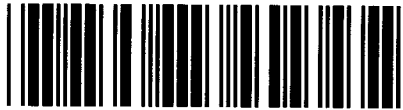


Control Number: 42959



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**

42959

*RN# [REDACTED] *CN# [REDACTED] *If known (See instructions)

RECEIVED
2014 SEP 25 AM 9:44
PUBLIC UTILITY NO. 111
FILING CLERK

1. Proposed action of application (check all the boxes that apply):

☐ Sale of ☐ All ☐ Portion of the ☐ Water system(s) under CCN No. [REDACTED]
☐ Acquisition ☐ Sewer system(s) under CCN No. [REDACTED]
☐ Lease/Rental

☒ Transfer of ☐ All ☒ Portion of the ☐ Certificated water service area – CCN No.: [REDACTED]
☐ Certificated sewer service area – CCN No.: [REDACTED]

If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:

This application only pertains to those public drinking water systems and certificated sewer service areas currently served by Aqua Utilities, Inc. (hereinafter "Tommy Patterson and Associates Water and Sewer") and is being sold to Aqua Texas, Inc. (d/b/a Aqua Texas) under its North Region Water CCN No. 13201. The systems are located in McLennan County, Texas. The systems affected by this application were provided by TCEQ with its STM application approval for Aqua Texas' acquisition of the systems (Application Nos. 36639-S and 36640-S) and are included in Attachment 8.

and to:

☐ Obtain a CCN for the transferee (purchaser) – indicate if purchaser will take the seller's CCN
☐ Amend the transferee's CCN No.: [REDACTED]
☒ Merge or consolidate public utilities
☒ Cancel CCN of the transferor (seller)

Amendment of CCN No. 13201 covering the majority of Aqua Texas, Inc. d/b/a Aqua Texas North Region water service area as requested to include the CCN and systems for which sale transfer is sought.
This is part of Aqua Texas' efforts to consolidate its North Region water systems under Aqua Texas, Inc. d/b/a Aqua Texas, CCN No. 13201.
CCN No. 11157 should be amended to reflect cancellation within the transferred areas only. Other CCN No. 11157 areas will remain following approval of this application.

2. Proposed effective date of this transaction: [REDACTED]
(Must be at least 120 days after proper notice is provided)

**QUESTIONS 3 THROUGH 5 APPLY TO THE TRANSFEROR
(CURRENT SERVICE PROVIDER OR SELLER)**

3. For the current CCN holder or service provider please indicate:

A. Name: Aqua Utilities, Inc.
(Individual, Corporation or Other Legal Entity)

who 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
Austin, TX 78723 Telephone: (AC) (512) 990-4400

7. Check the appropriate box and provide information regarding the legal status of the transferee applicant:

<input type="checkbox"/>	Individual
<input type="checkbox"/>	Home or Property Owners Association
<input type="checkbox"/>	Partnership; attach copy of partnership agreement
<input type="checkbox"/>	Corporation; provide charter number as recorded with the Office of the Secretary of State for Texas: 800304873
<input type="checkbox"/>	Non-profit, member-owned, member-controlled Cooperative Corporation (Article 1434(a) Water Supply or Sewer Service Corporation); provide charter number:
<input type="checkbox"/>	Municipally-owned utility
<input type="checkbox"/>	District (MUD, SUD, WCID, etc.)
<input type="checkbox"/>	County
<input type="checkbox"/>	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	
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:	See Attachment 1	Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable):	

•Name:		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.

Name:	Geoffrey P. Kirshbaum	Title:	Attorney
Address:	810 W. 10 th Street, Austin, TX 78701	Telephone (AC):	(512) 474-9100
Fax #	(512) 474-9888	Email	gkirshbaum@terrill-law.com
Relationship to the applicant:	Attorney		

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 Tommy J. Patterson d/b/a T & A Water and VLS, Inc. 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. Compliance issues related to the VLS water system (PWS No. 1550113) and T&A Water System (PWS No. 1550085) that predated Aqua Utilities, Inc.'s acquisition of these systems were recently resolved through interconnection of these systems with Aqua Texas' China Spring Water Company water system (PWS No. 1550021). The VLS and T&A Water System PWS numbers are now inactive. Documents related to this effort are already on file with TCEQ and incorporated by reference. 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 system assets. 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 system assets. 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. Service quality was previously improved through interconnection of the system assets proposed for transfer with a public water system already owned and operated by Aqua Texas, Inc. d/b/a Aqua Texas.

- 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 Tommy J. Patterson d/b/a T & A Water and VLS, Inc., plus improvements or additions to those system assets, used and useful for providing retail water utility service within the geographic region formerly served by Tommy J. Patterson d/b/a T & A Water and VLS, Inc. Transfer of all water CCN No. 11157 service areas/system assets in the North Region acquired from Tommy J. Patterson d/b/a T & A Water and VLS, Inc. to Aqua Texas, Inc. and inclusion within CCN No. 13201 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. If the transferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdiction of the TCEQ, please provide the following information. Water supply or sewer service corporations and political 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):
 - Other Contributions (please explain): *
- Total Contributions in Aid of Construction *
- Net Book Value: *

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: 37234-R TCEQ Docket No. 2012-1058-UCR Date: June 3, 2013

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 last water rate/tariff change application for these systems, assigned Application No. 37234-R, responsive information included in that application, and additional responsive information provided to the TCEQ Executive Director in TCEQ Docket No. 2012-1058-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.

- B. Please provide any other information concerning the nature of the transaction you believe should be given consideration if not explained elsewhere in the application.

[attach additional sheet(s) if necessary]:

The proposed transaction will effect a consolidation of Texas water system assets in the North Region under a single corporate entity, Aqua Texas, Inc. The transaction is similar to a stock purchase transaction, but no stock is being exchanged. The transaction strictly involves an asset sale/acquisition/transfer between Aqua America, Inc. subsidiaries. While legal ownership and responsibility for the assets will be placed under a different corporate entity, day-to-day utility operations will not change.

- 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 last water rate application, assigned Application No. 37234-R, responsive information included in that application, and additional responsive information provided to the TCEQ Executive Director in TCEQ Docket No. 2012-1058-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 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.

Purchaser's Initials: _____ Date: _____

14. Please indicate the proposed effect of this transaction on the rates to be charged to the affected customers:

☒ All the 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 changing, please explain:

[Redacted]

☐ Applicant is an IOU and intends to file with the Commission or municipal regulatory authority an application to change rates of some/all of its customers as a result of this transaction. If so, please explain:

[Redacted]

☐ Other. Please explain:

[Redacted]

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**. Aqua Texas requests waiver of production for all other financial information requested.

HISTORICAL BALANCE SHEETS

	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
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						

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						
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)						
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						

- 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 Tommy J. Patterson d/b/a T & A Water and VLS, Inc. 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

STATE OF Texas

COUNTY OF Travis

I, Robert L. Laughman, being duly sworn, file this application for sale, lease, rental or merger or consolidation as Aqua Utilities, Inc. - President (*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.

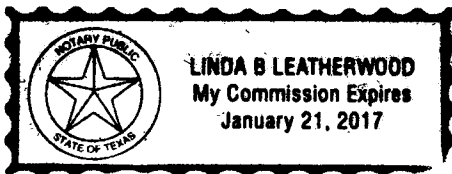
I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Section 13.301(j) and copies of any outstanding Orders of the Commission or Attorney General and have also complied with the notice requirements in Section 13.301(k) of the Water Code.

Robert L. Laughman
AFFIANT
(Utility's Authorized 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.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas,
day 3rd of June, 20 14.

SEAL



Linda B. Leatherwood
NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Linda B Leatherwood
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES January 21, 2017

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

OATH FOR PURCHASER OR ACQUIRING ENTITY

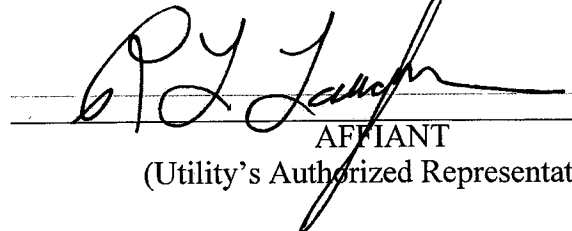
STATE OF TEXAS

COUNTY OF Travis

I, Robert L. Laughman, being duly sworn, file this application for

sale, lease, rental or merger or consolidation as President, Aqua Texas, 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.

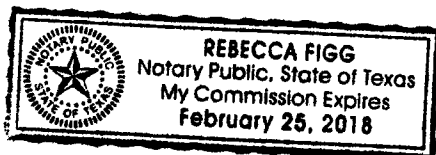

AFFIANT
(Utility's Authorized Representative)

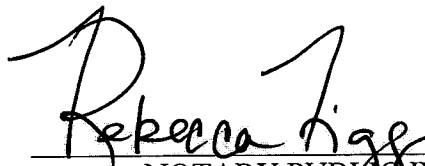

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

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,
day 3rd of June, 20 14.

SEAL




NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES Feb. 25, 2018

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

Notice to Current Customers

Aqua Utilities, Inc.

'S

(Seller's or Transferor's Name)

NOTICE OF INTENT TO SELL FACILITIES AND TRANSFER CERTIFICATE OF CONVENIENCE AND
NECESSITY (CCN) 11157 TO Aqua Texas, Inc. d/b/a Aqua Texas (CCN No.
NOS. 13201)

(Purchaser's or Transferee's Name)

IN McLennan

COUNTY, TEXAS

To: All Affected Aqua Utilities, Inc. d/b/a Aqua
Texas Water Customers @ Current Billing
Addresses

Date Notice Mailed

June , 20 14

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 CCN No. 11157 areas formerly served using the T&A Water System (PWS No. 1550085) and the VLS water system (1550113), now interconnected with Aqua Texas' China Spring Water Company water system (PWS No. 1550021), in McLennan County 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 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 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 Use Only

TCEQ Core Data Form

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

SECTION I: General Information

1. Reason for Submission (If other is checked please describe in space provided)			
<input type="checkbox"/> New Permit, Registration or Authorization (Core Data Form should be submitted with the program application)			
<input type="checkbox"/> Renewal (Core Data Form should be submitted with the renewal form)		<input checked="" type="checkbox"/> Other STM Application/Transfer	
2. Attachments Describe Any Attachments: (ex. Title V Application, Waste Transporter Application, etc.)			
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No STM Application			
3. Customer Reference Number (if issued)		4. Regulated Entity Reference Number (if issued)	
CN		RN	
Follow this link to search for CN or RN numbers in Central Registry**			

SECTION II: Customer Information

5. Effective Date for Customer Information Updates (mm/dd/yyyy)			
6. Customer Role (Proposed or Actual) – as it relates to the Regulated Entity listed on this form. Please check only one of the following:			
<input type="checkbox"/> Owner	<input type="checkbox"/> Operator	<input type="checkbox"/> Owner & Operator	Owner and/or operator
<input type="checkbox"/> Occupational Licensee	<input type="checkbox"/> Responsible Party	<input type="checkbox"/> Voluntary Cleanup Applicant	<input checked="" type="checkbox"/> Other: (mult. Reg. Entities)
7. General Customer Information			
<input type="checkbox"/> New Customer		<input type="checkbox"/> Update to Customer Information	
<input type="checkbox"/> Change in Legal Name (Verifiable with the Texas Secretary of State)		<input type="checkbox"/> Change in Regulated Entity Ownership	
		<input checked="" type="checkbox"/> No Change**	
**If "No Change" and Section I is complete, skip to Section III – Regulated Entity Information.			
8. Type of Customer:			
<input checked="" type="checkbox"/> Corporation	<input type="checkbox"/> Individual	<input type="checkbox"/> Sole Proprietorship- D.B.A	
<input type="checkbox"/> City Government	<input type="checkbox"/> County Government	<input type="checkbox"/> State Government	
<input type="checkbox"/> Other Government	<input type="checkbox"/> General Partnership	<input type="checkbox"/> Limited Partnership	
<input type="checkbox"/> Other: _____			
9. Customer Legal Name (If an individual, print last name first: ex: Doe, John)			
		If new Customer, enter previous Customer below	
		End Date:	
10. Mailing Address:			
City	State	ZIP	ZIP + 4
11. Country Mailing Information (if outside USA)		12. E-Mail Address (if applicable)	
13. Telephone Number		14. Extension or Code	
() -		() -	
15. Fax Number (if applicable)			
() -			
16. Federal Tax ID (9 digits)	17. TX State Franchise Tax ID (11 digits)	18. DUNS Number (if applicable)	19. TX SOS Filing Number (if applicable)
20. Number of Employees			21. Independently Owned and Operated?
<input type="checkbox"/> 0-20 <input type="checkbox"/> 21-100 <input type="checkbox"/> 101-250 <input type="checkbox"/> 251-500 <input type="checkbox"/> 501 and higher			<input type="checkbox"/> Yes <input type="checkbox"/> No

SECTION III: Regulated Entity Information

22. General Regulated Entity Information (If 'New Regulated Entity' is selected below this form should be accompanied by a permit application)			
<input type="checkbox"/> New Regulated Entity	<input type="checkbox"/> Update to Regulated Entity Name	<input type="checkbox"/> Update to Regulated Entity Information	<input checked="" type="checkbox"/> No Change** (See below)
**If "NO CHANGE" is checked and Section I is complete, skip to Section IV, Preparer Information.			
23. Regulated Entity Name (name of the site where the regulated action is taking place)			

24. Street Address of the Regulated Entity: (No P.O. Boxes)								
	City		State		ZIP		ZIP + 4	
25. Mailing Address:								
	City		State		ZIP		ZIP + 4	
26. E-Mail Address:								
27. Telephone Number			28. Extension or Code		29. Fax Number (if applicable)			
() -					() -			
30. Primary SIC Code (4 digits)		31. Secondary SIC Code (4 digits)		32. Primary NAICS Code (5 or 6 digits)		33. Secondary NAICS Code (5 or 6 digits)		
34. What is the Primary Business of this entity? (Please do not repeat the SIC or NAICS description.)								

Questions 34 – 37 address geographic location. Please refer to the instructions for applicability.

35. Description to Physical Location:							
36. Nearest City		County		State		Nearest ZIP Code	
37. Latitude (N) In Decimal:				38. Longitude (W) In Decimal:			
Degrees	Minutes	Seconds		Degrees	Minutes	Seconds	

39. TCEQ Programs and ID Numbers Check all Programs and write in the permits/registration numbers that will be affected by the updates submitted on this form or the updates may not be made. If your Program is not listed, check other and write it in. See the Core Data Form instructions for additional guidance.

<input type="checkbox"/> Dam Safety	<input type="checkbox"/> Districts	<input type="checkbox"/> Edwards Aquifer	<input type="checkbox"/> Industrial Hazardous Waste	<input type="checkbox"/> Municipal Solid Waste
<input type="checkbox"/> New Source Review – Air	<input type="checkbox"/> OSSF	<input type="checkbox"/> Petroleum Storage Tank	<input type="checkbox"/> PWS	<input type="checkbox"/> Sludge
<input type="checkbox"/> Stormwater	<input type="checkbox"/> Title V – Air	<input type="checkbox"/> Tires	<input type="checkbox"/> Used Oil	<input type="checkbox"/> Utilities
<input type="checkbox"/> Voluntary Cleanup	<input type="checkbox"/> Waste Water	<input type="checkbox"/> Wastewater Agriculture	<input type="checkbox"/> Water Rights	<input type="checkbox"/> Other:

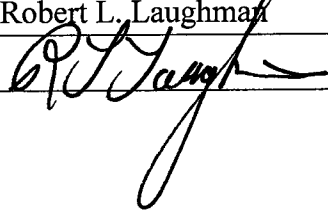
SECTION IV: Preparer Information

40. Name:	Geoffrey P. Kirshbaum		41. Title:	Attorney
42. Telephone Number	43. Ext./Code	44. Fax Number	45. E-Mail Address	
(512) 474-9100		(512) 474-9888	gkirshbaum@terrell-law.com	

SECTION V: Authorized Signature

46. By my signature below, I certify, to the best of my knowledge, that the information provided in this form is true and complete, and that I have signature authority to submit this form on behalf of the entity specified in Section II, Field 9 and/or as required for the updates to the ID numbers identified in field 39.

(See the Core Data Form instructions for more information on who should sign this form.)

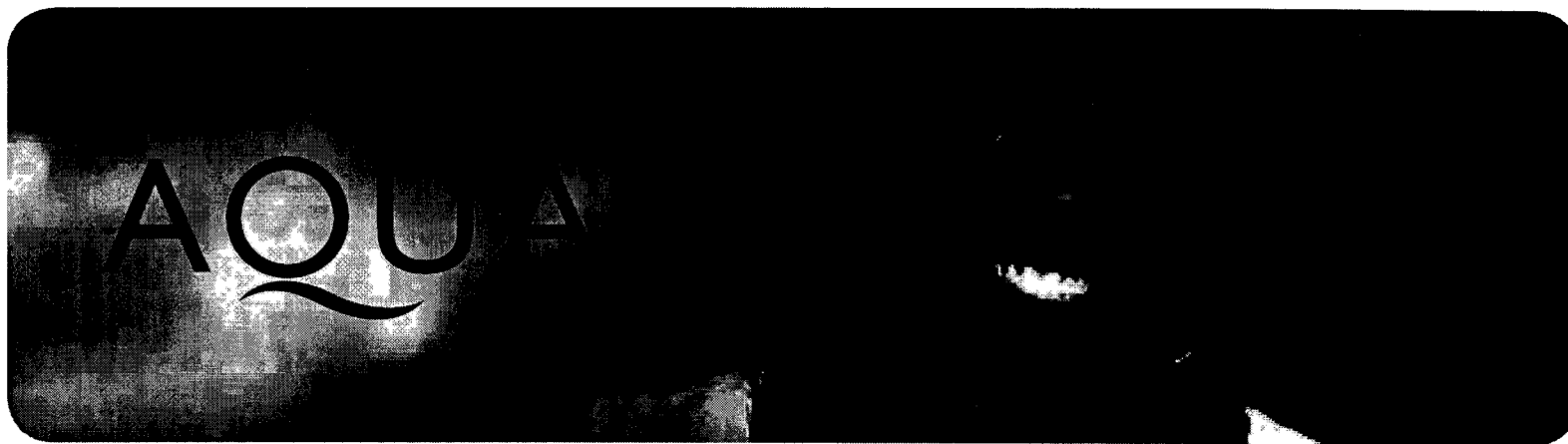
Company:	Aqua Texas, Inc. dba Aqua Texas	Job Title:	President
Name (In Print):	Robert L. Laughman	Phone:	(512) 990-4400
Signature:		Date:	6/2/2014

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

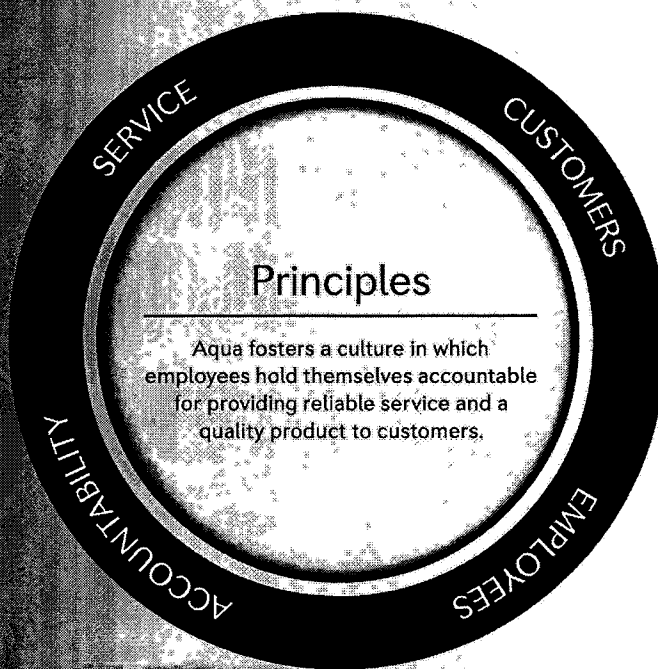




Aqua America is one of the largest U.S.-based, publicly traded water and wastewater utilities, serving more than 10 million people in Pennsylvania, Ohio, North Carolina, Texas, Illinois, New Jersey, Virginia, and Maryland. Aqua America, Inc. is listed on the New York Stock Exchange under the ticker symbol AQR.

Investing in Infrastructure for a Better Tomorrow.

Aqua America is committed to renewing and improving our water and wastewater infrastructure through thoughtful and continuous capital investment. This commitment not only ensures that we provide safe and quality water for our current and future customers, but it demonstrates a financially efficient approach to ensuring the sustainability of our business, the industry and the environment. As a steward of Earth's most recycled resource, Aqua takes equal care in providing fresh water for drinking as it does treating wastewater for its return to Earth. For over 50 years, we've successfully employed engineering, technology and sophisticated financial principles to grow Aqua into one of the nation's most efficient utilities.



Financial Highlights

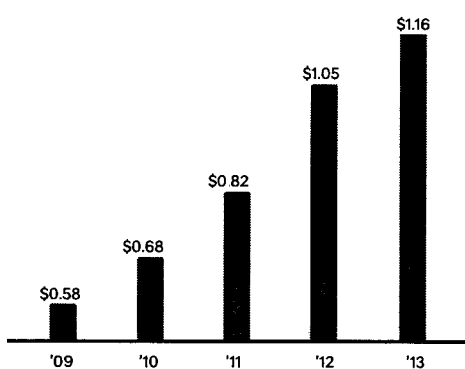
(in thousands of dollars, except per share amounts)

	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%

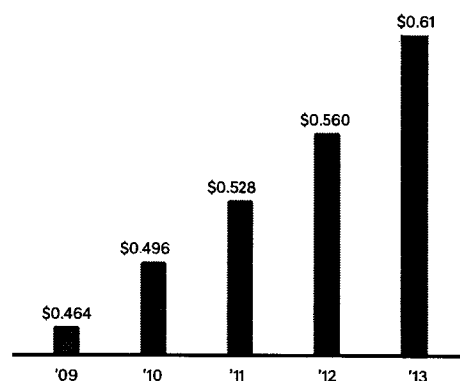
(1) Revised for 2013 5-for-4 stock split

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

Income from Continuing
Operations per Share (diluted)

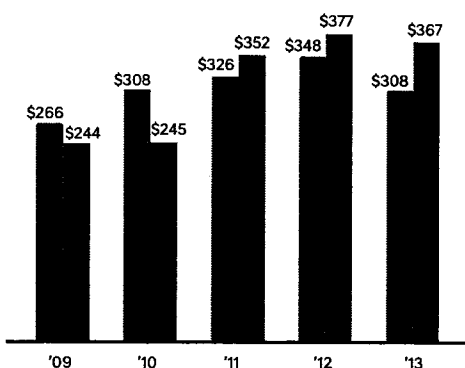


Dividend per Share
(split-adjusted, annualized)
5-year compound annual growth rate = 7.1%

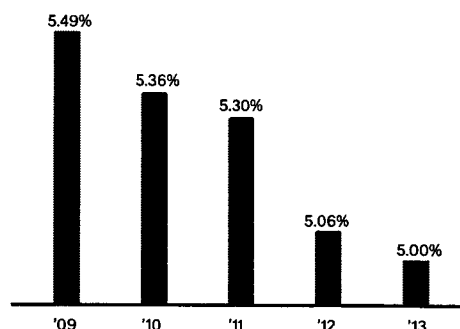


Cash Generation and CapEX
(in millions)

■ Capital Expenditures
■ Operating Cash Flow from Continuing Operations



Weighted Average Cost of
Long-Term Fixed-Rate Debt



March 11, 2014



Nicholas DeBenedictis
Chairman, President and CEO

Chairman's Message

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 fixed-rate 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
people



1,447

Public water
systems owned
and operated



Provides wastewater
service to

250K
people



187

Wastewater treatment
plants and collection sys-
tems owned and operated



Who We Are

Aqua has come a long way since our “founding fathers”—a few Swarthmore College professors concerned about water quality in their Southeastern Pennsylvania community—were granted a charter to supply water to area residents in 1886. We refreshed our brand in 2013 with a more contemporary look and feel, but our core values have remained the same.

Since the first pipe was laid in 1886, we have been dedicated to improving infrastructure and supply, whether through building reservoirs and treatment plants to service 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 for developing Aqua into one of the nation’s largest U.S.-based water and wastewater utilities serving close to 3 million people in several states.

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

States we serve

Pennsylvania, Ohio, North Carolina,
Illinois, New Jersey, Indiana, Virginia





1,600 employees

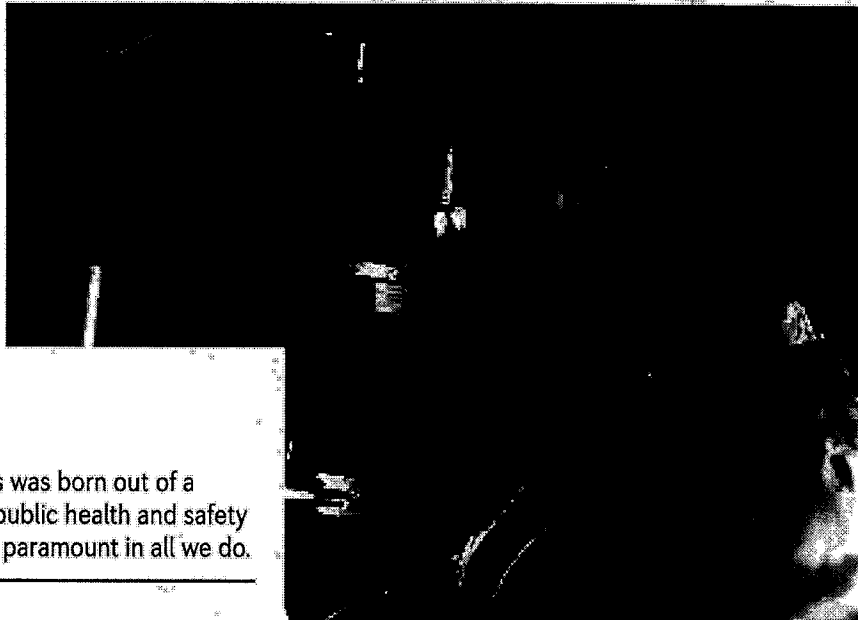
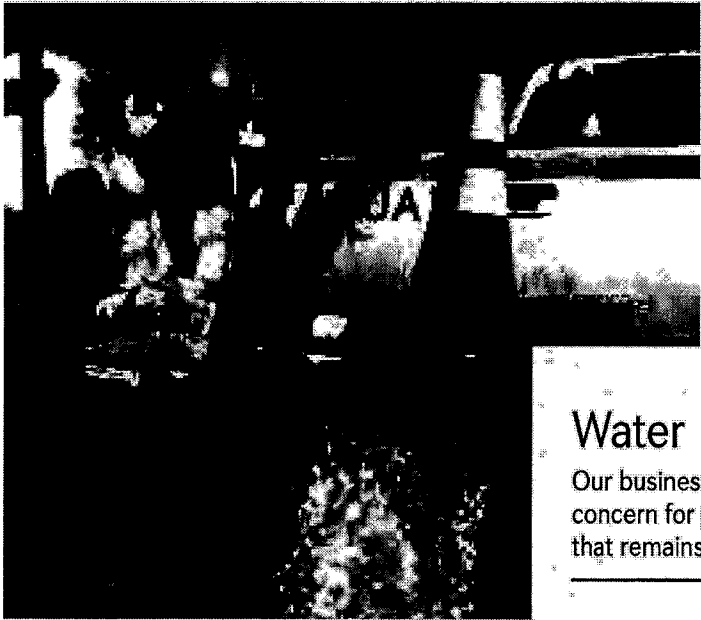
work daily to ensure quality water
and reliable water and wastewater
service for people in eight states.



What We Do

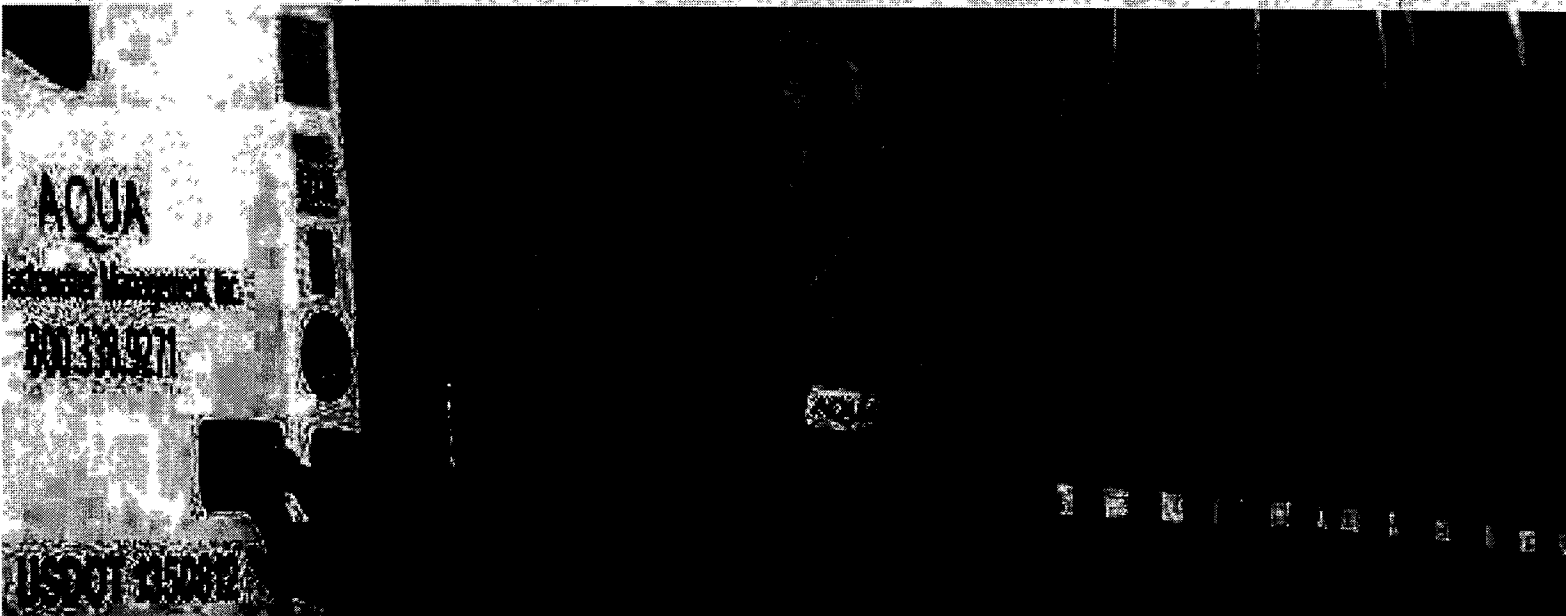
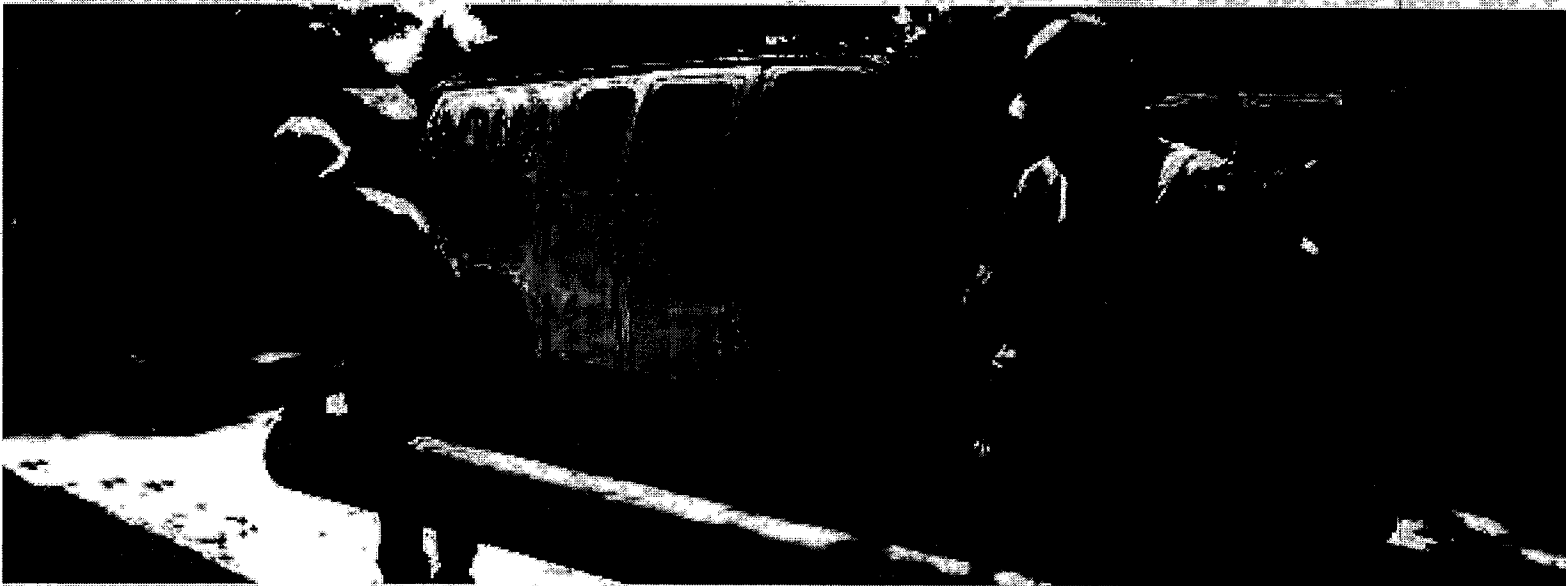
Aqua cleans billions of gallons of fresh water each year for delivery directly to customers' taps via thousands of miles of pipe. Its wastewater operations treat millions of gallons of wastewater annually, restoring its quality so it can be safely returned to the environment.

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.



Water

Our business was born out of a concern for public health and safety that remains paramount in all we do.



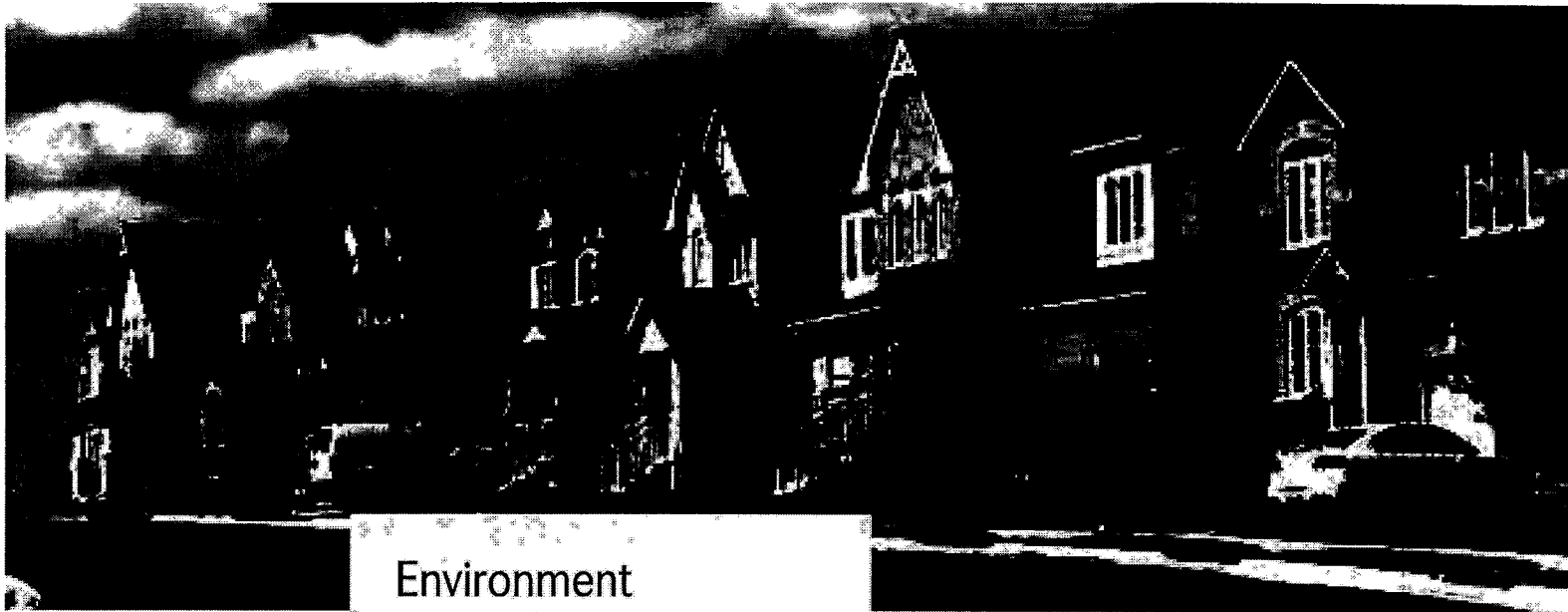
Why We Do It

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.

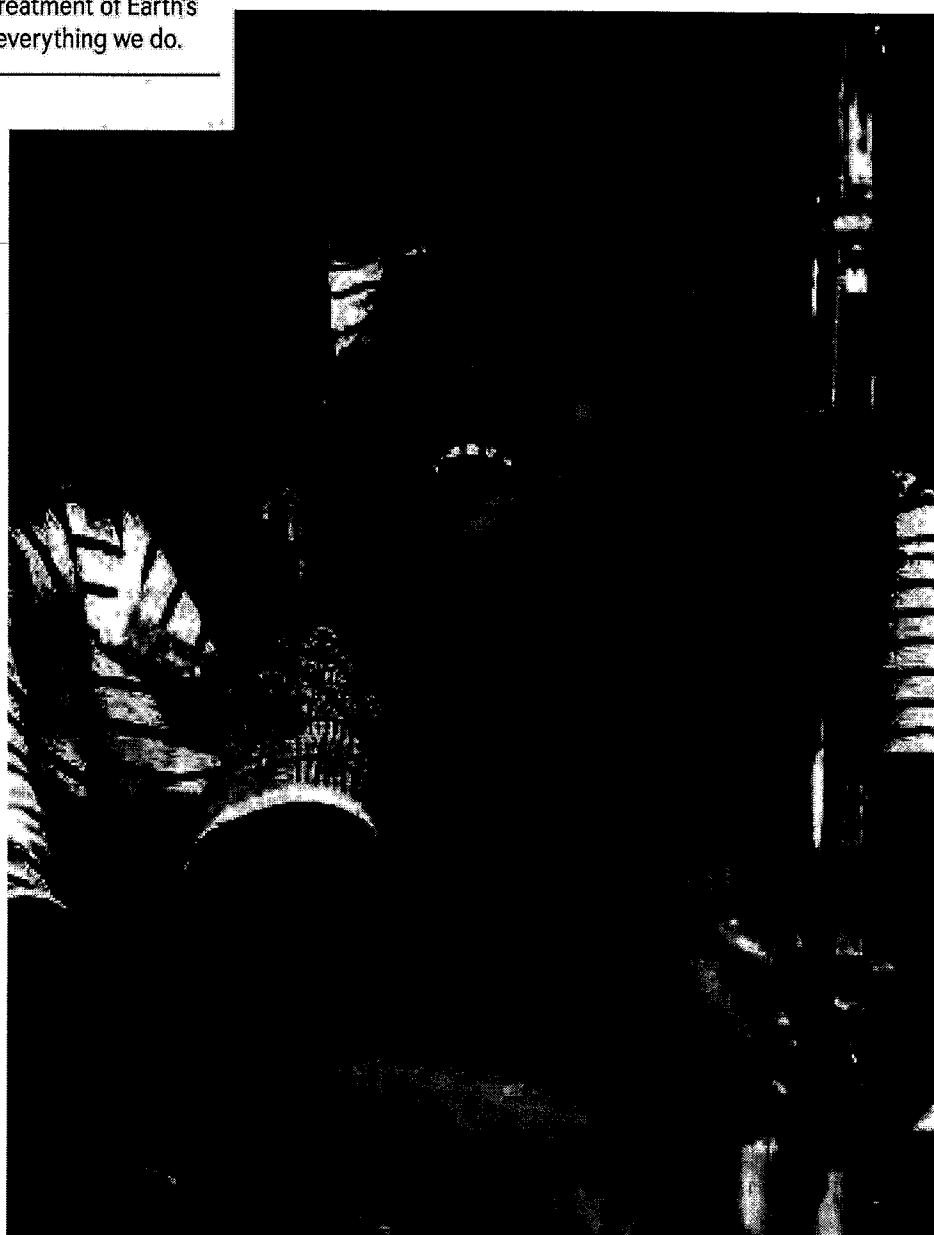
In addition to the primary environmental and public health benefits of our business, we also understand the impact that reliable water and wastewater service has on the economy. Businesses of all sizes require reliable water and wastewater service to operate. In recent years, we have seen increasing 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.



Environment

The safe, responsible treatment of Earth's water is at the core of everything we do.



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.

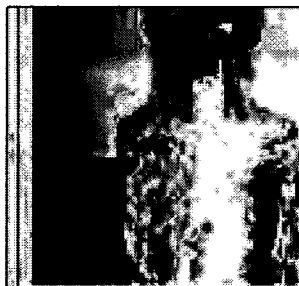
Using Facebook and Twitter to offer customers an alternative to the company’s website for useful information, Aqua’s social media presence has also served to leverage Aqua employee news and profiles, providing information about interesting hobbies and activities in which employees are engaged outside 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](https://twitter.com/MyAquaAmerica)

 [/MyAquaAmerica](https://www.facebook.com/MyAquaAmerica)



AQUA Aqua America
December 13, 2012

If bottle and tap water meet the same federal and state drinking water standards, why waste money on bottled water?
www.aqua.com

© 2012 Aqua America, Inc.

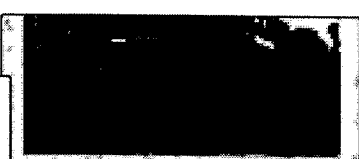


1-800-451-1111

AQUA Aqua America
December 13, 2012

Did you know? Your body and heart are composed of mostly water. Remember this: hydration is key!

© 2012 Aqua America, Inc.

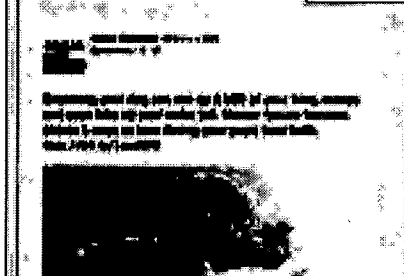


Water is essential to life.
Remember this: hydration is key!

AQUA Aqua America
December 13, 2012

Water is essential to life.
Remember this: hydration is key!

The importance of water is often overlooked.
Remember this: hydration is key!



AQUA Aqua America
December 13, 2012

An aging US infrastructure could easily be replaced with modern, efficient systems.

© 2012 Aqua America, Inc.

AQUA Aqua America
December 13, 2012

Water is essential to life.
Remember this: hydration is key!

© 2012 Aqua America, Inc.

AQUA Aqua America
December 13, 2012

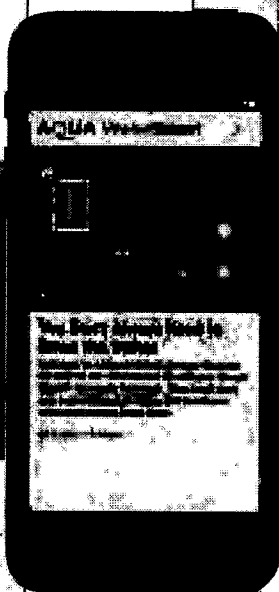
The Groundwork for a Better Tomorrow

© 2012 Aqua America, Inc.

AQUA Aqua America
December 13, 2012

Aqua's Tips On Preventing Freezing Pipes | NBC10
On today it's cold outside! Aqua's Dave McWayne was on NBC10 Philadelphia last night to share some helpful tips on how to prevent your pipes from freezing and avoid a water main break. After all, it's the season for frozen! — with David Shirok.

© 2012 Aqua America, Inc.



AQUA Aqua America
December 13, 2012

Water is essential to life.
Remember this: hydration is key!

© 2012 Aqua America, Inc.

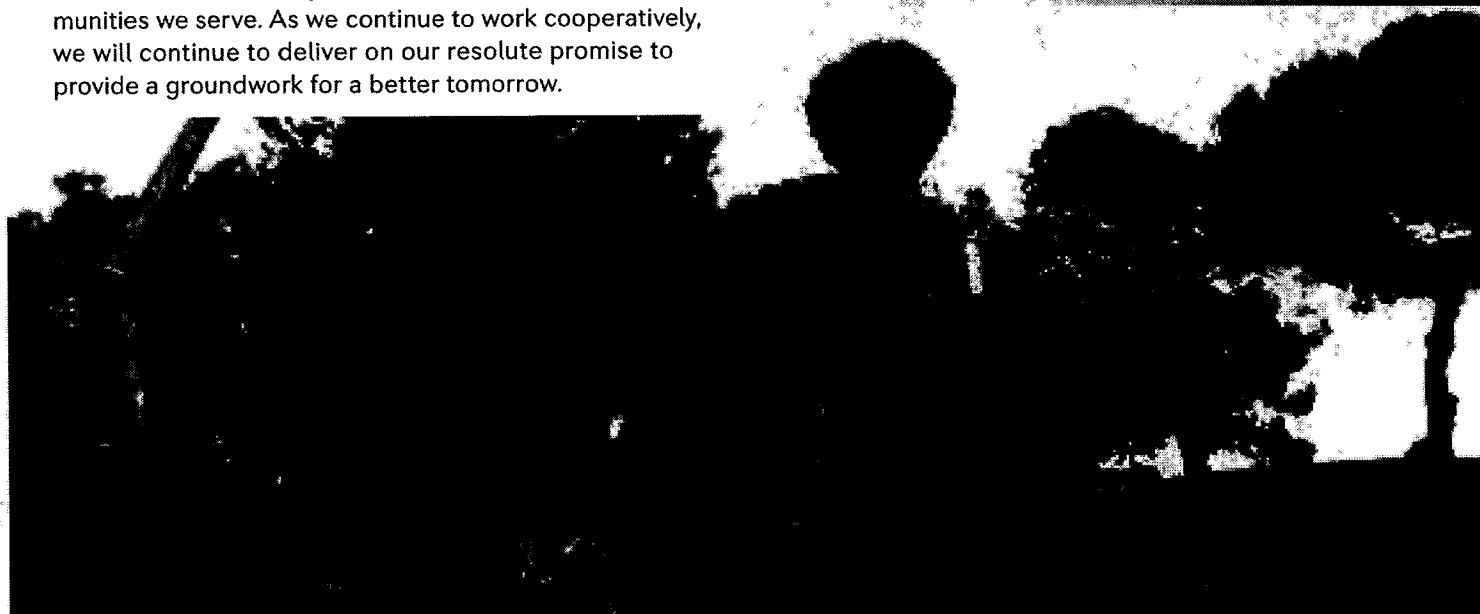


Connecting With Communities

With assets that are literally part of the community, here at Aqua, we take our role as a corporate citizen very seriously.

Aqua has a long history of strengthening and enriching the communities we serve. We continue to identify and support worthy organizations that have a positive impact on the communities in our service areas. Additionally, we ardently support Pennsylvania's Tree Vitalize, an important environmental initiative created in 2005 to reverse the loss of tree cover. Through our involvement, nearly 40,000 trees have been planted along river and stream banks to protect drinking water sources. Aqua has sponsored and actively participated in myriad charitable events including the construction of a Habitat for Humanity home in Texas and the construction and donation of playground equipment to a Virginia school.

Fostering positive relationships by working closely with local and municipal officials has created partnerships that continue to be mutually beneficial to Aqua and the communities we serve. As we continue to work cooperatively, we will continue to deliver on our resolute promise to provide a groundwork for a better tomorrow.





AQUASM

Aqua America, Inc.
2013 FINANCIAL DATA

The Groundwork
for a Better Tomorrow.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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;

AQUA AMERICA, INC. AND SUBSIDIARIES

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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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.

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The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2013, our operating revenues were derived principally from the following states: approximately 54% in Pennsylvania, 12% in Ohio, 9% in Texas, 7%, in Illinois, and 6% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results: earnings per share, operating revenues, income from continuing operations, net income attributable to common shareholders and the dividend rate on common stock. In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment: our number of utility customers, the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio" or "efficiency ratio"); return on revenues (income from continuing operations divided by operating revenues); return on equity (net income attributable to common shareholders divided by stockholders' equity); and the ratio of capital expenditures to depreciation expense. We also review the measure of earnings before interest, taxes, and depreciation ("EBITD") and the measure of earnings before income taxes as compared to our operating budget. We review these measurements regularly and compare them to historical periods, to our operating budget as approved by our Board of Directors, and to other publicly-traded water utilities.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- **Regulatory lag** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the efficiency ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The efficiency ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates), or decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting repair expenses for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the efficiency ratio, as a result of regulatory lag since our rate cases may not be filed timely nor are they retroactive.
- **Acquisitions** – In general, acquisitions of smaller undercapitalized utility systems in some areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of the Aqua America operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we operate non-regulated subsidiary companies that provide liquid waste hauling and disposal, water and wastewater service through operating and maintenance contracts with municipal authorities and other parties in close proximity 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 non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. The cost-structure of these non-regulated businesses differs from our utility companies in that, although they may generate free cash flow, these businesses have a much higher ratio of operations and maintenance expenses to operating revenues