



LAMB, WINDLE & McERLANE, P.C.

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May 15, 2000

Velma A. Redmond, Esquire
Vice President, Corporate Counsel and Secretary
Pennsylvania-American Water Company
800 West Hershey Park Drive
P.O. Box 888
Hershey, PA 17033-0888

Re: Pennsylvania Public Utility Commission Application Nos. A-212285F0071
(Water) and A-230073F0002 (Sewer)

Dear Ms. Redmond:

This firm serves as Solicitor to the Board of Supervisors of Sadsbury Township Chester County ("Sadsbury"). Sadsbury has filed Protests to the above-referenced Applications of Pennsylvania-American Water Company ("PAWC") now pending before the Pennsylvania Public Utility Commission pertaining to the acquisition of the water and sewer facilities owned by the City of Coatesville Authority ("CCA"). The following will confirm the various issues which we have discussed regarding the pending Applications, and my understanding of PAWC's agreement as to their resolution. As part of Sadsbury's consideration and settlement of the Protests, Sadsbury has requested and PAWC has agreed to the following commitments:

Application No. A-230073F0002 (Sewer)

1. Capacity Fee. The July 7, 1997 Bulk Sewer Agreement between CCA and Sadsbury (the "Agreement") sets forth the terms under which Sadsbury is a bulk sewer customer of CCA. The Agreement sets forth a capacity fee related to sewage treatment disposal costs of \$1.27 per gallon per day times a 1.4 peak load factor for a total of \$1.78 per gallon per day. PAWC agrees that this capacity fee will remain in place for at least three years following the date of acquisition of the CCA sewer assets by PAWC.

2. Parkeburg Interceptor. The Agreement includes a certain formula for calculating Sadsbury's pro rata share of the initial capital construction cost of the Parkeburg interceptor, to be charged to each connecting user on a per edu basis upon connection to the Sadsbury sewer system. The calculation of the Sadsbury's pro rata

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share includes the costs incurred by CCA associated with the design, permitting, and construction of the facility. These costs, of course, have been fixed and PAWC agrees that they will remain unchanged as a result of the acquisition by PAWC. There is also a component for CCA's bond interest which is presently calculated based upon CCA's seventeen-year tax exempt bond amortization schedule. PAWC agrees that, notwithstanding other financial arrangements that PAWC may incur with respect to the retirement or assumption of CCA's debt for this facility, or other financial arrangements for the same, the maximum interest component of the calculation under the Agreement will remain fixed in place based upon the seventeen year, tax exempt bond amortization schedule, for all future connections by Sadsbury customers in accordance with the Agreement, unless PAWC's actual weighted average cost of the capital component in its most recent fully litigated rate case during the term of the Agreement is less or is zero, in which case the lesser weighted average cost of capital component shall apply.

3. Other Sewer Charges, Fees, etc. PAWC agrees that all other sewer related charges by PAWC for properties/customers within Sadsbury will be frozen for three years following the date of acquisition of the sewer assets by PAWC from CCA. These charges include the bulk rate of \$2.13 per 1000 gallons for the costs for operating and maintaining the conveyance system and treatment plant. Should Sadsbury purchase additional conveyance and treatment capacity from PAWC within three years following the date of acquisition of the sewer assets by PAWC from CCA, PAWC agrees that the conveyance, capacity and treatment charges will also remain frozen for three years following said date of acquisition of the sewer assets.

4. Meter Readings. PAWC agrees to provide quarterly water meter readings for water customers within Sadsbury served by the Sadsbury sewer system, at the rate of 10 cents per billing unit, with a minimum fee of \$25.00 per quarter. If requested by Sadsbury, upon forty-five (45) days notice, PAWC will provide billing services for the period requested, but for not less than one year, on behalf of Sadsbury for sewer service provided by Sadsbury, at the billing fee of 70 cents per billing unit. If requested by Sadsbury, PAWC will provide sewer billing service to Sadsbury sewer customers with metered well water supplies, at the same rate, provided that Sadsbury provides these meter readings at its expense to PAWC. PAWC agrees that the above rates will be frozen for three years following the date of acquisition of the sewer assets by PAWC from CCA.

5. Franchise Area. The PAWC certificated sewer franchise area within Sadsbury will be restricted to the point of connection of the Sadsbury sewer system to the PAWC system as a bulk sewer customer. PAWC agrees that it will not seek, nor voluntarily accept, any other certificated sewer franchise area within Sadsbury without the prior written consent and approval of Sadsbury first had and obtained.



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Church Alley to Middle Street; the installation of a water main along Middle Street to serve existing houses including taking the curb stops to the property lines; and the relocation of curb stops in Spruce Street to the property lines (the "Improvements"). However, it is anticipated that the resurfacing of these streets will be necessary prior to the acquisition of the CCA water system assets by PAWC. CCA has agreed to install the Improvements prior to the resurfacing, so long as PAWC agrees to reimburse CCA for the cost of the Improvements. Accordingly, PAWC agrees to reimburse CCA for the reasonable cost of the Improvements, provided the Improvements are installed prior to acquisition by PAWC of the water system assets.

5. Future Water Sources and Facilities. PAWC agrees not to develop any future water supply sources, including but not limited to, any new groundwater sources or any surface water withdrawals, or any new aboveground water storage tanks, within Sadsbury, without the prior written consent and approval of Sadsbury first had and obtained, provided that PAWC may repair, refurbish or replace the existing aboveground water storage tank located within a perpetual easement area in the Airport Industrial Mall, and may add no more than one additional aboveground storage tank within said easement area.

Sadsbury, upon PAWC's agreement to the foregoing, agrees to withdraw the Protests filed in the above applications, with prejudice, and will support the above applications, and any future applications by PAWC to extend service in Sadsbury, consistent with the terms of this Agreement.

Please kindly confirm that the above accurately reflects your agreement with the foregoing by counter signing below.

Very truly yours,

LAMB, WINDLE & MCERLANE, P.C.

By: 

Vincent M. Pompo

VMP/jen



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6. Valley Road Extension Flow Meter. PAWC agrees that the planned Valley Road sewer extension to serve Sadsbury customers in the vicinity of the south side of Valley Road shall not require the installation, maintenance or operation by Sadsbury of a sewage flow meter, and that instead, sewage flows from this service area for all purposes shall be based upon water meter readings of all of the Sadsbury units connected to this sewer extension, provided that the total number of Sadsbury connections to this sewer extension does not exceed thirty (30) connections, and the Valley Road extension is maintained in a manner that minimizes inflow and infiltration.

Application No. A-212285F0071 (Water)

1. Water Rates, Charges, etc. PAWC agrees that all water rates, charges and fees for PAWC customers within Sadsbury will remain frozen in place for a period of at least three years from the date of acquisition of the CCA water system assets by PAWC.

2. Franchise Area. The pending application includes all of Sadsbury Township within the proposed PAWC certificated water franchise area. PAWC agrees to reduce the certificated water franchise area to the area marked in orange on the Sadsbury zoning map attached hereto and incorporated herein as Exhibit "A", and as described in the narrative legal description attached hereto and incorporated herein as Exhibit "B". PAWC agrees that it will not seek, nor voluntarily accept, any additional certificated water franchise area in Sadsbury without the prior written consent and approval of Sadsbury first had and obtained.

3. Route 10 Water Line. If a water main is extended from PAWC's system to the vicinity of Route 10 and Route 30, PAWC agrees that such main extension shall be located from the Village of Sadsburyville along Business Route 30, and not located along Route 10 from Parkesburg. It being understood that PAWC makes no commitment to fund any portion of such main extension other than in accordance with the provisions of PAWC's Tariff.

4. Village of Pomeroy Construction. PAWC understands that Sadsbury is presently constructing a new sanitary sewer system in the Village of Pomeroy, and said construction has resulted in the excavation of certain public streets within Pomeroy. PAWC further understands that the installation and/or upgrade of certain water facilities along Middle Street and Spruce Street contemporaneous with the Sadsbury sewer project, and prior to the resurfacing of these streets by Sadsbury, is in the best interests of PAWC and Sadsbury, as well as existing and future PAWC customers. These improvements consist of the installation of a water main from Spruce Street along



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On behalf of Pennsylvania American Water Company,
I am duly authorized to sign and agree to the
foregoing terms of agreement.



Velma A. Redmond, Esquire
Vice President, Corporate Counsel and Secretary
Pennsylvania American Water Company

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