

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Alloc Change Rec Tx Admin

SW ADMIN OFFICE ALLOCATION CHANGE

	TX Admin Office K&M		
	TEST YEAR 12/31/2010 (a)	Allocation of 19.08% Minus Test Year Alloc of 20.17% (b)	(c)
SALARIES & WAGES			
WT-A & G Labor-Employ-Rg	\$696,375	-1.09%	(\$7,565)
WT-Cust Accts Labor-Employ-Rg	\$1,573	-1.09%	(\$17)
WT-Source Oper LBR-Employ-Rg	\$3,794	-1.09%	(\$41)
WT-A & G Labor-Employ-OT	\$6,500	-1.09%	(\$71)
WT-Cust Accts Labor-Employ-OT	\$157	-1.09%	(\$2)
WT-A & G Labor-Bonuses	\$28,856	-1.09%	(\$313)
WT-A & G Labor-Dividend Equiv	\$12,685	-1.09%	(\$138)
WT-A & G Labor-Stock Option Co	\$82,501	-1.09%	(\$896)
WT-A & G Restricted Stock Amor	\$14,010	-1.09%	(\$152)
OFFICE EXPENSES			
SW-ACO Lockbox Fees	\$135	-1.09%	(\$1)
SW-Misc-A&G-MAIL OVERNIGHT	\$241	-1.09%	(\$3)
SW-Misc-A&G-Office Supplies	\$114	-1.09%	(\$1)
WT-ACO Allocation	(\$61)	-1.09%	\$1
WT-ACO Lockbox Fees	(\$61)	-1.09%	\$1
WT-Other ACO Direct costs	\$79,845	-1.09%	(\$867)
WT-Cont Serv-Oth-A&G	\$0	-1.09%	\$0
WT-Mat&Sup-T&D OPER-Gen	\$0	-1.09%	\$0
WT-Mat&Sup-A & G	\$0	-1.09%	\$0
WT-Cont Serv-Oth-Source OPER	(\$58)	-1.09%	\$1
WT-Cont Serv-Oth-Source MAINT	\$1,000	-1.09%	(\$11)
SW-Cont Serv-Oth-A&G	\$9,006	-1.09%	(\$98)
WT-Cont Serv-Oth-Misc Computer	\$1,008	-1.09%	(\$11)
WT-Misc-A&G-Bank Fees	\$4,131	-1.09%	(\$45)
WT-Misc-A&G-COPIES	\$275	-1.09%	(\$3)
WT-Cont Serv-Oth-T&D OPER-Metr	\$467	-1.09%	(\$5)
WT-Misc-A&G-MAINT	\$820	-1.09%	(\$9)
WT-Misc-A&G-MAIL&POST	\$19,218	-1.09%	(\$209)
WT-Misc-A&G-Office Supplies	\$25,341	-1.09%	(\$275)
WT-Rent Equip-Source MAINT	\$250	-1.09%	(\$3)
WT-Rent Bldg/RP-A & G	\$78,815	-1.09%	(\$856)
WT-Rent Equip-A & G	\$9,798	-1.09%	(\$106)
WT-Trans-A & G	\$5,112	-1.09%	(\$56)
WT-Trans-T&D MAINT	\$1,228	-1.09%	(\$13)
WT-Trans-T&D OP-CAR WASH TCK	\$184	-1.09%	(\$2)
WT-Trans-T&D OP-DIESEL	(\$1,779)	-1.09%	\$19
WT-Trans-T&D OP-GAIN LEASED EQ	(\$64,000)	-1.09%	\$695
WT-Trans-T&D OP-GAIN SALE ASST	(\$6,280)	-1.09%	\$68
WT-Trans-T&D OP-GASOLINE	\$10,664	-1.09%	(\$116)
WT-Trans-T&D OP-PARTS AUTO&MCH	\$38	-1.09%	(\$0)
WT-Trans-T&D OP-LEASE	\$12,847	-1.09%	(\$140)
WT-Trans-T&D OP-LICENSES	\$363	-1.09%	(\$4)
ACCOUNTING & LEGAL FEES			
WT-Cont Serv-Acct-A & G	\$1,482	-1.09%	(\$16)
WT-Cont Serv-Legl-A & G	\$200,952	-1.09%	(\$2,183)

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	TEST YEAR 12/31/2010 (a)	Allocation of 19.08% Minus Test Year Alloc of 20.17% (b)	(c)
INSURANCE			
WT-A&G Emp-DENTAL PLAN	\$17,321	-1.09%	(\$188)
WT-A&G Emp-GEIS	\$4,372	-1.09%	(\$47)
WT-A&G Empl-GROUP LIFE INS	\$2,734	-1.09%	(\$30)
WT-A&G Empl-HEALTH PLANS	\$276,732	-1.09%	(\$3,006)
WT-A&G Empl-Insurance Payments	(\$117,356)	-1.09%	\$1,275
WT-A&G Emp-US HEALTHCARE	(\$207,953)	-1.09%	\$2,259
WT-A&G Empl-INTERCO BENEFITS	\$148	-1.09%	(\$2)
WT-Ins-Gen Liab-A & G	\$0	-1.09%	\$0
WT-Ins-Vehicle-A & G	\$6	-1.09%	(\$0)
WT-Ins-Work Comp-A & G	\$6,275	-1.09%	(\$68)
MISCELLANEOUS			
TY Corporate Management Fees	\$1,447,950	-1.09%	(\$15,729)
WT-Region Mgmt Fees	\$0	-1.09%	\$0
SW-Cont Serv-MgtFee-A&G	\$0	-1.09%	\$0
WT-Cont Serv-Mgmt F-A & G	\$0	-1.09%	\$0
WT-Corp Mgmt Fees Only	\$0	-1.09%	\$0
WT-Bad Debt Expense-Cust Accts	\$0	-1.09%	\$0
WT-Misc-A&G-Claims	\$20,018	-1.09%	(\$217)
WT-A&G Empl-CONTRIB THRIFT PL	\$30,875	-1.09%	(\$335)
SW-A&G Empl-CONTRIB THRIFT PL	(\$1,163)	-1.09%	\$13
WT-A&G Emp-Pension Paid	\$14,338	-1.09%	(\$156)
WT-A&G Emp-POSTRT BEN(FAS 106)	\$322	-1.09%	(\$3)
WT-A&G Empl-INTERCO BENEFITS	\$148	-1.09%	(\$2)
SW-Misc-A&G	\$1,697	-1.09%	(\$18)
WT-Misc-A&G-SERVICE CLEARING	\$247	-1.09%	(\$3)
SW-Misc-A&G-MEALS 100% DED	\$155	-1.09%	(\$2)
SW-Misc-A&G-MEALS 50% DED	\$84	-1.09%	(\$1)
SW-Misc-A&G-SEMINARS	\$574	-1.09%	(\$6)
SW-Misc-A&G-TRV	\$14	-1.09%	(\$0)
SW-Misc-A&G-TRV-HOTEL	\$599	-1.09%	(\$7)
WT-A&G Emp-EMPLY X-MAS GIFTS	\$7,526	-1.09%	(\$82)
WT-A&G Emp-FLOWERS & FRUIT	\$590	-1.09%	(\$6)
WT-A&G Empl-EDUCATION	\$2,790	-1.09%	(\$30)
WT-A&G Empl-MISC	\$240	-1.09%	(\$3)
WT-A&G Emp-SEMINARS	\$60	-1.09%	(\$1)
WT-Misc-A&G	\$5,275	-1.09%	(\$57)
WT-Misc-A&G-Civic Org Events (Aqua Conner)	\$20,528	-1.09%	(\$223)
WT-Misc-A&G-COMM EXP	\$197,092	-1.09%	(\$2,141)
WT-Misc-A&G-DUES	\$476	-1.09%	(\$5)
SW-Misc-A&G-DUES	\$338	-1.09%	(\$4)
WT-Misc-A&G-ENTERTAIN	\$20	-1.09%	(\$0)
WT-Misc-A&G-FINES&PENALTIES	\$274	-1.09%	(\$3)
WT-Misc-A&G-LIC&PER	\$5,977	-1.09%	(\$65)
WT-Misc-A&G-MEALS 100% DED	\$2,835	-1.09%	(\$31)
WT-Misc-A&G-MEALS 50% DED	\$10,619	-1.09%	(\$115)
SW-Misc-A&G-DUES	\$338	-1.09%	(\$4)
SW-Misc-A&G-TRV-Mile Reim	\$111	-1.09%	(\$1)
WT-Misc-A&G-TRV	\$513	-1.09%	(\$6)
WT-Misc-A&G-TRV-Airplane	\$5,389	-1.09%	(\$59)
WT-Misc-A&G-TRV-Auto Mile Reim	\$5,576	-1.09%	(\$61)
WT-Misc-A&G-TRV-HOTEL	\$13,300	-1.09%	(\$144)
WT-Misc-A&G-TRV-RENTAL CAR	\$4,899	-1.09%	(\$53)
WT-Misc-A&G-UNIFORMS	\$100	-1.09%	(\$1)
DEPRECIATION & AMORTIZATION			
Deprec Exp-Utility Plant	\$0	-1.09%	\$0
Amort-Other Utility Plant	\$0	-1.09%	\$0
Reconcile To Test Year	\$3,020,546		(\$32,812)
	\$3,020,546		

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj1 - SW Water Payroll

Line	Status Category Code	Hire Date	Region	2011 Annual Salary	K&M Annual Salary with 4% increase	Bonus
	(a)	(b)	(c)	(d)	(e)	(f)
SOUTHWEST WATER/SEWER O&M						
1	Total K&M Reg Payroll/Bonus				4.00%	3.44%
2	Remove Contract Ops Payroll (3)				\$1,194,959	\$41,107
New Positions :						
3	1 Utility Tech @ \$30k					\$1,032
4	4 Operator Positions @ \$35k each				\$140,000	\$4,816
5	K&M Reg Gross Payroll (Lines 32 +33+ 34+35)				\$1,195,884	\$40,106
6	2011 Reg Payroll Expense Rate (1)				80.41%	100.00%
7	K&M Payroll Expense				\$961,576	\$40,106
Allocate Reg Time to Water/Sewer:						
8	WT-A & G Labor-Employ-Rg		\$321,062	40.59%	\$390,257	
9	WT-Cust Accts Labor-Employ-Rg		\$83,138	10.51%	\$101,056	
10	WT-Source Maint LBR-Employ-Rg		\$1,698	0.21%	\$2,064	
11	WT-Source Oper LBR-Employ-Rg		\$67,509	8.53%	\$82,059	
12	WT-T&D Maint LBR-Emp-Sy-GEN-Rg		\$54,056	6.83%	\$65,706	
13	WT-T&D Oper LBR-Emp-Sys-GEN-Rg		\$16,947	2.14%	\$20,600	
14	WT-WTRTRT Maint LBR-Employ-Rg		\$24,766	3.13%	\$30,103	
15	WT-WTRTRT Oper LBR-Employ-Rg		\$159,604	20.18%	\$194,001	
16	TY Sewer Regular Pay		\$62,303	7.88%	\$75,730	
17	Total		\$791,084	100.00%	\$961,576	
18	2011 Overtime Rate Line 36 X 12% (2)				\$143,506	
19	Remove Contract Ops Overtime (4)				(\$29,702)	
20	2011 OT Payroll Expense Rate (1)				81.74%	
21	Total K&M OT Expense ((Lines 49 + 50) X Line 51)				\$93,023	
Allocate OT to Water/Sewer:						
22	WT-A & G Labor-Employ-OT		\$9,066	4.39%	\$4,085	
23	WT-Cust Accts Labor-Employ-OT		\$11,887	5.76%	\$5,355	
24	WT-Source Maint LBR-Employ-OT		\$903	0.44%	\$407	
25	WT-Source Oper LBR-Employ-OT		\$37,030	17.93%	\$16,683	

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj1 - SW Water Payroll

Line	Status Category Code	Hire Date	Region	2011 Annual Salary	K&M Annual Salary with 4% increase	Bonus
	(a)	(b)	(c)	(d)	(e)	(f)
26	WT-T&D Maint LBR-Emp-Sy-GEN-OT		\$21,442	10.38%	\$9,660	
27	WT-T&D Oper LBR-Emp-Sys-GEN-OT		\$5,910	2.86%	\$2,663	
28	WT-WTRTRT Maint LBR-Employ-OT		\$4,087	1.98%	\$1,841	
29	WT-WTRTRT Oper LBR-Employ-OT		\$93,752	45.40%	\$42,237	
30	Sewer OT Pay		\$22,404	10.85%	\$10,093	
31	Total		\$206,481	100.00%	\$93,023	
Allocate K&M Bonus to Water/Sewer (Line 33, Column (f))						
32	WT-A & G Labor-Bonuses (Line 38 X Line 64 %)		\$29,985	92.38%		\$37,049
33	SW-A & G Labor-Bonuses		\$2,475	7.62%		\$3,057
34	Total (Lines 76 X 77 X 78)		\$32,460	100.00%		
Calculate K&M 401k Contributions						
34	TY Water 401k Costs		\$28,340			
35	TY Water Regular Payroll		\$728,781			
36	TY Effective Rate Line 64/Line 65			3.89%		
37	K&M 401k Costs (Line 68 X Lines 39 thru 46)					\$34,448

(1) See WP-Support Adj 1

(2) Proxy 12% rate - See explanation in Attachment 1. Test Year rate: 23.59%

(3) Total SW Regular b/f ConOps \$958,429
 ConOps Regular \$135,608
 Alloc Percent 14.15%

(4) Total SW Overtime b/f ConOps \$274,022
 ConOps Overtime \$56,715
 Alloc Percent 20.70%

	Status Category Code	Hire Date	Region	2011 Annual Salary	K&M- Annual Salary with 4% increase	Bonus
	(a)	(b)	(c)	(d)	(e)	(f)
1	Rates (1) SOUTHWEST ADMIN				4.00%	3.44%
2	Gross K&M Reg Payroll/Bonus				\$128,695	\$4,257
3	2011 Reg Payroll Expense Rate (1)				63.38%	
4	K&M WT-A & G Labor-Employ-Rg				\$81,573	
	<i>Allocate to SW Admin</i>					
4	WT-A & G Labor-Employ-Rg		\$50,810	61.84%	\$50,447	
5	WT-Cust Accts Labor-Employ-Rg		\$30,811	37.50%	\$30,590	
6	WT-Source Oper LBR-Employ-Rg		\$539	0.66%	\$536	
7	Total		\$82,160	100.00%		
8	2011 Overtime Rate (1)			2.19%		
9	2011 OT Payroll Expense Rate (1)			100.00%		
10	Total K&M OT Expense (Lines 6 X 9 X 10)				\$1,786	
11	K&M Bonus				\$4,257	
12	<u>Calculate K&M 401k Contributions</u> TY SW Admin 401k Costs					
	TEXAS ADMIN					
13	Total K&M Reg Payroll/Bonus				\$1,083,014	\$35,823
14	2011 Payroll Expense Rate (1)				70.38%	
15	K&M Payroll Expense				\$762,204	
	<i>Allocate to Tx Admin</i>					
16	WT-A & G Labor-Employ-Rg		\$696,375	99.24%	\$756,375	
17	WT-Cust Accts Labor-Employ-Rg		\$1,573	0.22%	\$1,708	
18	WT-Source Oper LBR-Employ-Rg		\$3,794	0.54%	\$4,121	
19	Total		\$701,741	100.00%		
19	2011 Overtime Rate (1)			1.04%		
20	2011 OT Payroll Expense Rate (1)			100.00%		
20	K&M OT Expense (Line 29 X Line 33 X Line 34)				\$7,910	

No 401k Costs for SW Admin

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj2 SW Admin PR

Status Category Code	Hire Date	Region	2011 Annual Salary	K&M- Annual Salary with 4% increase	Bonus
(a)	(b)	(c)	(d)	(e)	(f)
Allocate to OT Expense Tx Admin					
21	WT-A & G Labor-Employ-OT	\$6,500	97.65%	\$7,724	
22	WT-Cust Accts Labor-Employ-OT	\$157	2.35%	\$186	
23	Total	\$6,656	100.00%		
23	K&M Bonus			\$35,823	
Calculate K&M 401k Contributions					
24	TY TX Admin 401k Costs	\$29,712			
25	TY TX Admin Regular Payroll	\$701,741			
26	TY Effective Rate Line 38/Line 39		4.23%		
27	K&M 401k Costs (Line 29 X Line 40)			\$32,272	

(1) See WP-Support Adj 1

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj3 SW Payroll Tax

Title	Total Comp Salary + OT + Bonus	Medicare wages and tips Expense 1.45% of Total Labor	Social Security 6.2% on all wages below \$106,800	FUTA Expense 0.8% (7K max) Tax set at maximum	SUTA Expense 1.46% (9K max) Tax set at maximum
SW WATER/SEWER O&M					
1 Total Payroll Taxes		\$22,010	\$94,110	\$1,736	\$4,073
2 Remove Contract Ops Payroll Taxes (2)		(\$3,435)	(\$14,686)	(\$271)	(\$636)
<i>Positions:</i>					
3 1 Utility Tech	\$34,632	\$502	\$2,147	\$56	\$131
4 4 Operator Positions	\$161,616	\$2,343	\$10,020	\$56	\$131
5 Total Gross K&M Payroll Taxes (Lines 32-35)		\$21,421	\$91,592	\$1,577	\$3,701
6 2011 Reg Payroll Expense Rate (1)		80.41%	80.41%	80.41%	80.41%
7 Total K&M Payroll Tax Expense SW		\$17,224	\$73,646	\$1,268	\$2,976
Allocate Payroll Taxes to Water/Wastewater					
8 TY Water Payroll Exp.	\$942,844				
9 TY Sewer Payroll Exp.	\$87,181				
10 Total	\$1,030,025				

SW WATER/SEWER ADMIN PAYROLL TAXES

11 Total Payroll Taxes		\$1,969	\$8,418	\$112	\$263
12 Reg Payroll Expense Rate (1)		63.38%	63.38%	63.38%	63.38%
13 K&M Payroll Tax SW Admin		\$1,248	\$5,336	\$71	\$167
AQUA TEXAS ADMIN PAYROLL TAXES					
28 Total Payroll Taxes		\$16,386	\$64,481	\$784	\$1,840
29 Reg Payroll Expense Rate (1)		70.38%	70.38%	70.38%	70.38%
30 K&M Payroll Tax SW Admin		\$11,532	\$45,381	\$552	\$1,295
(1) See WP-Support Adj 1					

(2) Total SW Regular	\$958,429
Total SW Overtime	\$274,022
Total	\$1,232,451
ConOps Regular	\$135,608
ConOps Overtime	\$56,715
Total	\$192,323
Total Con Ops	\$192,323
Total IOU	\$1,232,451
Allocation	15.60%

Purchase Water K&M Adjustment

Source	Test Year Volumes Mgals (a)	Test Year Cost (b)	K&M Adjust (1) (c)	K&M Expense (d)	Normalizing Adjust. (2) (e)	K&M Expense (f)
1 City of Austin (Rivercrest)	129,479.4	\$433,493	\$73,694	\$507,187	\$16,896	\$524,083
2 LCRA (Raw Water)		\$72,811	\$0	\$72,811	\$2,426	\$75,237
3 City of Austin (Moreland)	687.6	\$2,309	\$393	\$2,702	\$90	\$2,792
4 City of Cedar Park	3,287.9	\$17,725	\$0	\$17,725	\$590	\$18,315
5 Manville WSC	59,003.4	\$191,761	\$0	\$191,761	\$6,388	\$198,149
6 Neuces WSC	4,807.5	\$27,538	\$0	\$27,538	\$917	\$28,455
7 City of Round Rock	48,626.3	\$128,959	\$9	\$128,968	\$4,296	\$133,264
8 Accruals		\$73,785	(\$73,785)	\$0	\$0	\$0
9 Total	245,892	\$948,381	\$310	\$948,691	\$31,604	\$980,296

(1) Based on noticed and anticipated increases.

(2) Normalizing Adjustment

Line 15, Column (e) Total Cost

Volumetric Normalization Percent Change	\$948,691
K&M Adjustment	3.33%
Impact of Excess Volumes over 15%	0.00%
K&M Adjustment	\$0
Total K&M Adjustment	\$31,604

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj5-Chem Exp Adj

Chemicals K&M Adjustment

	Test Year Cost (a)	Estimated Supplier Price Increases (b)	2011 Budgeted K&M Expense (c)	Normalizing Adjust. (2) (d)	K&M Expense (e)	
1	Total Test Year Costs	\$114,951	\$5,748 (1)	\$120,698	\$39,473	\$160,171
(1)	Reflects 2011 estimate of price increases in chlorine costs and acquisitions of 5%					
(2)	Normalizing Adjustment					
	Line 3, Column (a) + Column (b)		\$120,698			
	Total Mgals Pumped/Treated		1,358,769			
	Chemical Rate Per Mgal		<u>\$0.0888</u>			
	Normalization Volumetric Adjustment		444,366			
	Nonrevenue Water Loss		0			
	Total Volumes for Adjustment		<u>444,366</u>			
	Normalizing Adjustment		<u>\$39,473</u>			

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj6-Purch Power

Purchase Power K&M Adjustment

	Test Year Cost (a)	Estimated Average Rate/Energy Increase (1) (b)	K&M Power Expense (c)	Normalizing Adjust. (2) (d)	K&M Power Expense (e)
WATER					
<i>Purchased Pumping Power:</i>					
1	\$605,225	\$32,957	\$638,182	\$208,708	\$846,890
<i>Misc A&G Utilities:</i>					
2	\$28,732	\$1,565	\$30,296	\$0	\$30,296

(1) Average Actual Increase in all sectors ERCOT Electric Rates from 1999 through 2009 per Energy Information Administration "Annual Electric Power Industry Report." 5.45%

(2) Normalizing Adjustment:
 K&M Pumping Power Expense

Line 1, Column (a) + Column (b)
 Total Mgal's Pumped 1,358,769
 Avg Purchase Power Rate Per Mgal \$0.4697

Adjust for Norm - See WP-Adj Bills&Vols Summary
 Adjust for over 15% water loss - See WP-Non Rev Water
 K&M Adjustment

Vols	Vols X Avg Rate
444,366	\$208,708
0	\$0
	<u>\$208,708</u>

Table 8. Retail Sales, Revenue, and Average Retail Price by Sector, 1990 Through 2009

Texas

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Retail Sales (thousand megawatthours)													
Residential	82,548	84,088	81,934	87,686	89,793	92,831	99,656	101,094	110,434	108,591	116,895	117,343	121,435
Commercial	62,238	61,447	61,696	64,331	66,467	68,580	70,866	72,042	77,231	79,388	84,848	87,912	87,746
Industrial	84,087	84,122	85,421	86,933	90,329	90,093	95,308	100,429	102,702	99,741	101,588	98,208	102,251
Other	8,542	10,694	10,381	11,134	11,591	11,775	12,619	13,138	14,337	14,124	14,931	14,581	9,414
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
All Sectors	237,415	240,352	239,431	250,084	258,180	263,279	278,450	286,704	304,705	301,844	318,263	318,044	320,846
Retail Revenue (million dollars)													
Residential	5,947	6,361	6,343	7,017	7,255	7,162	7,740	7,905	8,448	8,201	9,305	10,399	9,778
Commercial	3,843	4,041	4,152	4,467	4,678	4,556	4,756	4,852	5,074	5,179	5,835	6,807	6,095
Industrial	3,391	3,489	3,587	3,757	3,858	3,590	3,842	4,071	4,047	3,964	4,491	5,174	4,761
Other	534	663	658	743	786	758	813	848	917	899	1,011	1,103	616
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
All Sectors	13,715	14,554	14,740	15,984	16,577	16,066	17,151	17,676	18,486	18,243	20,642	23,484	21,251
Average Retail Prices (cents/kWh)													
Residential	7.20	7.57	7.74	8.00	8.08	7.71	7.77	7.82	7.65	7.55	7.96	8.86	8.05
Commercial	6.17	6.58	6.73	6.94	7.04	6.64	6.71	6.74	6.57	6.52	6.88	7.74	6.95
Industrial	4.03	4.15	4.20	4.32	4.27	3.98	4.03	4.05	3.94	3.97	4.42	5.27	4.66
Other	6.25	6.20	6.34	6.68	6.79	6.44	6.44	6.45	6.40	6.36	6.77	7.56	6.55
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
All Sectors	5.78	6.06	6.16	6.39	6.42	6.10	6.16	6.17	6.07	6.04	6.49	7.38	6.62
Retail Revenue (2009 million dollars)													
Residential	8,459	8,742	8,520	9,213	9,327	9,023	9,570	9,613	10,162	9,724	10,797	11,785	10,891
Commercial	5,466	5,553	5,577	5,884	6,014	5,740	5,881	5,901	6,104	6,141	6,772	7,714	6,788
Industrial	4,822	4,794	4,819	4,933	4,960	4,522	4,750	4,951	4,868	4,700	5,211	5,863	5,303
Other	759	911	884	976	1,011	955	1,005	1,031	1,103	1,066	1,173	1,250	686
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
All Sectors	19,506	20,001	19,800	20,986	21,312	20,241	21,206	21,497	22,237	21,631	23,954	26,612	23,669
Average Retail Prices (2009 cents/kWh)													
Residential	10.25	10.40	10.40	10.51	10.39	9.72	9.60	9.51	9.20	8.95	9.24	10.04	8.97
Commercial	8.78	9.04	9.04	9.12	9.05	8.37	8.30	8.19	7.90	7.74	7.98	8.77	7.74
Industrial	5.73	5.70	5.64	5.67	5.49	5.02	4.98	4.93	4.74	4.71	5.13	5.97	5.19
Other	8.88	8.52	8.52	8.76	8.72	8.11	7.96	7.85	7.70	7.54	7.86	8.57	7.29
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
All Sectors	8.22	8.32	8.27	8.39	8.25	7.69	7.62	7.50	7.30	7.17	7.53	8.37	7.38

* = Value is less than half of the smallest unit of measure (e.g., for values with no decimals, the smallest unit is 1 and values under 0.5 are shown as .5).

- (dash) = Data not available.

Source: U.S. Energy Information Administration, Form EIA-861, "Annual Electric Power Industry Report "

Table 8. Retail Sales, Revenue, and Average
 Texas

Texas

Sector	2003	2004	2005	2006	2007	2008	2009	Percentage Share	
								1999	2009
Retail Sales (thousand megawatthours)									
Residential	121,355	120,330	126,562	126,843	124,921	127,712	129,797	36.0	37.6
Commercial	96,694	99,616	110,784	111,130	110,540	113,473	118,497	26.3	34.3
Industrial	104,547	100,588	96,841	104,689	108,300	105,806	96,931	33.0	28.1
Other	-	-	-	-	-	-	-	4.7	-
Transportation	90	81	71	62	67	69	71	-	-
All Sectors	322,686	320,615	334,258	342,724	343,829	347,059	345,296	100.0	100.0
Retail Revenue (million dollars)									
Residential	11,111	11,707	13,832	16,307	15,419	16,649	16,072	45.0	47.2
Commercial	7,581	7,867	9,810	10,951	10,910	12,193	11,444	28.4	33.6
Industrial	5,512	5,902	6,916	8,185	8,439	9,301	6,534	21.7	19.2
Other	-	-	-	-	-	-	-	4.9	-
Transportation	6	6	6	5	6	6	7	-	-
All Sectors	24,211	25,462	30,564	35,448	34,773	38,150	34,056	100.0	100.0
Average Retail Prices (cents/KWh)									
Residential	9.16	9.73	10.93	12.86	12.34	13.04	12.38	-	-
Commercial	7.84	7.90	8.85	9.85	9.87	10.75	9.66	-	-
Industrial	5.27	5.87	7.14	7.82	7.79	8.79	6.74	-	-
Other	-	-	-	-	-	-	-	-	-
Transportation	6.62	7.02	8.45	8.42	8.40	8.64	9.83	-	-
All Sectors	7.50	7.95	9.14	10.34	10.11	10.99	9.86	-	-
	13.29%	6.00%	14.97%	13.13%	-2.22%	8.70%	-10.28%	5.45%	-
Retail Revenue (2009 million dollars)									
Residential	12,118	12,415	14,237	16,307	-	-	-	45.0	-
Commercial	8,268	8,343	10,097	10,951	-	-	-	28.4	-
Industrial	6,012	6,259	7,119	8,185	-	-	-	21.7	-
Other	-	-	-	-	-	-	-	-	-
Transportation	6	6	6	5	-	-	-	4.9	-
All Sectors	26,404	27,023	31,460	35,448	-	-	-	100.0	-
Average Retail Prices (2009 cents/KWh)									
Residential	9.79	10.32	11.25	12.86	-	-	-	-	-
Commercial	8.55	8.38	9.11	9.85	-	-	-	-	-
Industrial	5.75	6.22	7.35	7.82	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Transportation	7.21	7.45	8.69	8.42	-	-	-	-	-
All Sectors	8.18	8.43	9.41	10.34	-	-	-	-	-

* = Value is less than half of the smallest unit c
 - (dash) = Data not available
 Source: U.S. Energy Information Administration

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj7-Trans Exp

Transportation Expense K&M Adjustment

	Test Year Expense	Adjustment	Pro Forma Expense	
	(a)	(b)	(c)	
<u>Southwest Water</u>				
1	WT-Trans-T&D OP-LEASE (1)	\$66,320	(\$22,306)	\$44,014
2	WT-Trans-T&D MAINT (1)	\$32,865	\$11,585	\$44,450
3	WT-Trans-T&D OP-GASOLINE (2)	\$71,869	\$61,622	\$133,491
4	WT-Trans-T&D OP-DIESEL (2)	\$23,160	\$17,720	\$40,879
<u>SW Admin</u>				
5	WT-Trans-T&D OP-GASOLINE (2)	\$0	\$4,657	\$4,657
<u>Texas Admin</u>				
6	WT-Trans-T&D OP-LEASE (1)	\$12,847	\$1,676	\$14,523
7	WT-Trans-T&D MAINT (1)	\$1,228	\$1,061	\$2,289
8	WT-Trans-T&D OP-GASOLINE (2)	\$10,664	\$4,896	\$15,560

(1) Based on known and measurable data as of 6/2011.

(2) Reflects per gallon prices as of 6/2011.

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
WP-Adj8-ACO Cust Billing

TEXAS ACO CENTRALIZED BILLING AND SERVICE K&M ADJUSTMENTS
Reflects Changes Beginning 1/1/2011

1	ACO Allocations				\$698,272
		<u>Allocate on Customer</u>			
2		Water	19.08%	\$133,230	
3	Other ACO Direct Costs (Misc)				\$13,605
		<u>Allocate on Customer</u>			
4		Water	19.08%	\$2,596	
5	Workflow processing				\$85,009
		<u>Allocate on Customer</u>			
6		Water	19.08%	\$16,220	
7	Workflow billing postage				\$249,202
		<u>Allocate on Customer</u>			
8		Water	19.08%	\$47,548	
9	ACO Lockbox fees (Lockbox & Zipcheck)				\$68,796
		<u>Allocate on Customer</u>			
10		Water	19.08%	\$13,126	

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj⁹ SW Benefits

K&M ADJUSTMENT BENEFITS

		Medical	Dental	Contribution	Life, ADD, LTD
	SW WATER/SEWER O&M				
1	101478 Administrative Assistant	\$13,371	\$779	(\$2,161)	\$160
2	101086 Administrative Assistant	\$20,024	\$1,179	(\$3,239)	\$213
3	100070 Administrative Assistant	\$13,371	\$779	(\$2,161)	\$226
4	100832 Facility Operator I	\$6,682	\$446	(\$1,091)	\$226
5	102303 Facility Operator I	\$20,024	\$1,179	(\$3,239)	\$206
		\$0	\$446	(\$89)	\$213
6	102037 Facility Operator I	\$20,024	\$1,179	(\$3,239)	\$274
7	100046 Facility Operator II	\$14,702	\$1,179	(\$2,441)	\$266
8	101176 Facility Operator II	\$11,376	\$1,179	(\$1,942)	\$232
9	80117 Facility Operator II	\$6,682	\$446	(\$1,091)	\$253
10	100048 Facility Operator II	\$20,024	\$1,179	(\$3,239)	\$247
11	101930 Facility Operator II	\$6,682	\$446	(\$1,091)	\$232
12	80179 Facility Operator II	\$13,371	\$779	(\$2,161)	\$281
13	100162 Facility Operator II	\$13,371	\$779	(\$2,161)	\$289
14	100077 Facility Operator II	\$13,371	\$779	(\$2,161)	\$321
15	101198 Facility Operator III	\$6,682	\$446	(\$1,426)	\$419
16	100049 Facility Operator III	\$20,024	\$1,179	(\$3,239)	\$315
17	102287 Facility Operator III	\$11,376	\$779	(\$2,431)	\$524
18	100001 Field Supervisor	\$20,024	\$1,179	(\$4,241)	\$529
19	100054 Field Supervisor	\$20,024	\$1,179	(\$4,241)	\$563
20	101874 Field Supervisor	\$6,682	\$1,179	(\$1,238)	\$177
21	102243 Utility Tech I	\$20,024	\$1,179	(\$3,239)	\$239
22	101429 Utility Tech II	\$6,682	\$446	(\$1,091)	\$204
23	102273 Utility Tech II	\$20,024	\$1,179	(\$3,239)	\$218
24	101814 Utility Tech II	\$0	\$0	\$0	\$232
25	80089 Utility Tech II	\$20,024	\$1,179	(\$3,239)	\$227
26	100514 Utility Tech II	\$0	\$0	\$0	\$294
27	100084 Utility Tech III	\$20,024	\$1,179	(\$3,239)	\$274
		\$13,371	\$779	(\$2,161)	\$281

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-adj9 SW Benefits

K&M ADJUSTMENT BENEFITS

		Medical	Dental	Contribution	Life, ADD, LTD
28	80309 Utility Tech/Laborer	\$14,702	\$1,179	(\$2,441)	\$166
29	102078 Utility Technician I	\$13,371	\$779	(\$2,161)	\$171
30	102136 Utility Technician I	\$6,682	\$446	(\$1,091)	\$206
31	80015 Utility Technician Laborer	\$0	\$0	\$0	\$163
32	Total K&M Reg Payroll/Bonus	\$392,767	\$25,860	(\$66,991)	\$8,286
33	Remove Con Ops Share (2)	(\$55,573)	(\$3,659)	\$9,479	(\$1,172)
New Positions :					
34	1 Utility Tech	\$12,670	\$834	(\$2,161)	\$267
35	4 Operator Positions	\$50,680	\$3,337	(\$8,644)	\$1,069
36	Total K&M	\$400,543	\$26,372	(\$68,318)	\$8,451
37	Water Test Year Regular Pay	\$728,781	\$24,295	(\$62,937)	\$7,785
38	Sewer Test Year Regular Pay	\$62,303	\$2,077	(\$5,380)	\$666
39	Total	\$791,084			
40	SW ADMIN				
40	101936 Area Manager	\$11,376	\$1,179	(\$2,511)	\$777
41	101621 Dispatcher	\$0	\$0	\$0	\$232
42	Total K&M Annual Cost	\$11,376	\$1,179	(\$2,511)	\$1,009
AQUA TEXAS ADMIN					
43	101946 Wastewater Compliance Coordinator	\$13,371	\$779	(\$2,830)	\$557
44	456 Regional Environmental Compliance Manager	\$0	\$0	\$0	\$754
45	101505 Customer Field Services Manager - TX	\$6,682	\$446	(\$1,426)	\$524
46	101950 Accounting Assistant	\$0	\$0	\$0	\$194
47	102122 Accounting Assistant	\$6,682	\$446	(\$1,091)	\$202
48	100097 Fixed Asset Accountant	\$13,371	\$779	(\$2,830)	\$411

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj9 SW Benefits

K&M ADJUSTMENT BENEFITS

		Medical	Dental	Contribution	Life, ADD, LTD
49	101602	\$14,702	\$1,179	(\$3,970)	\$1,212
50	101612	\$0	\$0	\$0	\$421
51	101628	\$0	\$779	(\$156)	\$609
52	50172	\$20,024	\$1,179	(\$4,241)	\$1,090
53	xxxxx	\$6,682	\$779	\$0	\$713
54	100228	\$0	\$779	\$0	\$713
55	80093	\$6,682	\$446	(\$1,426)	\$325
56	102016	\$6,682	\$779	(\$1,492)	\$508
57	Total K&M Annual Cost	\$94,878	\$8,369	(\$19,462)	\$8,231

(1) Existing Empl K&M Medical-Dental Costs	\$392,767	\$25,860	(\$66,991)	\$8,286
Existing Employee Count	31	31	31	31
Average Per Employee	\$12,670	\$834	(\$2,161)	\$267
Average Cost for 5 Employees	\$63,349	\$4,171	(\$10,805)	\$1,337

(2) See Footnote (3) WP-Adj1 14.15%

PersonID	TITLE	Region	Hire Date	2011 Ending Base Salary	2012 Salary 4% Increase	K&M Gross Wages & Salary	K&M Exp Wages & Salary	CAPITAL ZED	OT Rate	OT Cost	CAPITALIZED	Annual Health & Medco	Annual Dental	Life ADD & LTD	Employee Payments
Southwest Region															
101478	Administrative Assistant	CTX	10/14/2002	\$27,027	\$1,081	\$28,108	\$28,108	\$0	0.00%	\$3,435	\$0	\$13,371	\$779	\$210	(\$2,161)
101086	Administrative Assistant	CTX	8/12/2003	\$30,525	\$1,221	\$31,746	\$31,746	\$0	0.00%	\$0	\$0	\$20,024	\$1,179	\$163	(\$2,161)
100070	Administrative Assistant	CTX	8/12/2003	\$32,403	\$1,296	\$33,699	\$33,699	\$0	0.00%	\$0	\$0	\$13,371	\$779	\$226	(\$2,161)
100832	Facility Operator I	CTX	8/15/2003	\$32,403	\$1,296	\$33,699	\$33,699	\$14	18.46%	\$6,200	\$14	\$6,682	\$446	\$226	(\$1,091)
102373	Facility Operator I	CTX	8/15/2010	\$32,403	\$1,296	\$33,699	\$33,699	\$57	13.64%	\$4,206	\$57	\$20,024	\$1,179	\$206	(\$3,239)
102377	Facility Operator I	CTX	8/15/2006	\$30,721	\$1,231	\$31,952	\$31,952	\$159	27.30%	\$8,737	\$159	\$20,024	\$1,179	\$213	(\$89)
103246	Facility Operator II	CTX	8/12/2003	\$33,037	\$1,321	\$34,358	\$34,358	\$20	20.93%	\$15,773	\$20	\$20,024	\$1,179	\$274	(\$3,239)
801176	Facility Operator II	CTX	8/12/2003	\$33,037	\$1,321	\$34,358	\$34,358	\$86	21.33%	\$14,702	\$86	\$14,702	\$1,179	\$265	(\$2,441)
100048	Facility Operator II	CTX	9/20/2010	\$33,280	\$1,331	\$34,611	\$34,611	\$56	21.33%	\$7,383	\$56	\$14,702	\$1,179	\$265	(\$1,962)
100930	Facility Operator II	CTX	8/12/2003	\$33,340	\$1,334	\$34,674	\$34,674	\$0	0.00%	\$7,581	\$0	\$6,682	\$446	\$247	(\$3,239)
80179	Facility Operator II	CTX	3/14/2005	\$35,621	\$1,425	\$37,046	\$37,046	\$0	20.51%	\$7,581	\$0	\$20,024	\$1,179	\$247	(\$3,239)
101162	Facility Operator II	CTX	1/31/2011	\$34,841	\$1,394	\$36,234	\$36,234	\$0	0.00%	\$11,425	\$0	\$6,682	\$446	\$281	(\$1,091)
8/12/2003	Facility Operator II	CTX	8/12/2003	\$40,461	\$1,618	\$42,079	\$42,079	\$0	0.00%	\$12,952	\$0	\$13,371	\$779	\$289	(\$2,161)
101158	Facility Operator III	CTX	8/12/2003	\$41,624	\$1,665	\$43,289	\$43,289	\$0	0.00%	\$12,952	\$0	\$13,371	\$779	\$289	(\$2,161)
100949	Facility Operator III	CTX	8/12/2003	\$41,624	\$1,665	\$43,289	\$43,289	\$0	0.00%	\$12,952	\$0	\$13,371	\$779	\$289	(\$2,161)
102287	Field Supervisor	CTX	10/19/2009	\$46,019	\$1,841	\$47,860	\$47,860	\$0	0.00%	\$25,045	\$0	\$6,682	\$446	\$419	(\$3,239)
100001	Field Supervisor	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$0	0.00%	\$25,045	\$0	\$6,682	\$446	\$419	(\$3,239)
100054	Field Supervisor	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$0	0.00%	\$25,045	\$0	\$6,682	\$446	\$419	(\$3,239)
101874	Field Supervisor	CTX	8/25/2004	\$46,019	\$1,841	\$47,860	\$47,860	\$0	0.00%	\$25,045	\$0	\$6,682	\$446	\$419	(\$3,239)
102243	Utility Tech I	CTX	11/10/2008	\$46,019	\$1,841	\$47,860	\$47,860	\$11,109	49.12%	\$31,109	\$11,109	\$11,376	\$779	\$524	(\$4,241)
101462	Utility Tech II	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
102273	Utility Tech II	CTX	5/12/2009	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
101814	Utility Tech II	CTX	9/22/2010	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
80089	Utility Tech II	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
100514	Utility Tech II	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
80084	Utility Technician I	CTX	8/29/2011	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
102078	Utility Technician I	CTX	8/12/2003	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
102136	Utility Technician I	CTX	10/24/2007	\$46,019	\$1,841	\$47,860	\$47,860	\$15,000	0.00%	\$0	\$15,000	\$20,024	\$1,179	\$953	(\$4,241)
8005	Utility Technician Laborer	CTX	5/17/2010	\$23,482	\$931	\$24,413	\$24,413	\$3,016	13.03%	\$3,155	\$3,016	\$6,682	\$446	\$206	(\$1,091)
	Total			\$1,746,999	\$69,312	\$1,816,311	\$1,816,311	\$8,965	36.61%	\$281,244	\$8,965	\$392,767	\$25,860	\$8,286	(\$66,981)
Southwest Admin															
101936	Area Manager	CTX Admin	4/4/2005	\$80,020	\$3,625	\$83,645	\$83,645	\$47,122	59.00%	\$2,813	\$47,122	\$11,376	\$1,179	\$777	(\$2,511)
101621	Dispatcher	CTX Admin	3/22/2004	\$33,226	\$1,325	\$34,551	\$34,551	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0
	Total			\$113,246	\$4,950	\$118,196	\$118,196	\$47,122	8.18%	\$2,813	\$47,122	\$11,376	\$1,179	\$777	(\$2,511)
Texas Admin															
101946	Wastewater Compliance Coordinator	TX Adm	5/31/2005	\$60,225	\$3,209	\$63,434	\$63,434	\$20,700	0.00%	\$0	\$20,700	\$13,371	\$779	\$557	(\$2,830)
456	Regional Environmental Compliance Manager	TX Adm	6/30/2003	\$67,927	\$3,517	\$71,444	\$71,444	\$21,168	0.00%	\$0	\$21,168	\$0	\$0	\$754	\$0
101505	Customer Field Services Manager - TX	TX Adm	8/1/2003	\$60,002	\$2,436	\$62,438	\$62,438	\$0	0.00%	\$0	\$0	\$6,682	\$446	\$524	(\$1,426)
101950	Training Assistant	TX Adm	7/5/2005	\$32,951	\$1,308	\$34,259	\$34,259	\$0	15.84%	\$5,385	\$0	\$0	\$0	\$194	\$0
102132	Field Asset Accountant	TX Adm	8/20/2007	\$31,774	\$1,271	\$33,044	\$33,044	\$0	0.00%	\$3,265	\$0	\$0	\$446	\$202	(\$1,091)
100097	Field Asset Accountant	TX Adm	8/12/2003	\$31,774	\$1,271	\$33,044	\$33,044	\$0	0.00%	\$3,265	\$0	\$0	\$446	\$202	(\$1,091)
103172	President and Chief Operating Officer	TX Adm	8/12/2003	\$155,700	\$6,228	\$161,928	\$161,928	\$61,271	100.00%	\$0	\$61,271	\$14,702	\$1,179	\$1,212	(\$3,970)
101628	Executive Assistant	TX Adm	12/19/2003	\$48,781	\$1,951	\$50,732	\$50,732	\$44,345	0.00%	\$0	\$44,345	\$0	\$0	\$0	(\$4,241)
50172	Vice President - Operations & Engineering	TX Adm	4/14/2004	\$70,670	\$2,827	\$73,497	\$73,497	\$18,374	25.00%	\$0	\$18,374	\$0	\$0	\$609	(\$4,241)
xxxxx	Controller	TX Adm	1/1/2002	\$126,929	\$5,077	\$132,006	\$132,006	\$99,005	0.00%	\$0	\$99,005	\$20,024	\$1,179	\$1,090	(\$4,241)
100228	Rates & Regulatory Manager	TX Adm	7/25/2011	\$82,952	\$3,318	\$86,270	\$86,270	\$24,700	0.00%	\$0	\$24,700	\$0	\$0	\$713	\$0
80093	Financial Accountant Assistant	TX Adm	8/9/2010	\$49,800	\$1,982	\$51,782	\$51,782	\$21,568	0.00%	\$0	\$21,568	\$6,682	\$779	\$713	\$0
102016	Sr Financial Accountant	Vacancy		\$59,093	\$2,364	\$61,457	\$61,457	\$51,782	0.00%	\$2,590	\$0	\$6,682	\$446	\$325	(\$1,426)
	Total			\$1,041,359	\$42,304	\$1,083,663	\$1,083,663	\$71,154	11.64%	\$11,240	\$71,154	\$94,878	\$6,369	\$8,231	(\$19,462)

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj10-Capitlz_Benefits

K&M BENEFITS CAPITALIZATION

<u>SW Water & Sewer</u>	<u>Capitalized K&M Payroll (1)</u> (a)	<u>Applicable Rate</u> (b)	<u>K&M Capitalized Amounts</u> (c)	<u>Allocated K&M Amounts</u> (d)
Regular	\$234,308			
Overtime	\$20,781			
Total Capitalized	<u>\$255,089</u>	50.10% (2)	\$127,800 (3)	
Total Water	\$912,859		91.51% (4)	<u>\$116,948</u> (5)
Total Sewer	\$84,707		8.49% (4)	<u>\$10,852</u> (5)
Total	<u>\$997,565</u>			
<u>TX Admin and SW Admin</u>				
SW Admin	<u>\$47,122</u>	50.10% (2)	\$23,608	<u>\$23,608</u> (3)
Texas Admin	<u>\$320,810</u>	50.10% (2)	\$160,726	<u>\$160,726</u> (3)

- (1) See Payroll Adjustments 1 and 2
 (2) Benefits capitalization rate applied to capitalized payroll
 (3) Capitalized payroll (Column (a)) X Capitalization rate (column (b))
 (4) Water/Sewer allocation based on K&M payroll see Payroll Adjustments 1 and 2
 (5) Water/Sewer allocations (column (c)) X Capitalized K&M (column (c))

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj 11 Rev Rel Exp

		Water
1	Total revenue increase	\$3,375,858
<i>Debt Debt Expense</i>		
2	Bad Debt Rate/(1-Rev Related Expenses or Bad Debt +Franchise Tax) X Line 1	\$42,651
3	Adjustment	\$42,651
<i>State Franchise Tax</i>		
4	Franchise Tax Rate/(1-Rev Related Expenses or Bad Debt +Franchise Tax) X Line 1	\$29,140
5	Adjustment	\$29,140
6	Bad Debt Rate	0.0123711
7	Franchise tax rate	0.0084520
8	Franchise Taxes Paid	\$89,364
9	Total Revenues	\$10,573,124
10	Effective Rate	0.8452%
11	Total Bad Debts Test Year	\$130,801
12	Total Revenues	\$10,573,124
13	Effective Rate	1.2371%

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj 12-Insurance

K&M INSURANCE ADJUSTMENT

TOTAL TEXAS WORKERS COMP

Workers Compensation Premium	\$28,409	
Workers Compensation Claims	\$21,295	
Total		<u>\$49,704</u>

Allocate Based on TY Payroll

Southwest Water	21.43%	\$10,651
Southwest Admin	2.24%	\$1,115
Texas Admin	18.90%	\$9,396

TOTAL TEXAS LIABILITY

GL Premium	\$39,906	
GL Claims/Losses	\$285,188	
Umbrella Premium	\$48,724	
Employment Prac/Marsh Fees	\$12,457	
Pollution CEL	\$23,696	
Pollution PARL	\$28,071	
Total		<u>\$438,043</u>

Allocate Based on Customers

Southwest Water	19.08%	\$83,579
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TOTAL TEXAS AUTO

Premium	\$31,683	
Auto Claims/Losses	\$8,847	
Total		<u>\$40,530</u>

Allocate Based on Customers

Southwest Water	19.08%	\$7,733
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TOTAL TEXAS OTHER INSURANCE

Property	\$29,033	
Executive Risk	\$24,554	
Claims Handling	\$8,826	
Surity Bonds	\$125	
Total		<u>\$62,538</u>

Allocate Based on Customers

Southwest Water	19.08%	\$11,932
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AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj12 Insurance2

2011 Insurance Projection

	Workers Compensation Premium	Workers Compensation Claims	Total Workers Compensation (Prem + Claims)	GL Premium	GL Claims Losses	Umbrella Premium	Employment Prac. Marsh Fees	Pollution CEL	Pollution PARLL	Total Liability Premiums & Claims
AquaAmerica										
Aqua Florida	16,683	14,653	31,336	23,435	29,794	28,614	7,315	-	30,508	119,665
Aqua Illinois	37,404	19,845	57,249	52,541	221,878	64,151	16,401	-	12,596	367,566
Aqua Indiana	18,658	72,257	90,914	26,209	193,986	32,000	8,181	5,472	38,315	304,163
Aqua Maine	13,384	23,367	36,751	18,801	-	22,955	5,869	6,097	-	53,721
Aqua Missouri	2,382	37,501	39,883	3,346	-	4,086	1,045	-	2,924	11,400
Aqua New Jersey	18,213	27,202	45,416	25,584	140,074	31,238	7,886	691	7,555	213,129
Aqua North Carolina	45,856	282,768	328,614	64,414	122,724	78,648	20,107	-	25,750	311,643
Aqua Pennsylvania	201,887	1,077,233	1,279,120	282,925	1,138,093	345,446	88,317	-	-	1,864,782
Aqua Ohio	0	-	-	54,011	156,546	65,947	16,860	19,522	-	312,866
Aqua Wastewater Management	15,883	264,007	279,889	22,311	117,619	27,241	6,964	34,221	-	208,356
Aqua Texas	28,409	21,235	49,704	39,906	285,188	48,724	12,457	23,686	28,071	438,043
Aqua Virginia	11,438	127,056	138,557	16,151	73,447	19,721	5,042	-	12,950	127,312
Aqua New York	23,565	42,823	66,392	33,107	110,650	40,423	10,335	-	-	194,516
Aqua Pennsylvania Sewer	656	-	656	1,585	-	1,935	495	-	14,417	18,432
Aqua Pennsylvania Non-Reg Lab Fees	0	-	-	-	-	-	-	4,017	-	4,017
Aqua Wastewater Management (SES Div)	-	-	-	-	-	-	-	10,345	-	10,345
	434,482	2,010,000	2,444,482	664,326	2,590,000	811,129	207,374	104,062	173,086	4,549,976

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Adj12 Insurance2

2011 Insurance Projection

	Auto Premium	Auto Claims Losses	Total Auto Premiums & Claims	Property	Executive Risk	Claims Handling	Flood Insurance	Surety Bonds	Total Annual	Quarterly
Aqua America										
Aqua Florida	13,340	36,351	49,691	25,558	14,420	2,610	-	202	243,482	60,871
Aqua Illinois	19,732	66,264	85,996	62,633	32,328	9,176	13,422	4,750	633,120	158,280
Aqua Indiana	13,896	1,803	15,699	27,781	16,126	7,558	-	6,360	468,601	117,150
Aqua Maine	9,171	-	9,171	17,280	11,568	692	-	-	129,184	32,296
Aqua Missouri	3,613	1,329	4,942	3,074	2,059	1,160	-	100	62,619	15,655
Aqua New Jersey	11,395	30,903	42,298	30,710	15,742	5,820	-	3,693	356,807	89,202
Aqua North Carolina	46,691	17,505	64,196	104,326	39,634	12,411	-	1,874	862,699	215,675
Aqua Pennsylvania	104,776	67,485	172,261	429,129	174,085	65,808	24,783	128,305	4,128,272	1,032,068
Aqua Ohio	16,953	6,597	23,551	75,764	33,233	4,564	-	1,625	451,623	112,906
Aqua Wastewater Management	13,896	3,916	17,812	224	13,728	11,209	-	14,923	546,140	136,535
Aqua Texas	31,683	8,647	40,330	29,033	24,554	8,826	-	125	590,814	147,704
Aqua Virginia	9,727	6,618	16,345	30,013	9,938	6,035	-	4,350	332,550	83,138
Aqua New York	10,283	2,381	12,664	19,406	20,371	3,030	-	725	317,104	79,276
Aqua Pennsylvania Sewer	-	-	-	-	975	-	-	-	20,063	5,016
Aqua Pennsylvania Non-Reg Lab Fees	-	-	-	-	-	-	-	-	4,017	1,004
Aqua Wastewater Management (SES Div)	-	-	-	-	-	-	-	-	10,345	2,586
	305,156	250,000	555,156	854,930	408,762	138,898	38,205	167,032	9,167,441	2,289,360

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
WP-Adj_13-Rate Case Exp

Estimated Rate Case Costs Up to Filing

	<u>K&M</u>
	<u>Amount</u>
Legal	\$35,000
Consulting	\$95,000
Print/Mail Notices	\$22,000
Misc/Travel	\$10,000
Total	\$162,000
Amortize 3 Years	\$54,000

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj14-Pumping Fees Adj

Pumping Fees K&M Adjustment

	Test Year Expense	Adjustment (1)	Pro Forma Expense	Normalizing Adjust. (2)	Pro Forma Expense
	(a)	(b)	(c)	(d)	(e)
1 Barton Springs/Edwards Aqafer	\$45,206	\$0	\$45,206	\$1,506	\$46,712
2 Cow Creek GCD	\$2,130	\$0	\$2,130	\$71	\$2,201
3 Edwards Aquifer Authority	\$14,639	\$0	\$14,639	\$488	\$15,127
4 Springtown Water	\$175,624	\$0	\$175,624	\$5,851	\$181,475
5 Trinity/Glen Rose	\$1,495	\$0	\$1,495	\$50	\$1,544
6 Accruals	(\$5,346)	\$5,346	\$0	\$0	\$0
7 Total	\$233,748	\$5,346	\$239,094	\$7,965	\$247,059

(1) Any increases reflect recently implemented rate increases or new rates.

(2) Apply Volumetric Normalization Percentage Change of: 3.33%
 Volumetric Impact of Non-Rev Water Loss over 15%: 0.00%

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj15-Other Adj

OTHER ADJUSTMENTS

SW Water

MISCELLANEOUS

Remove Expenses Not Allowed Per 291.31

- Misc NonUtil Exp-CHARIT CONTR
- WT-Misc-A&G-Chamber Commerce
- Misc NonUtil Exp-OTHER
- WT-A&G Emp-EMPLY X-MAS GIFTS
- WT-Advertising-A & G
- WT-Misc-A&G-Civic Org Events
- WT-Misc-A&G-CONTRIB
- WT-Misc-A&G-FINES&PENALTIES

DEPRECIATION & AMORTIZATION

Remove Expired Regulatory Charges

- Amort Regulatory Debits

Remove Excluded Credits

- Amort-CIAC
- Deferred Federal Income Taxes

BOOK ADJUSTMENTS	K&M ADJUSTMENTS
---------------------	--------------------

(\$1,510)
(\$50)
(\$6,491)
(\$250)
(\$1,100)
(\$52,530)
(\$1,500)
(\$525)

(\$1,067,684)

\$84,817
\$21,622

SW Admin

MISCELLANEOUS

Remove Non-recurring credit

- WT-Trans-T&D OP-GAIN SALE ASST

Remove Expenses Not Allowed Per 291.31

- Misc NonUtil Exp-CHARIT CONTR

Remove Per Book Allocations

- SW-Cont Serv-MgtFee-A&G
- WT-Cont Serv-Mgmt F-A & G

\$2,000

(\$1,200)

\$22,944
\$127,989

Texas Admin

OFFICE EXPENSES

Remove Materials & Supplies Inventory Adjustments

- WT-Mat&Sup-T&D OPER-Gen
- WT-Mat&Sup-A & G

Remove Business Development Related Charges:

- WT-Cont Serv-Oth-A&G

(\$118,802)
\$150,199

(\$22,363)

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
WP-Adj15-Other Adj

INSURANCE

Remove Out of Period Credit

WT-Ins-Gen Liab-A & G

\$11,401

MISCELLANEOUS

K&M Corporate Service Fee

K&M Corporate Costs Adjustment Jan. 2011

\$80,678

Remove Per Book Allocations

WT-Region Mgmt Fees

\$20,024

SW-Cont Serv-MgtFee-A&G

\$227,652

WT-Cont Serv-Mgmt F-A & G

\$1,114,530

WT-Corp Mgmt Fees Only

(\$396)

Remove Out of Period Costs

WT-Bad Debt Expense-Cust Accts

\$66,423

Remove Hastings Communications Services Canceled

WT-Misc-A&G-COMM EXP

(\$5,911)

Remove Expenses Not Allowed Per 291.31

WT-A&G Emp-EMPLY X-MAS GIFTS

(\$7,526)

WT-A&G Emp-FLOWERS & FRUIT

(\$590)

WT-Misc-A&G-Civic Org Events (Aqua Connects)

(\$20,528)

WT-Misc-A&G-ENTERTAIN

(\$20)

WT-Misc-A&G-FINES&PENALTIES

(\$274)

DEPRECIATION & AMORTIZATION

Remove Depreciation Expense and Other Amortization

Deprec Exp-Utility Plant

(\$167,156)

Amort-Other Utility Plant

\$13,511

\$1,295,022

\$45,829

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Adj16-Plt Expenses

NORMALIZE PLANT RELATED EXPENSES

Depreciation Expense:

- 1 Plant Construction in Service by 12/31/2011
- 2 2011-IT General Allocable Share of Corporate Plant
- 3 Total

- 4 Effective Depreciation Expense Rate
- Total K&M Depreciation Expenses

<u>Water</u>
\$858,457
\$92,649
<u>\$951,106</u>
2.27%
\$21,601

Property Tax

- 5 Total CCNC Additions
- 6 North Region Effective Property Tax Rate
- 7 K&M Increase in Property Tax

\$858,457
0.308%
\$2,648

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010

WP-Norm Explain

Volumetric Normalization Work Papers Explanation

In recent years, Aqua Texas' Southwest Region has seen substantial variation in water use due to extreme weather patterns. At one end of the spectrum, 2007 was a very wet year and generally resulted in water sales that were lower than normal. At the other end of the spectrum, 2009 was extraordinarily hot and dry, which generally resulted in water sales that were higher than normal. Workpapers have been provided that detail the normalization calculations which smooth out the extremes that have been experienced in recent years to create a more consistent and accurate calculation of "normal water usage."

This Rate Application uses the 12 months ended 12/31/2010 as the "test year". Aqua Texas has averaged the volumes using volumes actually sold for 2007, 2008, 2009 and 2010. The average includes a very hot and dry year and a cooler and wetter than normal year. This practice of normalization to account for weather fluctuations is routinely used in electric and gas rate cases before the Public Utility Commission of Texas and the Texas Railroad Commission and is customary in a number of other jurisdictions across the country as well.

The methodology of averaging the usage is simple and provides reasonable results. Although a more complex statistical methodology can be applied, it would require the accumulation and balance of a number of variables such as rainfall, temperature, humidity, etc. and we believe the results would not be much different than what a simple average provides.

WP-Volume Norm Summary

This work paper summarizes the volumetric normalization adjustments which consists of an increase in volumes for customer growth and a decrease in volumes for usage normalization.

WP-Cust Growth Norm Vols

This work paper annualizes the test year end customer bills, and applies the increase in bills due to customer growth to the average test year normalized volumes.

WP-Norm Vols

This work paper takes the average usage for the years 2007 through 2010 . The average usage is deducted from the test year usage to determine the increase or decrease in volumes in order to reflect a normal year's usage for rate making purposes.

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
WP-Adj17 Bills & Vols Summary

Adjust Test Year Bills and Volumes for Customer Growth:

	<u>Test Year</u>	<u>Growth (1)(3)</u>	<u>Norm (2)</u>	<u>As Adjusted</u>	<u>Increase Percent</u>	<u>Block 1 Under 20k</u>	<u>Block 2 Over 20k</u>
Volumes							
Step 1	408,476	13,608	1,807	423,891			
Step 2	9,316,101	310,354	41,224	9,667,678			
Step 3	2,036,352	67,838	9,011	2,113,202			
Step 4	11,200	373	50	11,623			
Step 5	2,667	89	12	2,768			
Total	<u>11,774,796</u>	<u>392,262</u>	<u>52,103</u>	<u>12,167,058</u>	3.33%	<u>9,983,053</u>	<u>2,184,006</u>
Bills							
5/8"	156,661	5,303		161,964			
1	2,053	35		2,088			
1.5	303	(15)		288			
2	298	(10)		288			
3	48	0		48			
4	48	(0)		48			
6	12	0		12			
8	36	0		36			
	<u>159,459</u>	<u>5,313</u>		<u>164,772</u>			

- (1) See WP-Cust Growth Bills & Vols
(2) See WP-Norm Vols. 4 year average
(3) Exp Impact on Bad Debt & State Franchise
- | | |
|-----------------------------------|------------------------|
| Growth per WP-Cust Growth | \$289,166 |
| Volumes Per Norm on Proof Average | \$17,362 |
| Revenue Impact | <u>\$306,528</u> |
| Bad Debt Rate WP-Adj | |
| Per WP--Adj12 | 1.2371% <u>\$3,792</u> |
| State Franchise Tax Rate WP-Adj | |
| Per WP--Adj12 | 0.8452% <u>\$2,591</u> |

Texas Southwest Aus - Gallons by charged Amount (Gallons in HGs - 00's)
 (7160,7167,7074,7076, 7078, 7162 & 7094)

Step	Gallonage Charge	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Grand Total
Step 1	\$ 0.175	29,144	29,107	28,961	29,129	29,281	41,680	36,185	36,638	36,523	35,895	36,489	39,444	408,476
Step 2	\$ 0.200	33,647	30,005	28,952	35,306	36,924	37,968	45,091	44,804	49,785	33,891	38,196	36,364	450,944
Step 2	\$ 0.250	3,607	2,577	2,623	5,951	7,442	8,934	9,329	11,705	13,397	7,164	7,775	567	567
Step 2	\$ 0.275	57,277	45,534	44,007	54,438	61,220	58,422	68,562	88,314	99,154	55,863	71,898	8,840	89,245
Step 2	\$ 0.300					3	22,116	13,221	18,927	15,341	9,333	13,322	62,395	767,102
Step 2	\$ 0.325	31,494	28,333	27,848	33,491	34,978	37,164	36,457	36,745	36,592	32,366	31,371	11,884	104,147
Step 2	\$ 0.350	1,463	1,406	1,344	1,620	1,676	1,487	1,930	1,794	2,092	1,734	1,724	34,863	401,721
Step 2	\$ 0.361	503,723	428,159	429,112	572,063	650,644	725,528	711,461	802,336	820,662	587,997	609,636	1,814	20,084
Step 2	\$ 0.450	89	1,649	862	1,189	996	863	332	31	857	1,278	1,251	626,347	7,467,587
Step 2	\$ 0.628												1,263	10,680
Step 3	\$ 0.225	4,395	2,901	1,822	2,659	5,360	6,136	15,177	15,981	28,104	5,243	8,518	4,024	4,024
Step 3	\$ 0.361	90,668	49,958	52,570	78,131	143,776	215,280	171,399	279,741	263,189	158,153	129,251	6,771	103,066
Step 3	\$ 0.400												135,194	1,767,310
Step 3	\$ 0.425	3,217	2,217	2,310	3,722	5,340	7,739	6,297	8,722	7,648	6,326	6,398	270	270
Step 3	\$ 0.450	922	832	787	1,188	1,400	1,150	2,146	2,283	2,741	1,426	1,299	6,534	66,471
Step 3	\$ 0.481	1,257	1,546	397	3,746	5,465	10,283	8,679	13,163	16,298	4,422	5,620	1,178	17,352
Step 3	\$ 0.996												10,454	81,230
Step 4	\$ 0.400	657	608	53	282	371	69	547	665	3,298	54	601	653	653
Step 4	\$ 0.650	49	200	136	226	143	165	509	253	756	129	58	1,218	8,433
Step 4	\$ 0.750		1,340		76	84	81	531	149	380			142	2,767
Step 4	\$ 0.750												27	2,667
Subtotal		761,609	626,372	621,804	823,126	985,103	1,175,066	1,127,862	1,362,250	1,396,836	941,295	963,207	990,266	11,774,796

Block 0-5kg	5,913,735
Block 5-10kg	2,214,832
Block 10-15kg	964,718
Block 15-20kg	567,917
Block Over 20kg	2,113,594
Total	11,774,796

Under 20k	9,661,202
Over 20k	2,113,594
Total	11,774,796

Texas Southwest AUs - Billed BFCs per Month
 (7160,7167,7074,7076, 7078, 7162 & 7094,

Meters/Size Step 1	BFC \$	Base Charge Usage												Grand Total 408,476	Determinants		Revenues		Average	
		Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10		Bills	Volumes	Bills	Volumes		
0.625 1	\$ 41.36	991	991	1,007	1,016	1,035	1,032	1,052	1,028	1,019	1,019	1,026	1,031	1,224	12,242	12,242	408,476	\$506,326	38.14	\$113
1.5 3	\$ 109.40	1	1	1	1	1	1	1	1	1	1	1	1	11	11	11	11	\$1,137	35.51	\$337
3 3	\$ 206.75	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	\$2,481	35.51	\$337
Step 2 3	\$ 620.40	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	\$7,445	35.51	\$337
Step 3 3	\$ 0.325	31,484	28,333	27,848	33,481	34,978	37,164	36,457	36,745	36,592	32,386	31,371	34,883	401,721	401,721	401,721	401,721	\$110,559	38.14	\$113
Step 4 3	\$ 0.425	3,217	2,217	2,310	3,722	5,340	7,739	6,297	8,722	7,616	6,326	6,388	6,534	66,471	66,471	66,471	66,471	\$26,250	38.14	\$113
0.625 1	\$ 26.78	652	372	372	372	372	372	372	372	372	372	379	381	2,896	2,896	2,896	2,896	\$77,555	35.51	\$337
1 3	\$ 57.95	6	5	5	5	5	5	5	5	5	5	4	4	37	37	37	37	\$2,144	35.51	\$337
Step 2 3	\$ 0.300	18,927	15,341	18,927	15,341	18,927	15,341	18,927	15,341	18,927	15,341	18,927	15,341	104,147	104,147	104,147	104,147	\$31,244	35.51	\$337
Step 2 3	\$ 0.677	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	\$537	35.51	\$337
0.625 Step 2	\$ 37.00	54	54	55	58	56	56	56	57	56	56	56	57	671	671	671	671	\$24,826	1,143.28	\$113
Step 2 3	\$ 0.275	45,534	44,007	44,007	54,436	61,220	58,422	68,592	88,314	89,154	55,863	71,898	62,395	767,102	767,102	767,102	767,102	\$24,826	1,143.28	\$113
1 3	\$ 41.75	20	20	20	20	20	20	20	21	19	19	20	20	239	239	239	239	\$9,978	1,143.28	\$113
Flat Step 2	\$ 125.00	1	1	1	1	1	1	1	1	1	1	1	1	12	12	12	12	\$1,500	1,143.28	\$113
Step 3 3	\$ 0.175	33,647	30,005	28,952	35,308	36,924	37,968	45,081	44,804	49,785	33,891	38,196	36,384	450,844	450,844	450,844	450,844	\$78,915	1,143.28	\$113
Step 4 3	\$ 0.225	4,395	2,801	1,822	2,659	5,360	6,136	15,177	15,981	28,104	5,243	8,518	6,771	103,066	103,066	103,066	103,066	\$23,190	1,143.28	\$113
Step 4 3	\$ 0.400	657	608	53	292	371	69	547	665	3,298	54	651	1,218	8,433	8,433	8,433	8,433	\$3,373	1,143.28	\$113
0.625 1	\$ 33.00	1,136	1,146	1,141	1,141	1,146	1,146	1,153	1,152	1,160	1,160	1,159	1,157	13,792	13,792	13,792	13,792	\$455,139	2,240.81	\$113
1 3	\$ 74.25	23	22	23	23	22	22	22	22	22	22	22	22	267	267	267	267	\$19,822	2,240.81	\$113
4 3	\$ 285.50	2	2	2	2	2	2	2	2	2	2	2	2	24	24	24	24	\$5,412	2,240.81	\$113
0.625 1	\$ 830.50	1	1	1	1	1	1	1	1	1	1	1	1	12	12	12	12	\$9,966	2,240.81	\$113
1 3	\$ 79.25	68	76	67	67	67	71	70	71	71	70	70	70	837	837	837	837	\$29,299	2,240.81	\$113
1.5 4	\$ 193.00	7	7	7	7	7	7	6	6	8	7	7	7	82	82	82	82	\$6,499	2,240.81	\$113
2 3	\$ 241.50	2	4	3	3	3	3	3	3	3	3	3	3	48	48	48	48	\$7,344	2,240.81	\$113
2 3	\$ 743.00	1	1	1	1	1	1	1	1	1	1	1	1	36	36	36	36	\$8,702	2,240.81	\$113
0.625 Step 2	\$ 25.00	764	764	769	768	775	774	779	783	781	775	778	780	9,290	9,290	9,290	9,290	\$360	3.66	\$360
Step 2 3	\$ 0.250	3,607	2,577	2,523	5,851	7,442	8,524	9,329	11,705	13,387	7,164	7,775	8,840	89,245	89,245	89,245	89,245	\$332,246	3.66	\$360
0.625 1	\$ 69.00	137	134	133	134	137	137	138	137	139	142	139	137	1,643	1,643	1,643	1,643	\$80,499	31.90	\$360
1.5 3	\$ 235.00	1	1	1	1	1	1	1	1	1	1	1	1	12	12	12	12	\$1,548	31.90	\$360
Step 2 3	\$ 0.350	1,463	1,406	1,344	1,620	1,676	1,487	1,830	1,784	2,092	1,734	1,724	1,814	20,084	20,084	20,084	20,084	\$5,632	31.90	\$360
Step 3 3	\$ 0.450	89	1,049	882	1,189	996	863	332	31	857	1,278	1,251	1,263	10,690	10,690	10,690	10,690	\$7,029	31.90	\$360
Step 4 3	\$ 0.650	922	832	787	1,168	1,400	1,150	2,146	2,283	2,741	1,428	1,299	1,178	17,352	17,352	17,352	17,352	\$7,809	31.90	\$360
Step 5 3	\$ 0.750	46	200	136	226	143	165	509	253	756	129	58	27	2,687	2,687	2,687	2,687	\$1,798	31.90	\$360
0.625 Step 2	\$ 10.04	188	188	188	188	188	188	188	188	188	188	188	188	188	188	188	188	\$5,193	26.31	\$360
Step 3 3	\$ 0.826	4,024	4,024	4,024	4,024	4,024	4,024	4,024	4,024	4,024	4,024	4,024	4,024	52,527	52,527	52,527	52,527	\$2,527	26.31	\$360
Step 3 3	\$ 0.996	653	653	653	653	653	653	653	653	653	653	653	653	653	653	653	653	\$106	26.31	\$360

Texas Southwest AUs - Billed BFCs per Month
 (7160, 7167, 7074, 7076, 7078, 7162 & 7094)

Master Site (Inches)	BFC	Month												Dec-10 Grand Total	Determinants		Revenues		Average
		Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10		Bills	Volumes	Bills	Volumes	
0.625 Southwest	\$ 38.94	9,639	9,623	9,076	9,070	9,121	9,139	9,161	9,181	9,132	9,145	9,154	9,160	109,231	109,231	109,231	1,284	\$4,253,446	67.37
1.5 Southwest	\$ 194.70	106	106	106	106	105	109	109	107	106	109	107	108	1,284	1,284	1,284	171	\$33,287	
2 Southwest	\$ 311.52	11	10	12	12	12	12	13	13	13	13	13	13	171	171	171	218	\$67,911	
3 Southwest	\$ 584.11	3	3	3	3	3	3	3	3	3	3	3	3	218	218	218	36	\$21,028	
4 Southwest	\$ 973.51	2	2	2	2	2	2	2	2	2	2	2	2	36	36	36	24	\$23,364	
6 Southwest	\$ 1,947.02	1	1	1	1	1	1	1	1	1	1	1	1	24	24	24	12	\$23,364	
8 Southwest	\$ 3,113.23	3	3	3	3	3	3	3	3	3	3	3	3	12	12	12	36	\$112,148	
Step 2 Southwest	\$ 0.351	503,723	428,150	428,112	572,063	650,644	725,528	711,461	802,336	820,682	587,997	608,538	626,347	7,467,597	7,467,597	7,467,597	81,230	\$2,695,799	67.37
0.625 Woodcreek	\$ 48.50	483	475	479	484	482	486	488	482	490	489	484	485	5,861	5,861	5,861	48	\$284,350	
1.5 Woodcreek	\$ 161.00	10	10	10	9	11	10	10	10	10	10	10	11	121	121	121	48	\$9,412	
2 Woodcreek	\$ 258.51	4	4	4	4	4	4	4	4	4	4	4	4	48	48	48	8	\$7,752	
3 Woodcreek	\$ 406.81	90,668	49,958	52,570	78,131	143,776	215,280	171,399	279,741	263,889	158,153	128,251	135,194	1,787,310	1,787,310	1,787,310	81,230	\$1,965	306.17
Step 3 Woodcreek	\$ 0.461	1,257	1,546	397	3,746	5,465	10,283	8,679	13,163	16,288	4,422	5,520	10,454	81,230	81,230	81,230	8	\$637,999	
Total Bills		13,693	12,582	12,860	13,976	13,047	13,758	13,507	13,508	13,435	13,468	13,486	13,732	159,471	159,471	159,471	159,471	\$6,473,713	
Total Volumes		761,639	626,372	621,804	823,128	985,103	1,175,066	1,127,862	1,382,250	1,366,836	941,295	963,207	990,266	11,774,296	11,774,296	11,774,296	11,774,296	\$3,923,701	

Total	10,397,414
7074	747,804
7076	320,269
7078	3,118,015
7094	1,240,693
7160	2,747,694
7162	63,769
7167	3,081,114
Total	10,394,058
Diff	(63,356)
Perc Diff	-0.61%

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7074	747,804
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Billing Projected
 Booked Rev by AU Div

Billing Projected
 Booked Rev by AU Div

Billing Projected
 Booked Rev by AU Div

Lanxon Rev Booked

Average Volume Rate

Texas Southwest All - Billed BFCs per Month
 (7160,7167,7074,7075,7076,7162 & 7084)

Master Size
 (Inches)

Step 1	Base Charge Usage	BFC	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sept-10	Oct-10	Nov-10	Dec-10	Stand Total	Determinants	Volume	
			28,144	29,107	25,451	28,129	29,281	41,680	36,185	36,638	36,623	35,895	36,489	39,444	408,476		408,476	
0.525	Bihar Creek	\$ 41.36	986	891	1,037	1,016	1,026	1,032	1,052	1,028	1,019	1,019	1,026	1,031	12,242	12,242	130	\$5,379
1.5	Bihar Creek	\$ 109.40	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$103
3	Bihar Creek	\$ 206.75	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
Step 2	Bihar Creek	\$ 620.40	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
Step 3	Bihar Creek	\$ 0.356	31,484	28,333	27,848	33,481	34,978	37,164	36,457	36,745	32,386	31,371	34,863	40,171	401,721	401,721	1	\$0
Step 4	Bihar Creek	\$ 0.425	3,217	2,217	2,310	3,722	5,340	7,739	6,287	8,722	7,648	6,326	6,388	6,534	66,471	66,471	1	\$0
0.625	Canyon Springs	\$ 26.78	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$0
Step 1	Canyon Springs	\$ 57.95	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$0
Step 2	Canyon Springs	\$ 0.800	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$0
0.625	Gavens Springs	\$ 30.67	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$0
Step 1	Gavens Springs	\$ 0.200	1	1	1	1	1	1	1	1	1	1	1	1	11	11	1	\$0
0.625	Cardinal Valley	\$ 37.00	54	54	55	58	56	56	56	57	55	56	56	57	671	671	13	\$482
Step 1	Cardinal Valley	\$ 0.275	57,277	45,534	44,007	54,456	61,220	58,422	68,582	88,314	98,154	55,853	71,898	62,395	767,102	767,102	1	\$42
Step 2	Cardinal Valley	\$ 41.75	20	20	20	20	20	20	20	21	19	19	20	20	238	238	1	\$0
Flat	Harper Water (Apt)	\$ 125.00	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
Step 2	Harper	\$ 0.175	33,647	30,005	28,952	35,306	36,924	37,966	45,081	44,804	49,785	33,891	38,196	36,384	450,944	450,944	1	\$0
Step 3	Harper	\$ 0.225	4,395	2,901	1,922	2,689	5,360	6,136	15,177	15,981	28,104	5,243	8,518	6,771	103,066	103,066	1	\$0
Step 4	Harper	\$ 0.400	657	608	53	282	371	69	547	665	3,299	54	601	1,218	8,433	8,433	1	\$0
0.675	Kerrville South	\$ 33.00	1,138	1,135	1,146	1,141	1,146	1,146	1,153	1,152	1,160	1,160	1,159	1,157	13,792	13,792	92	\$3,033
Step 1	Kerrville South	\$ 74.35	23	22	23	23	22	22	22	22	22	22	22	22	267	267	1	\$159
Step 2	Kerrville South	\$ 225.50	2	2	2	2	2	2	2	2	2	2	2	2	24	24	1	\$0
Step 3	Kerrville South	\$ 830.50	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
0.625	Kerrville South (in City)	\$ 35.00	68	76	67	67	67	71	70	71	71	70	70	70	837	837	3	\$101
Step 1	Kerrville South (in City)	\$ 79.25	7	7	7	7	7	6	6	6	8	7	7	7	82	82	2	\$0
Step 2	Kerrville South (in City)	\$ 153.00	4	4	4	4	4	4	4	4	4	4	4	4	46	46	1	\$0
Step 3	Kerrville South (in City)	\$ 241.50	2	4	3	3	3	3	3	3	3	3	3	3	36	36	1	\$0
Step 4	Kerrville South (in City)	\$ 743.00	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
0.625	Mountain Crest / Harper	\$ 25.00	764	764	769	768	775	774	779	783	781	775	778	760	9,290	9,290	70	\$1,754
Step 1	Mountain Crest / Harper	\$ 0.250	3,607	2,577	2,623	5,851	7,442	8,934	9,329	11,705	13,397	7,164	7,775	8,840	89,245	89,245	1	\$57
0.625	LCRA (Harper/London)	\$ 49.00	137	134	133	134	137	137	138	137	139	142	138	137	1,643	1,643	1	\$0
Step 1	LCRA (Harper/London)	\$ 128.00	1	1	1	1	1	1	1	1	1	1	1	1	12	12	1	\$0
Step 2	LCRA (Harper/London)	\$ 235.00	1	3	2	2	2	2	2	2	2	2	2	2	24	24	1	\$0
Step 3	LCRA	\$ 0.350	1,463	1,406	1,344	1,620	1,676	1,487	1,930	1,794	2,092	1,734	1,724	1,814	20,084	20,084	1	\$0
Step 4	LCRA	\$ 0.450	89	1,549	882	1,189	996	863	332	31	857	1,278	1,251	1,263	10,680	10,680	1	\$0
Step 5	LCRA	\$ 0.650	49	200	136	226	143	165	509	253	741	1,426	1,299	1,178	17,352	17,352	1	\$0
Step 6	LCRA	\$ 0.750	1,340	1,340	136	76	84	81	531	149	380	129	58	142	2,767	2,767	1	\$0
0.625	Pecan Utilities	\$ 10.04	27.62												188	188	2,256	\$57,118
Step 1	Pecan Utilities	\$ 0.628	1	1	1	1	1	1	1	1	1	1	1	1	188	188	1	\$0
Step 2	Pecan Utilities	\$ 0.400	1	1	1	1	1	1	1	1	1	1	1	1	270	270	1	\$0
Step 3	Pecan Utilities	\$ 0.996	1	1	1	1	1	1	1	1	1	1	1	1	653	653	1	\$0

AQUA TEXAS RATE APPLICATION -SOUTHWEST REGION-TY 12/31/2010
 WP-Norm Vols

Southwest

	2007			2008			2009			2010			Four Year Average
	Volumes	Cust	Average	Volumes	Cust	Average	Volumes	Cust	Average	Volumes	Cust	Average	
Jan	663,931	11,529	57.59	933,444	13,715	68.06	967,524	14,120	68.52	862,567	14,367	60.04	63.55
Feb	520,984	11,595	44.93	870,827	13,697	63.58	923,261	14,140	65.29	712,738	14,694	48.51	55.58
Mar	669,732	11,609	57.69	885,342	13,742	64.43	1,004,708	14,136	71.07	696,457	14,719	47.32	60.13
Apr	725,465	11,629	62.38	965,289	13,827	69.81	1,077,006	14,168	76.02	925,859	14,756	62.74	67.74
May	727,326	11,642	62.47	1,077,716	13,872	77.69	1,059,806	14,183	74.72	1,082,900	15,142	71.52	71.60
Jun	852,825	11,688	72.97	1,620,111	13,905	116.51	1,209,158	14,179	85.28	1,293,548	15,161	85.32	90.02
Jul	719,282	11,703	61.46	1,596,749	13,950	114.46	1,791,534	14,164	126.49	1,272,204	15,174	83.84	96.56
Aug	718,960	12,411	57.93	1,672,341	13,966	119.74	1,596,570	14,311	111.56	1,497,775	15,164	98.77	97.00
Sep	1,042,132	12,415	83.94	1,311,882	13,972	93.89	1,313,857	14,332	91.67	1,562,149	15,150	103.11	93.16
Oct	989,785	12,428	79.64	1,453,271	13,987	103.90	867,937	14,351	60.48	1,027,283	15,139	67.86	77.97
Nov	982,080	12,463	78.80	1,142,703	14,007	81.58	812,280	14,382	56.48	1,068,633	15,155	70.51	71.84
Dec	806,526	13,728	58.75	1,038,446	13,985	74.25	849,756	14,381	59.09	1,084,731	15,366	70.59	65.67
Total	9,419,028	144,840	64.88	14,568,121	166,625	87.33	13,473,397	170,847	78.89	13,086,844	179,987	72.51	75.90

Four Year Average	75.90
Test Year Average	72.51
Norm Adjustment Per Customer	3.39
Test Year End Customers	15,366
Normalization Adjustment	<u>52,103</u>

AQUA TEXAS RATE APPLICATION - SOUTHWEST REGION-TY 12/31/2010

WP-SW Alloc_Factors

TEST YEAR ALLOCATION FACTORS

CUSTOMERS

	<u>WTR-SW</u>	<u>SWR-SW</u>	<u>Total</u>	<u>WTR-SW</u>	<u>SWR-SW</u>	<u>Total</u>
2010	12,970	2,688	17,442	12,970	2,688	64,712
2011	13,948	2,754	18,494	13,948	2,754	68,768
Average	13,459	2,721	17,968	13,459	2,721	66,740
Percent	74.91%	15.14%	90.05%	20.17%	4.08%	24.24%
Ingram Excluded			9.95%			2.68%
Total			100.00%			26.92%

TEXAS

	<u>WTR</u>	<u>SWR</u>	<u>Total</u>
2010	48,909	12,983	64,712
2011	51,833	13,909	68,768
Average	50,371	13,446	66,740
Percent	75.47%	20.15%	95.62%

K&M ALLOCATION FACTORS

CUSTOMERS

	<u>WTR-SW</u>	<u>SWR-SW</u>	<u>Total</u>	<u>WTR-SW</u>	<u>SWR-SW</u>	<u>Total</u>
6/30/2011	13,989	2,764	18,544	13,989	2,764	73,336
	75.44%	14.91%	90.34%	19.08%	3.77%	22.85%
State Water/Sewer Allocation				25.06%	18.72%	
Excludes Ingram			9.66%			2.54%
Total			100.00%			25.39%

TEXAS

	<u>WTR</u>	<u>SWR</u>	<u>Total</u>
6/30/2011	55,833	14,768	73,336
	76.13%	20.14%	96.27%

PAYROLL ALLOCATION FACTORS

12/31/2010	SW Admin	\$121,762	2.24%
	Texas Admin	\$1,025,706	18.90%
	SW Water	\$1,162,769	21.43%
	Total	\$5,426,013	

Attachment 3

CONSOLIDATION OF AQUA TEXAS SOUTHWEST REGION SYSTEMS

I. Introduction

Since the passage of SB 1 in 1997, the Texas Legislature has strongly encouraged regionalization of water utilities. Among other places, the Legislature's promotion of regionalization is found in TEX. WATER CODE § 13.182(d), which provides:

The Commission by rule shall establish a preference that rates under a consolidated tariff be consolidated by region. The regions under consolidated tariffs must be determined on a case-by-case basis.

TEX. WATER CODE §13.182(d).

The Texas Water Code also provides:

- (a) A utility may consolidate more than one system under a single tariff only if:
 - (1) the systems under the tariff are substantially similar in terms of facilities, quality of service, and cost of service; and
 - (2) the tariff provides for rates that promote water conservation for single-family residences and landscape irrigation.

TEX. WATER CODE §13.145(a).

To further promote regional rates, the TCEQ has adopted a rule requiring regional rates as follows:

- (n) Regional rates. The commission, where practicable, shall consolidate the rates by region for applications submitted with a consolidated tariff and rate design for more than one system.

30 TEX. ADMIN CODE § 291.21(n).

Additionally in January 2003, the TCEQ issued RG-357: The Feasibility of Regionalizing Water and Wastewater Utilities: A TCEQ Policy Statement. RG-357 is the TCEQ's basic policy statement explaining the benefits of regionalization.

In Aqua Texas' last rate case, the TCEQ determined that Aqua Texas' Southwest Region systems were substantially similar in terms of facilities, quality of service, and cost of service and appropriate for consolidation under a regional water tariff. *See In re Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc. to Change Water and Sewer Rates; TCEQ Docket Nos. 2004-1671-UCR and 2004-1120-UCR; SOAH Docket Nos.*

582-05-2770 and 582-05-2771, Final Order and Proposal for Decision.¹ Aqua Texas proposes rates in this Water Rate/Tariff Change Application (“Rate Application”) with 0 gallons included in the monthly minimum just like those approved in its last rate case. Aqua Texas is also proposing inclining block rates in this Rate Application. Both aspects of Aqua Texas’ rate design promote water conservation for single-family residences and landscape irrigation.

Both the Texas Legislature and the Commission have expressed a strong preference for regionalization and the benefits of same were extensively analyzed in Aqua Texas’ last rate case. *Id.* To further Aqua Texas’ efforts to regionalize its systems, Aqua Texas proposes a consolidated, regional water rate tariff for its Southwest Region that includes the following water systems that were not included in the Final Order and Proposal for Decision from the last rate case.

PWS Number	System Name
1330062	Aqua Vista Utilities
2270354	Briarcreek Subdivision
460022	Canyon Springs Water
1050068	Cardinal Valley Water
0860098	Deerwood Subdivision
1330009	Guadalupe Heights Utility Co
0860005	Harper Road Estates
1330126	Highlands Ranch
2270210	Indian Springs Subdivision
460022	Kings Cove
1330041	Loma Vista Water System
1050111	Mountain Crest Water Company
0860086	Northwest Hills Water Company
1500043	Pecan Utilities Water Company
0270141	Rio Ancho Subdivision
2460046	San Gabriel River Ranches
0270134	Stone Mountain at Cavern Springs
0860100	West Oak Heights
1330028	Westcreek Estates Water System
1050037	Woodcreek Utility Co 1
1050339	Woodcreek Utility Co 2

Applying the standards set forth by the Commission in Aqua Texas’ last rate case, these systems are substantially similar to Aqua Texas’ other Southwest Region water systems in terms of facilities, quality of service, and cost of service.

¹ Copies of the Final Order and Proposal for Decision are posted on Aqua America’s website.

II. Substantially Similar Facilities

The systems proposed for consolidation have substantially similar facilities as other Aqua Texas Southwest Region water systems. The systems are operated by the same Aqua Texas Southwest Region personnel as other Southwest Region water systems, their sources of water are substantially similar to other Southwest Region water systems, the components of each system are substantially similar to other Southwest Region water systems, the type of piping used by each system is substantially similar to other Southwest Region water systems, the design and construction of the systems are substantially similar to other Southwest Region water systems, and the types of customers served are substantially similar to that of other Southwest Region water systems. These systems are generally substantially similar and of the same type as other Southwest Region water systems. For these reasons, and others, these systems are substantially similar to Aqua Texas' other Southwest Region water systems in terms of facilities.

III. Substantially Similar Quality of Service

The systems proposed for consolidation offer substantially similar quality of service as other Aqua Texas Southwest Region water systems. All use state-approved technologies and facilities. All provide service and water treatment, or are being brought into compliance with a level of service and treatment, that achieves TCEQ and EPA drinking water standards. For these reasons, and others, these systems are substantially similar to Aqua Texas' other Southwest Region water systems in terms of quality of service.

IV. Substantially Similar Cost

The systems proposed for consolidation have substantially similar cost of service as other Aqua Texas Southwest Region water systems. All systems share operations and maintenance costs that are either identical or at least substantially similar on a per customer basis as other Aqua Texas Southwest Region water systems. The costs of these systems within the Southwest Region are affected by the same intra-regional similarities such as regional hydrology, geology and similar intra-regional regulatory requirements, as other Southwest Region water systems. The capital components of these systems are substantially similar to other Southwest Region water systems, resulting in substantially similar repair and replacement costs over the life of those components on a per customer basis. In Aqua Texas' last rate case, the Commission rejected a "snapshot" approach to analyzing this issue in favor of assessing cost of service over time. For these reasons, and others, these systems are substantially similar to Aqua Texas' other Southwest Region water systems in terms of cost of service.

V. Conclusion

For all these reasons, the water systems proposed for regional consolidation in this Rate Application meet the criteria set forth in TEX. WATER CODE §§ 13.182(d) and 13.145(a) and 30 TEX. ADMIN CODE § 291.21(n). Approving consolidation of these systems with Aqua Texas' other Southwest Region systems will further promote the benefits of regionalized utilities as is the favored approach in Texas.

AQUA TEXAS

Determination of the Cost of Equity

Aqua Utilities, Inc., Aqua Development, Inc. and Aqua Texas, Inc. d/b/a Aqua Texas ("Aqua Texas" or the "Company") has engaged P. Moul & Associates, of Haddonfield, N.J. to measure the Company's cost of equity for its 2011 rate case. This report presents evidence, analysis and a recommendation concerning the appropriate rate of return on common equity that the Texas Commission on Environmental Quality ("TCEQ" or "Commission") should recognize in the determination of the revenues that Aqua Texas should realize as a result of this proceeding. The analysis and recommendation are supported by the detailed financial data contained in Exhibit No. PRM-1, which is a multi-page document divided into eleven (11) schedules.

Aqua Texas consists of wholly owned subsidiaries of Aqua America, Inc. Aqua Utilities, Inc. and Aqua Development, Inc. became wholly owned subsidiaries of Aqua America when Philadelphia Suburban Corporation (the former name of Aqua America) purchased the water assets of AquaSource from Duquesne Light Company. Aqua Texas, Inc. was formed in 2004. Aqua Texas provides water service to 48,000 customers and wastewater service to 13,000 customers in 365 communities in north, central and southeast Texas. The Company obtains the water to serve its customers from groundwater and from purchases.

As shown on Schedule 1 of Exhibit PRM-1, the Company has requested that it be afforded an opportunity to earn a 12.00% rate of return on common equity and an 8.59% overall rate of return in its 2011 rate case. As this report will justify, the Company is entitled to a 12.00% rate of return on common equity, which is within the range of 10.58% to 12.91% based upon current market evidence for a proxy group (i.e., Water Group) of investor-owned water companies with actively traded common stocks.

Summary Return on Equity

The cost of equity is determined in this report from the application of a variety of methods/models. These include: the Discounted Cash Flow ("DCF") model, Risk Premium approach, Capital Asset Pricing Model ("CAPM"), and the Comparable Earnings method. The common stock shares of Aqua Texas are not traded because the Company is a wholly-owned subsidiary of Aqua America. As a stand-in for stock market prices for Aqua Texas, the cost of equity for the Company has been measured using data from a proxy group of nine water companies that are identified on page 2 of Schedule 3. Market data on the common stock of water utilities are required to calculate the cost of equity using DCF, Risk Premium, and CAPM.

Rather than rely upon the market-determined cost of equity for an individual company, this report has employed the stock market prices for the Water Group. The determination of the cost of equity for an individual company has become increasingly problematic in recent years due to the effect of any anomalies in the market data for an

individual company. The group of water utilities that has been assembled has the following common characteristics: (i) they are listed in the "Water Utility Industry" section (basic and expanded editions) of The Value Line Investment Survey, (ii) their stock is publicly traded, and (iii) they are not currently the target of a publicly-announced merger or acquisition. It would be inappropriate to include a company that is a target of a takeover in a proxy group even prior to its acquisition because the stock price of that company usually disconnects from its underlying fundamentals.

The following table provides a summary of the indicated costs of equity using each of the approaches for the Water Group.

<u>DCF</u>	<u>Premium</u>	<u>CAPM</u>	<u>Earnings</u>
10.58%	11.00%	12.91%	11.90%

From these measures of the cost of equity, a range of 10.6% to 12.9% provides a reasonable representation of the Company's cost of equity. The Company has selected 12.00% for this case, which is within the range of results indicated above.

Fundamental Risk Analysis

Prior to undertaking an analysis of the Company's cost of equity using the Water Group data, it is first necessary to assess the relative risk position of Aqua Texas vis-à-vis the Water Group. The business risk of the water utilities has been strongly influenced by water quality concerns. The Safe Drinking Water Act Amendments of 1996 ("SDWA"), which re-authorized the SDWA for the second time since its original passage, in 1974 instituted policies and procedures governing water quality. Significant aspects of the 1996 Act provide that the federal Environmental Protection Agency ("EPA"), in conjunction with other interested parties, will develop a list of contaminants for possible regulation and must update that list every 5 years.

The Company must conform its operations to the requirements of the SDWA, and comply with the lead and copper rule, the Disinfectants/Disinfection By-Products ("DDBP") rule, and other contaminant standards. Drinking water quality has also received heightened attention out of concern over the integrity of the source of supply which is often threatened by changing land use and the permissible level of discharged contaminants established by state and federal agencies, and now potential threats from terrorists. Moreover, water companies have experienced increased water treatment and monitoring requirements and escalating costs in order to comply with the increasingly stringent regulatory requirements noted above.

The high fixed costs of water utilities makes earnings vulnerable to significant variations when usage fluctuates with weather, the economy, and customer conservation efforts. Conservation efforts can take the form of low water usage clothes washers, toilets and shower heads, and other reductions due to changes in usage. While the wise use of water is always the objective, the business risk of the water utility industry can be

affected by increased customer awareness of conservation. Moreover, current building standards have mandated the use of fixtures which must comply with more stringent water use requirements.

Being the sole purveyor of potable water from an established infrastructure does not insulate a water utility's operations from general business conditions, regulatory policy, the influence of weather, and customers' usage habits. It is also important to recognize that water companies face higher degrees of capital intensity than other utilities, more costly waste disposal requirements, and threats to their sources of supply. Notably, the Company's investment in net plant is 3.26 times its revenue, as compared to the Water Group's investment in net plant which is 3.57 times its revenue. The Company's lower level of capital intensity can be traced to the role of purchased water in providing service to customers.

The Company's financial condition has been compared to that of the Water Group and the S&P Public Utilities, an industry-wide group of electric and gas companies. This comparison includes financial data for the years 2006 through 2010. Prior to 2007, the Company did not record any long-term debt, thus indicating that capital structure and interest coverage comparisons for 2006 were not meaningful. A broad variety of risk indicators were compared which generally can be classified as those consisting of: size, market ratios, common equity ratios, return on book equity, operating ratios, coverage, quality of earnings, and internally generated funds. The results of this analysis are provided on Schedules 2, 3 and 4.

Size. In terms of capitalization, Aqua Texas is very much smaller than the average size of the Water Group. The average S&P Public Utility is many times the size of Aqua Texas and the average Water Group company. All other things being equal, a smaller company is riskier than a larger company because a given change in revenue and expense has a proportionately greater impact on a small firm. As demonstrated later, the size of a firm can impact its cost of equity.

Market Ratios. There are no market ratios available for Aqua Texas because its stock is owned by Aqua America. The average price-earnings multiple was higher for the Water Group as compared to the S&P Public Utilities. The average dividend yield was lower for the Water Group than for the S&P Public Utilities. On average, the historical market-to-book ratios were higher for the Water Group than for the S&P Public Utilities.

Common Equity Ratio. The level of financial risk is measured by the proportion of long-term debt and other senior capital that is contained in a company's capitalization. Financial risk is also analyzed by comparing common equity ratios (the complement of the ratio of debt and other senior capital). That is to say, a firm with a high common equity ratio has low financial risk, while a firm with a low common equity ratio has high financial risk. The five-year average common equity ratios, based on permanent capital, were 49.1% for the Company, 49.5% for the Water Group, and 45.3% for the S&P Public Utilities. From a financial risk perspective, the S&P Public Utilities show the highest

financial risk, followed by Aqua Texas and the Water Group.

Return on Book Equity. Greater variability (i.e., uncertainty) of a firm's earned returns signifies relative levels of risk, as shown by the coefficient of variation (standard deviation ÷ mean) of the rate of return on book common equity. The higher the coefficient of variation, the greater degree of variability. For the five-year period, the coefficients of variation were 0.162 (1.1% ÷ 6.8%) for the Company, 0.077 (0.7% ÷ 9.1%) for the Water Group, and 0.096 (1.1% ÷ 11.5%) for the S&P Public Utilities. The earnings variability was highest for Aqua Texas as compared to the Water Group and the S&P Public Utilities. Also, the Company's historic returns on book common equity were lower than the Water Group and S&P Public Utilities.

Operating Ratios. Operating ratios (the percentage of revenues consumed by operating expense, depreciation and taxes other than income) have also been compared. The five-year average operating ratios were 72.1% for the Company, 72.6% for the Water Group, and 84.1% for the S&P Public Utilities.

Coverage. The level of fixed charge coverage (i.e., the multiple by which available earnings cover fixed charges, such as interest expense and preferred stock dividends) provides an indication of the earnings protection for creditors. Higher levels of coverage, and hence earnings protection for fixed charges, are usually associated with superior grades of creditworthiness. The five-year average pre-tax interest coverage (excluding AFUDC) was 3.01 times for the Company, 3.31 times for the Water Group, and 3.23 times for the S&P Public Utilities. Creditor protection, as shown by the interest coverage was weaker for Aqua Texas as compared to the Water Group.

Quality of Earnings. Measures of earnings quality are usually revealed by the percentage of Allowance for Funds Used During Construction ("AFUDC") related to income available for common equity, the effective income tax rate, and other cost deferrals. These measures of earnings quality usually influence a firm's internally generated funds because poor quality of earnings would not generate high levels of cash flow. Quality of earnings has not been a significant concern for the Company, the Water Group and the S&P Utilities in recent years.

Internally Generated Funds. Internally generated funds ("IGF") provide an important source of new investment capital for a utility and represent a key measure of credit strength. Historically, the five-year average percentage of IGF to capital expenditures was 138.3% for the Company, 56.6% for the Water Group, and 93.7% for the S&P Public Utilities. Since the Company has not paid a dividend on its common stock historically, its IGF to construction expenditures provides a relatively high percentage.

Overall Risk Assessment. In certain respects, the Company has higher risk than the Water Group. For example, it is much smaller, the variability of its returns is higher, its achieved returns have been lower, and its interest coverage has been lower. As positive attributes, its common equity ratio is close to the Water Group thereby

displaying similar financial risk and its IGF to construction expenditures have been higher than the Water Group. Overall, the fundamental risk factors indicate that the Water Group provides a reasonable basis for measuring the Company's cost of equity.

Cost of Equity

Highlights of the methods employed to measure the cost of equity with Water Group data follows:

Discounted Cash Flow ("DCF") provides a familiar measure of the cost of equity for the Water Group. The DCF return (i.e., " k ") is the sum of the dividend yield (i.e., " D_1/P_0 "), the growth rate (i.e., " g "), and the return necessary to recognize the financial leverage (" $lev.$ ") reflected in the book value equity ratio used in the ratesetting process. The resulting DCF cost rate is:

$$\begin{array}{rclclcl}
 D_1/P_0 & + & g & + & lev. & = & k \\
 \text{Water Group} & & 3.45\% & + & 6.25\% & + & 0.88\% & = & 10.58\%
 \end{array}$$

The DCF model has been employed with data for the Water Group using a computed dividend yield (D_0/P_0) of 3.34% based upon an average for the 6-months ended August 2011, as shown on Schedule 5. The dividend yields were calculated with an ex-dividend adjustment. Using three different but generally acceptable formulas, the 3.34% computed dividend yield has been positioned in a forward-looking manner (D_1/P_0) to arrive at the 3.45% adjusted dividend yield for the Water Group.

The growth component for the Water Group is 6.25%. The elements considered in reaching this growth rate determination were earnings per share, dividend per share, book value per share, cash flow per share, and internal growth rate using historical and projected data typically considered by investors. These inputs are provided on Schedules 6 and 7. It is important to recognize that investors consider both company-specific variables and overall market sentiment (i.e., level of inflation rates, interest rates, economic conditions, etc.) when balancing their capital gains expectations with their current dividend yield requirements.

Projected earnings per share growth rates taken from analysts' forecasts provided by IBES/First Call, Zacks, and Value Line provide the primary basis to establish the DCF growth rate. The IBES/First Call and Zacks growth rates are consensus forecasts taken from a survey of analysts that make projections of growth for these companies. The IBES/First Call and Zacks estimates are obtained from the Internet and are widely available to investors free-of-charge. The Value Line forecasts are also widely available to investors and can be obtained by subscription or free-of-charge at most public and collegiate libraries. The IBES/First Call and Zacks, forecasts are restricted to earnings per share growth, while Value Line makes projections of other financial variables. As to five-year forecast growth rates shown on Schedule 7, the projected earnings per share

growth rates for the Water Group are 6.74% by IBES/First Call, 7.39% by Zacks, 5.14% by Morningstar and 5.84% by Value Line. The Value Line projections indicate that earnings per share will grow prospectively at a more rapid rate (i.e., 5.84%) than dividends per share (i.e., 4.80%) which indicates a declining payout ratio in the future. With the constant price-earnings multiple assumption of the DCF model, growth for these companies will occur at the higher earnings per share, thus producing the capital gains yield expected by investors. Published forecasts support a 6.25% earnings growth rate for the Water Group.

It is essential to recognize that the only perspective that is important to investors is the return that they can realize on the market value of their investment. In the context of the DCF, the simple yield (D/P) plus growth (g) provides a return applicable strictly to the price (P) that an investor is willing to pay for a share of stock. The DCF formula is derived from the standard valuation model: $P = D/(k-g)$, where P = price, D = dividend, k = the cost of equity, and g = growth in cash flows. By rearranging the terms, we obtain the familiar DCF equation: $k = D/P + g$. All of the terms in the DCF equation represent investors' assessment of expected future cash flows that they will receive in relation to the value that they set for a share of stock (P). The need for the leverage adjustment arises when the results of the DCF model (k) are to be applied to a capital structure that is different than indicated by the market price (P). From the market perspective, the financial risk of the Water Group is accurately measured by the capital structure ratios calculated from the market capitalization of a firm. If the ratesetting process utilized the market capitalization ratios, then no additional analysis or adjustment would be required, and the simple yield (D/P) plus growth (g) components of the DCF would satisfy the financial risk associated with the market value of the equity capitalization. Because the ratesetting process uses a different set of ratios calculated from the book value capitalization, then further analysis is required to synchronize the financial risk of the book capitalization with the required return on the book value of the equity.

In pioneering work, Nobel laureates Modigliani and Miller developed several theories about the role of leverage in a firm's capital structure. As part of that work, Modigliani and Miller established that as the borrowing of a firm increases, the expected return on stockholders' equity also increases. Modigliani and Miller proposed several approaches to quantify the equity return associated with various degrees of debt leverage in a firm's capital structure. These formulas point toward an increase in the equity return associated with the higher financial risk of the book value capital structure. This is the situation for the Water Group where the market value of its capitalization contains more equity than is shown by the book capitalization. The following comparison demonstrates this situation where the market capitalization is developed by taking the "Fair Value of Financial Instruments" (Disclosures about Fair Value of Financial Instruments -- Statement of Financial Accounting Standards ("FAS") No. 107) as shown in the Annual Report for each company and the market value of the common equity using the price of stock. The comparison of capital structure ratios is:

Water Group	Capitalization at Market Value (Fair Value)	Capitalization at Book Value (Carrying Amounts)
Long-term Debt	38.06%	50.94%
Preferred Stock	0.15	0.19
Common Equity	<u>61.78</u>	<u>48.87</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The adjustment that has been labeled as a "leverage adjustment" is merely a convenient way to incorporate into the result of the simple DCF model (i.e., $D/P + g$), when it is applied to the capital structure used in ratesetting, which is computed with book value weights rather than market value weights. A separate factor has been designated to provide identification for this adjustment factor. This is because the equity return applicable to the book value common equity ratio is equal to 8.43%, which is the return for the Water Group applicable to its equity with no debt in its capital structure (i.e., the cost of capital is equal to the cost of equity with a 100% equity ratio) plus 2.14% compensation for having a 50.94% debt ratio, plus 0.01% for having a 0.19% preferred stock ratio. The sum of the parts is 10.58% (8.43% + 2.14% + 0.01%). To express this same return in the context of the familiar DCF model, the sum of the 3.45% dividend yield, the 6.25% growth rate, and the 0.88% for the leverage adjustment is used to arrive at the same 10.58% (3.45% + 6.25% + 0.88%) return. The 0.88% leverage adjustment is merely a convenient way to compare the 10.58% return computed directly with the Modigliani & Miller formulas to the 9.70% return generated by the DCF model based on a market-value capital structure.

Risk Premium approach is determined by a corporate bond yield -- here defined as the interest rate on A rated public utility bonds -- plus a premium to account for the fact that common equity is exposed to greater investment risk than debt capital. The cost of equity (i.e., " k ") is represented by the sum of the long-term public utility debt yield (i.e., " i ") and the equity risk premium (i.e., " RP "). The Risk Premium approach provides a cost of equity of:

$$i + RP = k$$

$$\text{Water Group } 5.50\% + 5.50\% = 11.00\%$$

The interest rate component of the Risk Premium approach is 5.50% based upon historical yields on A rated public utility bonds (see Schedule 8) and forecasts based upon the Blue Chip Financial Forecasts. To independently project a forecast of the yields on A rated public utility bonds, the forecast yields on thirty-year Treasury bonds published on September 1, 2011 have been combined with the yield spread of 1.50% that was determined from recent data (see page 5 of Schedule 8). For comparative purposes, the Blue Chip Financial Forecasts yields on Aaa rated and Baa rated corporate bonds shown below:

Blue Chip Financial Forecasts						
Year	Quarter	Corporate		30-Year	A-rated Public Utility	
		Aaa-rated	Baa-rated	Treasury	Spread	Yield
2011	3rd	4.5%	5.5%	3.8%	1.50%	5.30%
2011	4th	4.5%	5.4%	3.8%	1.50%	5.30%
2012	1st	4.6%	5.5%	3.9%	1.50%	5.40%
2012	2nd	4.6%	5.6%	4.0%	1.50%	5.50%
2012	3rd	4.7%	5.7%	4.1%	1.50%	5.60%
2012	4th	4.9%	5.8%	4.2%	1.50%	5.70%

Twice yearly, Blue Chip provides long-term forecasts of interest rates. In its June 1, 2011 publication, Blue Chip published forecasts of interest rates as follows:

Blue Chip Financial Forecasts			
Averages	Corporate		30-Year
	Aaa-rated	Baa-rated	Treasury
2013-17	6.3%	7.2%	5.6%
2018-22	6.4%	7.3%	5.7%

Given these forecasts and the historical long-term interest rates, a 5.50% yield on A rated public utility bonds represents a reasonable expectation.

The financial returns that were used to develop the equity risk premium consisted of the S&P Public Utilities and corporate bonds as shown on Schedule 9. To develop an appropriate risk premium, the results were analyzed for the S&P Public Utilities by averaging (i) the midpoint of the range shown by the geometric mean and median and (ii) the arithmetic mean. The indicated risk premiums for the various time periods analyzed are 5.51% (1928-2007), 6.58% (1952-2007), 6.08% (1974-2007), and 6.37% (1979-2007). The 1928-2007 period provides the lowest indicated risk premium, while the 1952-2007 period provides the highest risk premium for the S&P Public Utilities. Within these bounds, a common equity risk premium of 6.23% ($6.08\% + 6.37\% = 12.45\% \div 2$) is derived by averaging data covering the periods 1974-2007 and 1979-2007. Therefore, 6.23% represents a reasonable risk premium for the S&P Public Utilities.

The fundamental risk analysis described above established differences in risk characteristics between the Water Group and the S&P Public Utilities. Based on these differences 5.50% represents a reasonable common equity risk premium in this case for the Water Group. This represents approximately 88% ($5.50\% \div 6.23\% = 0.88$) of the risk premium of the S&P Public Utilities, and is reflective of the risk of the Water Group compared to the S&P Public Utilities.