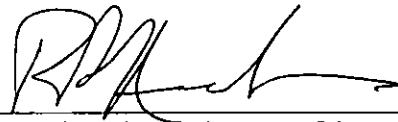
717.531.3362

Counsel for Pennsylvania-American Water
Company

Dated: March 23, 2011

VERIFICATION

I, ROD NEVIRASKAS, hereby state that the facts set forth in the foregoing Motion are true and correct to the best of my knowledge, information or belief. I understand that the factual statements herein are subject to the penalties of 18 Pa.C.S. § 4904, relating to unsworn falsification to authorities.



Rod Neviraskas, Director of Rate and Regulations
For Pennsylvania-American Water Company

Dated: 3/22/11

LIST OF APPENDICES

APPENDIX A	Order of the Pennsylvania Public Utility Commission At Docket No. P-00961031 authorizing a Distribution System Improvement Charge (DSIC) for Pennsylvania-American Water Company
APPENDIX B	PAWC's Water Tariff – DSIC Rider Filed With And Approved By The PUC
APPENDIX C	Report Of The PUC's Bureau Of Audits On Its Audit Of The Operation Of PAWC's DSIC For The Year Ended December 31, 1997 at Docket No. D-09S023
APPENDIX D	PUC Secretarial Letter Dated December 18, 1996
APPENDIX E	PUC Secretarial Letter Dated August 15, 1991 at Docket No. M-910296
APPENDIX F	PUC Secretarial Letter Dated June 2, 1992 at Docket No. M-910296
APPENDIX G	PAWC STAS Filings (Rate Computation And Reconciliation)
APPENDIX H	PUC Secretarial Letters Accepting PAWC's STAS Filings And Permitting New STAS Rates To Become Effective

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- APPENDIX B** PAWC's Water Tariff – DSIC Rider Filed With And Approved By The PUC
- APPENDIX C** Report Of The PUC's Bureau Of Audits On Its Audit Of The Operation Of PAWC's DSIC For The Year Ended December 31, 1997 at Docket No. D-09S023
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APPENDIX A

Order of the Pennsylvania Public Utility Commission At
Docket No. P-00961031 authorizing a Distribution System
Improvement Charge (DSIC) for Pennsylvania-American Water
Company

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NOTICES

Petition of Pennsylvania-American Water Company for Approval to Implement a Tariff Supplement Establishing a Distribution System Improvement Charge; Doc. No. P-00961031

[26 Pa.B. 4485]

***Commissioners Present:* John M. Quain, Chairperson; Lisa Crutchfield, Vice
Chairperson; John Hanger; Robert K. Bloom**

Public meeting held
August 22, 1996

Opinion and Order

By the Commission:

I. Background

On March 15, 1996, the Pennsylvania-American Water Company (PAWC or company) filed the above-referenced petition with this Commission requesting regulatory approval to file and implement an automatic adjustment clause tariff that would establish a Distribution System Improvement Charge (DSIC or surcharge) under section 1307(a) of the Public Utility Code. 66 Pa.C.S. § 1307(a). Section 1307 (a) provides statutory authority for a utility to establish, subject to Commission review and approval, a tariffed automatic adjustment clause mechanism designed to provide "a just and reasonable return on the rate base" of the public utility.

As proposed by PAWC, the DSIC would operate to recover the fixed costs (depreciation and pre-tax return) of certain nonrevenue producing, nonexpense reducing infrastructure rehabilitation projects completed and placed in service between section 1308 base rate cases. The company maintains that the property additions eligible for the DSIC will be limited to revenue neutral infrastructure projects, consisting principally of replacement investments in so-called "mass property" accounts. The DSIC is designed to provide the company with the resources it needs to accelerate its investment in new utility plant to replace aging water distribution infrastructure, facilitating compliance with evolving regulatory requirements imposed by the Safe Drinking Water Act (SDWA) and the implementation of solutions to regional water supply problems.

To illustrate its point, the company states that it has 5,600 miles of mains, that it is currently rehabilitating between 25 and 30 miles of main each year, and that, at that pace, it would require between 185 and 225 years to make all of the needed improvements to existing facilities. The company also states that water service, more than any other utility service, is critical to maintaining public health as water is "a necessity of life and vital for public fire protection services." Petition at 3.

The company alleges that the DSIC may enable it to reduce the frequency of its base rate cases and place the company in a better position to absorb increases in other categories of costs for a longer period, particularly during times of relatively low interest rates. Any reduction in rate case filing frequency would generate costs savings which would inure to the benefit of customers and the Commission. In its petition, the company proposes certain accounts for recovery, time-frames and other procedures to be followed in implementing the DSIC. The details of those procedures will be discussed below.

To begin with, the company proposes that the DSIC become effective for service rendered on and after July 1, 1996. The company also proposes that the initial charge to be calculated would recover the fixed costs of eligible plant additions that have not previously been reflected in the company's rate base and will have been placed in service between January 1, 1996 and May 31, 1996. Thereafter, the company proposes to update the DSIC on a quarterly basis to reflect eligible plant additions placed in service during the 3-month periods ending 1 month prior to the effective date of each DSIC update. Petition at 3-4.

As to its geographic applicability, the company states that the DSIC will not apply initially to customers located within the authorized service territory formerly served by the Pennsylvania Gas and Water Company (PG&W) that was acquired as of February 16, 1996. Likewise, the company's investment in infrastructure improvements made within the service territory acquired from PG&W are not included in the initial calculation of the surcharge under the DSIC. Petition at 1-2.

The company also proposes that the DSIC be capped at 5% of the amount billed to customers under otherwise applicable rates and charges, exclusive of amounts recovered under the State Tax Adjustment Surcharge (STAS). If the cap is reached, the company would not seek any additional increases. Petition at 4.

As with any section 1307 automatic adjustment clause, the DSIC will be subject to an annual reconciliation, whereby the revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between such revenues and costs will be recouped or refunded to customers, as appropriate, in accordance with section 1307(e). Petition at 5.

Lastly, in terms of procedures, the company proposes that the DSIC will be reset to zero as of the effective date of new section 1308 base rates that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Petition at 5. And to avoid over recovery of costs in the absence of a base rate case, the company also proposed that the DSIC will be reset to zero if, in any quarter, data filed with the Commission in the company's then most recent Annual or Quarterly Earnings Report shows that the company will earn a rate of return that would exceed the rate of return used to calculate its fixed costs under the DSIC. Petition at 5.

In terms of the legal issues raised by its petition, the company also states that its proposed automatic adjustment clause and procedures are lawful for a number of reasons found in statutory and case law. With regard to statutory law, PAWC states that section 1307(a) of the Public Utility Code, 66 Pa.C.S. § 1307(a), provides that a company may establish a sliding scale of rates or such other method for the automatic adjustment of the rates to recover a variety of costs. Petition at 19. Moreover, the company has cited circumstances in which the Commission has authorized the use of section 1307(a) automatic adjustment clauses to recover a wide array of expenses, depreciation and capital costs. See *Pennsylvania Industrial Energy Coalition v. Pa. P.U.C.*, 653 A.2d 1336 (Pa. Cmwlth. 1995) (PIEC) (recovery of electric utilities' demand-side management costs); 52 Pa. Code § 69.181 (recovery of gas utilities' take or pay liabilities to pipeline suppliers); 52 Pa. Code § 69.341(b) (recovery of gas utilities' gas supply realignment costs and stranded costs resulting from Federal Energy Regulatory Commission Order 636); and 52 Pa. Code § 69.353 (recovery of water utilities' principal and interest due on PennVEST obligations). Petition at 20-21.

Answers were filed by the Office of Trial Staff (OTS) (Answer filed April 4, 1996), the Office of Small Business Advocate (OSBA) (Answer filed May 3, 1996), the Pennsylvania-American Water Large Users Group (PAWLUG) (Answer filed May 6, 1996), and the Office of Consumer Advocate (OCA) (Comments and testimony filed May 6, 1996). Protests to the petition were also filed by individual customers.

In its answer, the OTS requests that the Commission deny the company's petition based on legal and technical grounds. With regard to the legal objections, the OTS argues that, since the facilities are "new" facilities, the company is attempting to circumvent a base rate review through the use of a surcharge, in violation of the Court's decision in *PIEC*.

The OSBA's answer did not submit legal arguments opposing the implementation of the DSIC. Rather, the OSBA has requested that the Commission conduct a thorough investigation regarding the reasonableness and lawfulness of the proposed tariff supplement as they affect the company's various customer classes.

In its comments, the OCA argues against the implementation of the DSIC alleging that the company does not need the DSIC mechanism and that implementation of a DSIC mechanism would provide in excess of a fair return to the company. With regard to legal arguments, OCA challenges the legality of the surcharge based upon the same arguments outlined in OTS' answer based on its interpretation of section 1307(a) and the *PIEC* decision.

On April 16 and May 30, 1996, the company filed replies with the Commission addressing the comments raised in the answers filed by OTS, OSBA, PAWLUG and OCA. In PAWC's reply to the various parties concerning the legality of the DSIC, the company continued to support the legality of a surcharge under section 1307(a) of the Public Utility Code and the Commonwealth Court decision in *PIEC*, and supplied rebuttal arguments in support of its need for the DSIC and the legality of its proposal.

II. Discussion

At the outset of this discussion regarding the PAWC petition, we believe it necessary to clarify the Commission's view of the scope of this proceeding and the nature of the PAWC proposal. Because the PAWC petition requests regulatory approval to file and implement a certain type of automatic adjustment clause, we will not address, in this order, the specific factual issues that may be raised by the proposed tariff supplement and sample DSIC rate calculations submitted as Exhibits A and B to the petition. The Commission views these exhibits as no more than an illustration of how the company's proposal would operate. Indeed, as explained below, the specific tariff supplement proposed by PAWC will not be approved by this order.

Therefore, to the extent that parties have objections and/or complaints to the rates to be charged by means of an automatic adjustment clause that provides for the recovery of a water company's infrastructure improvement costs, those objections and/or complaints would be appropriately addressed to an actual PAWC tariff filing that contains specific rates to be charged to consumers based on specific distribution system improvement expenditures. A section 701 complaint would be the appropriate procedural vehicle to challenge such a tariff filing and, provided that factual issues are raised, the filing of such a complaint will entitle the complainant to a hearing before an administrative law judge and an adjudication of the complaint.

Thus, the key issues raised by the PAWC petition, and to be resolved in this order, are generic threshold issues regarding (1) the legality of the type of automatic adjustment clause proposed by the company and (2) the appropriate general structure of such an automatic adjustment clause that conforms to the requirement of the statute and Pennsylvania case law. In other words, this proceeding will address the legal issue concerning the adoption of the surcharge pursuant to section 1307(a) of the Code. In addition, the Commission will outline the general parameters of a surcharge mechanism that meets the requirement of the statute, that is consistent with the case law, that has adequate safeguards to protect consumers' interests and, therefore, constitutes a surcharge that is likely to receive regulatory approval when filed.

To begin with, we applaud companies who present this Commission with innovative ideas to address recurring problems for their respective industries. In the water industry, companies are faced with the dual tasks of improving the quality of the water delivered to customers due to the new mandates of the SDWA and other governmental requirements and, at the same time, maintaining an aging water utility infrastructure. We recognize that, in recent years, PAWC and other Pennsylvania water companies have been required to make significant investments in new utility plant for projects such as the filtration of surface water supplies, the replacement of aging water distribution plant and the implementation of meter replacement programs. In addition, water companies face the daunting challenge of rehabilitating their existing distribution infrastructure before the property reaches the end of its service life to avoid

serious public health and safety risks.

In the Commission's judgment, the establishment of a DSIC along the lines proposed by PAWC can substantially aid the water company in meeting these challenges on behalf of the water consuming public. We agree with the company that the establishment of a DSIC would enable the company to address, in an orderly and comprehensive manner, the problems presented by its aging water distribution system, and would have a direct and positive effect upon water quality, water pressure and service reliability. For these reasons, we endorse the concept of using an automatic adjustment clause to address this regulatory problem for the water industry in Pennsylvania and, in particular, the type of DSIC proposed by PAWC.

A. Legal Issues

In Pennsylvania, utility costs are recovered from customers through section 1308 base rates and through section 1307 automatic adjustment clauses. The purpose of a section 1307 automatic adjustment clause is to provide an automatic mechanism enabling utilities to recover specific costs not covered by general rates. *Allegheny Ludlum Steel Corporation v. Pa. P.U.C.*, 501 Pa. 71, 75 n.3, 459 A.2d 1218, 1220 n.3 (1983). Moreover, section 1307(e), 66 Pa.C.S. § 1307(e), provides that the automatic adjustment clause procedures shall include an annual report detailing the revenues collected and the expenses incurred under the automatic adjustment clause, followed by a public hearing to reconcile the amounts and to determine any refunds owed to customers or additional recovery due from customers.

Until recently, an automatic adjustment clause has usually been applied only to gas and electric companies. However, the Commission has provided for the recovery of capital costs in at least one instance to date, i.e., for PECO Energy's costs to convert oil-fired units to units which burn natural gas. *Philadelphia Electric Co. ECR No. 3*, Docket No. M-00920312 (Order adopted April 1, 1993). The Commission has also adopted a policy statement which encourages water companies to seek section 1307(a) cost recovery for their PENNVEST debt costs, 52 Pa. Code § 69.361, and policy statements approving section 1307 cost recovery for certain FERC Order 636 stranded costs, 52 Pa. Code § 69.341 (b)(4), and electric utility coal uprating costs, 52 Pa. Code § 57.124(a). Moreover, since 1970, the Commission has authorized all utilities to use an automatic adjustment clause mechanism to recover certain incremental changes in State tax rates. 52 Pa. Code § 69.44.

Pennsylvania case law regarding the permissible scope of section 1307 cost recovery, while not extensive, supports a broad interpretation of that section. In *National Fuel Gas Distribution Corp. v. Pa. P.U.C.*, 473 A.2d 1109, 1121 (Pa. Cmwlth. 1984), the Commonwealth Court held that the purpose of section 1307 of the Code is to permit reflection in customer charges of changes in one component of a utility's cost of providing public service without the necessity of the "broad, costly and time-consuming inquiry" required in a section 1308 base rate case. Moreover, under the 1995 *PIEC* decision, the Commonwealth Court adopted the Commission's legal position that its use of section 1307 was not limited to fuel and purchased power costs. At the same time, the Commonwealth Court cautioned that section 1307 should have limited application and should not override the traditional ratemaking process. *PIEC* at 1349. In determining whether DSM costs could be recovered through the section 1307 mechanism, the Court wrote:

Although we agree that Section 1307 should have limited application and the PUC should not use it to disassemble the traditional rate-making process, *the General Assembly did not limit the allowance of automatic adjustment to only fuel costs and taxes which are generally beyond the control of the utility. Instead, the General Assembly specifically allowed the recovery of fuel costs and also allowed the PUC or the utilities to initiate the automatic adjustment of costs within specific procedures . . .* In this case, Section 1319 of the Code specifically states that all prudent and reasonable costs should be recovered and sets forth requirements that the proposed programs be determined to be "prudent and cost-effective" by the PUC (or the Bureau of Conservation, Economics and Energy Planning as designated by the PUC), before any costs may be recovered through the surcharge mechanism.

PIEC at 1349 (emphasis added). The Court then concluded that the recovery of DSM costs under section

1307 was lawful because the language of section 1307 gives the Commission discretion to establish automatic adjustment clauses for the recovery of prudently incurred costs, and because in section 1319 the legislature specifically identified and provided for the recovery of prudent and reasonable costs for developing DSM programs.

Clearly, the Court in *PIEC* recognized the importance of the statute (section 1319) in providing for the recovery of development costs of the DSM programs via section 1307. However, the Court also recognized that the language of section 1307 is not limited to a narrow set of costs (as advocated by the industrials), that whether the costs at issue should be recovered via an automatic adjustment clause is a matter of Commission discretion, and that the court "is not free to substitute its discretion for the discretion properly exercised by the PUC in establishing the surcharge method." *PIEC* at 1349.

Turning to the PAWC proposal to file and implement an automatic adjustment clause to recover its distribution system improvement costs, we find that the proposal is appropriately limited and narrowly tailored to recover a specific category of utility costs--the incremental fixed costs (depreciation and pre-tax return) associated with nonrevenue producing, nonexpense reducing distribution system improvement projects completed and placed in service between base rate cases. Recovery of this narrow set of costs is clearly permitted under section 1307(a) (which has no cost category limitation in its language) and Pennsylvania case law; and, in the Commission's judgment, this proposal is in no way a mechanism to "disassemble" the traditional ratemaking process for several reasons: first, the DSIC is designed to identify and recover the distribution system improvement costs incurred between rate cases; second, the costs to be recovered represent a narrow subset of the company's total cost of service; and third, the DSIC amount will be capped at a relatively low level to prevent any long-term evasion of a base rate review of these plant costs. Indeed, the company's proposal recognizes that there will be a full review of these costs in a subsequent section 1308 base rate proceeding. We also note that the DSIC is designed to reflect only the costs of the eligible plant additions that are actually placed in service during the 3-month periods ending 1 month prior to the effective date of each surcharge update; this key provision serves to avoid any potential violation of section 1315 and this State's long-standing "used and useful" rule.

Additionally, we find that sections 1307(d) and (e) provide broad auditing powers to the Commission and a formal reconciliation mechanism to carefully monitor the operation of such a surcharge. While admittedly section 1307(d) is addressed to fuel cost adjustment audits, we do not view the Commission's auditing power over automatic adjustment clauses as limited to only fuel costs, given the broad auditing and investigative powers granted to the Commission via sections 504, 505, 506, and 516 of the Public Utility Code. 66 Pa.C.S. §§ 504, 505, 506, 516. Nor would we be likely to approve a utility's request for approval of an automatic adjustment clause in the absence of its complete agreement that the Commission has such auditing powers. Moreover, section 1307(e) provides for a mandatory annual reconciliation report regarding the revenues and expenses recovered via an automatic adjustment clause and a "public hearing on the substance of the report and any matters pertaining to the use by such public utility" of the automatic adjustment clause. As such, the costs to be recovered via the company's DSIC proposal will be subject to the Commission's auditing powers, an annual reconciliation report and public hearings.

B. General Tariff Parameters

The basic elements of a tariff supplement to implement a lawful DSIC mechanism include a statement of purpose and description of eligible property, a specification of its effective date and the dates of its subsequent quarterly updates, details regarding the computation methodology and appropriate consumer safeguards. The proposed tariff supplement included with the PAWC petition, as Exhibit A, has no such details. Therefore, in order to provide guidance to PAWC and any other water utility that may need to implement a DSIC, the Commission has developed sample tariff language that, if used in a water utility's section 1307 proposed tariff supplement, is likely to receive the Commission's approval. The sample tariff language is contained in Appendix A to this order.

A properly designed tariff supplement to establish a DSIC that meets the requirement of section 1307 and contains adequate consumer safeguards should include the following features:

- specification of the eligible plant accounts by type and account number;
- elimination from eligibility of (a) the costs of extending facilities to serve new customers¹ and (b) the costs of projects funded by PENNVEST loans;
- include recovery of main extensions installed to eliminate dead ends and to implement solutions to regional water supply problems that have been documented as presenting a significant health and safety concern to existing customers;
- provision of a prospective January 1, 1997 effective date for the tariff supplement and the property eligible for the initial filing;
- if more than 2 years have elapsed since the utility's last base rate case, use of the equity return rate determined by staff and specified in the latest Quarterly Earnings Report released by the Commission;
- greater specification of the depreciation and pretax return elements in the formula to calculate the DSIC;
- added provision to provide interest to consumers for any over recoveries during operation of the DSIC; and
- provision for customer notice of any DSIC changes.

Thus, use of the sample tariff language will fully explain the DSIC computation, including a listing of DSIC eligible property and related account numbers, so that in future years the purpose and intent of the DSIC surcharge will be apparent from reading only the tariff supplement. Additionally, the inclusion of plant account numbers and descriptions of property eligible for DSIC cost recovery parallels the format used for other section 1307 surcharges, such as the ECR for electric utilities, the GCR for gas distribution utilities and the SCR for steam heat companies.

With these key changes to PAWC's proposal, the eligible property, filing dates, calculation parameters, and consumer safeguards will be clearly specified. Moreover, we note here that the provisions (1) for resetting the DSIC to zero if the company's rate of return exceeds its allowable rate of return, and (2) for resetting the DSIC to zero as of the effective date of new section 1308 base rates that provide for prospective recovery of the eligible plant costs both serve as effective and reliable rate mechanisms to insure that the DSIC automatic adjustment clause will not produce rates in excess of a fair return to the utility, as required by section 1307(a). We also note that the provision of a 5% of billed revenues cap on the maximum amount of any DSIC insures that the surcharge mechanism will not evade the section 1308 base rate process and its intensive top-to-bottom review of all company revenue, expense, rate base and return claims. See Appendix A. In other words, the 5% cap will insure that the surcharge will not allow the company to avoid a base rate review of the eligible property in perpetuity.

Accordingly, although we are denying the PAWC petition to the extent that it requests permission to file and implement a section 1307(a) tariff supplement to implement a surcharge as set forth in its Exhibit A, we invite the company to file a new tariff supplement consistent with the parameters outlined in the sample tariff language set forth in Appendix A to this order. The sample tariff language in Appendix A is identical to that recommended for the Philadelphia Suburban Water Company at Docket No. P-00961036 which has also requested permission to establish a DSIC surcharge.

As with other section 1307 tariff filings, the new tariff supplement would provide for a notice period of no less than 60 days to allow sufficient time for staff review of the proposed tariff supplement and its initial rates for consistency with the sample tariff language and for accuracy of the plant account, depreciation, pre-tax return and other elements of the DSIC calculation. If recommended for approval by staff and formally approved by the Commission, the tariff supplement and initial rates to implement the DSIC will be permitted to go into effect, subject to the outcome of any timely filed complaints. Subsequent quarterly updates, however, may be filed on 10 days notice as originally proposed by the

company.

Therefore, It Is Ordered That:

1. The petition filed by the Pennsylvania American Water Company (PAWC) to file and implement a section 1307(a) automatic adjustment clause tariff that would establish a Distribution System Improvement Charge (DSIC) is hereby approved in part and denied in part consistent with this order.
2. All protests, answers and other objections filed with respect to the PAWC petition are hereby granted in part and denied in part consistent with this order.
3. Any complaints regarding the rates to be charged under a DSIC tariff supplement may be filed if and when PAWC files a tariff supplement with specific rates in accordance with the tariff parameters outlined by this order.
4. The parameters set forth in the Appendix A are hereby adopted to serve as sample tariff language to be implemented for tariff supplements to establish a DSIC.
5. The normal auditing, reconciliation, reporting and public hearing procedures applicable to all 1307 (e) filings will likewise apply to all DSIC tariff supplements.
6. This order be published in the *Pennsylvania Bulletin*.
7. This order be served upon Pennsylvania American Water Company, the Office of Consumer Advocate, the Office of Small Business Advocate, the Office of Trial Staff, the Pennsylvania-American Water Large Users Group, and the National Association of Water Companies.

JOHN G. ALFORD,
Secretary

APPENDIX A

Sample Tariff Language

Distribution System Improvement Charge (DSIC)

I. General Description

Purpose: To recover the fixed costs (depreciation and pre-tax return) of certain nonrevenue producing, non-expense reducing distribution system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate cases and to provide the Company with the resources to accelerate the replacement of aging water distribution infrastructure, to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act and to develop and implement solutions to regional water supply problems. The costs of extending facilities to serve new customers are not recoverable through the DSIC. Also, Company projects receiving PENNVEST funding are not DSIC-eligible property.

Eligible Property: The DSIC-eligible property will consist of the following:

- services (account 323), meters (account 324) and hydrants (account 325) installed as in-kind replacements for customers;
- mains and valves (account 322) installed as replacements for existing facilities that have worn out, are in deteriorated condition, or upgraded to meet Chapter 65 regulations of Title 52;
- main extensions (account 322) installed to eliminate dead ends and to implement solutions to

regional water supply problems that have been documented as presenting a significant health and safety concern for customers currently receiving service from the Company or the acquired Company;

--main cleaning and relining (account 322) projects; and

--unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations.

Effective Date: The DSIC will become effective for bills rendered on and after January 1, 1997.

11. *Computation of the DSIC*

Calculation: The initial charge, effective January 1, 1997, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between September 1, 1996, and November 30, 1996. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the 3-month periods ending 1 month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

Effective Date of Change	Date To Which DSIC-Eligible Plant Addition Reflected
April 1	February 28
July 1	May 30
October 1	August 31
January 1	November 30

The fixed costs of eligible distribution system improvement projects will consist of depreciation and pre-tax return, calculated as follows:

Depreciation: The depreciation expense will be calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded.

Pre-tax return: The pre-tax return will be calculated using the State and Federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day of the 3-month period ending 1 month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully-litigated base rate proceeding for which a final order was entered not more than 2 years prior to the effective date of the DSIC. If more than 2 years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission Staff in the latest Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

DSIC Surcharge Amount: The charge 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, excluding amounts billed for public fire protection service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for sales of water for the quarterly period during which the charge will be collected, exclusive of revenues from public fire protection service and the STAS.

Formula: The formula for calculation of the DSIC surcharge is as follows:

$$\text{DSIC} = \frac{(\text{DSI} \times \text{PTRR}) + \text{Dep} + e}{\text{PQR}}$$

Where:

DSI = the original cost of eligible distribution system improvement projects.

PTRR = the pre-tax return rate applicable to eligible distribution system improvement projects.

=

Dep = Depreciation expense related to eligible distribution system improvement projects.

e = the amount calculated under the annual reconciliation feature as described below.

PQR = Projected quarterly revenue including any revenue from acquired companies that are now being charged the rates of the acquiring company.

Quarterly updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate at least 10 days prior to the effective date of the update.

III. Safeguards

Cap: The DSIC will be capped at 5% of the amount billed to customers under otherwise applicable rates and charges.

Audit/Reconciliation: The DSIC will be subject to audit at intervals determined by the Commission. It will also be subject to annual reconciliation based on a reconciliation period consisting of the 12 months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with section 1307(e), over a 1 year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such overcollections will be refunded with interest. Interest on the overcollections will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P. S. § 101, et seq.) and will be refunded in the same manner as an overcollection.

New Base Rates: The charge will be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the quarterly updates of the DSIC.

Earning Reports: The charge will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the Pre-tax return section.

Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

[Pa.B. Doc. No. 96-1559. Filed for public inspection September 13, 1996, 9:00 a.m.]

¹ For purposes of the DSIC surcharge, the existing customers of a newly-acquired water company are not "new customers" and, thus, the replacement of aging water distribution facilities by the acquiring water utility in order to maintain safe, reliable and adequate service to such customers would be eligible for DSIC recovery.

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APPENDIX B

**PAWC's Water Tariff – DSIC Rider
Filed With And Approved By The PUC**

PENNSYLVANIA-AMERICAN WATER COMPANY

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

1. General Description

Purpose: To recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing distribution system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate case and to provide the Company with the resources to accelerate the replacement of aging water distribution infrastructure, to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act and to develop and implement solutions to regional water supply problems. The costs of extending facilities to serve new customers are not recoverable through the DSIC. Also, Company projects receiving PENNVEST funding are not DSIC-eligible property.

Eligible Property: The DSIC-eligible property will consist of the following:
(C)

- services (account 333000), meters (account 334100) and hydrants (account 335000) installed as in-kind replacements for customers;
- mains and valves (account 331800) installed as replacements for existing facilities that have worn out, are in deteriorated condition, or upgraded to meet Chapter 65 regulations of Title 52;
- main extensions (account 331800) installed to eliminate dead ends and to implement solutions to regional water supply problems that have been documented as presenting significant health and safety concern for customers currently receiving service from the Company or the acquired Company;
- main cleaning and relining (account 331800) projects and;
- unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations.

Effective Date: The DSIC will become effective for bills rendered on and after January 1, 1997.

2. Computation of the DSIC

Calculation: The initial charge, effective January 1, 1997, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between September 1, 1996, and November 30, 1996. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant addition placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

<u>Effective Date of Change</u>	<u>Date to which DSIC-Eligible Plant Additions Reflected</u>
April 1	February 28
July 1	May 31
October 1	August 31
January 1	November 30

Issued: March 19, 2003

Effective:

April 1, 2003

PENNSYLVANIA-AMERICAN WATER COMPANY

Canceling 3rd and 2nd Rev Page 12B2

The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

Depreciation: The depreciation expense will be calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded.

Pre-tax return: The pre-tax return will be calculated using the state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission Staff in the latest Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission. However, pursuant to the Order of the Commission entered December 2, 1999 at Docket No. R-00994638 approving the Joint Petition for Settlement of Rate Investigation filed at that docket, for the duration of the base rate approved by such Order, an equity return rate of 10.2% will be used in lieu of the equity return rate set forth in the aforementioned Quarterly Report on the Earnings of Jurisdictional Utilities. (C)

DSIC Surcharge Amount: The charge 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, excluding amounts billed for public fire protection service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for sales of water for the quarterly period during which the charge will be collected, exclusive of revenues from public fire protection service and the STAS.

Formula: The formula for calculation of the DSIC surcharge is as follows:

$$\text{DSIC} = \frac{(\text{DSI} \times \text{PTRR}) + \text{Dep} + e}{\text{PQR}}$$

Where:

- DSI = the original cost of eligible distribution system improvement projects net of accrued depreciation.
- PTRR = the pre-tax return rate applicable to eligible distribution system improvement projects.
- Dep = Depreciation expense related to eligible distribution system improvement projects.
- e = the amount calculated under the annual reconciliation feature as described below.
- PQR = Projected quarterly revenues including any revenue from acquired companies that are now being charged the rates of the acquiring company.

Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

3. Safeguards

Cap: The DSIC will be capped at 7.50% of the amount billed to customers under otherwise applicable rates and charges.

Audit/Reconciliation: The DSIC will be subject to audit at intervals determined by the Commission. It will also be subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307 (e), over a one year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such overcollections will be refunded with interest. Interest on the overcollections will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. sec. 101, et seq.) and will be refunded in the same manner as an overcollection.

New Base Rates: The DSIC charge will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the quarterly updates of the DSIC. (C)

Earning Reports: The charge will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the Pre-tax return section.

Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

APPENDIX C

**Report Of The PUC's Bureau Of Audits On Its
Audit Of The Operation Of PAWC's DSIC For The Year Ended
December 31, 1997
Docket No. D-09S023**



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

MAR 08 1999

IN REPLY PLEASE
REFER TO OUR FILE

March 5, 1999

MR ROBERT W FREESTON
VP - COMPTROLLER
PENNSYLVANIA AMERICAN WATER COMPANY
800 WEST HERSHEY PARK DRIVE
HERSHEY, PA 17033

DOCKET NO. D-97S023

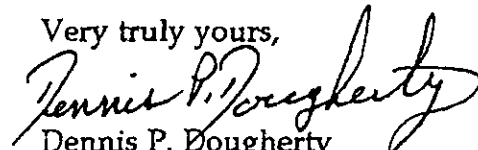
Dear Mr. Freeston:

We have completed our examination of Pennsylvania American Water Company's Distribution System Improvement Charge (DSIC) activity for the year ended December 31, 1997. Our examination was conducted pursuant to Title 66 Pennsylvania Consolidated Statutes (66 Pa. C.S.) § 506 and the provisions of the Commission approved DSIC tariff.

It is the policy of the Public Utility Commission, Bureau of Audits, to conduct an audit review conference with appropriate personnel of entities which have been examined by our representatives prior to issuance of our report. The purpose of our conference is to review with you and appropriate members of your staff our findings and recommendations and also to eliminate any misunderstandings that may arise.

We are enclosing a copy of the draft report for your review prior to the exit conference. The draft report is to be returned to the PUC staff members at the conclusion of the exit conference. After you review the report, please contact John Crawford of this office at (717) 772-0302 within two weeks so that an exit conference can be arranged.

Very truly yours,


Dennis P. Dougherty
Audit Supervisor

DPD/js

Enclosure

cc: J. T. Crawford
J. G Malloy
C. Gilbert

PA-AMERICAN WATER COMPANY

A REPORT ON THE DISTRIBUTION SYSTEM
IMPROVEMENT CHARGE

FOR THE YEAR ENDED DECEMBER 31, 1997

Prepared For The Public Utility Commission

By The Bureau of Audits

PA-AMERICAN WATER COMPANY

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FINANCIAL REVIEW



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

AUDITOR'S REPORT

To The Public Utility Commission

We have audited the Statement of Distribution System Improvement Charge (DSIC) Eligible Project Additions of the PA-American Water Company for the year ended December 31, 1997, and the Statement of Over/Under Collections (Section 1307(e)) for the year ended December 31, 1997. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements referred to above. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statements were presented for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of the Company's revenues and expenses.

In our opinion, the accompanying statements of PA-American Water Company present fairly, in all material respects, the cost of DSIC-eligible property additions and the over/under collection resulting from its application of the DSIC in accordance with the provisions of its Schedule of Rates approved by the Pennsylvania Public Utility Commission.

Glenn W. Bartron, CPA
Director of Audits

Harrisburg, Pennsylvania

PA-AMERICAN WATER COMPANY

Statement of Distribution System Improvement Charge (DSIC)
Eligible Property and Related DSIC Billed (Note 1)
For The Year Ended December 31, 1997

	<u>DSIC Eligible Property (Note 2)</u>	<u>DSIC Billed (Note 3)</u>
September 1996	\$ 984,010	0.00%
October	1,147,754	0.00%
November	664,971	0.00%
December	2,684,492	0.00%
January 1997	643,695	0.22%
February	493,923	0.22%
March	320,884	0.22%
April	794,983	0.55%
May	728,181	0.55%
June	740,819	0.55%
July	1,091,997	0.64%
August	629,387	0.64%
September	0	0.64%
October	0	0.85%
November	0	0.85%
December	<u>0</u>	0.85%
Total	<u>\$ 10,925,096</u>	

Components of DSIC Eligible Property

Mains	\$7,151,376
Services	2,142,966
Meters	1,109,580
Hydrants	<u>521,174</u>
Total	<u>\$10,925,096</u>

Notes to the Financial Statements are an integral part of this report.

PA-AMERICAN WATER COMPANY

Statement of Over/Under Collections (Section 1307(e))
For The Year Ended December 31, 1997

<u>Month</u>	DSIC Revenue Collected <u>Note 4</u>	Capital Costs & Depreciation Expense Authorized <u>(Note 5)</u>	Over/ (Under) Collections <u>(Note 6)</u>
January 1997	\$ 31,825	\$ 31,542	\$ 283
February	31,803	31,542	261
March	30,532	31,543	(1,011)
April	78,130	82,182	(4,052)
May	78,996	82,182	(3,186)
June	84,734	82,183	2,551
July	104,103	105,505	(1,402)
August	107,189	105,505	1,684
September	98,512	105,505	(6,993)
October	14,733	12,751	1,982
November	0	0	0
December	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 660,557</u>	<u>\$670,440</u>	<u>\$ (9,883)</u>

Notes to the Financial Statements are an integral part of this report.

PA-AMERICAN WATER COMPANY

Notes To The Financial Statements

1 - Distribution System Improvement Charge

On August 26, 1996, the Commission, at Docket No. P-00961036 approved PA-American Water Company's request for a Distribution System Improvement Charge Rate (DSIC). The purpose of the DSIC Surcharge is to recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing distribution system improvement projects completed and placed in service and to be recorded in individual accounts between base rate cases. The intent is to provide the Company with the resources to accelerate the replacement of aging water distribution infrastructure, to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act, and to develop and implement solutions to regional water supply problems. Depreciation expense is calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded. Pre-tax return is calculated using the state and federal income tax rates, the Company's actual capital structure, and actual cost rates for long-term debt and preferred stock as of the last day of the three month period ending one month prior to the effective date of the DSIC and updates. The cost of equity is the equity return rate approved in the Company's last fully litigated base rate case. The Quarterly DSIC rate became effective January 1, 1997 and applies to all service excluding public fire hydrants. During 1997, the DSIC was not applicable to the customers of the former Pennsylvania Gas and Water Company.

2 - Distribution System Improvement Charge Eligible Property

The DSIC-eligible property consists of the following:

- a. Services (Account 323), meters (Account 324) and hydrants (Account 325) installed as in-kind replacements for customers;
- b. Mains and valves (Account 322) installed as replacements for existing facilities that have worn out, are in deteriorated condition, or upgraded to meet Chapter 65 regulations of Title 52;
- c. Main extensions (Account 322) installed to eliminate dead ends and to implement solutions to regional water supply problems that have been documented as presenting a significant health and safety concern for customers currently receiving service from the Company or the acquired company;
- d. Main cleaning and relining (Account 322) projects;

- e. Unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations (Account 322).

Any Company projects receiving PENNVEST funding are not DSIC-eligible property.

The amounts shown on this statement are as reported by the Company in the DSIC filing.

3 - Distribution System Improvement Charge Billed

The DSIC is to be expressed as a percentage carried to two decimal places and is applied to the effective portion of the total amount billed to each customer under the Company's otherwise applicable rates and charges, excluding amounts billed for public fire protection service and the State Tax Adjustment Surcharge (STAS). To reflect subsequent capital expenditures, the Company is permitted to request approval from the Commission for quarterly DSIC rate adjustments. The DSIC is to be capped at 5% of the amount billed to customers under otherwise applicable rates and charges. To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC is divided by the Company's projected applicable revenue for sales of water for the quarterly period during which the charge is in effect. The DSIC is to be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that theretofore had been recovered under the DSIC. Thereafter, only fixed costs of new eligible plant additions not previously reflected in the Company's rate base will be reflected in the quarterly DSIC updates.

A summary of the Company's Quarterly DSIC filings include the following:

DSIC Effective 1-1-97	.22%
DSIC Effective 4-1-97	.55%
DSIC Effective 7-1-97	.64%
DSIC Effective 10-1-97	.85%
DSIC Effective 10-3-97 (10-3-97 Rate Settlement)	0.00%

4 - Distribution System Improvement Charge Revenue Collected

Distribution System Improvement Charge revenue is derived by multiplying the respective quarterly DSIC rate by the applicable portion of the total amount billed to each customer (excluding public fire protection service customers) exclusive of any STAS in effect.

5 - DSIC Eligible Project Capital Costs and Depreciation Expense Authorized

DSIC Eligible Project Capital Costs and Depreciation Expense Authorized are the total recoverable capital costs and depreciation expenses (Note 2) in excess of the amounts recoverable by the company through base rates included in its approved tariff.

6 - Over/Under Collections

Over/Under Collections are the difference between the DSIC revenues and the DSIC eligible project capital costs and depreciation expenditures authorized. The resulting amount represents the portion of capital costs and depreciation expenditures that are either refundable, with interest, or recoverable by the Company. Over/(Under) collections for the twelve months ending December 31 of each year are reported to the Commission on Statement 1307(e) and are included in subsequent DSIC computations over a one year period commencing on April 1 of each year.

The statement included in this report is the 1307(e) statement filed by the Company and approved by the Commission, and does not include any audit adjustments.

OPERATIONAL REVIEW

BACKGROUND

The background information was developed substantially from information and documentation made available by Pennsylvania American Water Company and is provided solely for informational purposes.

Pennsylvania-American Water Company (PAWC) is the largest regulated water utility in the state. It is a wholly-owned subsidiary of American Water Works Company, Inc., the largest investor owned water business in the United States. The name Pennsylvania-American Water Company was established in 1989 through the merger of the following former entities: Western Pennsylvania Water Company, Keystone Water Company and Riverton Consolidated Water Company. Previous to the name change, these predecessor companies were also owned by American Water Works Company, Inc. On February 17, 1996, PAWC purchased the regulated water operations of Pennsylvania Gas and Water Company (PGAW) which served an estimated population of about 400,000 people in the Scranton and Wilkes-Barre area.

The Company provides water service to more than 532,000 customers or a population of over 2 million people. Wastewater service is provided to over 4,500 customers or a population of approximately 12,000 people. These customers live in 290 municipalities encompassing 31 of the state's 67 counties.

Following are certain operating statistics of PA-American Water Company:

<u>Revenue From Water Sales Billed</u>	<u>As of December 31, 1997</u>	
	<u>(000,s)</u>	<u>% of Total</u>
Residential	\$ 162,332	64.1
Commercial	48,368	19.1
Industrial	19,460	7.7
Other	<u>22,935</u>	<u>9.1</u>
Total Revenue	<u>\$253,095</u>	<u>100.0</u>

<u>Water Customers Served:</u>	<u>Number</u>	<u>% of Total</u>
Residential	487,745	91.7
Commercial	38,564	7.2
Industrial	811	.2
Public and Other	<u>4,977</u>	<u>.9</u>
Total Customers	<u>532,097</u>	<u>100.0</u>

1997 AUDIT FINDINGS

Finding No. 1 - PA-American Water Company's Distribution System Improvement Charge (DSIC) Tariff Requires A Revision.

The Company's DSIC Tariff provides a formula for the calculation of the DSIC Surcharge. Included in the formula are definitions identifying the components of the DSIC. The "DSI" component is defined as "the original cost of eligible distribution system improvement projects." The quarterly DSIC calculations state: Applicable Additions Less Accumulated Depreciation equals Net Rate Base Includable in the Respective quarterly DSIC calculation. When compared to the Company's DSIC Tariff, no mention of the accumulated depreciation exists. This was simply an oversight on the part of the Company when the DSIC tariff was formulated.

RECOMMENDATION:

We recommend that the Company add wording to the DSIC Tariff revising the "DSI" definition to read: "The original cost of eligible distribution system improvement projects net of accrued depreciation." (Auditor emphasis).

The Company agrees with this recommendation.

Finding No. 2 - PA-American Water Company's Distribution System Improvement Charge (DSIC) Quarterly Filings Require Revisions Reflecting DSIC Application On A "Bills Rendered" Basis.

The Company's quarterly filings had wording which had the DSIC charge to be applied on a "service rendered" basis. The Commission approved DSIC was on a "bills rendered" basis. Subsequent testing verified that the DSIC was in fact applied as properly approved and that the wording on all of the quarterly filings was incorrect.

RECOMMENDATION:

We recommend that the Company's future quarterly filings have the proper wording reflecting DSIC application on a bills rendered basis.

The Company agrees with this recommendation.

Finding No. 3 - Additions Applicable to the Distribution System Improvement Charge (DSIC) Were Overstated for the 4 Quarters Ending With the DSIC Effective 10-1-97.

Additions included in the DSIC filings for each of the first 4 quarters were overstated. The cumulative total of the overstatement included in the filing effective at 10/1/97 was \$129,795. The net effect of the error was a \$7,965 reduction to the current under collection of the DSIC.

When the accounting transfers of mains and hydrants were entered into a computer software format for analysis and inclusion to the DSIC filing by the rate department, certain formulas were erroneous. This resulted in several transfers being included twice, for a total of \$64,971. In addition, acquisition costs of Services and Meters totaling \$64,824 were posted in September of 1996. The rate department was not aware of this posting which was included with the total additions used for the DSIC filing.

Rate personnel determined that a comparison of total transfers included in the DSIC filing to total transfers per accounting will assure that possible formula errors will be detected in the future. Also, the rate department has determined that total capital work order transfers to plant in service must be verified to assure that non applicable journal entry postings are not included in the filing.

RECOMMENDATION:

We recommend that the Company implement the internal control checks noted above to assure the detection of formula errors and elimination of duplicate entries to the DSIC calculation.

We also recommend that the Company refund \$7,965 plus appropriate interest of \$744 through the "E" factor in its DSIC calculation for the rate effective April 1, 1999.

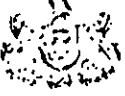
The Company agrees with these recommendations.

ACKNOWLEDGEMENTS

We wish to express our appreciation to the officers and staff of Pennsylvania American Water Company for the cooperation and assistance given us during the course of our examination. The audit was conducted by Daniel L. Hawkins assisted by William S. Pierce.

APPENDIX D

PUC Secretarial Letter Dated December 18, 1996



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG, Pa 17120

December 18, 1986

IN REPLY PLEASE
REFER TO OUR FILE

TO PUBLIC UTILITIES USING THE STATE TAX ADJUSTMENT SURCHARGE

On July 2, 1986, Senate Bill No. 560 was signed into law. This Bill decreased the Corporate Net Income Tax Rate from 9.5% to 8.5%, beginning January 1, 1987. Therefore, it will be necessary for your utility to submit a recomputation of its State Tax Adjustment Surcharge.

The recomputation of the surcharge is in compliance with Section B - Item 1 of the State Tax Adjustment Procedure Order issued by this Commission on March 10, 1970, which states: Every tariff or supplement imposing such surcharge shall provide that the utility will recompute the surcharge. . . "1. Whenever any of the tax rates referred to in Section A are changed, in which case the recomputation shall take into account the changed tax rate."

Section C of the State Tax Adjustment Procedure Order of March 10, 1970, also provides that: ". . . , AND THAT IF THE RECOMPUTED SURCHARGE IS LESS THAN THE ONE THEN IN EFFECT THE UTILITY WILL, AND IF THE RECOMPUTED SURCHARGE IS MORE THAN THE ONE THEN IN EFFECT THE UTILITY MAY, ACCOMPANY SUCH RECOMPUTATION WITH A TARIFF OR SUPPLEMENT TO REFLECT SUCH RECOMPUTED SURCHARGE."

Section D of our order of March 10, 1970, further provides that: "Every tariff or supplement filed pursuant to this order shall carry an effective date which shall be ten days after its filing with this Commission and be applicable for service rendered

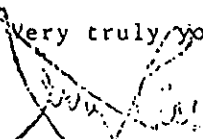
on and after the effective date." Accordingly, you must file a tariff or tariff supplement effectuating the recomputation of your State Tax Adjustment Surcharge on or before December 21, 1986, if you wish it to be effective January 1, 1987.

For utilities with billing cycles of more than one month, the tax shall be applied on a pro-rata basis.

The base year to be used in this recalculation of the Surcharge would be the base year utilized in the Surcharge presently in effect and on file with this Commission. However, we would caution electric utilities to review their base year calculation to be certain that taxes are being allocated on a jurisdictional basis. State Tax Adjustment Surcharge recalculations filed by electric utilities should also incorporate refunds received from the Department of Revenue pertaining to settlement of the 1979 Act 27 PURTA assessment.

Utilities which have previously rolled their State Tax Adjustment Surcharges into base rates and currently have a zero rate reflected in their tariff should calculate and reflect a negative surcharge rate on customers' bills to account for the decreased Corporate Net Income Tax Rate.

The factor to be applied to the Pennsylvania Corporate Net Income Tax base in the recalculation of the Surcharge would be 1.665%.

Very truly yours,

Jerry Rich
Secretary

Contact Person:
Tariff: Mr. Patrick (717) 783-3600

APPENDIX E

PUC Secretarial Letter Dated August 15, 1991
Docket No. M-910296



COMMONWEALTH OF PENNSYLVANIA
 PENNSYLVANIA PUBLIC UTILITY COMMISSION
 P. O. BOX 3265, HARRISBURG, Pa. 17120

LAMH

August 15, 1991

IN REPLY PLEASE
 REFER TO OUR FILE
 M-910296

DOCKETED

AUG 21 1991

**DOCUMENT
 FOLDER**

TO: All Fixed Utilities

On August 4, 1991, Governor Robert Casey signed tax legislation that increased Pennsylvania corporate tax rates as follows:

<u>Tax</u>	<u>Current Rate</u>	<u>New Rate</u>	<u>Effective Date</u>	<u>Future Rate</u>	<u>Effective Date</u>
Corporate Net Income	8.5%	12.25%	1/1/91		
Capital Stock	9.5 Mills	13.0 Mills	1/1/91	12.75 Mills	1/1/92
Gross Receipts	44 Mills	50 Mills	7/1/91		
Public Utility Realty	30 Mills	42 Mills	1/1/91		

Jurisdictional utilities that wish to establish or adjust their state tax adjustment surcharge (STAS) should employ the following Commission requirements:

1. The STAS calculation should generally comport with the methodologies found in the 1970 Commission STAS Order (52 Pa. Code § 69.52).
2. A "blended rate" may be employed for the Capital Stock tax which takes into consideration the number of days that the 13.0 mill. and 12.75 mill rates are applicable.
3. Energy companies should adjust the revenue stream over which the STAS is collected for seasonal fluctuations to those revenues.
4. The Commission waives the 10-day filing requirement found in the 1970 STAS Order and extends it to a total of 30 days from the enactment of the legislation.

5. The Commission, per 52 Pa. Code § 53.45 (c), is directing the form of public notice for this STAS increase. All utilities should: make general notification to the news media when the new STAS is filed and include notification on the bill or by insert to each customer, in the first bill that reflects the new STAS. In addition, utilities having gross jurisdictional annual revenues of \$1,000,000, or more, should also notify the public by way of an advertisement, similar to public input hearing notification, in newspapers of general circulation, on or before the effective date of the new STAS.
6. Utilities should maintain records that are adequate to provide a reconciliation of the STAS revenues collected.

Please direct inquiries regarding this STAS filing to staff member Robert Wilson at (717) 783-6162.

Very truly yours,


Jerry Rich
Secretary

APPENDIX F

PUC Secretarial Letter Dated June 2, 1992
Docket No. M-910296

June 2, 1992

Fixed Utilities having a State Tax Adjustment Surcharge (STAS) at a Rate Other Than Zero

Gentlemen:

In a Secretarial letter of August 15, 1991, the Commission prescribed acceptable STAS filing procedures in response to the changes made to certain Pennsylvania Corporate Tax rates. The Secretarial letter also required that:

"Utilities should maintain records that are adequate to provide a reconciliation of the STAS revenues collected."

The Commission now directs all fixed utilities that filed a 1991 STAS to reconcile the STAS revenues collected to the STAS related tax liabilities for the period January 1, 1991 to March 31, 1992, or to the last day for which the 1991 STAS was applicable. Any over or under collections will result in an adjustment to the current year's annual STAS. The over/under STAS reconciliation should be calculated to terminate when the annual STAS terminates. However, under certain circumstances, the over/under STAS reconciliation may be calculated to end on an independent time-frame.

The recommended format for the STAS reconciliation is found in the Attachment to this Secretarial letter. Energy companies should carefully reflect the impact of their seasonal sales on the STAS reconciliation.

Please note that the Commission will require each utility employing a STAS to provide an annual reconciliation of the prior year's STAS revenues and taxes each March, when the annual STAS calculations are submitted to the Commission.

All utilities employing a STAS are required, by Commission regulation, to roll-in the STAS into base rates within two years of initiating a STAS other than zero. For those utilities that filed in August of 1991, this would necessitate a STAS roll-in by August 1993. The prior period's STAS reconciliation will not be rolled into base rates.

Should the STAS subject Pennsylvania Corporate Tax rates be decreased after the STAS roll-in, all utilities with a zero STAS rate must reflect such decreases in taxes through a negative STAS.

The Commission requests that the STAS reconciliation be filed to become effective on July 1, 1992. Therefore, the filing should be made by June 21, 1992, in order to allow for its review by the Commission.

Please direct inquiries regarding this matter to Mr. Barney Glunz at (717) 783-6163.

Sincerely,

John G. Alford

Secretary

APPENDIX G

PAWC STAS Filings (Rate Computation And Reconciliation)



800 West Hershey Park Drive
Hershey, Pa 17033

P 717-531-3340
F 717-531-3255

December 17, 2010

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

Dear Secretary Chiavetta,

Attached are eight (8) copies of Supplement No. 249 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 17, 2010, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self addressed envelope.

Sincerely,

Rod Nevirauskas
Director of Rates and Regulations

- cc. Office of Consumer Advocate
- Office of Trial Staff
- Office of Small Business Advocate
- Elaine McDonald
- Audit Bureau (DSIC Filings Only)
- Fixed Utility Services (Acquisitions Only)

SECRETARY'S BUREAU

2010 DEC 20 AM 10:27

FILE



800 West Hershey Park Drive
Hershey, Pa 17033

P 717-531-3340
F 717-531-3255

December 17, 2010

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

Dear Secretary Chiavetta,

Attached are eight (8) copies of Supplement No. 249 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 17, 2010, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self addressed envelope.

Sincerely,

Rod Nevirauskas
Director of Rates and Regulations

cc. Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Fixed Utility Services (Acquisitions Only)

PENNSYLVANIA-AMERICAN WATER COMPANY
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

GOVERNING THE DISTRIBUTION AND SALE OF WATER

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED ADJACENT
THERE TO IN ADAMS, ALLEGHENY, ARMSTRONG, BEAVER, BERKS, BUCKS,
BUTLER, CENTRE, CHESTER, CLARION, CLEARFIELD, CLINTON, COLUMBIA,
CUMBERLAND, DAUPHIN, FAYETTE, INDIANA, JEFFERSON, LACKAWANNA,
LANCASTER, LAWRENCE, LEBANON, LUZERNE, MCKEAN, MONROE, MONTGOMERY,
NORTHAMPTON, NORTHUMBERLAND, PIKE, SCHUYLKILL, SUSQUEHANNA,
UNION, WARREN, WASHINGTON, WAYNE, AND YORK COUNTIES.

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in Compliance with the Pennsylvania Public Utility Commission
State Tax Adjustment Procedure dated March 10, 1970.

Issued: December 17, 2010

Effective: January 1, 2011

BY: Kathy Pape, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Increases/Decreases

This tariff supplement decreases the State Tax Adjustment Surcharge from .45% to .32%.

PENNSYLVANIA-AMERICAN WATER COMPANY

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This Page Held For Future Use -----	12F	3rd Revised

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a surcharge of 0.32% will apply to all services rendered. (D)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

PENNSYLVANIA AMERICAN WATER COMPANY

STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$717,339,296		*
2	Amount of Tax (\$717,339,296 x .002)		\$ 1,434,679	** \$ 1,434,679
3	Under collection of surcharge in effect from			
4	January 1, 2010 through December 31, 2010			\$82,066
5	Total STAS revenue to be collected			\$1,516,745
6	Annualized revenues to be collected from January 1, 2011			
7	through December 31, 2011.			*** \$481,264,589
8	STAS (expressed as percentage)			0.32%

* Taken from Company's last rate filing docketed at No. R-2009-2097323

** $0.00289 - 0.00089 = 0.002$

*** Annualized water sales revenues based on 2010



800 West Hershey Park Drive

P 717-531-3340

F 717-531-3255

December 15, 2009

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

Dear Secretary McNulty,

Attached are eight (8) copies of Supplement No. 235 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 16, 2009, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment procedure dated March 10, 1970.

Sincerely,

John Cox
Manager of Rates and Regulations

cc. Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Fixed Utility Services (Acquisitions Only)

RECEIVED
2009 DEC 16 AM 10:39
PA.P.U.C.
SECRETARY'S BUREAU



800 West Hershey Park Drive

P 717-531-3340

F 717-531-3255

December 15, 2009

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Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

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Manager of Rates and Regulations

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PENNSYLVANIA-AMERICAN WATER COMPANY
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

GOVERNING THE DISTRIBUTION AND SALE OF WATER

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED

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ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in Compliance with the Pennsylvania Public Utility Commission
State Tax Adjustment Procedure dated March 10, 1970.

Issued: December 16, 2009

Effective: January 1, 2010

BY: Kathy Pape, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Increases/Decreases

This tariff supplement increases the State Tax Adjustment Surcharge from 0.00% to .45%.

PENNSYLVANIA-AMERICAN WATER COMPANY

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PENNSYLVANIA-AMERICAN WATER COMPANY

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This Page Held For Future Use -----	12E	6th Revised
This Page Held For Future Use -----	12F	3rd Revised

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a surcharge of 0.45% will apply to all services rendered. (I)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

PENNSYLVANIA AMERICAN WATER COMPANY

STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$717,339,296	*	
2	Amount of Tax (\$717,339,296 x .002)		\$ 1,434,679	**
3	Amount of Tax for 420 days			\$ 1,650,863
4	STAS revenue refunded to customers from January 1, 2009			
5	to November 6, 2009 due to reduction in the Capital Stock			
6	Tax rate from 2.89 mils to 1.89 mils.			\$ 550,841
7	Total STAS revenue to be collected			\$ 2,201,504
8	Annualized revenues to be collected from January 1, 2010			
9	through December 31, 2010.		****	\$486,521,974
10	STAS (expressed as percentage)			0.45%

* Taken from Company's last rate filing docketed at No. R-2009-2097323

** 0.00289-0.00089 =0.002

*** Annualized water sales revenues taken from Company's last rate filing docketed at R-2009-2097323 and to be collected from January 1, 2009 to December 31, 2010. \$486,521,974



800 West Hershey Park Drive

P 717-531-3340

F 717-531-3255

December 19, 2008

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

Dear Secretary McNulty,

Attached are eight (8) copies of Supplement No. 222 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 19, 2008, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self addressed envelope.

Sincerely,

Rod Nevirauskas
Director of Rates and Regulations

cc. Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Fixed Utility Services (Acquisitions Only)

SECRETARY'S OFFICE

2008 DEC 24 AM 10:09

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800 West Hershey Park Drive

P 717-531-3340

F 717-531-3255

December 19, 2008

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

Dear Secretary McNulty,

Attached are eight (8) copies of Supplement No. 222 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 19, 2008, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self addressed envelope.

Sincerely,

Rod Nevirauskas
Director of Rates and Regulations

cc. Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Fixed Utility Services (Acquisitions Only)

PENNSYLVANIA-AMERICAN WATER COMPANY
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

GOVERNING THE DISTRIBUTION AND SALE OF WATER

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED

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ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in Compliance with the Pennsylvania Public Utility Commission State Tax
Adjustment Procedure dated March 10, 1970.

Issued: December 19, 2008

Effective: January 1, 2009

BY: Kathy Pape, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Changes

This tariff supplement decrease the State Tax Adjustment Surcharge from 0.00% to -0.15%.

PENNSYLVANIA-AMERICAN WATER COMPANY

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PENNSYLVANIA-AMERICAN WATER COMPANY

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a negative surcharge of 0.15% will apply to all services rendered. (D)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

CORPORATE NET INCOME TAX FROM 2.89 MILS TO 1.89 MILS
2009 BUDGET

PENNSYLVANIA AMERICAN WATER COMPANY

STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$638,812,647		*
2	Amount of Tax (\$638,812,647 x -.001)		\$ (638,813)	** \$ (638,813)
3	Annualized revenues to be collected in 2009			****
4	through December 31, 2009			\$438,248,065
5	STAS (expressed as percentage)			-0.15%

* Taken from Company's last rate filing docketed at No. R-00072229

** $0.00189 - 0.00289 = -0.001$

*** Annualized water sales revenues taken from Company's last rate filing docketed at R-0072229

RECEIVED



Pennsylvania
American Water

2006 AUG -4 AM 9:16

SECRETARY'S BUREAU

August 2, 2006

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

COPY

Dear Mr. McNulty,

Attached are eight (8) copies of Supplement No. 195 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of August 4, 2006, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self-addressed envelope.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jo Anne Lontz".

Jo Anne Lontz
Sr. Financial Analyst, Rates and Revenues

Pc: Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Judy Carlson (FUS - Acquisitions Only)

Pennsylvania American Water
800 W. Hershey Park Drive
Hershey, Pennsylvania 17033

T 717-531-3253

F 717-531-3235

Email: pdiskin@pawc.com

RWE GROUP

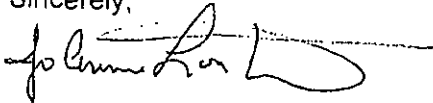
August 2, 2006

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

Dear Mr. McNulty,

Attached are eight (8) copies of Supplement No. 195 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of August 4, 2006, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure dated March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self-addressed envelope.

Sincerely,



Jo Anne Lontz
Sr. Financial Analyst, Rates and Revenues

Pc: Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Elaine McDonald
Audit Bureau (DSIC Filings Only)
Judy Carlson (FUS – Acquisitions Only)

Pennsylvania American Water
800 W. Hershey Park Drive
Hershey, Pennsylvania 17033
T 717-531-3253
F 717-531-3235
Email: pdiskin@pawc.com

PENNSYLVANIA-AMERICAN WATER COMPANY
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

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LAWRENCE, LEBANON, LUZERNE, MCKEAN, MONROE, MONTGOMERY,
NORTHAMPTON, NORTHUMBERLAND, PIKE, SCHUYLKILL, SUSQUEHANNA,
UNION, WASHINGTON, WARREN, WAYNE, AND YORK COUNTIES.

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in compliance with the Pennsylvania Public Utility Commission
State Tax Adjustment Procedure dated March 10, 1970.

Issued: August 4, 2006

Effective: August 14, 2006

BY: D. W. Warnock, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Changes

This tariff supplement decreases the State Tax Adjustment Surcharge from negative .29% to negative .33%. In a letter dated July 27, 2006, the Company received notification from the Public Utility Commission that on July 6, 2006, the Governor signed into law the 2006-2007 state budget which reduced the 2006 Capital Stock and Franchise Tax rate, retroactive to January 1, 2006, from 4.99 mills to 4.89 mills.

PENNSYLVANIA-AMERICAN WATER COMPANY

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Rate zone 14 - Industrial - Acquisitions -----	9A4	4th Revised
Rate Zone 31 - -----	9A5	4th Revised
Rate Zone 31 Industrial - -----	9A6	3rd Revised
Rate Zone 32 - -----	9A7	4th Revised
Rate Zone 32 Industrial - -----	9A8	4th Revised
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Private Fire Service Nesbitt-----	10C		6th Revised
Private Fire Service Hillside and Ceasetown/Watres----	10D		6th Revised
Private Fire Service Crystal Lake-----	10E		6th Revised
Private Fire Service City of Coatesville -----	10F		
Private Fire - Rate Zone 16 - Glen Alsace -----	10G		
Private Fire - Rate Zone 17 - Jacksonwald -----	10H		
Private Fire - Rate Zone 18 - Amity -----	10I		
Private Fire - Rate Zone 19 - Penn -----	10J		
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Distribution System Improvement Charge -----	12B2		2nd Revised
Distribution System Improvement Charge -----	12B3		
Miscellaneous Fees -----	12C		11th Revised
This Page Held For Future Use -----	12D		7th Revised
This Page Held For Future Use -----	12E		6th Revised
This Page Held For Future Use -----			
----- 12F			3rd Revised

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a surcharge of negative 0.33% will apply to all services rendered. (D)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

PENNSYLVANIA AMERICAN WATER COMPANY
RECONCILIATION OF STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$538,220,857	/1	
2	Amount of Tax Refund for 2006 (\$538,220,857 x - .0021)		(\$1,130,264)	/2 (\$1,130,264)
3	Under refund of surcharge in effect from			(\$45,689)
4	January 2005 to December 2005			
3	Total			(\$1,175,953)
4	Surcharge Refunded through July 2006			(\$638,761)
5	Remaining Refund for 2006			(\$537,192)
4	Annualized Revenues to be collected from August 1, 2006			
5	through December 31, 2006.		/3	\$161,110,767
6	STAS (expressed as percentage)			-0.33%

/1 Tax Base taken from Company's rate filing docketed at R-00038304

/2 2005 Actual Tax Rate less Tax Rate at R00038304
.00489 less .00699 = -.0021

/3 Annualized water sales revenues taken from
Company's last rate filing docketed at R-00038304,
\$386,665,840
Revenues to be collected August through December 2006.
 $\$386,665,840 / 12 * 5 = \$ 161,110,767$

RECEIVED
2005 DEC 22 AM 9:21
SECRETARY'S BUREAU



December 19, 2005

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

Dear Mr. McNulty,

Attached are eight (8) copies of Supplement No. 187 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 20, 2005, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure, entered March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self-addressed envelope.

Sincerely,

A handwritten signature in cursive script that reads "Paul T. Diskin".

Paul T. Diskin
Manager of Rates and Regulation

PTD\jal

Pc: Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Kerry Klinefelter
Audit Bureau (DSIC Filings Only)
Judy Carlson (FUS – Acquisitions Only)

Pennsylvania American Water
800 W. Hershey Park Drive
Hershey, Pennsylvania 17033
T 717-531-3253
F 717-531-3235
Email: pdiskin@pawc.com



December 19, 2005

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

Dear Mr. McNulty,

Attached are eight (8) copies of Supplement No. 187 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 20, 2005, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure, entered March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self-addressed envelope.

Sincerely,



Paul T. Diskin
Manager of Rates and Regulation

PTD\jal

Pc: Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Kerry Klinefelter
Audit Bureau (DSIC Filings Only)
Judy Carlson (FUS – Acquisitions Only)

Pennsylvania American Water
800 W. Hershey Park Drive
Hershey, Pennsylvania 17033
T 717-531-3253
F 717-531-3235
Email: pdiskin@pawc.com

PENNSYLVANIA-AMERICAN WATER COMPANY
(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

GOVERNING THE DISTRIBUTION AND SALE OF WATER

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED

THERE TO IN ADAMS, ALLEGHENY, ARMSTRONG, BEAVER, BERKS, BUCKS,
BUTLER, CENTRE, CHESTER, CLARION, CLEARFIELD, COLUMBIA, CUMBERLAND,
DAUPHIN, FAYETTE, INDIANA, JEFFERSON, LACKAWANNA, LANCASTER,
LAWRENCE, LEBANON, LUZERNE, MCKEAN, MONROE, MONTGOMERY,
NORTHAMPTON, NORTHUMBERLAND, PIKE, SCHUYLKILL, SUSQUEHANNA,
UNION, WASHINGTON, WARREN, WAYNE, AND YORK COUNTIES.

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in compliance with the Pennsylvania Public Utility Commission
State Tax Adjustment Procedure dated March 10, 1970.

Issued: December 20, 2005

Effective: January 1, 2006

BY: D. W. Warnock, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Changes

This tariff supplement decreases the State Tax Adjustment Surcharge from negative .14% to negative .29%.

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Rate zone 14 - Industrial - Acquisitions -----	9A4	4th Revised
Rate Zone 31 - -----	9A5	4th Revised
Rate Zone 31 Industrial - -----	9A6	3rd Revised
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Rate Zone 32 Industrial - -----	9A8	4th Revised
Rate Zone 30 - Former Rustic Acres -----	9A9	1st Revised
Resale and Electric Generation Standby Rate -----	9B	5th Revised
Resale and Electric Generation Standby Rate -----	9B2	6th Revised
Industrial Standby Rate -----	9B3	
Industrial Standby Rate -----	9B4	1st Revised
Industrial Standby Rate -----	9B5	6th Revised
Unmetered Rates - Rate Zone 1 -----	9C	13th Revised
Rate DIS - Demand Based Industrial Service -----	9D	Third Revised
Rate DRS - Demand Based Resale Water Service -----	9E	2nd Revised
Rate EGS - Electric Generation Service -----	9F	2nd Revised
Low Income Rate -----	9G	13th Revised
Rate Zone 34 - Blue Mountain Lake -----	9H	10th Revised
This Page Held For Future Use -----	9I	9th Revised
This Page Held For Future Use -----	9J	5th Revised
This Page Held For Future Use -----	9K	5th Revised
This Page Held For Future Use -----	9L	3rd Revised
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Private Fire Service Nesbitt-----	10C	6th Revised
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Public Fire Service Except Former Citizens Utilities--	11	58th Revised
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Distribution System Improvement Charge -----	12B	43rd Revised
Distribution System Improvement Charge -----	12B1	1st Revised
Distribution System Improvement Charge -----	12B2	2nd Revised
Distribution System Improvement Charge -----	12B3	
Miscellaneous Fees -----	12C	11th Revised
This Page Held For Future Use -----	12D	7th Revised
This Page Held For Future Use -----	12E	6th Revised
This Page Held For Future Use -----	12F	3rd Revised

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a surcharge of negative 0.29% will apply to all services rendered. (D)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

PENNSYLVANIA AMERICAN WATER COMPANY
RECONCILIATION OF STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$538,220,857		
2	Amount of Tax Refund for 2005 (\$538,220,857 x -.002)		(\$1,076,442)	(\$1,076,442)
3	Under refund of surcharge in effect from			(\$45,689)
4	January 2005 to December 2005			
3	Total			(\$1,122,131)
4	Annualized Revenues to be collected from January 1, 2006			
5	through December 31, 2006.			\$386,665,840
6	STAS (expressed as percentage)			-0.29%

/1 Tax Base taken from Company's rate filing docketed at R-00038304

/2 2005 Actual Tax Rate less Tax Rate at R00038304
.00499 less .00699 = -.002

/3 Annualized water sales revenues taken from
Company's last rate filing docketed at R-00038304,
\$386,665,840

December 15, 2004

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

Dear Mr. McNulty,

Attached are eight (8) copies of Supplement No. 168 to Tariff Water-Pa P.U.C. No. 4 for Pennsylvania American Water, which bear the issue of December 15, 2004, filed in accordance with the Pennsylvania Public Utility Commission State Tax Adjustment Procedure, entered March 10, 1970. Please date stamp and return the enclosed letter in the stamped, self-addressed envelope.

Sincerely,



Paul T. Diskin
Manager of Rates and Regulation

PTD\jal

Pc: Office of Consumer Advocate
Office of Trial Staff
Office of Small Business Advocate
Kerry Klinefelter
Audit Bureau (DSIC Filings Only)
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Pennsylvania American Water
800 W. Hershey Park Drive
Hershey, Pennsylvania 17033
T 717-531-3253
F 717-531-3235
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Supplement No. 168 to
Tariff Water-PA P.U.C. No. 4

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(Hereinafter referred to as the "Company")

D/B/A

Pennsylvania American Water

RATES AND RULES

GOVERNING THE DISTRIBUTION AND SALE OF WATER

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED
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ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Filed in compliance with the Pennsylvania Public Utility Commission
State Tax Adjustment Procedure dated March 10, 1970.

Issued: December 15, 2004

Effective: January 1, 2005

BY: R. M. Ross, President
Pennsylvania-American Water Company
800 West Hersheypark Drive
Hershey, PA 17033

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

Changes

This tariff supplement decreases the State Tax Adjustment Surcharge from .04% to negative .14% in response to the change in the Pennsylvania Capital Stock Tax.

Issued: December 15, 2004

Effective: January 1, 2005

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This Page Held For Future Use -----	12F		3rd Revised

STATE TAX ADJUSTMENT CHARGE

In addition to the net charges provided for in this Tariff, a surcharge of negative 0.14% will apply to all services rendered. (D)

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

PENNSYLVANIA AMERICAN WATER COMPANY
RECONCILIATION OF STATE TAX ADJUSTMENT SURCHARGE

LINE NO.	DESCRIPTION	TAX BASE	ANNUAL AMOUNT	TOTAL ADDITIONAL TAX LOAD
1	Capital Stock Tax	\$538,220,857	/1	
2	Amount of Tax Refund for 2005 (\$538,220,857 x -.001)		(\$538,221) /2	(\$538,221)
3	Total			(\$538,221)
4	Annualized Revenues to be collected from January 1, 2005			
5	through December 31, 2005.		/3	\$386,665,840
6	STAS (expressed as percentage)			-0.14%

/1 Tax Base taken from Company's rate filing docketed at R-00038304

/2 2005 Actual Tax Rate less Tax Rate at R00038304
.00599 less .00699 = -.001

/3 Annualized water sales revenues taken from
Company's last rate filing docketed at R-00038304,
\$386,665,840

APPENDIX H

**PUC Secretarial Letters
Accepting PAWC's STAS Filings And Permitting
New STAS Rates To Become Effective**



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 9, 2011

JOHN COX
PA AMERICAN WATER CO.
800 WEST HERSHEY PARK DRIVE
HERSHEY, PA 17033

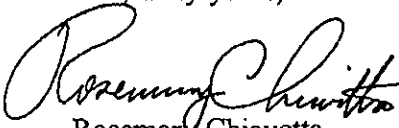
R-2010-2216326

Re: State Tax Adjustment Surcharge
Pennsylvania-American Water Company

Dear Mr. Cox:

On December 20 2010, your company filed a State Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,


Rosemary Chiavetta
Secretary

cc: Elaine McDonald, FUS
Kathleen Aunkst, Secretary's Bureau
Karl Germick



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 11, 2010

R-2009-2147837

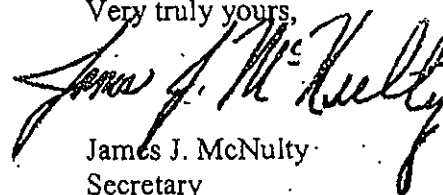
JOHN COX
PENNSYLVANIA AMERICAN WATER CO
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

Re: State Tax Adjustment Surcharge
Pennsylvania-American Water Company

Dear Mr. Cox:

On December 16, 2009, your company filed a State Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,



James J. McNulty
Secretary

cc: Elaine McDonald, FUS
Kathleen Aunkst, Secretary's Bureau
Karl Germick, FUS



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

January 8, 2009

Docket No. R-2008-2080933

ROD NEVIRASKAS
PENNSYLVANIA AMERICAN WATER
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

RE: State Tax Adjustment Surcharge
Pennsylvania American Water Company

Dear Mr. Neviraskas:

On December 26, 2008, your Company filed a State Tax Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,

A handwritten signature in black ink that reads "James J. McNulty".

James J. McNulty
Secretary

cc: Elaine McDonald, FUS
Kathleen Aunkst, Secretary's Bureau
Emily Sears, FUS



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

December 4, 2006

IN REPLY PLEASE
REFER TO OUR FILE

R-00061702

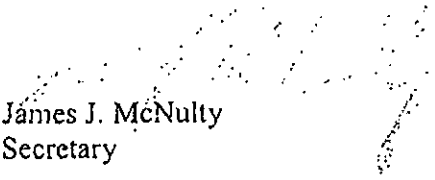
STEVE L KLINK
PENNSYLVANIA AMERICAN WATER COMPANY
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

Re: State Tax Adjustment Surcharge
PA-American Water Company

Dear Mr. Klick:

On August 2, 2006, your Company filed a State Tax Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,


James J. McNulty
Secretary

cc: Elaine McDonald, FUS
Kathleen Aunkst, Secretary's Bureau
Jeannine Snyder, FUS



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

December 30, 2005

R-00051200

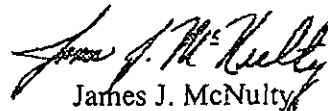
PAUL T DISKIN
PENNSYLVANIA AMERICAN WATER COMPANY
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

Re: State Tax Adjustment Surcharge
PA-American Water Company

Dear Mr. Diskin:

On December 20, 2005, your Company filed a State Tax Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,


James J. McNulty
Secretary

cc: Kerry Klinefelter, FUS
Kathleen Aunkst, Secretary's Bureau
Erin Laudenslager, FUS
Annunciata Marino, FUS



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

JANUARY 7, 2005

R-00040178

PAUL T DISKIN
PENNSYLVANIA AMERICAN WATER COMPANY
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

Re: State Tax Adjustment Surcharge
PA-American Water Company

Dear Mr. Diskin:

On December 15, 2004, your Company filed a State Tax Adjustment Surcharge tariff in response to changes to Pennsylvania corporate tax rates. The Commission hereby accepts these tariff changes, and we are therefore allowing the tariff changes to go into effect by operation of law. However, this notification shall not preclude this Commission from investigating the financial affairs of your company and, in appropriate cases, ordering refunds or other remedies, which it deems proper.

Very truly yours,

A handwritten signature in black ink, appearing to read "James J. McNulty", is written over a printed name and title.

James J. McNulty
Secretary

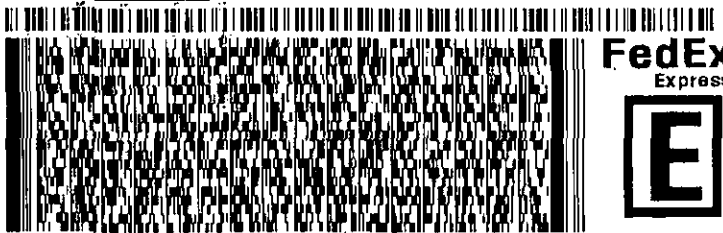
cc: Kerry Klincfelter
Scott Rhoads
Erin Laudenslager
Annunciata Marino

ORIGIN ID: REDA (215) 963-5317
MAILROOM
MORGAN LEWIS & BOCKIUS LLP
1701 MARKET STREET
PHILADELPHIA, PA 19103
UNITED STATES US

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TO ROSEMARY CHIAVETTA, SECRETARY
PA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET
HARRISBURG PA 17120

REF: 00453 - 002513 - 0028

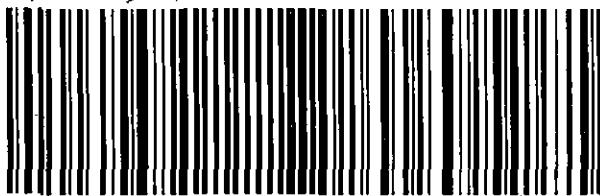


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PRIORITY OVERNIGHT

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PA-US
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Part # 156148-434 RIT2 12/10

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