

Control Number: 42958



Item Number: 1

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83rd Legislature, Regular Session, transferred the functions relating to the economic regulation of water and sewer utilities from the TCEQ to the PUC effective September 1, 2014.

APPLICATION FOR SALE, TRANSFER, OR MERGER OF A RETAIL PUBLIC UTILITY

42958

*RN# *CN# *CN# *CN# *CN# *CN# RECEIVED
1. Proposed action of application (check all the boxes that apply): Sale of All Portion of the Water system (5) under CCN No.: Acquisition Lease/Rental Acquisition Lease/Rental Acquisition Filing CLERK
Transfer of All Portion of the Certificated water service area – CCN No.: Certificated sewer service area – CCN No.:
If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:
Efficiency of the property of those public distriction waters extend and certificated solvice areas currently solviced by Appa Unitaries. Inc. acquired troop Gray the bity Solvice is p.C. in December 2020. Sale at his few of Appa Lettes Ibas a bland and I exast ander his southernance of Sale and Resident Colonians. Assent are SEV applied on its refuge submittee the sale and Chambers Residents of the sale and Laberra Colonians. Assent are SEV applied on its refuge submittee the sale and the sale
and to:
Obtain a CCN for the transferee (purchaser) – indicate if purchaser will take the seller's CCN Amend the transferee's CCN No.: Amendment of CN No.: 3203, covering the majority of Aqua Texas, fac, d/b/a Aqua Texas, Southeast Region water service areas is requested to include the CCN areas and systems for which sale transfer is sought.
Merge or consolidate public utilities Southeast Région water systems/service areas under Aqual Texas, et por la
Cancel CCN of the transferor (seller) Within the transferred areas only. Other CCN No. 11157 areas will remain following approval of this application.
2. Proposed effective date of this transaction: To be determined. (Must be at least 120 days after proper notice is provided)
QUESTIONS 3 THROUGH 5 APPLY TO THE TRANSFEROR (CURRENT SERVICE PROVIDER OR SELLER)
For the current CCN holder or service provider please indicate: A. Name: Aqua Utilities line.
(Individual, Corporation or Other Legal Entity) ho is a(n):of Individual Corporation WSC HOA or POA Other
B. Utility Name (if different than above): Aqua Texas Address: 1106 Clayton Lane Suite 400 W. Telephone: (AC) (512) 990-4400 Austin, TX 78723

Add	dress: 810 W 10 Estaca Austria IX 1870 II Blood Fax: 01.01474-9888	Telephor	ne: (AC)(512144. Email: akisabat	Letting a SEE TEACHER.
4.	About the last rate increase for the system or facil: A. What was the effective date of the last rate inc	ities being trans rease? October	sferred:	
	B. Was notice of this increase provided to the Tempredecessors?	xas Commissio	n on Environmen	tal Quality or its
	No Yes- Application/Docket Number: 2013-	2007 KOCK 🐒 🤻	Date	e 7 Augus 1970/18
5.	Please provide a list of all customers affected by this seller utility, if any, and include the following information			
	Name and Address of Utility Customer	Date of Deposit	Amount of Deposit	Amount of Unpaid Interest on Deposit
	Pleasetsce response follow:			
char subs	pplicant requests waiver of production for this item. The second production for the second production for the second production for the second production for this item. The second production for the	seller and purch ne closing date	naser are Aqua Ar will be transferred	nerica, Inc. d to Aqua Texas, Inc.
n	Within 30 days of the actual transaction date, and prior must provide proof to the Commission that these custor ransferred to the purchasing utility. Proof should incl	omer deposits w	ere returned to th	-
a	QUESTIONS 6 THE TRANSFERI			
6.	For the person or entity acquiring the facilities and/Applicant: Aqua Texas, Inc. d/b/a Aqua Texas	or CCN:		
	Utility Name: Aqua Texas		Other Legal Entity)	
	Utility Address: 1106 Clayton Lane, Suite 400 W., Austin, T.X. 78723	different than ab	ove)	
	Fax: (512) 474-9888 Email:		Telephone (AC):	(51/2) 90(61/4/(61)) = 31
	CCN Numbers held prior to the filing of this applied	CCN a		east Region only other y to other regions and
7.	Check the appropriate box and provide information	on regarding the	e legal status of th	e transferee applicant:

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C. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Title: Attorney

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Individual
Home or Property Owners Association
Partnership; attach copy of partnership agreement
Corporation; provide charter number as recorded with the Office of the Secretary of State for
for Texas: 800304878
Non-profit, member-owned, member-controlled Cooperative Corporation (Article 1434(a) Water
Supply or Sewer Service Corporation); provide charter number:
Municipally-owned utility
District (MUD, SUD, WCID, etc.)
County
Other (please explain):

8. If the applicant is an *Individual* or sole proprietorship, provide the following information. If not, skip to the next question.

Name:	Email Email
Address	
Telephone (AC):	Fax (AC):

9. If the applicant is other than an *Individual* provide the following information regarding the officers or partners of the legal entity applying for the transfer. You must complete either question 8 or question 9, whichever applies to the transferee applicant.

•Name:	Sec Attachinent Les	Telephone (AC):	
Address:			
Position:	表示。例如 对 多数数数数数	Ownership % (if applicable):	
•Name:		Telephone (AC):	
Address:			
Position:	Mark Market Street, St	Ownership % (if applicable):	
•Name:		Telephone (AC):	277
Address:			43
Position:	apple 1987年中华大学工作	Ownership % (if applicable):	
	I was	CONTROL ACCURATION CONTROL ACCUR	
•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	
		CONTROL OF THE PROPERTY OF THE	
•Name:	Anna Anna Anna	Telephone (AC):	
Address:	grand the second		
Position:		Ownership % (if applicable):	
•Name:	219.4cm,25.15.16.16.16	Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

- Attach additional sheet(s) if necessary -

Important:

• If the applicant is a for-profit corporation, please provide a copy of the corporation's "Certification of Account Status" from the State Comptroller Office. This "Certification of Account Status" can be obtained from:

Texas Comptroller of Public Accounts

P. O. Box 13528, Capitol Station Austin, Texas 78711 1-800-252-5555

- If the applicant is an Article 1434a water supply or sewer service corporation or other non-profit corporation, please provide a copy of the Articles of Incorporation and By-Laws.
- 10. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

marcato i	i dis person is the ov	rici, operator, engi-	icol, accorney of acc	O 00220002200	
Name:	Geoffrey P. Kirshbar	ım 📜	Title:	Att	orney
Address:	810 W. 10 th Street, A	Austin, TX 78701	Telephon	ie (AC): (512) 47	4-9100
Fax #	(512) 474-9888	4.1	Email	gkirshbaum@	terrill-law.com
Relations	ship to the applicant:	Attorney		¥ 24	

IF THERE ARE MORE THAN TWO PARTIES INVOLVED IN THIS TRANSACTION, PLEASE ATTACH SHEETS PROVIDING THE INFORMATION REQUIRED IN QUESTION 6 THROUGH QUESTION 10 FOR EACH PARTY

11. Please respond to each of the following questions. Attach additional sheets if necessary.

A. Describe the experience and qualifications of the applicant to provide adequate utility service to the requested area

Aqua America, Inc. is one of the largest publicly traded water utilities in America and provides water and wastewater services to approximately 3 million people in 9 states. Aqua Utilities, Inc. d/b/a Aqua Texas is a subsidiary of Aqua America, Inc. Aqua Texas, Inc. d/b/a Aqua Texas is a different Aqua America, Inc. subsidiary. There is a third Aqua America, Inc. subsidiary, Aqua Development, Inc. d/b/a Aqua Texas, which also operates in Texas, but is not the owner of assets or CCN areas acquired from Gray Utility Service, LLC. These entities function together as the utility known as Aqua Texas.

Aqua Texas provides water and wastewater services to approximately 177,000 people in more than 400 communities in 53 counties across Texas. Its experienced operators are thoroughly knowledgeable about water operations and the requirements for continuous and adequate service required by the TCEQ rules of operation for utility systems. Aqua Texas, Inc. will continue to possess the financial ability to operate, maintain, and make all necessary repairs and improvements to the water systems being transferred to keep them in full compliance with TCEQ regulations.

B. Has the applicant acquiring the CCN or facilities or an affiliated interest of the applicant been under enforcement action by the TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG) or the Environmental Protection Agency (EPA) in the past for noncompliance with rules, orders or State Statutes? Yes No

If yes, please attach copies of any correspondence with these regulatory agencies concerning these enforcement actions and describe any actions and efforts to comply with those requirements. Attach additional sheets if needed.

Responsive documents related to enforcement matters for Aqua Texas as a whole are voluminous and available for review in the TCEQ Enforcement Division. Responsive documents related to Aqua Texas' operation of the systems proposed for transfer in this application were provided to the TCEQ Executive Director with Application No. 37696-R and in TCEQ Docket No. 2013-2007-UCR. Aqua Texas requests waiver of the obligation to produce additional responsive documents with this application.

Aqua Texas, Inc. plans to assume Aqua Texas' compliance obligations for the transferred systems. Aqua Texas, Inc. will have the same financial ability as Aqua Utilities, Inc. to make any needed improvements. Aqua Texas, Inc. will have financial ability through customer collections and infusions of capital from lenders. Also, as a wholly-owned subsidiary of Aqua America, Inc., Aqua Texas, Inc. will have access to capital contributions from Aqua America, Inc. to make any required improvements necessary to meet TCEQ minimum requirements and ensure continuous and adequate service.

C. Describe the source and availability of funds required to make the planned or required improvements, if any, to meet minimum requirements of the TCEQ and ensure continuous and adequate service.

Aqua Texas, Inc. plans to assume Aqua Texas' compliance obligations for the transferred systems. Aqua Texas, Inc. will have the same financial ability as Aqua Utilities, Inc. to make any needed improvements. Aqua Texas, Inc. will have financial ability through customer collections and infusions of capital from lenders. Also, as a wholly-owned subsidiary of Aqua America, Inc., Aqua Texas, Inc. will have access to capital contributions from Aqua America, Inc. to make any required improvements necessary to meet TCEQ minimum requirements and ensure continuous and adequate service.

D. Describe the anticipated impact of this transaction on the quality of utility service and explain any anticipated changes in the quality of service.

There is no anticipated impact of this transaction on the quality of utility service and there are no anticipated changes in the quality of service. However, the efficiencies of operating the systems under a consolidated corporate entity regulated regionally as such could ultimately result in improved quality utility service.

E. How will the transaction serve the public interest?

The transaction will serve the public interest by facilitating efficient operation and regulation of the hundreds of Aqua Texas systems currently operated in Texas by consolidating them under a single corporate entity, Aqua Texas, Inc., possessing regional water CCN numbers.

12. Please describe the nature of the proposed transaction:

The proposed transaction that this application requests approval for involves an asset sale/purchase and acquisition by, and transfer to, Aqua Texas, Inc. of all Texas public drinking water system assets owned by Aqua Utilities, Inc. that were acquired from Gray Utility Service, L.L.C., plus improvements or additions to those system assets, used and useful for providing retail water utility service within the geographic region formerly served by Gray Utility Service, L.L.C. Transfer of all water CCN No. 11157 service areas in the Southeast Region acquired from Gray Utility Service, L.L.C. to Aqua Texas, Inc. and inclusion within CCN No. 13203 is requested. CCN No. 11157 should be canceled as to these areas only, while remaining intact for other remaining CCN No. 11157 service areas.

13.	the TC	ransferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdiction of EQ, please provide the following information. Water supply or sewer service corporations and all subdivisions of the state should mark this section N/A:
A		 Total Purchase Price: Total Original Cost (as recorded on books of seller or merging entity): Accumulated Depreciation as of the proposed effective date of the transaction: Contributions in Aid of Construction: Specific surcharges approved by TCEQ: Revenues from explicit customer agreements:
		- Developer Contributions (please explain):
	25 K	- Other Contributions (please explain):
		Total Contributions in Aid of Construction *
		• Net Book Value:
	(GF	If the Original Cost or any of the above items has been established in a rate case proceeding by the PUC, the TWC or the TCEQ, please provide the Application/Docket Number and date:
		Application/Docket Number: Date: Date:
	æ	If the applicant is not under the rate jurisdiction of the TCEQ, only the purchase price and information related to Contributions in Aid of Construction is required.
		* Aqua Texas requests waiver of the obligation to produce this information. Instead, Aqua Texas hereby incorporates by reference its pending water rate/tariff change application, assigned Application No. 37696-R, responsive information included in that application, and additional responsive information provided to the TCEQ Executive Director in TCEQ Docket No. 2013-2007-UCR. Any adjustments to that information pertaining to the transferred systems will be provided in future rate case proceedings initiated by Aqua Texas, Inc. d/b/a Aqua Texas.
В.		e provide any other information concerning the nature of the transaction you believe d be given consideration if not explained elsewhere in the application. [attach additional sheet(s) if necessary]:
	Region i purchase sale/acques responsi	bosed transaction will effect a consolidation of Texas water system assets in the Southeast ander a single corporate entity, Aqua Texas, Inc. The transaction is similar to a stock transaction, but no stock is being exchanged. The transaction strictly involves an asset uisition/transfer between Aqua America, Inc. subsidiaries. While legal ownership and bility for the assets will be placed under a different corporate entity, day-to-day utility

C.	Complete the following proposed entries listed below as shown in books of purchasing (or
	surviving) company. Additional entries may be made; the following are suggested only, and not
	intended to pose descriptive limitations.
	Utility Plant in Service: *
	Plant Acquisition Adjustment: * * * * * * * * * * * * * * * * * * *
	Extraordinary Loss on Purchase: *
	Accumulated Depreciation of Plant: *
	Cash: *
	Notes Payable: *
	Mortgage Payable: *
	Others (please list):
	*Aqua Texas requests waiver of the obligation to produce this information. Instead, Aqua Texas
	hereby incorporates by reference its pending water rate/tariff change application, assigned
	Application No. 37696-R, responsive information included in that application, and additional
	responsive information provided to the TCEQ Executive Director in TCEQ Docket No. 2013-
	2007-UCR. Any adjustments to that information pertaining to the transferred systems will be
	provided in future rate case proceedings initiated by Aqua Texas, Inc. d/b/a Aqua Texas. Aqua
	Texas, Inc. d/b/a Aqua Texas will rely on the same bookkeeping entries as Aqua Utilities, Inc.
	d/b/a Aqua Texas subject to future adjustments as appropriate.
	As the numbered Tunderstand that it is my responsibility in any future rate presenting to
	As the purchaser, I understand that it is my responsibility in any future rate proceeding to provide written evidence and support for the original cost and installation date of all facilities
	used and useful for providing utility service.
	used and useful for providing utility service.
	Purchaser's Initials: Date:
14. Plea	se indicate the proposed effect of this transaction on the rates to be charged to the affected customers:
All the	e customers will be charged the same rates as they were charged before the transaction.
Some	All customers will be charged different rates than they were charged before the transaction.
If rates are cl	hanging, please explain:
Appli	cant is an IOU and intends to file with the Commission or municipal regulatory authority an
	to change rates of some/all of its customers as a result of this transaction. If so, please explain:
Other.	Please explain:

15. List all neighboring water and /or sewer utilities, cities, and political subdivisions providing the same service within two (2) miles of area affected by this proposed transaction. This information should be available from the water utility database (WUD) or Applicant's licensed water operator.

Applicant requests a waiver of the obligation to produce this item due to cost of analysis. No changes to CCN service areas are contemplated by this application.

16. Financial, Managerial and Technical information for the acquiring entity.

For Aqua Texas, Inc. financial information, please see 2013 Annual Financial Report for Aqua America, Inc., included as **Attachment 3**. Please see also Aqua Texas, Inc.'s pending water rate/tariff change application, assigned Application No. 37696-R, responsive information included in that application, and addition responsive information provided to the TCEQ Executive Director in TCEQ Docket No. 2013-2007-UCR, which is hereby incorporated by reference. Aqua Texas requests waiver of production for all other financial information requested.

HISTORICAL BALANCE SHEETS

HI	STORICAL	' BALANC	E SHEET	8		
	CURRENT	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
	YEAR (A)					
CURRENT ASSETS				_		
Cash						
Accounts Receivable			<u> </u>			
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total		T				
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
TOTAL						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO EQUITY						
TO TOTAL ASSETS	1	1	1	I	1	

HISTORICAL INCOME STATEMENT

HISTORICAL INCOME STATEMENT								
	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR		
METER NUMBER								
Existing Number of Taps								
New Taps Per Year								
Total Meters at Year End								
METER REVENUE								
Fees Per Meter								
Cost Per Meter								
Operating Revenue Per Meter								
GROSS WATER REVENUE								
Fees								
Other								
Gross Income								
OPERATING EXPENSES								
General & Administrative		-						
Interest								
Other								
NET INCOME								

HISTORICAL EXPENSES STATEMENT

	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
GENERAL/ADMINISTRATIVE						
EXPENSES						
Salaries						
Office Expense						
Computer Expense	·					
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year						
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						-
Other						
Total						
% Increase Per Year						
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						
Other						

PROJECTED BALANCE SHEETS

	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses				:		
Other						
Total						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO						
EQUITY TO TOTAL ASSETS						

PROJECTED INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

PROJECTED INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year						
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year						
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						7.7
Other						

PROJECTED SOURCES AND USES OF CASH STATEMENTS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If Funded)				7.07		
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.		-				
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt						
SERVICE (CADS)						
Net Income (Loss)						
Depreciation, or Reserve Interest						
Total						
REQUIRED DEBT SERVICE (RDS)						
Principle Plus Interest						
DEBT SERVICE COVERAGE RATIO						
CADS Divided by RDS						

PLEASE ANSWER QUESTIONS 17 THROUGH 22 ON A DIFFERENT SHEET FOR EACH PHYSICALLY DISTINCT SYSTEM BEING TRANSFERRED OR ACQUIRED

For Responses to Questions 17 through 22 for each system being transferred please refer to

Attachment 7.		
17. A. For Water Systems. TCEQ Public Water System Identification	n Number:	
Date of last inspection:		
B. For Wastewater Systems:		
-TCEQ Discharge Permit Number: W QName of Permitee: -Date of application to transfer Discharge Permit submate of application to transfer Discharge Permit approximately.		
18. A. Are any improvements required to meet TCEQ standards?	es No. If yes, please expla	in:
B. Is there a moratorium on new connections? Yes No. 1	f yes, please explain:	
C. Provide details of each required major capital improvement to con TCEQ standards (attach additional sheets if necessary):	rect the deficiencies and meet the	he
	edule to Complete Estimated	Cost
		1 (\$ 1) 2 (\$ 1)
19. Does the system being transferred operate within the city limits of a no boundaries? Yes No	nunicipality or within district	
If yes, indicate the number of customers within the city limits or dis Water Sewer	strict boundaries:	
Attach copy of franchise agreement or consent lett		t.
20. Do you currently purchase water or sewer treatment capacity from ar Water Sewer Purchased on a Regular	nother source? Yes No Emergency	
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% of total supply:

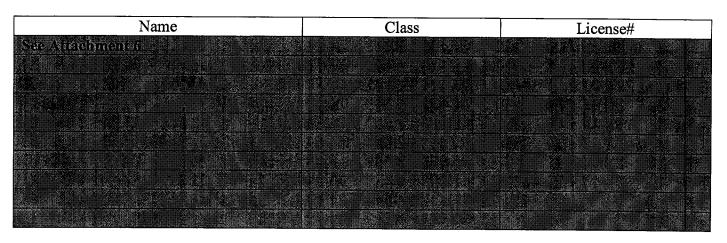
21. List the number of existing connections to be effected by this transaction.

Water		Sewer	
-Non Metered	-2"meter	-Residential Connection	
-5/8" or 3/4" meter	-3" meter	-Commercial Connection	
-1" meter	-4" meter	-Industrial Connection	12
-1 1/2" meter	-Other	-Other	3.1
Total Water Connecti	ons:	Total Sewer Connections	

22. Has the system reached 85% of its capacity based on TCEQ's minimum requirements? Yes No If yes, please explain what steps are being taken to address the capacity issues:



23. List the name, class, and license number of the operator(s) that will be responsible for the system:



- 24. Attach the following maps with each copy of the application:
 - a. One small scale map clearly showing affected service area with enough detail to accurately locate the area if the application is for the transfer of all or a portion of a CCN.
 - b. One large scale map showing the proposed service area boundaries being sold, transferred, or merged and, if available, the existing and proposed facilities. Color coding should be used to differentiate existing from proposed facilities. Facilities and service area boundaries should be shown with such exactness that they can be located on the ground. If transferring area not currently in a CCN or a portion of an existing CCN area please attach the following hard copy maps with each copy of the application:
 - 1. A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
 - 2. A map showing only the proposed area by:
 - i. metes and bounds survey certified by a licensed state or registered professional land surveyor; or
 - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled, data disk should be included); or
 - iii. following verifiable natural and man-made landmarks, or

- iv. a copy of recorded plat map with metes and bounds.
- 3. A written description of the proposed service area.

The Executive Director has instructed Aqua Texas that only the TCEQ-approved maps provided with the TCEQ's STM approval for the transfer of water system assets from Gray Utility Service, L.L.C. to Aqua Utilities, Inc. need be included in this STM application for Aqua Texas, Inc. d/b/a Aqua Texas. See Attachment 8. Applicant requests a waiver of the obligation to provide additional maps in line with the Executive Director's directions.

OATH FOR SELLER OR FORMER SERVICE PROVIDER

OMINION SELECTION	WIER SERVICE I ROVIDER
STATE OF Levas	
COUNTY OF Travis	
I, Robert L. Laughman sale, lease, rental or merger or consolidation as Preside (indicate relationship to applicant) that is, owner, member other authorized representative of applicant); that, in such verify such application, am personally familiar with the de- complied with all the requirements contained in the applicate set forth therein with respect to applicant are true and corr information and belief. I further state that the application not duplicate any filing presently before the Commission.	capacity, I am qualified and authorized to file and ocuments filed with this application, and have ation; and, that all such statements made and matters ect. Statements about other parties are made on
I further state that I have provided to the purchaser or tran- contributed property as required under Section 13.301(j) a Commission or Attorney General and have also complied the Water Code.	nd copies of any outstanding Orders of the
	(Utility's Authorized Representative)
If the Affiant to this form is any person other than the sole attorney, a properly verified Power of Attorney must be en	owner, partner, officer of the Applicant, or its closed.
SUBSCRIBED AND SWORN TO BEFORE ME, a Notar day 13/h of March, 20 14.	y Public in and for the State of Texas,
Pl	NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS A DA B Leatherwood RINT OR TYPE NAME OF NOTARY Y COMMISSION EXPIRES January 21, 7017
14.	Toominosion Extinces Junuary 21, 1011

One copy of this page must be submitted for each utility involved in this transaction.

OATH FOR PURCHASER OR ACQUIRING ENTITY

STATE OF PLAS
COUNTY OF TOURS
I, Robert L. Laughman ,being duly sworn, file this application for
sale, lease, rental or merger or consolidation as President-AquaTexas , Inc. (indicate relationship to applicant) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.
I am also authorized and do agree to be bound by and comply with any outstanding orders of the
Commission or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not
comply.
(Utility's Anthorized Representative)
If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.
Applicant represents that all other parties to this transaction have been furnished copies of this completed application.
SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, lay 13th of March, 20 14.
SEAL LINDA B LEATHERWOOD My Commission Expires NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS
January 21, 2017 LINDA B Leatherwood PRINT OR TYPE NAME OF NOTARY
MY COMMISSION EXPIRES January 21, 74
One copy of this page must be submitted for each utility involved in this transaction.

TCEQ-10516 (Rev 09/2012)

Application Nos.

Notice to Current Customers

Aqua Utilities, Inc.

(Seller's or Transferor's Name)

NOTICE OF INTENT TO SELL FACILITIES AND TRANSFER CERTIFICATE OF CONVENIENCE AND

NECESSITY (CCN) NOS.

11157 and 20453 TO Agua Texas, Inc. d/b/a Agua Texas (CCN Nos. 13203 and 21065)

(Purchaser's or Transferee's Name)

INChambers, Jefferson, and Liberty COUNTIES, TEXAS

To: All Affected Aqua Utilities, Inc. d/b/a Aqua Texas Southeast Region-Gray Water and Sewer Customers @ Current Billing Addresses

Date Notice Mailed

Aqua Utilities, Inc. 1106 Clayton Lane, Suite 400 W.

Austin, Texas 78723

Sellers or Transferors' Name

Address

City/State/Zip Code

has submitted an application with the Texas Commission on Environmental Quality to sell facilities and transfer water and sewer CCN Nos. 11157 and 20453 areas in Chambers, Jefferson, and Liberty Counties acquired from Gray Utility Service, L.L.C. to:

Aqua Texas, Inc. d/b/a Aqua Texas 1106 Clayton Lane, Suite 400 W.

Austin, Texas 78723

Purchasers or Transferee's Name

Address

City/State/Zip Code

The sale/transfer is scheduled to take place as approved by the Executive Director (V.T.C.A., Water Code §13.301).

These transactions will have no effect on current water or sewer customer rates. Also, no impact or change in the quality of service is anticipated as a result of these transactions. However, operating the affected water and sewer systems together under a consolidated corporate entity could ultimately improve the quality of utility service.

Affected persons may file written protests and/or request a public hearing within 30 days of this notice.

To request a hearing, you must:

- (1) state your name, mailing address and daytime telephone number:
- (2) state the applicant's name, application number(s) or another recognizable reference to either of these applications;
- (3) include the statement "I/we request a public hearing";
- (4) write a brief description of how you, the persons you represent, or the public interest would be adversely affected by the proposed transactions and transfers of the CCNs; and
- (5) state your proposed adjustment to the application(s) or CCN(s) which would satisfy your concerns and cause you to withdraw your request for a hearing.

Only those persons who submit a written request to be notified of a hearing will receive notice if a hearing is scheduled. The Executive Director will issue the CCNs requested in the referenced applications unless a hearing is scheduled to consider the transaction. If no protests or requests for hearing are filed during the comment period. the Executive Director may issue the CCNs 30 days after publication of this notice.

Persons who wish to protest or request a hearing on either of these applications should write the:

Texas Commission on Environmental Quality Water Supply Division Utilities and Districts Section, MC-153 P. O. Box 13087, Austin, TX 78711-3087

Se desea informacion on Espanol, puede llamar al 512-239-0200.

Robert L. Laughman, President

Utility Representative

Aqua Texas, Inc. d/b/a Aqua Texas

Utility Name



TCEQ Core Data Form

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For detailed instructions regarding completion of this form, please read the Core Data Form Instructions or call 512-239-5175.

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Aqua Texas, Inc. STM Application Attachments

Attachment 1 Officers

Attachment 2 Franchise Tax Status

Attachment 3 2013 Annual Report

Attachment 4 Agreement of Transfer

Attachment 5 Tariff

Attachment 6 Operators

Attachment 7 System Lists

Attachment 8 Maps

Officers of Aqua Texas, Inc.

Nicholas DeBenedictis Chairman and Chief Executive Officer Christopher H. Franklin Executive Vice President and Chief

Operating Officer

David P. Smeltzer Executive Vice President and Chief

Financial Officer

Karl M. Kyriss Executive Vice President

William C. Ross Senior Vice President, Engineering

and Environmental Affairs

Christopher P. Luning Senior Vice President and General

Counsel

Robert L. Laughman President

Richard S. Fox Regional President

Dan Rimann Vice President, Operations

Robert Kopas Regional Controller

Crandall McDougal Controller Diana Moy Kelly Treasurer

Robert A. Rubin Assistant Treasurer Stan Szczygiel Assistant Treasurer

Maria Gordiany Secretary

Jaqueline Peyreferry Assistant Secretary

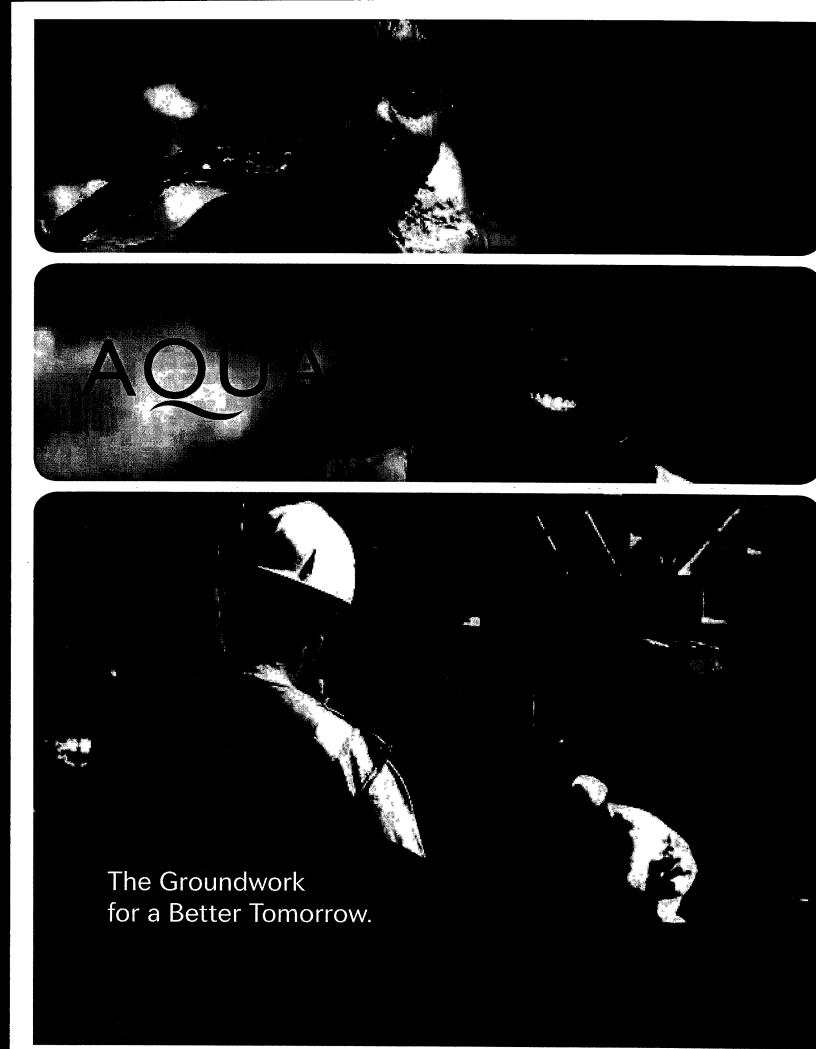


Franchise Tax Account Status

As of: 05/22/2014 12:59:14 PM

This Page is Not Sufficient for Filings with the Secretary of State

AQUA TEXAS, INC.					
Texas Taxpayer Number	32014405503				
Mailing Address	1106 CLAYTON LN STE 400W AUSTIN, TX 78723-2476				
Right to Transact Business in Texas	ACTIVE				
State of Formation	TX				
Effective SOS Registration Date	02/13/2004				
Texas SOS File Number	0800304878				
Registered Agent Name	CORPORATION SERVICE COMPANY D/B/A CSC- LAWYERS INCO				
Registered Office Street Address	211 E. 7TH STREET SUITE 620 AUSTIN, TX 78701				

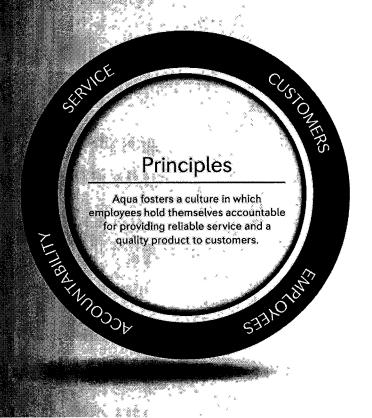


AQUA M

The largest U.S.-based, publicly traded water and wastewater utilities, serving people in Pennsylvania, Ohio, North Carolina, Texas, Illinois, New Jersey, Carolina, Aqua America, Inc. is listed on the New York Stock Exchange under the

bundwork for a Better Tomorrow.

electormitted to renewing and improving our water and wastewater infrastructure continuous capital investment. This commitment not only ensures and quality water for our current and future customers, but it demonstrates are citicient approach to ensuring the sustainability of our business, the industry content. As a steward of Earth's most recycled resource, Aqua takes equal care than water for drinking as it does treating wastewater for its return to Earth. For we've successfully employed engineering, technology and sophisticated takes to grow Aqua into one of the nation's most efficient utilities.



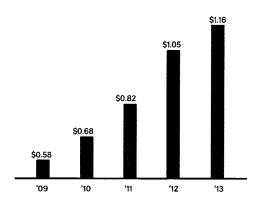
Financial Highlights

(in thousands of dollars, except per share amounts)

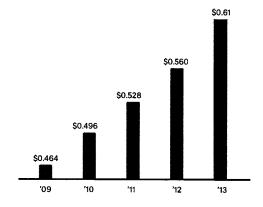
	2013	2012	% Change
Net income	\$ 221,300	\$ 196,563	13%
Diluted net income per common share ⁽¹⁾	1.25	1.12	12%
Annualized dividend rate			
per common share (12/31) ⁽¹⁾	0.61	0.56	9%
Aqua America stockholders' equity	1,534,835	1,385,704	11%
Total assets	5,051,817	4,858,517	4%
Number of utility customers served ⁽²⁾	941,008	928,667	1%

⁽¹⁾ Revised for 2013 5-for-4 stock split

Income from Continuing Operations per Share (diluted)



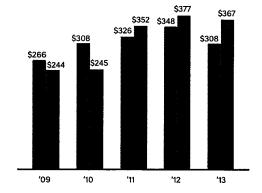
Dividend per Share (split-adjusted, annualized) 5-year compound annual growth rate =7.1%



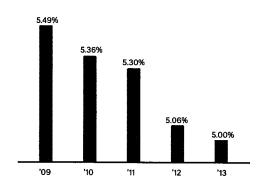
Cash Generation and CapEX (in millions)

Capital Expenditures

Operating Cash Flow from Continuing Operations



Weighted Average Cost of Long-Term Fixed-Rate Debt



^{(2) 2012} excludes 39,690 customers associated with utility systems disposed of during 2013

March 11, 2014



Nicholas DeBenedictis Chairman, President and CEO

Chairman's Massage

We are pleased to announce another successful year for Aqua America. Our continued focus on customer satisfaction and shareholder value allowed us to achieve a 14th straight year of increased net income, further growth in the value of our asset base and the 23rd dividend increase in 22 years. Net income for the full year 2013 rose to \$221.3 million from \$196.6 million in 2012, an increase of 13 percent. The company continued to set industry-leading margins, grew stronger financially, enhanced shareholder value 19 percent, issued a 5-for-4 stock split, and increased the dividend by 9 percent. The company also eclipsed the \$200 million level for net income just 5 years after passing the \$100 million level, which took nearly 125 years to accomplish.

In 2013, the company invested more than \$300 million for the fourth straight year to improve infrastructure across all of its regulated operations as part of its capital investment program. Over the next three years, the company projects investing an additional \$1 billion in pipe replacement to improve its distribution network; upgrade plants to enhance water quality; and make service reliability improvements for our customers.

Aqua America's well-acknowledged growth-through-acquisition program yielded 15 acquisitions in 2013. Acquisitions and organic growth led to customer growth of 1.3 percent, the most growth since 2008.

2013 was one of the strongest years operationally in my 22 years as chairman. Thanks to the diligence of our employees, our base utility operations expense growth was maintained at the rate of inflation as a result of Aqua's industry-leading cost and efficiency practices.

Aqua won multiple awards for innovative programs including the Energy Solutions Center Partnership Award for Innovative Energy Solutions recognizing the implementation of compressed natural gas (CNG) technology used in company vehicles and fueling stations throughout Southeastern Pennsylvania. Aqua was also awarded the National Association of Water Companies' (NAWC) 2013 Management Innovation Award for its pursuit of maximizing performance in electricity load response programs.

Aqua America's weighted average cost of fixedrate long-term debt is now less than 5 percent, and the company had \$239 million available on its credit lines as of February 25, 2014. In 2013, Standard & Poor's reiterated its A+ credit rating for Aqua Pennsylvania, our largest subsidiary. Of the 217 electric, gas and water utilities rated by S&P, only one has a higher rating than Aqua Pennsylvania. During 2013, Aqua received base rate awards in Ohio, Texas and Virginia, and infrastructure surcharges in various states increasing annualized revenues by approximately \$12.5 million. To date in 2014, the company has received rate awards and infrastructure surcharges in Illinois, Indiana, New Jersey, Ohio and Pennsylvania (wastewater) estimated to increase annualized revenues by approximately \$2.8 million. The company has \$21.0 million of rate cases pending before state regulatory bodies in Ohio, New Jersey, North Carolina, Texas and Virginia. The timing and extent to which rate increases might be granted by the applicable regulatory agencies will vary by state.

As I begin my 23rd year as the CEO of Aqua America, I continue to be optimistic about the company's ability to deliver strong results for our shareholders. The company is well positioned to internally fund needed investments for our customers, and to acquire both municipal and private water and wastewater utilities that can benefit from our professional expertise, ability to control costs and financial capacity to fund needed infrastructure improvements. We are also prepared to continue investments in strategic ventures and deliver strong results for our shareholders through our record of growth and 69 consecutive years of paying quarterly dividends.

Thank you for your confidence in Aqua.



Nicholas DeBenedictis Chairman, President and CEO

FAST FACTS

Provides drinking water to

2.75M



1,447

Public water systems owned and operated



Provides wastewater service to

250K



187

Wastewater treatment plants and collection systems owned and operated



warthmore College professors concerned about water quality their Southeastern Pennsylvania community—were granted a marter to supply water to area residents in 1886. We refreshed ur brand in 2013 with a more contemporary look and feel, but ur core values have remained the same.

nce the first pipe was laid in 1886, we have been dedicated to improving infratructure and supply, whether through building reservoirs and treatment plants to ervice a growing community, or by replacing pipe to strengthen aging systems.

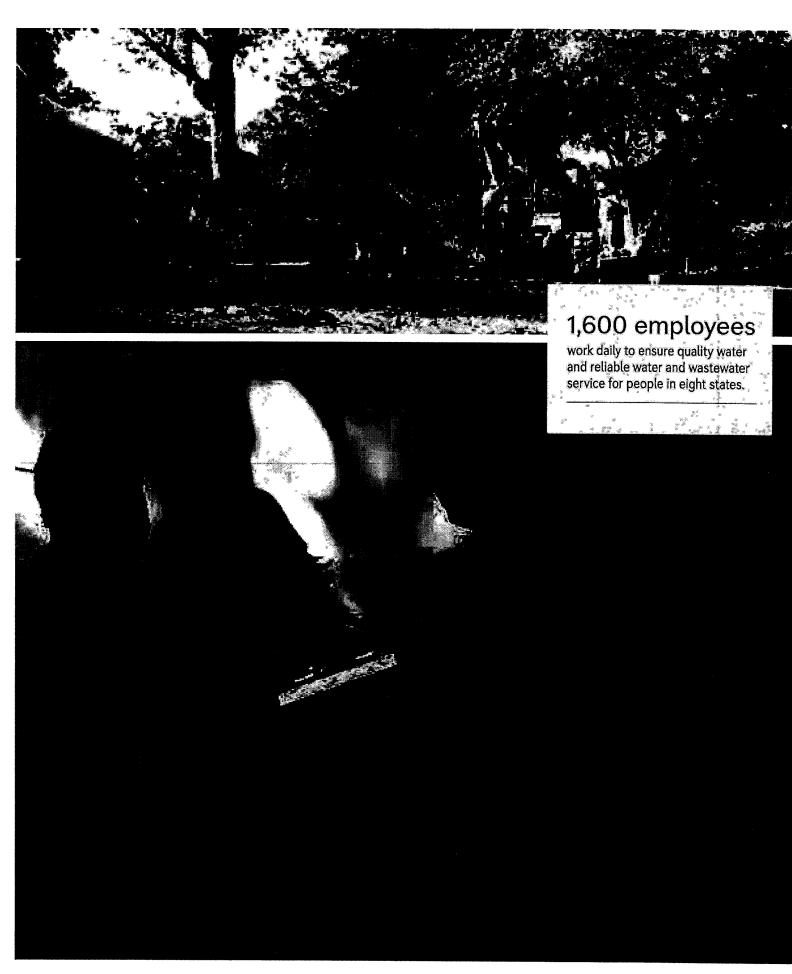
As our nation has grown, so has our company. As early as the 1900s, the company established a growth strategy that still serves as its foundation today, responsible or developing Aqua into one of the nation's largest U.S.-based water and wastewater atilities serving close to 3 million people in several states.

qua is an industry leader, setting the standards for water quality, infrastructure, sistemer service and community involvement. Aqua's dedicated staff consists of lighly skilled scientists, engineers, treatment operators and a host of other professionals. With our technical expertise and resources, Aqua has become the "go to" simpany for officials who continually rely upon us to solve problems with troubled water and wastewater utilities in their states.

tes we serve

a Ohio, North Carolina, s. New Jersey, Indiana, Virginia







Aqua cleans billions of gallons of fresh water each year for delivery directly to customers' taps via thousands of miles of pipe. Its wastewater operations treat millions of gallons of wastewater annually, restoring its quality so it can be safely returned to the environment.

Water and wastewater operations are actually the most capital intensive of all utilities, requiring investment of more capital per dollar of revenue earned than any other utility. Aqua's unique ability to continue the reliable delivery of quality water that meets or outperforms state and federal regulations requires strong and stable infrastructure. The same is true of its wastewater operations. The U.S. Environmental Protection Agency estimates that investments of \$384 billion and \$202.5 billion will be necessary to adequately maintain the nation's water and wastewater systems, respectively, over the next 20 years. That is why Aqua singularly has invested \$2.8 billion in water and wastewater infrastructure over the last 10 years (2004 through 2013), including \$308 million in 2013 alone.



Aqua employees are driven by the same concern our founders had for access to clean drinking water. Although it is seemingly ubiquitous, surface water—the primary source of drinking water—makes up just 0.007 percent of Earth's total water according to the United States Geological Survey. That is why water is Earth's most recycled—and valuable—natural resource.

We take seriously our role as environmental stewards and understand that the cleaner our fresh water resources are, the less treatment is required at our plants. That is one of the reasons our wastewater operations strive to assure that treated wastewater is returned to the environment in full compliance with all environmental laws.

in addition to the primary environmental and public health benefits of our business, we also understand the impact that reliable water and wastewater service has on the economy. Businesses of all sizes require reliable water and wastewater service to operate. In recent years, we have seen increasing evidence of the need for a significant infusion of capital to restore our nation's utility infrastructure. Such an investment, spearheaded by companies like Aqua, renews crucial infrastructure while positively impacting the nation's economy by creating living-wage jobs.

Aqua continues to be a leader in this regard, and plans to invest more than \$1 billion in capital improvements over the next three years, demonstrating the role that the private sector can play in the nation's infrastructure renewal and limiting the burden on tax requirements. Aqua's ongoing investment helps us achieve regulatory compliance and continues to provide customers with the quality water and reliable service they deserve.



Aqua America 2013 Annual Report Page 9

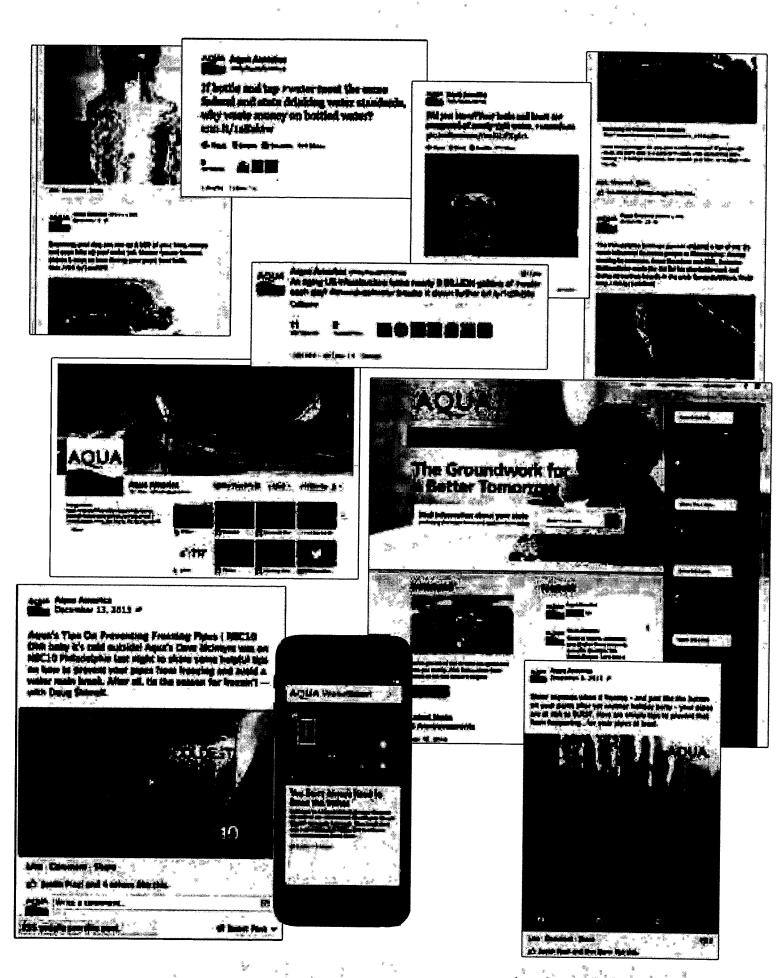
Connecting With Customers

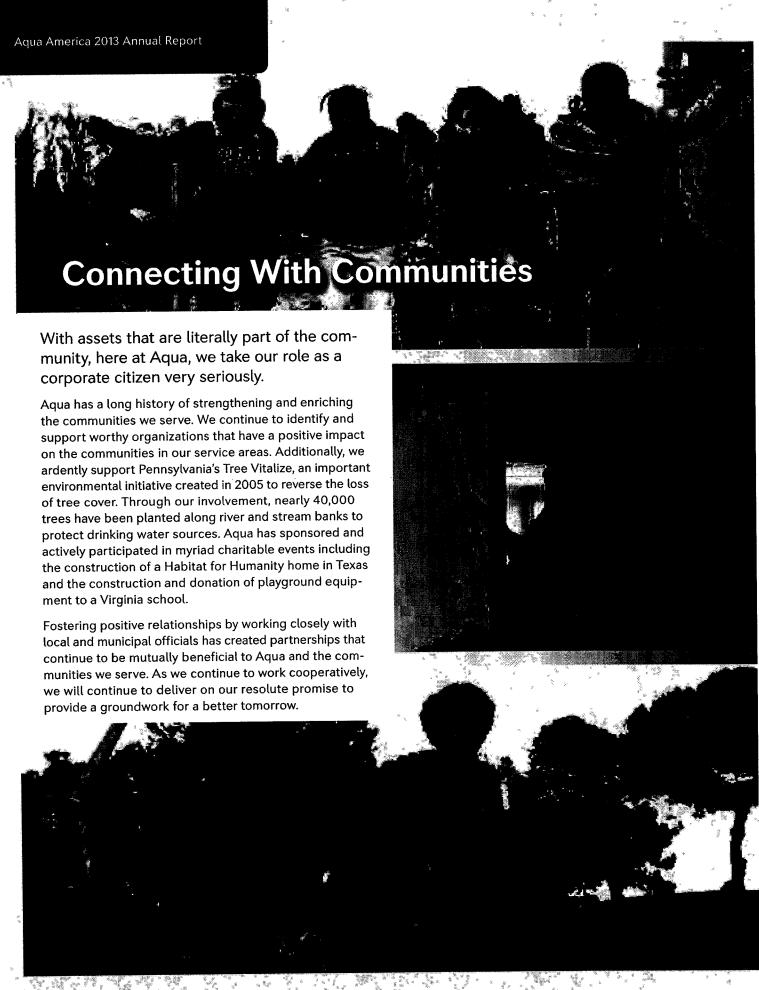
"Around the water cooler" took on new meaning for Aqua in 2013, as customers were able to learn about and engage with the company for the first time via social media when it launched Facebook and Twitter pages.

Using Facebook and Twitter to offer customers an alternative to the company's website for useful information, Aqua's social media presence has also served to leverage Aqua employee news and profiles, providing information about interesting hobbies and activities in which employees are engaged outside of work. We have also increased the exposure of our various company-sponsored community relations activities through social media, expanding the reach of good news, and further allowing the company to be involved, engaged and approachable. Customers have become the beneficiaries of frequent, useful and timely tips through the Aqua Facebook page and have begun to embrace Twitter as an alternative to contacting the call center for quick information about everything from service appointments to questions about specific infrastructure projects.

Aqua's recently refreshed website is infused with many new features including "WaterSmart," an interactive program to help customers conserve water in their homes and learn about the water treatment process. The interactive program is rooted in an illustration of a home, with clickable elements in each room that provide practical tips for water conservation. Aqua website visitors can learn how water travels from a source to the tap, with downloadable diagrams that explain the processes to treat surface water, groundwater and wastewater.

- AquaAmerica.com
- @MyAquaAmerica

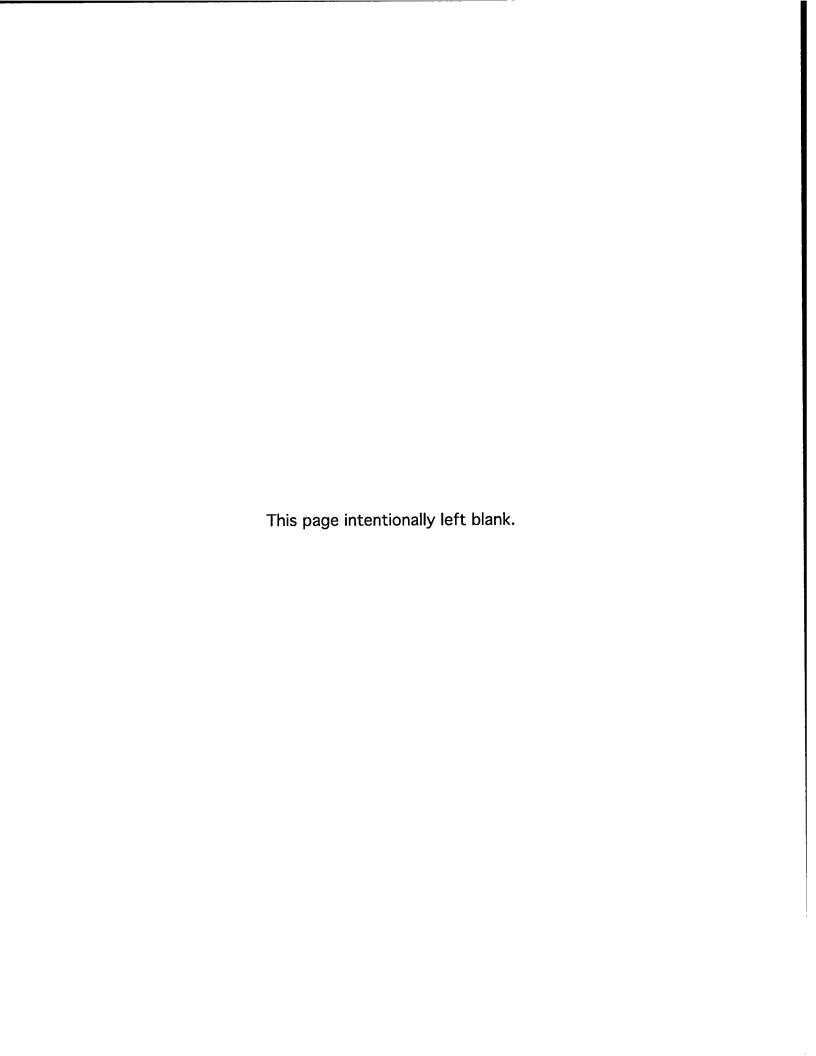






Aqua America, Inc. 2013 FINANCIAL DATA

The Groundwork for a Better Tomorrow.



Management's Discussion and Analysis of Financial Condition and Results of Operations (In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, that may be outside our control and that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "in the event" or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related financing requirements;
- the availability and cost of capital financing;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions, and repair tax deductions;
- our determination of what qualifies as a capital cost versus a repair expense tax deduction;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension plan assets;
- general economic conditions;
- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the impact of accounting pronouncements and income taxation policies.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- our determination of what qualifies for a repair expense tax deduction;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- abnormal weather conditions, including those that result in water use restrictions;

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security or other events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the "Risk Factors" included in our Annual Report on Form 10-K.

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

The Company

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost 3 million people concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc. ("Aqua Pennsylvania"), which accounted for approximately 54% of our operating revenues and a larger percentage of our net income for 2013, and, as of December 31, 2013, provided water or wastewater services to approximately one-half of the total number of people we serve located in the suburban areas in counties north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's non-regulated subsidiary, Aqua Resources, provides liquid waste hauling and disposal, water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories, offers, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention, construction, and other non-regulated water and wastewater services, and the Company's non-regulated subsidiary, Aqua Infrastructure, provides non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as

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(In thousands of dollars, except per share amounts)

Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s ("American Water") regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and has extended our regulated utility operations from southeastern Pennsylvania to include our current operations in seven other states.

Beginning in 2010, and substantially completed in 2013, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential, and to divest operations where limited customer growth opportunities exist, or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. In 2012, we sold our utility operations in Maine and New York, in 2011, we sold our utility operations in Missouri and in 2010 we sold our utility operations in South Carolina. In connection with the sale of our New York and Missouri utility operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in Aqua America's portfolio. In 2012, we began to market for sale our Florida utility operations and our wastewater treatment facility in Georgia. The sale of our regulated utility operations in Florida concluded in 2013, and the Company continues to pursue a sale of its Georgia operations.

The operating results, cash flows, and financial position of the Company's Maine, New York, Florida, and Georgia subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations.

In 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in Pennsylvania. The operation of the private pipeline system commenced in the second quarter of 2012 and marks an expansion of our growth venture in serving the raw water needs of firms in the natural gas drilling industry.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at reasonable rates to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation;
- lawsuits and the need for insurance; and
- the impact of weather and sporadic drought conditions on water sales demand.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The regulatory commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and other financings, and the franchise areas that we serve. The policies of the regulatory commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change, as is the case for our Texas operations, in 2014, where economic regulation changes from the Texas Commission on Environmental Quality to the Texas Public Utility Commission. The profitability of our

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utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. A consideration in evaluating which states to focus our growth and investment strategy is whether a state provides for consolidated rates, infrastructure rehabilitation surcharge mechanisms, and other regulatory policies, that promote infrastructure investment and efficiency in processing rate cases.

Rate Case Management Capability - We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment represents our assets used and useful in providing utility service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, communication costs, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business helps determine the profitability of the Company.

Our water and wastewater operations are composed of 61 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. Seven of the states in which we operate permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state. As of December 31, 2013, we have five active rate proceedings in five of our eight states proposing an aggregate annualized rate increase of \$16,976.

Revenue Surcharges – Five states in which we operate water utilities, and three states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. In all other states, water and wastewater utilities absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. The infrastructure rehabilitation surcharge mechanism is intended to substantially reduce regulatory lag, which often acts as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, some states permit our subsidiaries to use a surcharge or credit on their bills to reflect allowable changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new costs are fully incorporated in base rates.

Effects of Inflation – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements that provide specific stay-out provisions which require us to wait for a period of time to file the next base rate increase request. These stay-out provisions may result in regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, as has

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been experienced in 2013, 2012, and 2011, the effects of inflation can have a negative impact on our operating results.

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring non-regulated businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. The ability to successfully execute this strategy and meet the industry challenges is largely due to our financial position and our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2013, we completed 15 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represent 12,341 new customers. In May 2012, we completed our acquisition of American Water's water and wastewater operations in Ohio serving approximately 59,000 customers. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing system represent 11,070 new customers. In June 2011, we completed our acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. In addition to our Texas acquisition, during 2011, we completed eight acquisitions and other growth ventures, which along with the organic growth in our existing systems represent 3,962 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2011, 2012, and 2013 consistent with our strategy to evaluate our individual utility systems, we divested our operations in four states: Missouri in May 2011, Maine in January 2012, New York in May 2012, and Florida in separate transactions in March, April, and December of 2013. In related transactions, with respect to the sale of our Missouri operations, and with respect to the sale of our New York operations, we acquired additional utility systems (and additional customers) in Texas and in Ohio, which resulted in a net increase in customers of approximately 10,000. In addition to the dispositions mentioned above, we sold the following utility systems: in 2013 we sold three utility systems representing 1,763 customers, in 2012 we sold two utility systems representing 1,139 customers, and in 2011 we sold three utility systems representing 2,179 customers.

We believe that utility acquisitions, organic growth, and expansion of our non-regulated business will continue to be the primary sources of customer growth for us. With approximately 53,000 community water systems in the U.S., 82% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate regulated utilities, we believe there are approximately 14,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that

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there are approximately 5,000 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated acquisitions or otherwise, such as the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems of all sizes that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to lessen the size of future rate increases. Periodically, we consider opportunities for the acquisition of non-regulated water and wastewater service businesses. We are also seeking other potential business opportunities, including partnering with public and private utilities to invest in water and wastewater infrastructure improvements, and growth opportunities provided by both meeting the needs of industrial facilities and the natural gas drilling industry, with a current focus on serving the raw water needs of drillers.

Sendout

"Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may continue to result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the regulatory commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions, regardless of our ability to meet unrestricted customer water demands. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.