



Aqua Pennsylvania, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

www.aquapennsylvania.com

November 18, 2011

VIA HAND DELIVERY

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

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SECRETARY'S BUREAU

**RE: Request of Aqua Pennsylvania, Inc. For A General Water Rate Increase
Docket No. R-2011-2267958**

Dear Secretary Chiavetta:

Aqua Pennsylvania, Inc. (the "Company") is herewith filing for an increase in water rates based on a future test year ending June 30, 2012. In compliance with the Commission's general rate case filing requirements, as set forth at 52 Pa. Code §53.53, the Company is delivering herewith for filing eight copies of Aqua Pennsylvania, Inc.'s Supplement No. 115 to Tariff Water-Pa. P.U.C. No. 1, to become effective January 18, 2012 and eight copies of each of the documents listed below. Please note that one copy of Exhibit 5-A Part I is filed in the box marked "original" and that a CD containing Exhibit 5-A Part I is filed with all other boxes.

Statement of Specific Reasons for Proposed Increase in Rates

Proposed Tariff

Press Release

Customer Notices

- Exhibit 1-A Revenue and Expense Data and Rate Base Claims – June 2011 & June 2012 Test Years
- Exhibit 2-A Payroll Calculations, Supporting Data
- Exhibit 3-A Original Cost Data for New Acquisitions Closed Subsequent to Last Rate Case
- Exhibit 4-A Fair Rate of Return
- Exhibit 5-A, Part I Bill Frequency/Water Consumption Analysis for the Twelve Months Ended June 30, 2011

Exhibit 5-A, Part II	Application of Rates to Consumption Analysis for the Twelve Months Ended June 30, 2011
Exhibit 6-A, Part I	Depreciation Study - Calculated Annual Depreciation Accruals Related to Utility Plant at June 30, 2011
Exhibit 6-A, Part II	Depreciation Study - Calculated Annual Depreciation Accruals Related to Utility Plant at June 30, 2012
Exhibit 50-A	Operating Revenue from Sales of Water for the Twelve Months Ended June 30, 2012
Exhibit 50-B	Cost of Service Allocation Study as of June 30, 2012
BS-1 To BS-13	Minimum Filing Requirements-Balance Sheet
DP-1 To DP-6	Minimum Filing Requirements-Depreciation
OE-1 To OE-28	Minimum Filing Requirements-Operating Expense
OR-1 To OR-13	Minimum Filing Requirements-Operating Revenue
OD-1 To OD-6	Minimum Filing Requirements-Other Data
QS-1 To QS-7	Minimum Filing Requirements-Quality of Service
RB-1 To RB-16	Minimum Filing Requirements-Rate Base
RR-1 To RR-32	Minimum Filing Requirements-Rate of Return
RS-1 To RS-2	Minimum Filing Requirements-Rate Structure
SI-1 To SI-5	Minimum Filing Requirements-Statement of Income
TX-1 To TX-18	Minimum Filing Requirements-Taxes
AP Statement No. 1	Direct Testimony of William C. Packer, Jr.
AP Statement No. 2	Direct Testimony of David P. Smeltzer
AP Statement No. 3	Direct Testimony of Nameer Bhatti
AP Statement No. 4	Direct Testimony of Paul R. Moul
AP Statement No. 5	Direct Testimony of Paul Herbert
AP Statement No. 6	Direct Testimony of John Spanos
AP Statement No. 7	Direct Testimony of William J. Jerdon

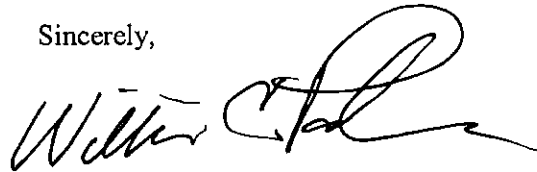
The Company is being represented in this filing by:

Thomas P. Gadsden, Esquire
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(215) 963.5234
tgadsden@morganlewis.com

I hereby certify that a printed Notice of Proposed Rate Changes was mailed on or before November 18, 2011 to all customers of the Company affected thereby. True and correct copies of said notices are attached hereto.

If you have any questions, please do not hesitate to call me.

Sincerely,



William C. Packer, Jr.
Manager of Rates

WCP/kab
Enclosures

cc: Office of Consumer Advocate, w/enclosures
Office of Small Business Advocate, w/enclosures
PA. P.U.C. Office of Public Information, w/o enclosures
PA. P.U.C. Bureau of Fixed Utility Services, w/enclosures
PA. P.U.C. Office of Trial Staff, w/enclosures
Mr. Thomas P. Gadsden, Esquire, w/enclosures

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AQUA PENNSYLVANIA FILES RATE REQUEST

Water to remain below 1.5 cents per gallon

BRYN MAWR, PA, November 18, 2011 -- Aqua Pennsylvania, Inc. (Aqua) filed an application with the Pennsylvania Public Utility Commission (PUC) today requesting a \$5.08 a month (17 cents a day) increase in rates for a typical residential customer. The request—which would bring a typical monthly residential bill to \$57.72—asks that the new rates become effective January 18, 2012, however, the PUC has the ability to suspend such requests for up to nine months (August 2012) to permit a complete investigation and analysis of Aqua's proposal.

Aqua President Karl Kyriss said the primary reason for the rate request is the approximately \$450 million dollars that the company has invested in infrastructure including upgrades to its distribution and treatment systems to improve drinking water quality and service reliability since its last rate request in 2009. "These improvements include the replacement and rehabilitation of more than 334 miles of aging water main, as well as valves, service lines and more than 1,000 fire hydrants throughout our 5,600-mile distribution system," said Kyriss. "The new mains often increase water flow, which coupled with new hydrants, enhances fire protection.

A significant portion of the capital has been dedicated to upgrading and rehabilitating treatment plants and wells, including the installation of state-of-the-art equipment to meet new more stringent environmental water quality requirements. "For maximum reliability, we have upgraded pumping stations, water storage tanks and standby electrical systems, and are proud to say no customers were inconvenienced without water service as a result of recent hurricanes and storms," said Kyriss.

"Approximately 80 percent of this rate request is driven by Aqua's capital investment to upgrade and rehabilitate its drinking water systems across the state," he said. "We're proud to have been able to keep the increase in expenses since the last rate request in 2009 to an annual average of two-and-a-half percent per year."

With more than 400,000 customers throughout Pennsylvania, the company said its capital spending since the last rate request amounts to an average investment of about \$1,100 per customer.

If the PUC were to grant the entire request, Kyriss said, "The typical Aqua residential customer would still be able to have a day's worth of water (approximately 130 gallons) for approximately \$1.90— or about one-and-a-half cents per gallon for quality water delivered directly to the customer's home."

According to the EPA, over the next 20 years, the nation's water systems need to invest about \$335 billion for pipes, tanks, valves and treatment plants. Kyriss said Aqua has taken a proactive approach to this nationwide problem by systematically replacing a small percentage of its distribution system annually. The company also maintains and upgrades its treatment plants and other facilities on a regular basis. "As a result of our proactive approach to infrastructure investment, Aqua is not facing the deferred future costs that currently affect many of our nation's water systems," said Kyriss.

The requested increase in annual revenue for Aqua, which serves nearly 1.4 million people throughout the state, is \$38.6 million.

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AQUA PENNSYLVANIA, INC.

**STATEMENT OF SPECIFIC REASONS FOR
PROPOSED INCREASE IN RATES**

Aqua Pennsylvania, Inc. ("Aqua PA" or the "Company") is filing Supplement No. 115 to Tariff Water – PA. P.U.C. No. 1, which, based on the financial and accounting data submitted in support herewith, reflects an increase in total annual operating water revenues of \$38,600,000, or approximately 9.4% over the level of revenues anticipated for the future test year ending June 30, 2012. Supplement No. 115 is proposed to become effective January 18, 2012, and will increase charges for water service by varying amounts for customers in all of the Aqua PA divisions. The specific reasons for the proposed increase are summarized below.

Rate Increase

Aqua PA last filed for base rate relief in November 2009. During the intervening period, the Company has engaged in concerted efforts to control discretionary operating expenditures. However, various operating expenses, such as wage, pension and health care costs, have increased consistent with national trends and these increases are reflected in the filing. At the same time, Aqua PA has made and continues to make very substantial investments in new utility plant, including, but not limited to, major projects at the Ridley Plant, Pickering Solar Field, Edgley Well Field and Treatment Facility, ongoing main replacement, and main cleaning and lining work. These and similar projects, which are crucial to the Company's ability to meet the stringent state and federal environmental regulations and to maintain the high quality service its customers have come to expect; have contributed to a significant increase in the Company's claimed rate base. Indeed, the Company estimates that, by the end of the future test year, it will have invested approximately \$450 million in utility plant since its last general water rate increase request, which represents 19% growth in the Company's physical assets (property, plant and equipment) in service since June 2010.

Due, in large part, to the substantial investment in utility plant and increases in various non-discretionary cost items, the Company's overall rate of return, at present rates, is projected to be only 7.57% for the future test year. More importantly, the indicated return on common equity under present rates is anticipated to be 9.49%, which is inadequate by any standard and less than required to provide the Company with a reasonable opportunity to attract the additional capital needed to finance future plant improvements.

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The requested rate levels would produce an overall 8.77% return on the Company's claimed original cost measure of value and a 11.75% return on its original cost common equity. These return levels are consistent with those recommended by Mr. Paul R. Moul of P. Moul and Associates and an expert on the subject of rate of return.¹

The Company is filing herewith all of the supporting data required by the Pennsylvania Public Utility Commission's ("Commission") regulations, both for the historic test year ended June 30, 2011 and the future test year ending June 30, 2012. Because the Company is basing its claim principally on the level of operations for the future test year, the discussion that follows will address the future test year data.

The revenue and expense data for the future test year ending June 30, 2012, have been prepared in a manner consistent with the Company's prior rate filings and in accordance with the accepted practices of the Commission. To establish anticipated operating revenues under the proposed rates, operating revenues for the historic test year ended June 30, 2011 were adjusted to reflect (1) changes in the number of customers, as well as the consumption by specific customers, during the years ending June 30, 2011 and June 30, 2012; and (2) required annualization adjustments and system acquisitions.

After extensive and careful review of the Company's accounts, actual operating expenses for the test year ended June 30, 2011 were increased to reflect currently effective and anticipated changes in expense levels, as summarized at page 20 of Exhibit 1-A. Such adjustments capture, among other things, increases in labor (salaries and wages) and labor-related (pensions) expense; group insurance costs; chemical costs; customer service costs; healthcare costs; and the impact of inflation on expense items not otherwise specifically adjusted to future test year levels. Certain other adjustments were also made, including downward adjustments to reflect reductions in expense levels from those experienced during the year ended June 30, 2011. In addition, an adjustment has been made to reflect the increase in the Company's annual depreciation accrual under the straight-line remaining life method.

The rate base elements which are submitted as part of this filing have also been determined on a basis which is consistent with past rate filings. Future test year plant levels reflect the original cost of the Company's utility plant, as taken from the Company's continuing property records, together with anticipated additions and retirements during the year ending June 30, 2012. Gannett Fleming, Inc. computed the accrued depreciation under the straight-line remaining life method, which was then deducted from the original cost of the Company's depreciable plant. The resulting claim for depreciated utility plant in service equals \$2,269,690,316.

Mr. Moul's rate of return recommendations are being filed herewith as Exhibit 4-A and are summarized as follows:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Debt	47.02%	5.41%	2.54%
Common Equity	52.98%	11.75%	6.23%

From the depreciated utility plant in service figures, the Company has deducted contributions in aid of construction, customer advances for construction, and deferred income taxes. The Company has added an allowance for materials and supplies. The resulting claimed original cost measure of value as of June 30, 2012 is \$1,858,216,823. This represents an approximate 14.1% increase over the Company's rate base claim in its last rate proceeding.

As is evident from the foregoing and the voluminous supporting data filed herewith, the proposed rate increase is just and reasonable and represents the minimum rate increase necessary to enable the Company to earn a reasonable return on its investment in property devoted to the public service, to maintain the integrity of existing capital and to attract new capital.

Rate Structure

The Company's rate structure proposal was developed in accordance with a system-wide cost of service study performed by Gannett Fleming, Inc. A copy of that study is being submitted with this filing as Aqua PA Exhibit 50-B.

As a result of various acquisitions over the past several years, the Company presently has 18 separate rate divisions or zones. Although it is generally the Company's long-term goal to charge all customers a uniform set of rates regardless of geographic location, its acquisitions of small companies in northeastern Pennsylvania have presented unique circumstances that are inadequately addressed by a single set of rates. In an attempt to achieve equity between seasonal and year round customers of these systems, Aqua PA has continued to propose a "Seasonal Areas" tariff design for those divisions that have a seasonal customer base. In addition, under the Company's rate equalization plan, there are divisions that, by the end of this proceeding, will be able to be equalized with Main Division rates and others that will not.

Public fire hydrant rates in most rate divisions currently exceed 25% of the indicated cost of service and, consistent with Section 1328(b) of the Public Utility Code, have been held at existing levels. The Company has, however, proposed to increase public hydrant rates in rate divisions where the present charges are below the 25% benchmark.

Finally, Supplement No. 115 will reset the Distribution System Improvement Charge to zero at the effective date of new base rates.

Summary

In summary, the instant filing was prepared in a manner substantially consistent with the Commission's findings in many prior rate proceedings. The proposed increase in revenues is the minimum increase necessary to permit the Company to preserve public health and safety and to maintain the integrity of its existing capital, attract additional necessary capital at reasonable costs and have an opportunity to actually achieve a fair rate of return, particular on its common equity capital. For these and the other reasons set forth above, the rates proposed in Supplement No. 115 should be permitted to become effective as filed.