AP STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

AQUA PENNSYLVANIA, INC.

DOCKET NO. R-2011-2267958

DIRECT TESTIMONY OF
WILLIAM C. PACKER

With Regard To
Revenue and Expense Data,
Rate Base Claims, Rate Design and Various
Other Matters

November 18, 2011

AQUA PENNSYLVANIA, INC.
DIRECT TESTIMONY OF WILLIAM C. PACKER

I. INTRODUCTION AND SCOPE OF TESTIMONY

Q. What is your name and business address?

A. William C. Packer. My business address is 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

Q. By whom are you employed and in what capacity?

A. I am employed by Aqua Pennsylvania, Inc. as Manager of Rates – Northeast Division.

Q. Please describe your education and business experience.

A. I graduated from the Richard Stockton College of New Jersey in 1998 with a Bachelor of Science degree in Business Studies with a concentration in Accounting. In 1998, I joined GE Capital Mortgage Services Inc. as a staff accountant. In September 1999, I joined New Jersey-American Water Company as a General Staff Accountant responsible for financial statement preparation, account reconciliation, financial support for rate cases, and account analysis.

In September 2001, I was transferred to American Water Works Service Company ("American"), in its Shared Services operation located in Mt. Laurel, New Jersey. I was employed there for four years in many roles, including Senior Fixed Assets/Job Cost Accountant, Financial Support Analyst, and Accounting Supervisor Fixed Assets. At American, I had the opportunity to support the rate-making process by working closely with operating subsidiaries in 23 states, preparing schedules and answering interrogatories. In

March 2005, I joined Aqua New Jersey, Inc. where I served as Assistant Controller until December 2006 when I transferred to Aqua America, Inc. ("Aqua America"). In July 2008, I was promoted to the position of Mid-Atlantic Manager of Rates. In 2011, I became a full time employee of Aqua Pennsylvania, Inc., assuming the title of Manager of Rates – Northeast Division.

Q. What are your duties as Manager of Rates – Northeast Division?

A. I am responsible for all Original Cost Studies performed for Pennsylvania acquisitions. Other duties include the preparation and filing of Pennsylvania and New Jersey rate cases and responding to interrogatories. I also am responsible for changes in Company rates, rules and regulations as they pertain to tariff filings, Distribution System Improvement Charge ("DSIC") and Earnings Report filings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is as follows: (1) to identify and describe the principal accounting exhibit (Exhibit 1-A) submitted in support of Aqua Pennsylvania's ("AP" or the "Company") proposed rate increase; (2) to explain and support the derivation of certain of the Company's revenue, expense and rate base claims; (3) to provide an overview of the Company's acquisitions since the end of its last water base rate case; (4) to describe any major changes or other matters related to rate structure and rate design; (5) to explain the Company's proposal to implement a Purchased Water Adjustment clause; (6) to explain the Company's proposal to implement a Power Adjustment clause and (7) to discuss the

Company's satisfaction of the commitments it made in the settlement of certain issues in its last water case.

Q. For which of the Company's Exhibits are you responsible?

A. I am responsible for portions of Exhibit 1-A. In addition, I assisted in the preparation of the following backup volumes that contain responses to the Commission's standard rate case filing requirements: Balance Sheet, Operating Expense, Operating Revenue, Other Data, Rate Base, Rate Structure and Statement of Income.

II. PRINCIPAL ACCOUNTING EXHIBIT

Q. Was the exhibit entitled "Aqua Pennsylvania, Inc., Exhibit 1-A, Revenue, Expense and Rate Base Claims" prepared by you or under your supervision?

A. Yes, it was.

Q. Please explain the content of Exhibit 1-A.

A. Exhibit 1-A presents the Company's proforma revenue, expense and rate base data based on historic (June 30, 2011) and future (June 30, 2012) test years. For the future test year, revenues are based on the estimated number of customers served as of June 30, 2012. Operating expenses have been similarly adjusted to reflect, for the most part, future test year end conditions. The Company's claimed rate base includes its estimated net Utility Plant in Service at June 30, 2012.

Q. Were the data contained in Exhibit 1-A taken from the books and records of the Company?

A. Yes, they were, except for certain depreciation figures shown on pages 2, 60 and 81 which were taken from reports prepared by the independent consulting firm of Gannett Fleming, Inc. These reports are presented in separate volumes designated Exhibit 6-A Parts I and II sponsored by Mr. John Spanos.

Q. Do you anticipate the need to make additional adjustments to the data set forth in Exhibit 1-A?

A. Not at this time. However, in the course of this proceeding, further adjustments or revisions may be called for based upon, for example, substituting known and experienced data for estimates or correcting inadvertent errors.

Q. Does the Company propose to submit a revised accounting exhibit to reflect any such adjustments or revisions?

A. Yes. As it has consistently done in previous base rate proceedings, the Company will submit, during the rebuttal phase of this case, an exhibit to be identified as Exhibit 1-A (a), which will correct errors that may be identified, incorporate known changes and adopt any other appropriate adjustments that come to the Company's attention during the litigation process.

Q. Is the Company's claim in this rate proceeding based primarily on the future test year data presented?

A. Yes.

Q. How were the future test year data that appear in Exhibit 1-A developed?

A. Exhibit 1-A was developed in the same manner that the Company has used in numerous prior cases. The actual results for the year ended June 30, 2011, as taken from the Company's books and records, were used as the starting point for purposes of developing projected revenue and expense levels anticipated as of June 30, 2012. Specific historic and future test year rate adjustments are set forth in this exhibit. The future test year capital additions and retirements, described in the Rate Base section of my testimony, were added to the Utility Plant in Service at June 30, 2011 to arrive at the future test year amount. The Utility Plant in Service, Accumulated Depreciation, Customers Advances for Construction (CAC), and Contributions In Aid Of Construction (CIAC) levels for the historic and future test years are shown in Exhibit 6-A Part I and Part II.

Q. Mr. Packer, please explain the data on page 1 of Exhibit 1-A.

A. Page 1 shows the number of customers served at June 30, 2010 and 2011 and anticipated at June 30, 2012 by customer classification. Aside from most fire hydrants, page 1 indicates that the bills of all existing metered accounts and some newly-acquired metered accounts will be increased by Supplement No. 115 to Tariff Water-PA P.U.C. No. 1.

III. OPERATING REVENUE

Q. Please describe the derivation of the Company's pro forma operating revenue claim.

A. The Company's revenue claim, as summarized on page 3 of Exhibit 1-A, was derived from revenue recorded in the twelve months ended June 30, 2011 for all Pennsylvania water operations. The historic test year revenue was adjusted for the change in the unbilled revenue balance at June 30, 2011 as compared to the prior year balance (accrual to as-billed basis adjustment); the application of present rates that became effective on June 17, 2010 to the test year billing; the annualization of revenue in newly acquired areas where less than twelve months of revenue was recorded in the test year; and customer adjustments developed by the Company for the Town of Hubbard (page 13) and from actual and anticipated customer changes during the two years ended June 30, 2012. Projected customer additions during the future test year were determined on the basis of the same growth experienced during the historic test year. Projected customer additions for fire protection were based on a 4 year average for the period July 1, 2007 through June 30, 2011.

The first column of page 3 sets forth the actual amount of revenue recorded by the Company for the year ended June 30, 2011 by customer classification. The second column reflects various adjustments as identified and supported by Mr. Herbert in AP Statement No. 5. The third column shows the adjustments necessary to reflect the anticipated additional revenue from customer changes which were experienced during the year ended June 30, 2011. These adjustments are summarized on pages 6 through 6-2 and supported by the data on pages 7 through 7-4. The fourth column is the sum of all historic test year revenues, including the adjustments described above. The fifth column is the estimated growth the Company included in the future test year. Except for fire protection, the same growth experienced during the historic test year period is being included during the future test year (on an annualized basis) and is further described on page 12 of Exhibit 1-A. As noted previously, fire protection growth for the future test year was estimated using a 4 year average. The sixth column is a sum of the columns (4) and (5), and presents the Company's total anticipated revenues under present rates, including all historic and future test year adjustments describe above. Finally, columns (7) through (9) show, respectively, the percentage increase the Company is requesting by customer class, followed by the same request in dollars, and concluding with the total revenue under proposed rates.

Q. Are there any specific revenue adjustments that deserve further comment?

A. Yes, there are two items worth mentioning. First, the revenue from the following acquisitions that closed since the Company's last rate case have been annualized to reflect a full year of service and are detailed in AP Exhibit 5-A: Athens and Paupacken Lake Association. Second, on page 8 of Exhibit 1-A, I have reflected adjustments for two large water users, PECO and Blair Mill Village, that, during the test year, experienced decreased usage that is expected to continue indefinitely. Blair Mill Village Apartments' usage was reduced by 70% to capture the effect of its efforts to mitigate leaks within its complex. PECO's Eddystone facility, in turn, has shut down two coal fired energy generating units. It is expected that both units will be permanently decommissioned before the end of the future test year in this proceeding and the Company has projected a near 50% reduction in water usage as a result. The estimated reduction in usage for both Blair Mill Village and PECO was based on those customers' actual consumption in the latter stages of the historic test year and first few months of the future test year. By applying present rates, including the DSIC at 7.5%, I arrived at the adjustment dollars set forth on page 8 of Exhibit 1-A. It is my intention to update these projections with actual consumption data during the rebuttal phase of this proceeding.

IV. OPERATING EXPENSES

Q. What is shown on page 20 of Exhibit 1-A?

A. This schedule summarizes the adjustments to operating expenses under present and proposed rates, the details of which are shown on pages 21 through 45. Most of these adjustments are self-explanatory. Additional supporting information is included in the back-up books entitled Balance Sheet and Operating Expense. As shown on page 20, these adjustments result in a net increase in future test year operating expenses of $8,254,100 under present rates and an additional increase of $242,800 under proposed rates. I would note that these same adjustments are carried forward to the fourth and sixth columns on page 2.

Q. Mr. Packer, are you sponsoring each of the expense adjustments noted on page 20 of Exhibit 1-A?

A. No. The witnesses who are responsible for the expense adjustments are as follows:

EXPENSE ADJUSTMENT	PAGE NO.	RESPONSIBLE WITNESS
Payroll	21	W. Packer, Jr.
Cost of Serving Additional Customers	22	W. Packer, Jr.
General Price Level Adjustment	23	N. Bhatti.
Customer Service Fees	27	W. Packer, Jr.
Insurance	28	W. Packer Jr.
Hubbard Expense Elimination	30	N. Bhatti
Electric Expense	31	W. Packer, Jr.
Lobbying Expense	32	N. Bhatti
Amort. of New Negative Acquisition Adjustments	34	W. Packer, Jr.
Legal Expense Normalization	35	W. Packer, Jr.
Uncollectible Accounts	36	N. Bhatti
Purchased Water	37	W. Packer, Jr.
Water Production Adjustment	37-2	W. Packer, Jr.
Chemical Expense	38	N. Bhatti
Management Fee	39	W. Packer, Jr.
Normalization of Rate Case Expense	40	N. Bhatti
Active Employee Healthcare Expense	41	W. Packer, Jr.
Pension	43	D. Smeltzer
SFAS 106 Post Retirement Benefits	45	D. Smeltzer

Q. Please explain the Company's claim for payroll expense.

A. The Company's claim for payroll expense approximates \$31.9 million, is developed in Exhibit 2-A and is summarized on pages 21 through 21-2 of Exhibit 1-A. In broad terms, the Company's claim is designed to capture the costs that it expects to incur during the first year that new rates are in effect. In calculating those costs, I included the salaries and wages associated with the Company's present complement of authorized positions. In addition, salary and wage levels were adjusted to reflect known or projected changes in compensation as follows:

<u>Non-union Payroll</u> – Employees are granted individual salary increases through an annual performance review. The non-union gross payroll, at future test year salary levels, was determined to be $20,133,451 by applying a 6.00% increase to the historic test year salary levels. In deriving this amount, I increased historic test year book expenses by 2.25%, representing nine months of an annual 3.0% wage increase effective April 1, 2011; then by 3.00% representing a full year's effect of the anticipated April 1, 2012 wage increase; and lastly by .75%, representing three months of a projected 3.0% April 1, 2013 wage increase. The gross payroll was then distributed between payroll charges to other Aqua America entities (i.e. shown as "Non-Operating Payroll" and "Sewer Payroll" on page 21-1), and between capital and expense based on the billed out and capitalization ratio experienced during the historic test year of 26.26%, resulting in an operating expense amount of $14,522,118. This figure was then compared to the historic test year payroll expense of $13,449,502, resulting in an increase to Operating and Maintenance Expenses of $1,072,616.

<u>Union Payroll</u> – The gross union payroll of $25,066,494 for the future test year was determined by making the following adjustments to actual Aqua Pennsylvania union payroll

for the year ended June 30, 2011. For the Southeast Pennsylvania Division, I added (1) 1.25%, representing 5 months of the Company's 3.00% wage increase granted on December 1, 2010; (2) 3.00% to reflect a full year's effect of a scheduled September 1, 2011 union wage increase; and (3) 2.50%, representing 10 months of the anticipated 3.00% union wage increase to become effective on September 1, 2012. As detailed in Exhibit 2-A, similar adjustments were made for union employees in the Company's Shenango Valley, Susquehanna and Roaring Creek Divisions. The gross payroll so determined was then distributed between capital, expense, non-operating payroll and sewer payroll, resulting in an expense amount of $17,406,430. This payroll expense figure was then compared to the actual historic test year payroll expenses of $16,307,887 to arrive at the increase of $1,098,543.

Q. Please explain the Company's adjustment for payroll taxes.

A. The Company's adjustment to Federal and State payroll taxes appears on page 65. The future test year adjustment of $321,700 for Federal and State payroll taxes is based on the Company's future test year payroll claim. The Federal Insurance Contribution Act tax was calculated using the tax rates and taxable wage bases which were in effect in 2011. The Federal and State unemployment taxes were calculated using the Company's current tax rates and taxable wage bases.

The pro forma tax amounts were then reduced by the Company's historical capitalization rate of 26.26% to arrive at the amount chargeable to operations. From that I have further deducted the payroll taxes charged to expense in the year ended June 30, 2011 to arrive at the requested increase in this proceeding.

Q. Please explain the adjustment for Cost of Serving Additional Customers appearing on page 22 of Exhibit 1-A.

A. This adjustment recognizes the incremental expense associated with providing service to additional customers. The derivation of the operating ratio between incremental operating expenses and revenue is developed in the lower portion of the page. The application of the operating ratio to the additional revenue from new customers connected during the two years ended June 30, 2012 is shown in the upper portion of the page. An adjustment of $86,100 is produced from the calculation. This is the additional operating expense that is incurred in conjunction with the $686,422 of additional operating revenue from the new customers.

Q. Please explain the Insurance Expense adjustment on page 28.

A. The Company has insurance policies for General Liability, Workers Compensation, Vehicle, and Miscellaneous Other (Surety Bonds, Flood, Executive Risk, etc.) forms of coverage. The policies in effect are reviewed and analyzed annually by the Company and its third party insurance broker and carrier, utilizing a multi-year claims history to determine the required reserve necessary for each type of insurance. The increase over the historical test year expense levels is attributable to increased claims experience, which has also increased the required insurance reserves as calculated by the Company's insurance carrier. This adjustment increases pro forma operating expense by $121,100.

Q. Please explain the Electric Expense adjustment on page 31 of Exhibit 1-A.

A. The future test year Electric Expense adjustment applies expected 2012 electric rates to the pro forma future test year power usage. The Company purchases a substantial portion of its energy requirements through a supply contract with Constellation Energy, the terms of which call for an increase during the future test year. The Company has removed the amortization of the PECO CTC prepayment from its power expense claim as the amortization will expire during the first year rates are in effect from this case. In addition, the Company has reflected an EnerNoc credit attributable to the Company's participation in a PJM demand reduction program. Finally, the Company is undertaking a solar power project at the Pickering water treatment plant (similar to that previously installed at our Ingrams Mill facility) that is expected to produce electricity savings in the form of usage reductions and solar credits (solar recs) that can be sold to other utilities. In total, the electric expense adjustment increases pro forma operating expense by $539,300.

Q. Please explain the Amortization of New Negative Acquisition Adjustments on page 34 of Exhibit 1-A.

A. The Company is seeking rate base treatment for these acquisitions based on depreciated original cost that is greater than the Company's purchase price. The difference between the depreciated original cost and purchase price is being amortized to income in this case and thereby serves as a credit to revenue requirement. The Company has selected a 20 year amortization period, consistent with similar amortizations adopted in its 2005 rate proceeding at Docket No. R-00051030, 2007 rate proceeding at Docket No. R-00072711 and, most recently, at Docket No R-2009-2132019. This adjustment reduces pro forma operating expense by $25,800.

Q. Please explain the adjustment entitled Normalization of Legal Expense on page 35.

A. The Company incurs legal costs to protect and defend its interests in a variety of legal matters. The Company's legal expenses during the historic test year were $132,198, which were far less than the prior four years' average of $418,554. To bring the Company's legal expense claim to a more reasonable and expected ongoing level, I averaged the three most recent years ended June 30, 2011, which produced a future test year claim of $393,101, or an increase of $260,900

Q. Please explain the adjustment to Purchased Water Expense on page 37.

A. The Company purchases water from multiple municipalities. Its purchased water expense claim was generally derived by applying current rates, adjusted to reflect projected increases from the Philadelphia Water Department (10%), Chester Water Authority (7%), and Downingtown Municipal Authority (3%) that are expected to become effective on July 1, 2012, to historic test year usage levels. It should be noted that the Company has terminated its contract to purchase water from the Bucks County Water and Sewer Authority at its Bensalem connection point. Ninety-five percent of the water previously purchased under this contract will be produced by the Company's own sources. The remaining five percent will be purchased from the Philadelphia Water Department. The result of this adjustment is a decrease to proforma operating expenses of $577,900, as shown in specific detail on page 37-1 of Exhibit 1-A.

Q. Please explain the Water Production expense adjustment on page 37-2.

A. As a result of the Company's decision to not renew its contract to purchase water from Bucks County Water and Sewer Authority at its intake location in Bensalem, the Company will be producing 95% of the 1,472 MG from its own sources. None of the expense associated with that additional production are reflected in the historic test year expenses levels. The gallons to be produced are calculated as follows: ((1,472 MG x 95%) / 80%) = 1,748 MG, with the 80% representing the metered ratio factor to account for water loss in the distribution system. The Company has calculated its cost to produce water at approximately $.56/1,000 gallons shown in the footnote of Exhibit 1-A, page 37-2. The aforementioned calculations yield an adjustment to historic test year expense levels of $975,900.

Q. Please explain the adjustment appearing on page 41 for Active Employee Healthcare Expense.

A. The Company provides health insurance coverage to all of its full-time employees. This adjustment applies the 2012 contract rates to the coverage levels in effect during the historic test year. After deducting the Employee Healthcare costs expensed during the historic test year, which are net of the employee contributions, I calculated a rounded increase of $915,200

Q. What services are provided by Aqua Services?

A. The services, which are set forth in an affiliated interest agreement previously filed with the Commission and provided with this rate filing in response to filing requirement OE6, cover a full range of corporate support services, including, but not limited to, accounting, administration, communications, corporate secretarial, engineering, financial, human resources, information systems, legal, procurement, rates and regulatory compliance, risk management and water quality. Please see Attachment 2 to my testimony for further details.

Q. How are the costs of those services charged out to Aqua America's subsidiaries?

A. Aqua Services' personnel keep daily time records and, where appropriate, their time and related overheads are directly assigned to the subsidiary for which they are working. Where costs are incurred in rendering services to multiple companies in common and cannot be identified and related exclusively to a particular company, they are allocated to all such companies based on the number of customers served by each company at the end of the immediately preceding calendar year.

Q. Please explain the adjustment to Aqua Customer Operations appearing on page 27 of Exhibit 1-A.

A. The historic test year Customer Service Fees were adjusted to first annualize new hires and remove terminated employees. The resulting adjusted historic test year expenditures were annualized by each employee's actual increase effective April 1, 2011. An additional 3% increase was calculated and adjusted for the period of April 1, 2012 through June 30, 2013. Additional documentation has been provided to support these adjustments in Exhibit 2-A. In addition to the salary and wage increases, adjustments were made for future increases not fully recognized in the historic test year. These adjustments include a 2011 increase in pension expense due to the 2010 decline in pension plan asset value. Also, an adjustment was made for the 2012 employer contribution increase to the health care premium.

Q. Please explain the adjustment to Management Fees appearing on page 39 of Exhibit 1-A

A. The Management Fees expense adjustments to salaries and wages were calculated in exactly the same manner as the Customer Service Fees expense adjustments described above. Additional documentation supporting these adjustments in also included in Exhibit 2-A. Additional adjustments include a 2011 increase in pension due to the 2010 decline in pension plan asset value. Also there was an adjustment made for the 2012 employer contribution increase to the heath care premium.

V. DEPRECIATION, TAXES AND OTHER ITEMS

Q. The next series of adjustments to the Company's Statement of Income (page 2 of Exhibit 1-A) is found on pages 60 through 74 of the same exhibit. Who are the responsible witnesses for these adjustments?

A. The responsible witnesses for the adjustments on pages 60 through 74 of Exhibit 1-A are as follows:

ADJUSTMENT	EXHIBIT 1-A PAGE REFERENCE.	RESPONSIBLE WITNESS
Statement of Annual Calculated Depreciation Compared with Book		

Annual Depreciation	60	J. Spanos
PUC - General Assessment	61	W. Packer, Jr.
OCA - General Assessment	62	W. Packer, Jr.
OSBA - General Assessment	62-1	W. Packer, Jr.
Pa Capital Stock Tax	64	W. Jerdon
Federal and State Payroll Taxes	65	W. Packer, Jr.
Computation of Federal and State Income Taxes	66	W. Jerdon
Deferred Federal and State Income Taxes	67	W. Jerdon
Interest on Long-Term Debt	71	W. Packer, Jr.
Amortization of Debt Discount and Expense	72	W. Packer, Jr.
Other Interest Charges	73	W. Packer, Jr.
Interest during Construction	74	W. Packer, Jr.

Q. Please explain the adjustment to depreciation expense shown on page 60.

A. On page 60 of Exhibit 1-A, I have shown the Company's annual depreciation expense claim of $68,805,557. The annual provision for depreciation was computed by Gannett Fleming, Inc. for utility plant in service at June 30, 2012 using the straight-line remaining life method as set forth in Mr. Spanos' Exhibit No. 6-A. The amount computed by Mr. Spanos relates to utility plant in service, exclusive of customers' advances for construction, contributions in aid of construction and the Hubbard main extension. Comparing the Company's claimed amount with the depreciation expense recorded on the Company's books for the year ended June 30, 2011, results in an increase of $7,233,000.

Q. Please explain the adjustments for PUC, OCA and OSBA General Assessments.

A. The adjustments set forth on pages 61, 62 and 62-1 are based on the actual assessment factors billed for the fiscal year July 1, 2011 to June 30, 2012. The assessed rates are applied to Gross Intrastate Operating Revenue at present and proposed rates resulting in pro forma changes of $387,100, $197,000 and $14,900 at present rates and further changes of $177,300, $49,300 and $3,800 at proposed rates for the PUC, OCA and OSBA assessments, respectively.

Q. Please explain your calculation of interest on Long-Term Debt which appears on page 71.

A. A calculation is made to determine the interest expense applicable to the long-term debt portion of the original cost rate base as of June 30, 2012. I have used the same capital structure as recommended by Mr. Moul for rate of return purposes (see AP Statement No. 4 and Exhibit 4-A). The projected weighted cost rate of debt as of June 30, 2012 is 5.41%. Comparing the calculated interest with that recorded for the year ended June 30, 2011 results in the adjustment carried forward to page 2 of Exhibit 1-A.

Q. The next adjustment is for Amortization of Debt Discount and Expense appearing on page 72 of Exhibit 1-A. Please explain this adjustment.

A. As stated on page 72, this adjustment removes those costs because their recovery has been reflected in the calculation of the Company's claimed long-term debt cost rate.

Q. Page 73 reflects a decrease in Other Interest Charges of $265,564. Would you please explain that adjustment?

A. This adjustment eliminates the test year interest income on the used or restricted portion of tax exempt debt which is reflected in the weighted average cost of capital calculation and interest expense on short-term loans since the borrowings which generated these charges support construction work in progress and do not represent permanent capital.

Q. The last adjustment, on page 74, is for Interest during Construction. Please explain this adjustment.

A. For financial accounting purposes, interest during construction is recorded as income. However, for ratemaking purposes, it is recorded as an addition to rate base. This adjustment is made to eliminate interest during construction as income, so as to allow for full recovery of the Company's pro forma interest expense (weighted cost of debt times rate base) and is consistent with the treatment accorded this item in the Company's previous rate cases.

VI. RATE BASE

Q. Please describe the data presented on page 80 of Exhibit 1-A.

A. Page 80 shows the Company's claimed original cost measure of value as anticipated under present and proposed rates.

Q. Mr. Packer, Exhibit 1-A, pages 81 through 86, set forth various components of the Company's Rate Base claim. Please identify the responsible witnesses for these items.

A. Certainly. Witness responsibilities are as follows:

ADJUSTMENT	EXHIBIT 1-A PAGE REFERENCE	RESPONSIBLE WITNESS
Utility Plant	81	W. Packer, Jr. & J. Spanos
Materials & Supplies	82	W. Packer, Jr.
Cash Working Capital	83-86	W. Packer, Jr.
Hubbard Adjustment	81	W. Packer, Jr.
CIAC & CAC	81	W. Packer, Jr.
Deferred Income Taxes	81	W. Jerdon

Q. Please explain how you calculated the Rate Base Valuation at Original Cost in the amount of $1,858,216,823.

A. The derivation of this figure is shown in detail on page 81 of Exhibit 1-A. I have calculated, based on the Company's records, the amounts set forth under the columns captioned 6/30/11 and 6/30/12, for all of the line items except Accumulated Depreciation. The Accumulated Depreciation figures were developed by Mr. Spanos in Exhibit 6-A Parts I and II.

Q. Please explain the derivation of the total Original Cost of Utility Plant in Service in the amount of $2,764,958,928.

A. The starting point was the historic test year ending balance of $2,514,863,327. That figure was then increased to reflect future test year plant additions (net of retirements) and acquired systems. The anticipated additions and retirements for the year ended June 30, 2012 are set forth in detail in Attachment 1 to my testimony and comprise needed improvements to the

Company's water supply, storage and distribution facilities. The largest individual projects are the following: the Ridley Plant clear well construction ($13.6 million), Pickering Solar Field construction ($8.2M), Purchase of the Bensalem Transmission Main ($5 million) and construction of the Edgley Well Field and Treatment Facility ($3.6 million). Other future test year projects include $155 million of infrastructure replacements to mass accounts, such as mains, services, meters and hydrants; $10.4 million of well rehabilitations or new well construction; and $7 million of pumping and purification equipment work.

Q. Please explain the $5,081,559 addition for Materials and Supplies.

A. As shown on page 82 of Exhibit 1-A, this amount was developed by averaging the monthly balances in the Materials and Supplies account for the thirteen months ended June 30, 2011.

Q. Has the Company included a claim for Cash Working Capital in rate base?

A. No. The results of the Company's Lead/Lag study yielded a negative result, thus the Company, consistent with Commission practice, is making no claim for cash working capital. The calculations and schedules are included in Exhibit 1-A, pages 83, 83-1, 83-2, 84, 84-1, and 86.

Q. Please explain the reductions from rate base for Contributions in Aid of Construction ("CIAC") and Customers' Advances for Construction ("CAC") amounting to $90,281,442 and $38,156,737, respectively.

A. These reductions to rate base are summarized in Mr. Spanos' Exhibit 6-A Part II. The CIAC and CAC related to plant in service at June 30, 2011 reflect the actual CIAC and CAC recorded on the Company's books of account as of that date. In developing its rate base claim as of June 30, 2012, the Company included $1.5 million of additional CIAC specifically related to a grant the Company received for the Pickering Plant Solar Facility.

VII. ACQUISITIONS

Q. Please provide an overview of the acquisitions which the Company has completed since the filing of its last water base rate request in November 2009.

A. Since the Company's last rate case was filed, the Company has completed the following acquisitions not yet reflected in rate base: Athens Township (12/09) and Paupaken Lake Association (9/10). Exhibit 3-A contains the journal entries and the original cost studies for the acquisitions mentioned above.

VIII. RATE DESIGN

Q. Are there any comments you would like to make regarding the Company's rate design proposed in this case?

A. Yes. The majority of the Company's customers are charged rates according to our Main Division rate structure. Over the years as the Company has filed rate cases, divisions which are not being charged rates at the same level as Main Division are gradually equalized to those rates. Sometimes, this can be done over one or two rate cases; in other circumstances, rate equalization may take several rate cases to avoid rate shock. In this case, the Company is proposing to move several divisions close to or equal to our Main Division rates. More specifically, I expect, that by the conclusion of this proceeding, the following divisions will be equalized with Main Division: Pinecrest (Seasonal), Oakland Beach/Lakeside Acres, Washington Park Development, White Haven, Cove Village, Clarendon, Marienville/Applewood, Paupacken Lake, and Emlenton. Lastly, in accordance with the terms of the settlement agreement in the Company's last rate case, the Hedgerow Homeowner Association will move into the Main Division. Mr. Herbert provides additional detail regarding the Company's proposed rate design in his testimony.

IX. PURCHASED WATER ADJUSTMENT CLAUSE

Q. What is the Purchased Water Adjustment (PWA) Clause?

A. The PWA is an adjustment clause that the Company is proposing to capture increases and decreases in the rates charged by non-affiliated suppliers from whom the Company purchases water. Attachment 2 is a proposed tariff rider that describes the mechanics of the clause.

Q. How would the PWA would operate?

A. The PWA would adjust customers' bills by adding a charge or credit to reflect increases or decreases, respectively, in the Company's Baseline Cost. The Baseline Cost is the annual purchased water costs approved as an operating expense in the Company's then most recently concluded base rate case. When one or more of the Company's suppliers change the rates for water purchased by the Company, the Company will re-compute its annual purchased water costs based on the level of consumption and other billing determinants that formed the basis for the Company's calculation of its Baseline Cost. If there is a change in purchased water costs above or below the Baseline Cost, a charge or credit, as applicable, would be added to customers' bills. The Company would have the option to implement a charge to recover an increase in purchase water costs. However, if the change was a decrease in purchase water costs, the Company would be required to implement a credit to reflect that decrease.

.Q. Why has the Company proposed the PWA?

A. The Company purchases water from a number of different suppliers in order to meet its customers' demands on a reliable and cost-effective basis. Most of the Company's suppliers are municipalities or municipal authorities. As such, they can implement rate increases quicker and more frequently than public utilities that are regulated by the Commission and the rate increases become effective even if they are contested by one or more customers. As a result, the Company's water suppliers frequently implement rate increases at times that do not coincide with base rate cases filed by the Company and well before the Company could reasonably expect to file a base rate case to reflect those increases in its rates. As a consequence, the Company frequently experiences a significant lag between the time its suppliers increase their rates and when the Company can recover those increases in the rates it charges its customers. The PWA would help to reduce this lag.

Q. Will the PWA be subject to audit and reconciliation?

A. Yes, the operation of the PWA, as proposed, will be subject to audit by the Commission and will also be subject to an annual reconciliation process, which is spelled out in the proposed tariff rider. In addition, the Company's costs to purchase water, including the prudence of its decision to purchase water rather than develop its own source of supply in a given area, its efforts to minimize purchases from high-cost suppliers and its efforts to contest, stop, reduce or delay rate increases by its suppliers, can be examined by interested parties at the time a PWA charge is implemented, at the time of the annual reconciliation and in subsequent base rate proceedings. Consequently, the purchased water costs recovered through the PWA could be subject to greater scrutiny than a claim for recovery of purchased water costs made solely in a base rate case, where it is only one of many issues competing for the attention of the parties. For this reason, among others, the Company would have ample incentive to take advantage of every reasonable opportunity to prevent increases and pursue decreases in its purchased water costs.

X. ENERGY COST ADJUSTMENT MECHANISM

Q. What is the Energy Cost Adjustment (ECA) Mechanism?

A. The ECA is an adjustment clause that the Company is proposing to capture changes in its energy costs. Such a mechanism ensures that the Company recovers the costs of energy used to provide water to its customers and only those costs. Customers also benefit from any and all of the Company's efforts to control costs as well as having the assurance that, if energy prices fall from current levels, they benefit from those market driven reductions.

Q. How would such a mechanism work?

A. The mechanism would collect or refund any difference between the energy costs included in base rates from the Company's last rate filing and the actual energy costs incurred in the period of calculation. Within 60 days after the rate year, the Company would file a reconciliation of its actual costs to the amount recovered in base rates per actual thousand gallons sold as established in the last rate case. Any increase or decrease in these costs would be divided by the projected normalized volumes increased for growth to develop a volumetric surcharge/surcredit applied to metered customers in the following 12 month period. In this way, the Company is protected from uncontrollable increases in costs and customers will receive the benefit of decreases if those costs are less than those included in rates. Attachment 3 is a proposed tariff rider that describes the mechanics of the clause. At the end of a 12 month period, the amount refunded/collected via the mechanism would be compared to the actual costs to be refunded/collected and the difference would be added or subtracted to the difference to be recovered/refunded in the following period.

XI. SATISFACTION OF COMMITMENTS FROM THE COMPANY'S 2009 RATE CASE PARTIAL SETTLEMENT

Q. Has the Company satisfied the commitments it made in the Joint Petition for Settlement at Docket No. R-2009-2132019?

A. Yes, it has. Pages 10 through 14 of the settlement agreement in that case set forth various commitments made by the Company regarding quality of service and reporting between rate cases. To the best of my knowledge, the Company has satisfied all of these commitments.

Q. Does that conclude your testimony at this time?

A. Yes, it does.

LIST OF ATTACHMENTS
TO AP STATEMENT NO. 1

Attachment No.	Description
1.	Future Test Year Additions and Retirements
2.	Management and Service Fees Prior HTY vs. Current HTY
3.	PWA Tariff Rider
4.	ECA Tariff Rider

ATTACHMENT 1

Aqua Pennsylvania, Inc.
Future Test Year Additions and Retirements by Category of Investment

W/O Grp	W/O Grp DESC	Values FTY CAP ADDS	FTY CAP RETIRE
50	Refunds of CAC	1,700,000	
105	New Mains (Ext @ Cost)	174,229	7,800
106	Lower,Replace & Relocate	241,607	10,900
107	Install Mains- Co Expense	3,553,278	160,000
108	Mains Partially Funded By	292,010	13,100
109	Main Replacments-Non-Surchg	2,996,743	134,900
110	Main Repl,Surcharge	104,330,335	4,467,000
113	Main Replacements-Non-Surcharg	604,554	27,200
116	Tie-In Dead End Mns-Surcharge	4,150,115	186,700
120	Main Cleaning & Lining	7,894,606	355,300
125	Capitalized Main Breaks	3,093,617	139,200
130	Highway Relocations	41,790	1,800
132	Highway Reloc-Surcharge	1,337,503	60,300
136	Valve Replacement-Surcharge	1,568,623	70,400
141	Cathodic Protection Equip	103,950	0
145	Tank Painting	4,451,264	0
198	Oth Mn& Dst Sys Imp-Surcharge	627,072	10,900
199	Other Main & Dist Sys Imp	1,834,501	0
205	Surcharge Eligible Meters	3,653,281	164,000
210	Non-Surcharge Eligible Meters	1,265,667	0
215	Supplies-Meters (Non-Surchg)	201,614	0
225	ERT Devices (Surcharge)	1,057,902	47,500
299	Other Meter Projects	12,176	500
305	New Services	5,340,766	0
310	Renewal Servs - Regular	1,064,640	47,900
315	Renewal Services - Main R	4,452,505	0
399	Other Service Work	464,442	2,400
405	New Hydrants	331,656	0
410	Replace/Relocate Hydrants	1,925,842	86,600
430	Private Hyd - New Install	2,000	0
499	Other Fire Hydrant Work	201,780	9,000
505	Chorination Enhancements	60,409	500
510	Automated Distr Controls	1,538,472	2,300
512	Treatment Plants	171,777	400
514	Boosters (TPB)	3,375,404	17,700
515	Improvements Other (TPB)	45,130,791	740,600
517	Pumping Equipment-Water	1,114,718	21,000
520	Equipment (TPB)	320,324	2,700
521	Wells	10,423,925	32,700
522	Dams	2,980,326	0
525	Tanks/Resvrs/Standpipes	5,595,008	75,800
599	Other (TPB)	1,770,962	0
610	Treatment Equipment (Lt)	1,316,680	20,400
615	Lab Equipment (Lt)	216,340	6,400
699	Other Lab/Treatment Work	320,643	0
705	Fence Replacements	270,900	11,300
710	Office Furniture	52,786	100
715	Office Equipment	88,913	0
720	Improvements	1,308,973	7,800
799	Other Building Maint Work	13,500	0
805	New Vehicles	3,552,643	159,200
810	Mechanical Equipment	1,049,352	43,600
900	Information System Exp	12,425,916	35,600
901	Working Tools	577,572	16,400
902	Safety Tools	804,200	12,100
903	Land Purchases/Disposals	160,000	0
904	Reserves	1,167,215	0
905	Retirements W/O Replacmen	729,907	0
911	Security	1,690,159	900
Grand Total		**257,197,882**	**7,210,900**

AQUA PENNSYLVANIA, INC
MANAGEMENT and SERVICE FEES
PRIOR TY vs CURRENT HTY

AP Statement No. 1
Attachment 2

	July 2008 - June 2009	July 2010 - June 2011
Service (Aqua Services, Inc.)		
Accounting	$1,842,795	$2,415,293
Engineering	$170,438	$20,352
Communications	$44,363	$0
Human Resources	$841,317	$955,157
Information	$1,068,597	$1,370,310
Purchasing Services	$347,531	$370,867
Legal	$137,441	$104,457
Corporate Secretarial	$82,418	$57,740
Water Quality	$77,769	$101,707
Officer/Administration	$3,045,441	$4,338,180
Capital	$1,431,308	$1,704,419
Total Service	$9,089,417	$11,438,482
Sundry (Aqua Services, Inc.)	2,527,359	4,271,550
Transfers	-	-
Customer Service (Aqua Service, Inc.)	4,774,265	4,844,292
	$16,391,041	$20,554,324

RIDER

PURCHASED WATER ADJUSTMENT

In addition to the net charges provided for in this Tariff, a [charge of 0.00%] [credit of (0.00%)] will apply to all bills issued, excluding public fire hydrants, on and after January 21, 2008.

I. General Description

Purpose: The purpose of the Purchased Water Adjustment (PWA) is to adjust customers' bills to reflect changes in the Company's cost to purchase water.

Eligible Cost Changes: Eligible cost changes are changes in the Company's cost of purchased water that are caused by changes in the rates of non-affiliated suppliers from which the Company purchases water for resale to its customers.

II. Computation of the PWA

Calculation of Changes in Purchased Water Costs: Whenever a non-affiliated supplier changes the rates it charges for water sold to the Company for resale to the Company's customers, the Company shall compute the change in its cost of purchased water. If the calculation shows an increase in the Company's cost of purchased water, relative to its Baseline Cost, the Company may file a tariff supplement setting forth a PWA charge to be included on customers' bills to recover such increase. If the calculation shows a decrease in the Company's cost of purchased water, relative to its Baseline Cost, the Company shall file a tariff supplement setting forth a PWA credit to reduce customers' bills for such decrease.

Baseline Cost: The Baseline Cost is the annual level of purchased water costs allowed as an operating expense in the Company's last preceding base rate proceeding.

Baseline Consumption: The Baseline Consumption is the level of consumption, by supplier, that formed the basis for calculating the Baseline Cost in the Company's last preceding base rate proceeding.

Baseline Rates: The Baseline Rates are the rates, by supplier, that formed the basis for calculating the Baseline Cost in the Company's last preceding rate proceeding.

Computation of Change: Changes in the Company's cost of purchased water will be calculated as follows:

(1) For each supplier whose rates have changed, the cost of purchased water will be computed by applying the supplier's new rates to the Company's Baseline Consumption from that supplier.

(2) For suppliers whose rates have not changed, the cost of purchased water will be computed by applying the suppliers' Baseline Rates to the Company's Baseline Consumption from such suppliers.

(3) The costs computed in (1) and (2), above, will be summed to calculate the Company's new annual cost of purchased water.

(4) The Company's new annual cost of purchased water will be compared to the Company's Baseline Cost. If the new annual cost of purchased water is below the Baseline

Cost ("Eligible Decrease") the Company must file a new PWA reflecting a credit on customers' bills. If the new annual cost of purchased water is above the Baseline Cost ("Eligible Increase"), Company may, in its sole option, file a new PWA reflecting a charge on customers' bills.

Computation of PWA Credit or Charge: The PWA credit or charge will be expressed as a percentage carried to two decimal places and will be 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, the Distribution System Improvement Charge ("DSIC") and the State Tax Adjustment Surcharge ("STAS"). To calculate the PWA Charge or Credit, the Eligible Increase or Eligible Decrease, as applicable, will be divided by the Company's projected applicable revenue from sales of water for a prospective 12-month period commencing on the date the PWA Credit or Charge is to become effective.

III. Filings

Not more that 30 days after the effective date of any change in the rates of any supplier whose costs are included in the Company's Baseline Cost, the Company shall file with the Commission a computation of the change in the Company's cost of purchased water. If the computation shows an Eligible Decrease, the Company must also file a new PWA to implement a PWA credit on customers' bills to become effective 15 days after the filing is made with the Commission unless the Commission directs otherwise. If the computation shows an Eligible Increase, Company may, in its sole option, file a new PWA to implement a PWA charge on customers' bills to become effective 15 days after the filing is made with the Commission unless the Commission directs otherwise. At the time each filing is made with the Commission, copies thereof shall also be served upon the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate.

IV. Safeguards

Cap on PWA Charge: A PWA charge may not exceed 3% of the amount billed to customers under otherwise applicable rates and charges.

Audits/Reconciliation: The PWA will be subject to audit at intervals determined by the Commission. It will also be subject to an annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue increase or decrease billed under a PWA charge will be compared to the Company's Eligible Increase or Eligible Decrease, which shall be prorated as appropriate if the PWA Charge or Credit was in effect for less than one year. The difference between the billed revenue increase or decrease and the Eligible Increase or Eligible Decrease (prorated as appropriate) will be recouped or refunded, as appropriate, in accordance with Section 1307(e) over a one-year period commending on April 1 of each year.

New Base Rates: The PWA will be reset at zero as of the effective date of new base rates that reflect the Company's actual purchased water costs.

Customer Notice: Customers shall be notified of a PWA charge or credit or changes in any existing PWA charge or credit by including appropriate information on the first bill they receive following the implementation of, or change in, any PWA charge or credit.

RIDER

ENERGY COST ADJUSTMENT MECHANISM

1. General Description

Purpose: The purpose of the Energy Cost Adjustment Mechanism ("ECAM" is to recover changes in energy costs used to provide water to customers. The mechanism collects or refunds any difference between the energy costs included in base rates from the Company's last rate filing and the actual energy costs incurred in the period of calculation.

2. Computation of the Energy Cost Adjustment Mechanism

Calculation: At the time that the Company files its annual reconciliation, the application will include a reconciliation of the actual energy costs to the amount recovered in base rates per actual thousand gallons sold as established in the last rate case. Any increase or decrease in these costs would be divided by the projected normalized volumes increased for growth to develop a volumetric surcharge/surcredit applied to metered customers in the following 12 month period. In this way, the Company is protected from uncontrollable increases in costs and the customers will receive the benefit of decreases if those costs are less than those included in rates. At the end of a 12 month period, the amount refunded/collected via the mechanism would be compared to the actual costs to be refunded/collected and the difference would be added or subtracted to the difference to be recovered/refunded in the following period.

Rate = (ECAr x BV) / PV
ECAr = (AEC/Av)-BECr

ECAr = the surcharge/surcredit consumption rate ($/MG)
AEC = the actual energy costs for the current period plus or minus and over/under collection of energy costs due to the ECA from the prior year

BEC = energy costs included in base rates
BEC(r) = energy costs included in base rates per million gallons (MG) sold
AEC minus BEC = the net dollar amount to collect/refund

AV = the actual sales volumes for the current period (Mgl)
BV = Volume of sales included in base rates (MG)
PV = Projected volume of sales for the next 12 months in Kgals
Rate = Rate per 1,000 gallons to be applied against bills rendered following the filing of the ECAM Rider