



Control Number: 44534



Item Number: 1

Addendum StartPage: 0



PURSUANT TO PUC CHAPTER 24, SUBSTANTIVE RULES APPLICABLE TO WATER AND SEWER
SERVICE PROVIDERS, SUBCHAPTER G: CERTIFICATES OF CONVENIENCE AND NECESSITY

Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN)

Docket Number:

44534

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

RECEIVED
2015 MAR 13 PM 1:09
PUBLIC UTILITY COMMISSION
FILING CLERK

If submitting digital map data, two copies of the portable electronic storage medium (such as CD or DVD) are required.

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Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN)

Purpose of Application

<input type="checkbox"/> Obtain	<input type="checkbox"/> New Water CCN	<input type="checkbox"/> New Sewer CCN
<input checked="" type="checkbox"/> Amend	<input checked="" type="checkbox"/> Water CCN# (s)	<u>13203</u>
<input checked="" type="checkbox"/> Amend	<input checked="" type="checkbox"/> Sewer CCN#(s)	<u>21065</u>

1. Applicant Information

Applicant

Utility name: Aqua Texas, Inc. d/b/a Aqua Texas

Certificate number: 13203 and 21065

Street address (City/ST/ZIP/Code): 1106 Clayton Lane, Suite 400W, Austin, Texas 78723

Mailing address(City/ST/ZIP/Code): 1106 Clayton Lane, Suite 400W, Austin, Texas 78723

Utility Phone Number and Fax: (512) 990-4400 (512) 990-4410 (fax)

Contact information

Please provide information about the person(s) to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant manager, or other title related to the applicant.

Name: Geoffrey P. Kirshbaum

Title: Attorney

Mailing address: 810 West 10th Street, Austin, Texas 78701

Email: gkirshbaum@terril-law.com

Phone and Fax: (512) 474-9100 (512) 474-9888 (fax)

List all counties in which service is proposed:

Harris County, Texas

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

- ☒ Investor Owned Utility ☐ Individual ☐ Partnership
☐ Home or Property Owners Association ☒ For-profit Corporation
☐ Non-profit, member-owned, member-controlled cooperative corporation
(Water Code Chapter 67, Water Supply or Sewer Service Corporation)
☐ Municipality ☐ District ☐ Other - Please explain:

B. If the applicant is a For-Profit business or corporation, please include the following information:

- i. A copy of the corporation's "Certification of Account Status" from the Texas State Comptroller of Public Accounts. Attachment 1
- ii. The corporation's charter number as recorded with the Office of the Texas Secretary of State: 32014405503
- iii. A listing of all stockholders and their respective percentages of ownership. Aqua America, Inc. is the sole shareholder and owns 100%.
- iv. A copy of the company's organizational chart, if available. N/A
- v. A list of all directors and disclose the title of each individual. Attachment 2 - List of Aqua Texas, Inc.'s Officers
- vi. A list of all affiliated organizations (if any) and explain the affiliate's business relationship with the applicant. See next page.

C. If the applicant is a Texas Water Code (TWC) Chapter 67 water supply or sewer service corporation please provide:

- i. A copy of the Articles of Incorporation and By-Laws.
- ii. The corporation's charter number as recorded with the Office of the Texas Secretary of State.
- iii. Identification of all board members including name, address, title, and telephone number.
- iv. A copy of the corporation's *Certificate of Account Status* from the Texas Comptroller of Public Accounts.

2. Location Information

- A. Are there people already living in the proposed area? ☐ Yes ☒ No
If YES, are any currently receiving utility service? ☐ Yes ☐ No
If YES, from WHOM? _____

I. B.

vi. A list of all affiliated organizations (if any) and explain the business affiliate's relationship with the applicant.

1. Aqua America, Inc.
Aqua Texas, Inc. is a wholly-owned subsidiary of Aqua America, Inc.
2. Aqua Utilities, Inc.
Aqua Utilities, Inc. is a wholly-owned subsidiary of Aqua America, Inc. Aqua Texas, Inc. and Aqua Utilities, Inc. are under common control and are two of the entities that operate together as the Texas utility known as Aqua Texas.
3. Other Aqua America, Inc. subsidiaries under common control with Aqua Texas, Inc. operate within jurisdictions outside of Texas, outside the Aqua Texas Southeast Region (where the proposed CCN area is located), or are not regulated utilities. Please see Aqua America, Inc.'s 2013 Annual Report for complete information. Attachment 3.

B. Demonstrate the Need for Service by providing the following:

Have you received any requests for service in the requested service area?

☒ Yes ☐ No

If YES, provide the following: See following three pages.

- i. Describe the service area and circumstances driving the need for service in the requested area. Indicate the name(s) and address(es) of landowner(s), prospective landowner(s), tenant(s), or resident(s) that have requested service; and/or
- ii. Describe the economic need(s) for service in the requested area (i.e. plat approvals, recent annexation(s) or annexation request(s), building permits, septic tank permits, hospitals, etc.); and/or
- iii. Discuss in detail the environmental need(s) for service in the requested area (i.e. failing septic tanks in the requested area, fueling wells, etc.); and/or
- iv. Provide copies of any written application(s) or request(s) for service in the requested area; and/or
- v. Provide copies of any reports and/or market studies demonstrating existing or anticipated growth in the requested area.
- vi. If none of these items exist or are available, please justify the need for service in the proposed area in writing.

Note: Failure to demonstrate a need for additional service in the proposed service area may result in the delay and /or possible denial of the application.

C. Is any portion of the proposed service area inside an incorporated city or district?

☒ Yes ☐ No

If YES, within the corporate limits of: Harris County Improvement District No. 17

Provide a copy of any franchise, permit, or consent granted by the city or district. If not available please explain:

Consent by HCID 17 for the CCN amendments requested in this application is included in the Utility Agreement. Please see Utility Agreement, Attachment 4, p. 6, Sections 2.01 and 2.02.

D. Is any portion of the proposed service area inside another utility's CCN area?

☐ Yes ☒ No

If YES, has the current CCN holder agreed to decertify the proposed area?

If NO, are you seeking dual or single certification of the area? Explain why decertification of the area is in the public interest:

No.

II. B.

i. Describe the service area and circumstances driving the need for service in the requested area. Indicate the name(s) and address(es) of landowner(s), prospective landowner(s), tenant(s), or resident(s) that have requested service; and/or

RESPONSE:

The proposed amended certificate of convenience and necessity ("CCN") service areas are each comprised of the same 620.652 acres ("Property") located within the boundaries of Harris County Improvement District No. 17 ("HCID 17") in Harris County, Texas. A portion of the Property is located within the extraterritorial jurisdiction (ETJ) of the City of Houston and a portion of the Property is located within the ETJ of the City of Tomball. The Property is not located within the corporate limits of any municipality. The initial Property owner/developer, Merenco Realty, Inc. ("Merenco"), HCID 17, and Aqua Texas, Inc. ("Aqua Texas") entered into a Utility Service Agreement that sets forth terms by which retail water and wastewater utility service will be provided to the property within HCID 17. Attachment 4 ("Utility Agreement"). The Utility Agreement was assigned to 615 Willow Creek Development, Ltd. ("Developer") which is now the developer for the Property. Attachment 4. The Utility Agreement provides that Aqua Texas will be the retail water and wastewater provider within the HCID 17 boundaries and seeks Commission approval for amendments to its existing water and sewer CCNs to include the Property area. While HCID 17 has statutory authority to provide this function, it is delegating that function to Aqua Texas. The Utility Agreement and a companion Merenco HCID 17 Reimbursement Agreement (Attachment 5) are now assigned to Developer (Attachments 4 and 5), and collectively provide consent by both HCID 17 and the Developer for this CCN amendment application. Some tracts have already been sold to other entities who will receive service from the water and wastewater systems to be constructed by Aqua Texas. See Attachment 6 - Listing of Current Landowners. Those entities have also consented to the inclusion of their Property tracts within Aqua Texas' water and sewer CCN service areas. This application is required for Aqua Texas to fulfill its obligations under the governing agreements for Developer's project and to allow Aqua Texas to supply retail water and wastewater utility service to the Property.

ii. Describe the economic need(s) for service in the requested area (i.e. plat approvals, recent annexation(s) or annexation request(s), building permits, septic tank permits, hospitals, etc.); and/or

RESPONSE:

The Property is the site of a commercial development project being undertaken by Developer. Developer has specifically requested that the Property be added to Aqua Texas' water and sewer CCNs. There is a necessity for the provision of utility services to the Property. The Property is located in an area which is urban in nature, is within the growing environs of Houston, and is close in proximity to populous and developed sections of Harris County. The Property is not presently supplied with water or sewer facilities and services. Service from other providers in the area is not available, nor is it economically feasible for such service or facilities to be provided to the Property by other nearby retail public utilities. The health and welfare of the present and future Property users requires a safe and adequate water supply and sewage disposal system for and within the Property. Within the next twelve months, Developer anticipates a need for retail water and sewer utility service to the Property sufficient to supply approximately 200 living unit equivalents ("LUEs") (one LUE should be considered approximately 250 gallons per day). Within the next five years, at full build-out Developer anticipates a need for retail water and sewer utility service to the Property sufficient to supply approximately 670 LUEs. Development within the Property is anticipated to be commercial, not residential. A public necessity exists for the addition of the Property into Aqua Texas' CCNs in order to provide for the purchase, construction, extension, improvement, maintenance, and operation of such water supply and sanitary sewer systems, so as to promote and protect the purity and sanitary conditions of the State's waters and the public health and welfare of the community. Without the proposed CCN amendments, the development project contemplated within the HCID 17 boundaries will not be able to proceed as planned. Inclusion of the Property within Aqua Texas' CCN will benefit the land by facilitating the Property improvements contemplated by Developer. Further, allowing Aqua Texas to provide retail water and sewer utility service to the Property will allow for any property taxes levied by HCID 17 to be reduced since they will not be needed to cover the cost for water and wastewater utility facilities serving the Property. All interested parties hope that the Commission will use best efforts to process this application quickly. Timing is important for project success.

iii. Discuss in detail the environmental need(s) for service in the requested area (i.e. failing septic tanks in the requested area, fueling wells, etc.); and/or

RESPONSE:

The centralized wastewater system Aqua Texas plans to own and operate within the HCID 17 boundaries will eliminate the need for septic systems within the property. This will represent an environmental benefit to the land in comparison to an alternative development plan that might use septic systems to meet wastewater needs. The water supply and sanitary sewer system will both promote and protect the purity and sanitary conditions of the State's waters and the public health and welfare of the community.

iv. Provide copies of any written application(s) or request(s) for service in the requested area; and/or

RESPONSE:

The Utility Agreement executed by HCID 17, the Developer, and Aqua Texas is equivalent to a request for non-standard service made to Aqua Texas. Attachment 4. The Reimbursement Agreement (which does not involve HCID 17) also effectively serves as a request for non-standard service by the Developer to Aqua Texas. Attachment 5.

3. Map Requirements

Attach the following hard copy maps with each copy of the application:

- A. A location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county. See Attachment 7.
- B. A map showing only the proposed area by: See Attachment 8.
 - i. metes and bounds survey certified by a licensed state or register professional land surveyor; or
 - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled). Also, a data disk labeled with the applicant's name must be provided; or
 - iii. following verifiable natural and man-made landmarks; or
 - iv. a copy of recorded plat map with metes and bounds.
- C. A written description of the proposed service area. See Attachment 9.
- D. Provide separate and additional maps of the proposed area(s) to show the following:
 - i. all facilities, illustrating separately facilities for production, transmission, and distribution of the applicant's service(s); and See Attachment 10.
 - ii. any facilities, customers or area currently being served outside the applicant's certificated area(s).

Note: Failure to provide adequate mapping information may result in the delay or possible denial of your application.

Digital data submitted in a format other than ArcView shape file or Arc/Info E00 file may result in the delay or inability to review applicant's mapping information.

For information on obtaining a CCN base map or questions about sending digital map data, please visit the Water Utilities section of the PUC website for assistance.

4. New System Information or Utilities Requesting a CCN for the First Time

- A. Please provide the following information:
 - i. a list of public drinking water supply system(s) or sewer system(s) within a 2 mile radius of the proposed system; See Attachment 11.
 - ii. copies of written requests seeking to obtain service from each of the public drinking water systems or sewer systems listed in a. 1 above or documentation that it is not economically feasible to obtain service from each entity; See Attachment 12.
 - iii. copies of written responses from each system or evidence that they did not reply; and See Attachment 12
 - iv. for sewer utilities, documentation showing that you have obtained or applied for a wastewater discharge permit. See next page.
- B. Were your requests for service denied? ☒ Yes ☐ No

4.A. iv. for sewer utilities, documentation showing that you have obtained or applied for a wastewater discharge permit.

Please see publicly available TCEQ records, hereby incorporated by reference, related to the application for new municipal wastewater TPDES Permit No. WQ0015284001 filed by South Central Water Company ("South Central"). An excerpt from that application, page 1 of Technical Report 1.0, is attached hereto. Attachment 13. South Central is in the process of seeking this TPDES permit from TCEQ at the direction of Developer. After approval, South Central, Aqua Texas, Inc., and Developer plan to work together to seek further approval from TCEQ to transfer the permit to Aqua Texas, Inc. for use in providing retail sewer utility service to the Property. Ultimately, Aqua Texas, Inc. will be the responsible permittee entity for the wastewater treatment plant and collection facilities planned for the Property.

- i. If yes, please provide documentation of the denial of service and go to c. See Attachment 12
 - ii. If no, please provide a detailed analysis which justifies your reasons for not accepting service. A separate analysis must be prepared and submitted for each utility that granted your request for service.
- C. Please summarize how the proposed utility system will be constructed and describe each projected construction phase, if any:

See next page- Note 1.

D. Date of plat approval, if required:

A General Plan for the Property was approved on 9/18/2014 by the City of Houston. Final platting of road right-of-ways and individual tracts are currently underway and may be completed at different times for different portions of the Property.

E. Date Plans & Specifications submitted to the TCEQ for approval:

A preliminary engineering report for the planned water system was filed with TCEQ on March 4, 2015. Detailed plans and specifications will be developed and filed with TCEQ later (closer to the start of construction before the water system is constructed and placed in service.)

F. Date construction is scheduled to commence: To be determined, but anticipated before the end of 2015.

G. Date service is scheduled to commence: To be determined, but anticipated before the end of 2015.

See next page- Note 2.

5. Existing System Information

A. Please provide the following information for each water and/or sewer system, attach additional sheets if necessary.

i. Water system(s): TCEQ Public Water System identification number(s): See next page - Note 3.

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ii. Sewer system(s): TCEQ Discharge Permit number(s)

NOTE 1 - C. Please summarize how system will be constructed and describe each construction phase, if any:

The Utility Service Agreement between HCID 17, Developer, and Aqua Texas, Inc. provides details for planned water and sewer utility service to the Property. The companion Reimbursement Agreement between Developer and Aqua Texas, Inc. relates to funding for construction of certain project facilities. Attachments 4 and 5. Developer has indicated a need for two phases of development. Within the first twelve months, Developer anticipates a need for retail water and wastewater utility services sufficient to accommodate approximately 200 LUEs. At full build-out, Developer anticipates a need for retail water and wastewater utility services sufficient to accommodate approximately 670 LUEs.

The Preliminary Engineering Report ("PER") describes the planned construction and phasing for the water system and equates 1 LUE with 250 gallons per day. Attachment 14. In Phase I, a well, pressure tank and ground storage tank will be constructed. The design will include sufficient reserves to accommodate up to 249 LUEs worth of water demand. Phase II will be an expansion of plant facilities to include ground storage, system pumps and another water well as required to accommodate the ultimate 670 LUE demand level for water expected within the Property,

Developer has indicated that the same LUE demand levels should be used for sewer as for water in each phase. Page 1 of Technical Report 1.0 of the Application TPDES Permit for Municipal Wastewater New, Permit No. WQ0015284001, Attachment 13, shows the planned construction and phasing for the wastewater system. Initially, in the Interim I Phase, the wastewater plant will be designed to accommodate 0.0625 million gallons per day (MGD), or 62,500 gallons per day. This will be sufficient to accommodate 250 LUEs worth of demand. In Interim Phase II, the wastewater plant facilities will be designed to accommodate 0.125 MGD 125,000 gallons per day. This will be sufficient to accommodate 500 LUEs worth of demand. In the final phase, 0.60 MGD, or 600,000 gallons per day, will be permitted. This will be sufficient to accommodate 2400 LUEs, which is more than sufficient to accommodate the planned build-out for the Property.

For both water and sewer utility service, Aqua Texas, Inc. will utilize its experienced water and wastewater operations personnel and management team to ensure that high quality water and wastewater services are provided to the Property. Aqua Texas, Inc. already provides such services via hundreds of other water and wastewater utility systems throughout the State of Texas.

NOTE 2 - Proposed CCN is partially located within the ETJ of the City of Houston ("Houston"). Therefore, Aqua Texas has been in active dialogue with Houston about the process for requesting Houston consent for the CCN. Houston has no set form or process set by ordinance for making this request. However, Houston has directed Aqua Texas to make its request in the form of the Houston consent application package included herein as Attachment 16. This Houston consent application was filed with Houston on March 10, 2015.

Importantly, Houston has requested a copy of Aqua Texas' filed CCN amendment application as part of the Houston consent process. Therefore, Aqua Texas will supplement its Houston consent application filing with a copy of this application. Aqua Texas will have to supplement this CCN amendment application filing at PUC with proof of Houston's consent upon receipt. Given the Houston consent application requirement for a copy of Aqua Texas' CCN amendment filing at PUC, it is not possible for Aqua Texas to have Houston's consent prior to this PUC filing. Proof of Houston consent will have to be obtained post-filing.

Note 3 - V. Existing System Information

Aqua Texas, Inc. is an existing utility providing retail water and sewer utility service in multiple Texas counties, including Harris County, under CCN Nos. 13203 and 21065. However, existing Aqua Texas facilities will not be used for the water or sewer service areas proposed in this CCN amendment application. Since a new public drinking water system and a new wastewater system will be used to serve the property within the proposed service areas, Aqua Texas has included information responsive to Section 4 instead of this section. Additional information responsive to this Section will be provided upon request.

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- iii. Date of last TCEQ water and/or sewer system inspection(s): _____
- iv. Attach a copy of the most recent TCEQ water and/or sewer inspection report letter(s).
- v. For each system deficiency listed in the TCEQ inspection report letter; attach a brief explanation listing the actions taken or being taken by the utility to correct the listed deficiencies, including the proposed completion dates.

B. Provide the following information about the utility's certified water and/or sewer operators

[illegible]

- Attach additional sheet(s) if necessary -

- C. Using the current number of customers, is any facility component in systems named in #5A above operating at 85% or greater of minimum standard capacity?

- ☐ Yes
- ☐ No

Attach a copy of the 85% rule compliance document filed with the TCEQ if the system is operating at 85% or greater of the TCEQ's minimum standard capacity requirements.

- D. In the table below, the number of existing and/or proposed metered and non-metered connections (by size). The proposed number should reflect the information presented in the business plan or financial **documentation** and reflect the number of service requests identified in Question 2.b in the application.

TCEQ Water System			TCEQ Sewer System		
Connection	Existing	Proposed	Connection	Existing	Proposed
5/8" or 3/4" meter			Residential		
1" meter or larger			Commercial		
Non-Metered			Industrial		

TCEQ Water System			TCEQ Sewer System		
Other:			Other:		
Total Water			Total Sewer		

E. If this application is for a water CCN only, please explain how sewer service is or will be provided:

F. If this application is for a sewer CCN only, please explain how water service is or will be provided:

G. Effect of Granting a Certificate Amendment.

Explain in detail the effect of granting of a certificate or an amendment, including, but not limited to regionalization, compliance and economic effects on the following:

- i. the applicant,
- ii. any retail public utility of the same kind already serving the proximate area; and
- iii. any landowner(s) in the requested area.

H. Do you currently purchase or plan to purchase water or sewer treatment capacity from another source?

i. ☐ No, (skip the rest of this question and go to #6)

ii. ☐ Yes, Water

Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency basis?

Water Source	% of Total Treatment
	0.00%

Water Source	% of Total Treatment
	0.00%
	0.00%

iii. ☐ Yes, Sewer treatment capacity

Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency basis?

Sewer Source	% of Total Treatment
	0.00%
	0.00%
	0.00%

iv. Provide a signed and dated copy of the most current water or sewer treatment capacity purchase agreement or contract.

I. Ability to Provide Adequate Service.

Describe the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking both of the following items into consideration:

- i. the current and projected density; and
- ii. the land use of the requested area.

J. Effect on the Land. Explain the effect on the land to be included in the certificated area.

6. Financial Information

A. For new water and/or sewer systems and for applicants with existing CCNs who are constructing a new stand-alone water and/or sewer system:

- i. the applicant must provide an analysis of all necessary costs for constructing, operating, and maintaining the system, and the source of that capital (such as a financial statement for the developing entity) for which the CCN is requested for at least the first five years. In addition, if service has been offered by an existing retail water service provider as stated in #4.A., but the applicant has determined that the cost of service as finally offered renders the project not economically feasible, the applicant must provide a comparison analysis of all necessary costs for acquiring and continuing to receive service from the existing system for the same period.
- ii. Attach projected profit and loss statements, cash flow worksheets, and balance sheets (projected five year financial plan worksheet is attached) for each of the first five years of operation. Income from rates

should correlate to the projected growth in connections, shown on the projected profit and loss statement.

- iii. Attach a proposed rate schedule or tariff. Describe the procedure for determining the rates and fees and indicate the date of last change, if applicable. Attach copies of any cost of service studies or rate analysis worksheets. Aqua Texas requests that its Water and Sewer Tariffs for the Southeast Region and the current rates within those tariffs be extended to apply to these additional CCN
- B. For existing water and/or sewer systems: service areas. See Attachment 15.
 - i. Attach a profit and loss statement and current balance sheet for existing businesses (end of last fiscal year is acceptable). Describe sources and terms for borrowed capital such as loans, bonds, or notes (profit and loss and balance sheet worksheets are attached, if needed).
 - ii. Attach a proposed rate schedule or tariff.
- ❖ **Note: An existing water and/or sewer system may be required to provide the information in 6.A.i. above during the technical review phase if necessary for staff to completely evaluate the application**
- C. Identify any funds you are required to accumulate and restrict by lenders or capital providers.
- D. In lieu of the information in #6.A. thru #6.C., you may provide information concerning loan approvals within the last three (3) years from lending institutions or agencies including the most recent financial audit of the applicant. SEE ATTACHMENT 3. Audits for Aqua Texas, Inc. are conducted annually. That information is reflected collectively with other Aqua America, Inc. subsidiaries within the Aqua America, Inc. annual reports.
- ❖ **Note: Failure to provide adequate financial information may result in the delay or possible denial of your application.**

7. Notice Requirements

- A. All proposed notice forms must be completed and submitted with the application. Do not mail or publish the notices until you receive written approval from the commission to do so.
- B. The commission cannot grant a CCN until proper notice of the application has been given. Commission rules do not allow a waiver of notice requirements for CCN applicants.
- C. It is the applicant's responsibility to ensure that proper notice is given to all entities that are required to receive notice.
- D. Recommended notice forms for publication, neighboring cities and systems, landowners with 25 acres or more, and customers are included with this application for use in preparing proposed notices. (Notice forms are available in Spanish upon request.)
- E. After reviewing and, if necessary, modifying the proposed notice, the commission will send the notice to the applicant after the application is accepted for filing along with instructions for publication and/or mailing. Please review the notice carefully before providing the notice.
- F. Notice For Publication:
The applicant shall publish the notice in a newspaper with general circulation in the county(ies) where a CCN is being requested. The notice must be published once each week for two consecutive weeks beginning with the week after the notice is received from the commission. Proof of publication in the form of a publisher's affidavit shall be submitted to the commission within 30 days of the last publication date. The affidavit shall state with specificity each county in which the newspaper is of general circulation.
- G. Notice To Neighboring Utilities:
 - i. List all neighboring retail public utilities and cities providing the same utility service within the following vicinities of the applicant's proposed certificate area.
 - ii. For applications for the issuance of a NEW CCN, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within five (5) miles of the requested service area.

- iii. For applications for the AMENDMENT of a CCN, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within two (2) miles of the requested service area.
- H. Notice to Customers:
Investor Owned Utilities (IOUs) that are currently providing service without a CCN must provide individual mailed notice to all current customers. The notice must contain the current rates, the date those rates were instituted and any other information required in the application.
- I. The commission may require the applicant to deliver notice to other affected persons or agencies.

Do not publish or send copies of the proposed notices to anyone at the time you submit the application to the commission. Wait until you receive written authorization to do so. Authorization occurs after the commission has reviewed the notices for completeness, and your application has been accepted for filing. Once the application is accepted for filing, you will receive written authorization to provide notice. Please check the notices for accuracy before providing them to the public. It is the applicant's burden to ensure that correct and accurate notice is provided.

Entities to be Noticed:

Cities - City of Houston and City of Tomball

Neighboring Systems -

HCMUD 282
HCMUD 281
NW HCMUD 015
HCMUD 416
HCMUD 416
HCMUD 368
NW HCMUD 005
HCMUD 280
Quadvest LP
H-M-2 SUD
Johnston Water Utility, LLC
Northwest Water Systems, Inc
Cypress Gardens Homes

Landowners -

Merenco Realty, Inc.
Nabors Corporate Services, Inc.
Lone Star College System
County of Harris
Turner Coatings, LLC.
Willow Creek 615 Ltd.

Districts - Harris-Galveston Subsidence District

Harris County Judge - Ed Emmett

OATH

STATE OF Texas
COUNTY OF Travis

I, Robert L Laughman, being duly sworn,
file this application as 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 maps and financial information
filed with this application, and have complied with all the requirements contained in this
application; and, that all such statements made and matters set forth therein are true and
correct. I further state that the application is made in good faith and that this application
does not duplicate any filing presently before the Public Utility Commission of Texas.

I further represent that the application form has not been changed, altered or amended
from its original form.

**I further represent that the Applicant will provide continuous and adequate
service to all customers and qualified applicants for service within its certificated
service area.**

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,
This day 11th of March 20 15

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

SEAL



Linda B Leatherwood
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES January 21, 2017

Notice for Publication

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO
PROVIDE WATER/SEWER UTILITY SERVICE IN
HARRIS

COUNTY(IES), TEXAS

Name of Applicant AQUA TEXAS, INC. has filed an application for a
CCN to obtain or amend CCN No. (s) 13203 and 21065

with the Public Utility commission of Texas to provide water and sewer
(specify 1) water or 2) sewer or 3) water & sewer)

utility service in HARRIS County
(ies).

The proposed utility service area is located approximately 0.3 miles southwest
[direction] of downtown Tomball, [City or Town] Texas, and is
generally bounded on the north by Boudreaux Estates, Dr.; on the east by
Telge Rd.; on the south by N. Humble Lake Rd.; and on the west by State Hwy 249 (Tomball Parkway)

See enclosed map of the proposed service area.

The total area being requested includes approximately 620 acres and 0
current customers.

A copy of the proposed service area map is available at (Utility Address and Phone
Number): 2211 Louetta Spring Rod., Spring, Texas 77388, (281) 651-0174

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Persons who wish to intervene or comment should file with the PUC at the following address:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the commission on its own motion requests a hearing. Only those individuals who submit a written hearing request or a written request to be notified if a hearing is set will receive notice if a hearing is scheduled.

If a public hearing is requested, the commission will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

Persons who meet the requirements to opt out, and wish to request this option should file the required documents with the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-888-782-8477

Notice to Neighboring Systems, Landowners and Cities

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO
PROVIDE WATER/SEWER UTILITY SERVICE IN

Harris COUNTY(IES), TEXAS

To: All Neighboring Systems, Landowners, and Cities Date Notice Mailed 20 15
(Neighboring System, Landowner or City)

See attached list

(Address)

City State Zip

Name of Applicant Aqua Texas, Inc. has filed an application for a
CCN to obtain or amend CCN No. (s) 13203 and 21065

with the Public Utility Commission of Texas to provide water and sewer
utility service in Harris County(ies).
(specify 1) water or 2) sewer or 3) water & sewer)

The proposed utility service area is located approximately 0.3 miles southwest
[direction] of downtown Tomball, [City or Town] Texas, and is
generally bounded on the north by Boudreaux Estates Dr.; on the east by
Telge Rd.; on the south by N. Humble Lake Rd.; and on the west by State Hwy249 (Tomball Parkway)

See enclosed map of the proposed service area.

The total area being requested includes approximately 620 acres and 0
current customers.

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Persons who wish to intervene or comment should write the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the commission on its own motion requests a hearing. Only those individuals who submit a written hearing request or a written request to be notified if a hearing is set will receive notice if a hearing is scheduled.

If a public hearing is requested, the commission will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

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1701 North Congress Avenue
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Austin, Texas 78711-3326

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-888-782-8477

ATTACHMENTS:

Attachment 1 – Aqua Texas, Inc.'s Tax Account Status

Attachment 2 – List of Officers of Aqua Texas, Inc.

Attachment 3 – 2013 Aqua America, Inc. Annual Report

Attachment 4 – Utility Agreement and Assignment to Willow Creek

Attachment 5 – Reimbursement Agreement and Assignment to Willow Creek

Attachment 6 – List of Current Landowners

Attachment 7 – Water and Sewer Location Maps

Attachment 8 – Water and Sewer CCN Maps

Attachment 9 – HCID 17 Field Notes

Attachment 10 – Utility Exhibit Map

Attachment 11 – 2-mile System List and Maps

Attachment 12 – Service Request Letters and Received Responses

Attachment 13 – Section 1.0 – Application for TPDES Permit

Attachment 14 – Preliminary Engineering Report

Attachment 15 – Aqua Texas, Inc.'s Southeast Region Water and Sewer Tariffs

Attachment 16 – Aqua Texas' Application to Houston for Consent

Attachment 1



Franchise Tax Account Status

As of: 03/06/2015 10:32:33 AM

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

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

Attachment

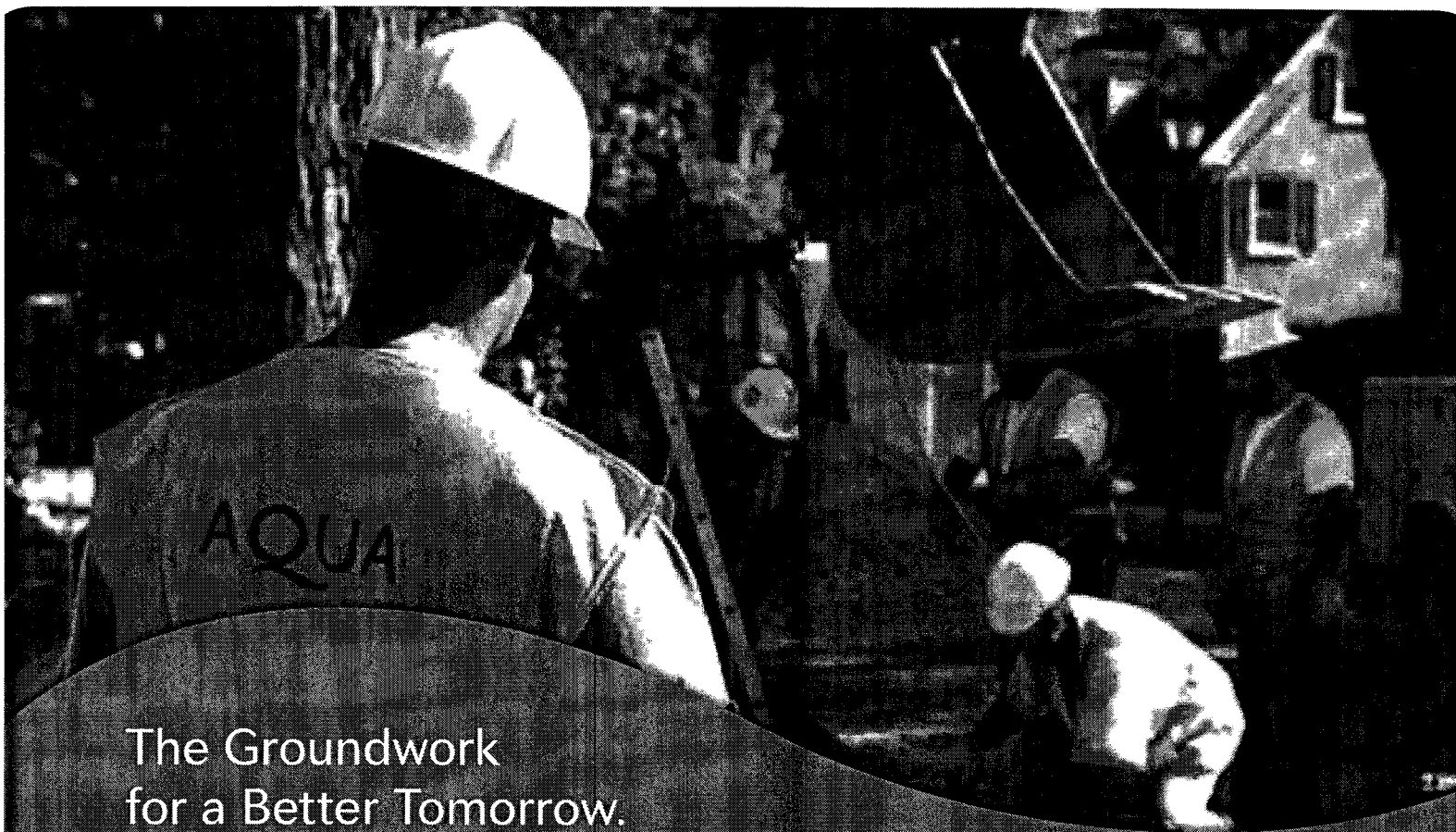
2

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

Attachment

3



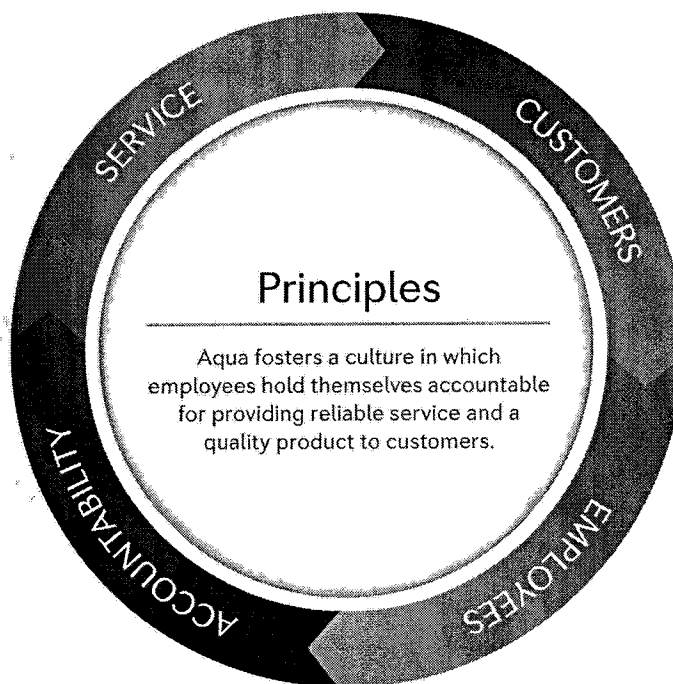
The Groundwork
for a Better Tomorrow.



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

The Groundwork for a Better Tomorrow.

At Aqua, we're committed to renewing and improving our water and wastewater infrastructure through thoughtful and continuous capital investment. This commitment not only ensures reliable service and quality water for our current and future customers, but it demonstrates a more fiscally 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 preparing fresh water for drinking as it does treating wastewater for its return to Earth. For nearly 130 years, we've successfully employed engineering, technology and sophisticated business principles to grow Aqua into one of the nation's most efficient utilities.



Financial Highlights

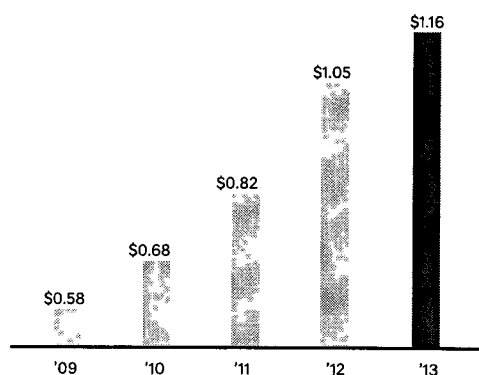
(in thousands of dollars, except per share amounts)

	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

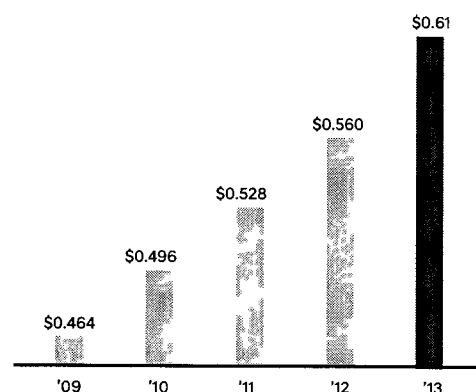
(2) 2012 excludes 39,690 customers associated with utility systems disposed of during 2013

Income from Continuing Operations per Share (diluted)



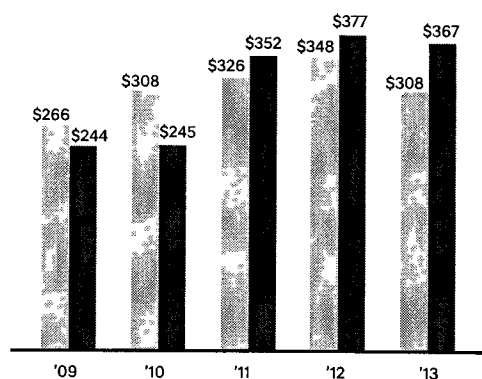
Dividend per Share (split-adjusted, annualized)

5-year compound annual growth rate = 7.1%

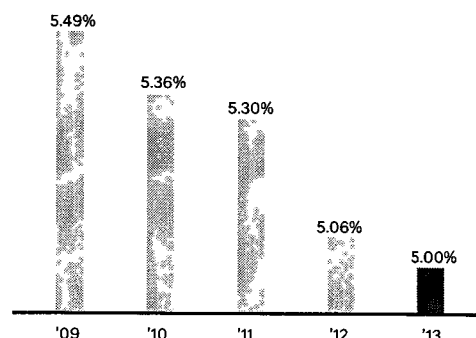


Cash Generation and CapEX (in millions)

■ 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



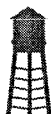
Provides drinking
water to

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.

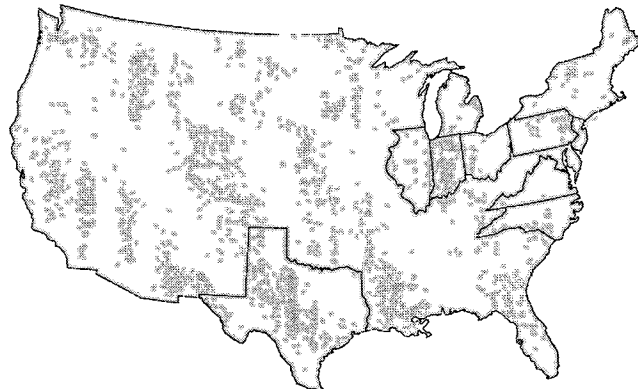
Since the first pipe was laid in 1886, we have been dedicated to improving infrastructure and supply, whether through building reservoirs and treatment plants to service a growing community, or by replacing pipe to strengthen aging systems.

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,
Texas, Illinois, New Jersey, Indiana, Virginia





1,600 employees

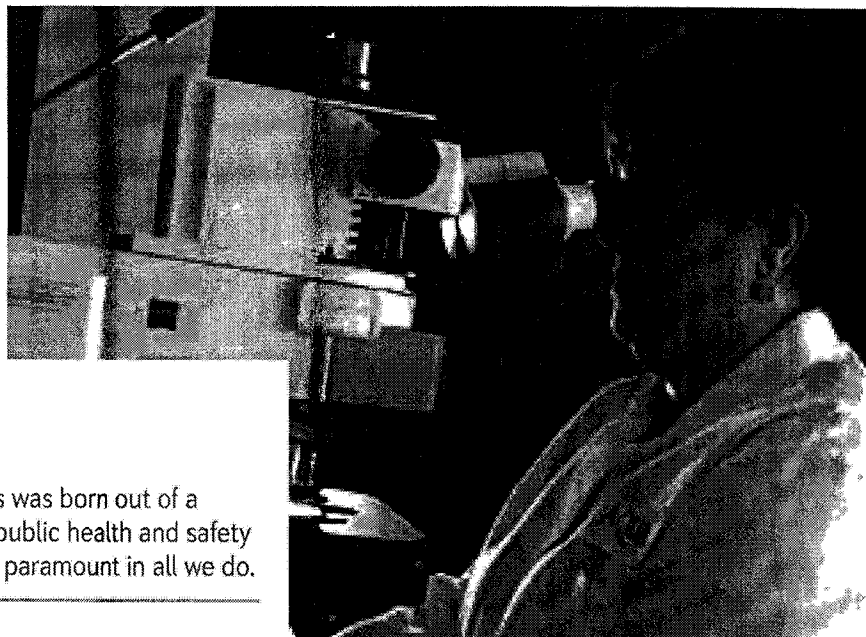
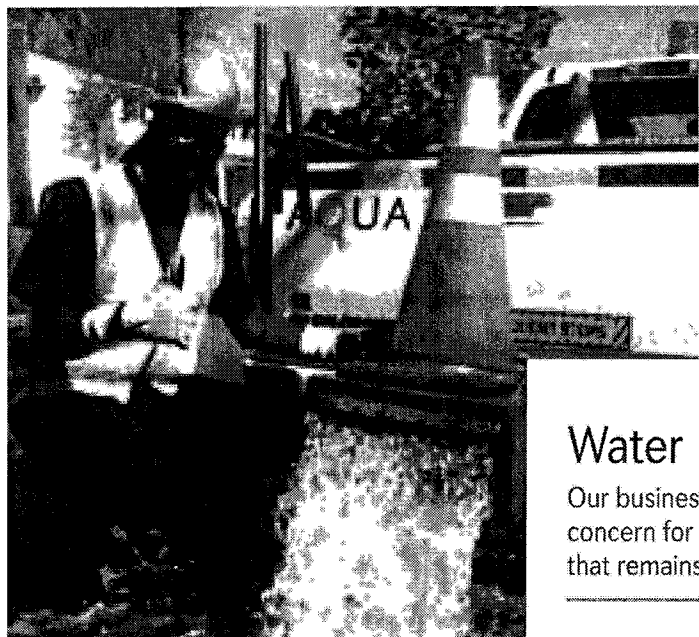
work daily to ensure quality water
and reliable water and wastewater
service for people in eight states.



What We Do

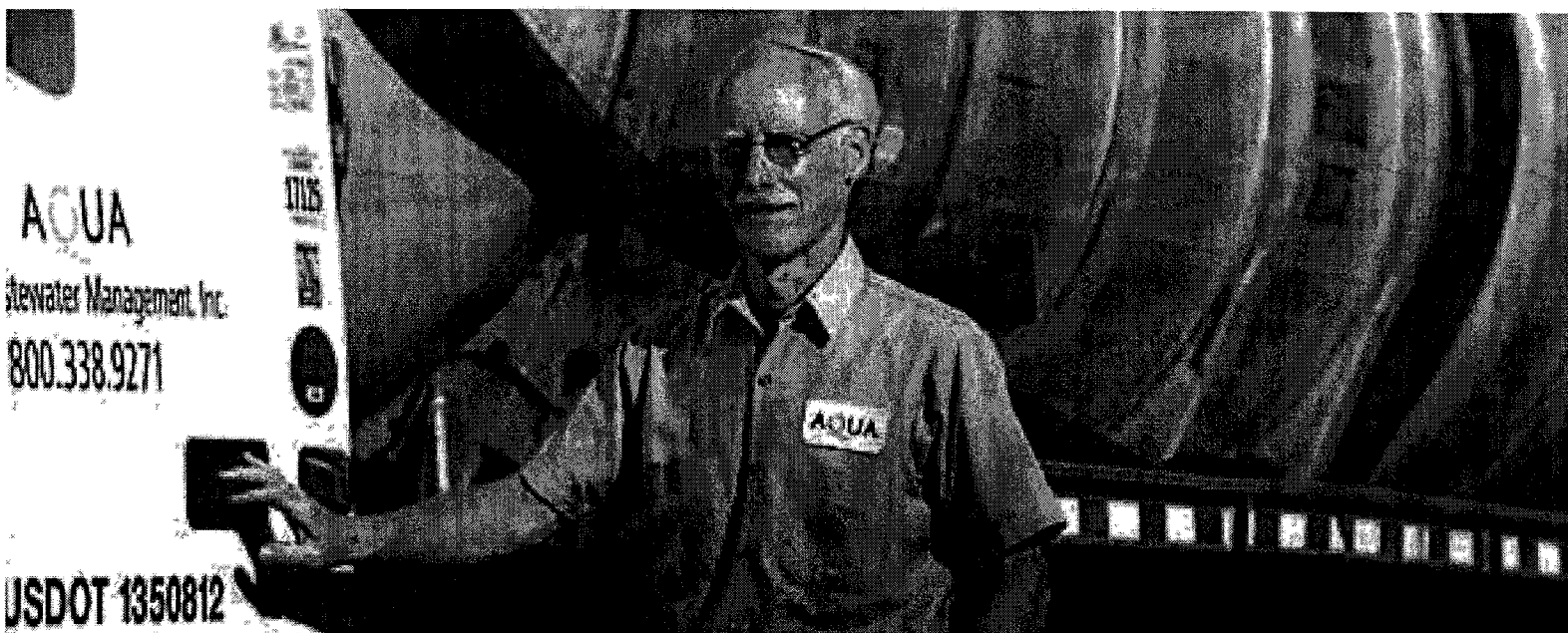
Aqua cleans billions of gallons of fresh water each year for delivery directly to customers' taps via thousands of miles of pipe. Its wastewater operations treat millions of gallons of wastewater annually, restoring its quality so it can be safely returned to the environment.

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.



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)

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

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)

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

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)

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

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and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the ratio of operating income compared to operating revenues is not comparable between the businesses. These non-regulated subsidiary companies are not a component of our Regulated segment.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2013 (1)	2012 (2)	2011 (3)	2010	2009 (4)
Utility customers.					
Residential water	784,100	778,350	723,649	719,812	712,619
Commercial water	39,513	39,079	35,078	34,649	34,261
Industrial water	1,369	1,374	1,213	1,226	1,222
Other water	17,320	16,730	15,762	15,376	16,242
Wastewater	98,705	95,044	84,978	86,108	84,041
Total utility customers	941,007	930,577	860,680	857,171	848,385
Operating revenues:					
Residential water	\$ 463,156	\$ 447,338	\$ 408,904	\$ 391,922	\$ 356,265
Commercial water	121,615	117,992	105,837	99,632	89,520
Industrial water	25,442	25,015	21,576	20,716	18,723
Other water	57,699	70,922	65,118	63,369	64,039
Wastewater	73,062	68,225	62,780	62,156	58,577
Other utility	10,303	10,538	10,712	10,973	11,139
Regulated segment total	751,277	740,030	674,927	648,768	598,263
Other and eliminations	17,366	17,730	12,364	11,418	11,634
Consolidated	\$ 768,643	\$ 757,760	\$ 687,291	\$ 660,186	\$ 609,897
Operations and maintenance expense	\$ 285,340	\$ 271,843	\$ 256,743	\$ 250,989	\$ 239,905
Income from continuing operations	\$ 204,993	\$ 184,087	\$ 141,683	\$ 116,379	\$ 98,440
Net income attributable to common shareholders	\$ 221,300	\$ 196,563	\$ 143,069	\$ 123,975	\$ 104,353
Capital expenditures	\$ 308,171	\$ 347,985	\$ 325,808	\$ 308,134	\$ 266,190
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	37.1%	35.9%	37.4%	38.0%	39.3%
Depreciation and amortization	16.2%	15.4%	15.8%	16.9%	17.6%
Taxes other than income taxes	6.9%	6.3%	6.0%	6.1%	6.1%
Interest expense, net	10.1%	10.3%	11.3%	11.1%	10.9%
Income from continuing operations	26.7%	24.3%	20.6%	17.6%	16.1%
Return on Aqua America stockholders' equity	14.4%	14.2%	11.4%	10.6%	9.4%
Ratio of capital expenditures to depreciation expense	2.6	3.1	3.2	3.1	2.8
Effective tax rate (5)	10.0%	26.6%	32.8%	39.2%	39.3%

- (1) Net income attributable to common shareholders includes the gain of \$615 (\$1,025 pre-tax) realized on the sale of a utility system. The gain is reported in the 2013 consolidated statement of net income as a reduction to operations and maintenance expense.
- (2) 2012 utility customers were impacted by the addition of 65,577 utility customers associated with utility systems acquired.
- (3) Net income attributable to common shareholders includes the gain of \$3,035 (\$5,058 pre-tax) realized on the sale of utility systems. The gain is reported in the 2011 consolidated statement of net income as a reduction to operations and maintenance expense.
- (4) Net income attributable to common shareholders includes the gain of \$605 (\$1,009 pre-tax) realized on the sale of a utility system. The gain is reported in the 2009 consolidated statement of net income as a reduction to operations and maintenance expense.
- (5) See Results of Operations – Income Taxes for a discussion of the effective tax rate change for 2013 and 2012.

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RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 16.4% and our net income has grown at an annual compound rate of approximately 17.7% during the five-year period ended December 31, 2013. During the past five years, operating revenues grew at a compound rate of 6.0% and total expenses, exclusive of income taxes, grew at a compound rate of 5.5%. In addition, as a result of the implementation of the repair tax accounting change in 2012, the Company's provision for income taxes decreased by \$40,936 or 64.3% for the five-year period ended December 31, 2013.

Operating Segments

We have identified ten operating segments and we have one reportable segment based on the following:

- Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- Two segments are not quantitatively significant to be reportable and are composed of the businesses 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, offer, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention, 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. These segments are included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

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Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2013, 2012, and 2011:

	2013			2012		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 751,277	\$ 17,366	\$ 768,643	\$ 740,030	\$ 17,730	\$ 757,760
Operations and maintenance expense	272,758	12,582	285,340	259,847	11,996	271,843
Taxes other than income taxes	51,106	2,162	53,268	45,450	1,954	47,404
Earnings before interest, taxes, depreciation and amortization	<u>\$ 427,413</u>	<u>\$ 2,622</u>	430,035	<u>\$ 434,733</u>	<u>\$ 3,780</u>	438,513
Depreciation and amortization			124,793			116,996
Operating income			305,242			321,517
Interest expense, net of AFUDC			75,042			73,615
Gain on sale of other assets			(148)			(1,090)
Equity losses (earnings) in joint venture			2,665			(1,976)
Provision for income taxes			22,690			66,881
Income from continuing operations			204,993			184,087
Income from discontinued operations, net of income taxes of \$8,425 and \$8,017, respectively			16,307			12,476
Net income			<u>\$ 221,300</u>			<u>\$ 196,563</u>

	2011		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 674,927	\$ 12,364	\$ 687,291
Operations and maintenance expense	243,137	13,606	256,743
Taxes other than income taxes	39,677	1,772	41,449
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$ 392,113</u>	<u>\$ (3,014)</u>	389,099
Depreciation and amortization			108,300
Operating income			280,799
Interest expense, net of AFUDC			70,654
Gain on sale of other assets			(649)
Provision for income taxes			69,111
Income from continuing operations			141,683
Income from discontinued operations, net of income taxes of \$12,893			1,386
Net income			<u>\$ 143,069</u>

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Consolidated Results

Operating Revenues – The growth in revenues over the past three years is a result of increases in water and wastewater rates and in our customer base. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$25,676 in 2013, \$39,987 in 2012, and \$37,988 in 2011. Negatively impacting our revenue growth in 2013 was a decrease in customer water consumption and a decrease in infrastructure rehabilitation surcharges of \$12,725 primarily in Pennsylvania, and in 2012 was a slight decline in water consumption as compared to the prior year. The decrease in customer water consumption in 2013 is largely due to unfavorable weather conditions in many of our service territories during the second and third quarters of 2013 and what we believe is an increase in water conservation awareness by our customers. The number of customers increased at an annual compound rate of 3.1% over the past three years, adjusted to exclude customers associated with utility system dispositions, due to acquisitions and organic growth. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$16,200 in 2013, \$28,296 in 2012, and \$3,960 in 2011.

On June 7, 2012, the Pennsylvania Public Utility Commission ("PAPUC") granted Aqua Pennsylvania a water rate increase designed to increase water rates by \$16,700 on an annual basis. The rates in effect at the time of the filing included \$27,449 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase, and the DSIC was reset to zero. In addition, the rate case settlement provided for the flow-through accounting treatment of qualifying income tax benefits should Aqua Pennsylvania change its tax accounting method to permit the expensing of qualifying utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes (the "Repair Change"). In December 2012, Aqua Pennsylvania implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of \$33,565, which reduced the Company's Federal and state income tax expense and flowed-through to net income in the fourth quarter of 2012. In 2013, the Company recorded additional income tax benefits of \$14,908, as adjusted for the 2012 tax return. Similar to 2012, the Company recorded \$45,647 of income tax benefits in 2013. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012 (the "catch-up adjustment"), and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10th of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income. Also, as a result of the Repair Change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or for a DSIC in 2013.

In August 2013, the Company's operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by \$8,611 or 19.2% on an annual basis. The amount of the final rate award that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued in May 2014.

In February 2012, two of the Company's operating divisions in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (the "TCEQ"). The additional revenue billed and collected prior to the TCEQ's final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

Our operating subsidiaries, excluding the 2012 Pennsylvania water rate award, discussed above, received rate increases representing estimated annualized revenues of \$9,431 in 2013 resulting from six rate decisions, \$17,923 in 2012 resulting from nine rate decisions, and \$6,311 in 2011 resulting from twelve rate decisions. Revenues from these increases realized in the year of grant were \$8,169 in 2013, \$13,754 in 2012, and \$3,312 in 2011. As of December 31, 2013, excluding the North Carolina rate request discussed above, our operating subsidiaries currently have filed four rate requests, which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$8,425 in annual revenues. During 2014, we intend to file

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three additional rate requests proposing an aggregate of approximately \$3,425 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Ohio, Illinois, Indiana, and New Jersey allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. The rate increases under these surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. Infrastructure rehabilitation surcharges are capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and are reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$3,205 in 2013, \$15,911 in 2012, and \$15,937 in 2011. The decrease in infrastructure rehabilitation surcharges for 2013 resulted primarily from the January 1, 2013 suspension of Aqua Pennsylvania's DSIC as a result of the implementation of the Repair Change.

In 2012, Aqua Pennsylvania decided to adopt the repair tax accounting change on Aqua America's 2012 federal income tax return to be filed in September 2013. The change, which was contemplated under our subsidiary's June 2012 rate order, allows a tax deduction for qualifying utility asset improvements that were formerly capitalized and depreciated for book and tax purposes. As a result of Aqua Pennsylvania's implementing this tax accounting change, the DSIC was suspended for 2013 for Aqua Pennsylvania due to the anticipated earnings level to be achieved. This tax accounting change and its flow-through treatment under the Pennsylvania rate order offset the impact of the 2013 DSIC suspension through a substantial reduction in income tax expense and greater net income and cash flow.

Our Regulated segment also includes non-regulated operating revenues of \$10,303 in 2013, \$10,538 in 2012, and \$10,712 in 2011. These operating revenues are associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we had other non-regulated revenues that were primarily associated with providing 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, offering, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention, construction, 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 of \$17,712 in 2013, \$18,247 in 2012, and \$12,604 in 2011.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled \$285,340 in 2013, \$271,843 in 2012, and \$256,743 in 2011. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, and insurance and claims costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main.

Operations and maintenance expenses increased in 2013 as compared to 2012 by \$13,497 or 5.0%, primarily due to increases in operating costs associated with acquired utility systems and other growth ventures of \$7,386, the effect of the recognition in 2012 of a regulatory asset resulting from a completed rate case which when compared to 2013 resulted in an increase to operations and maintenance expense by \$3,356, an increase in post-retirement benefits expense of \$1,175, and normal increases in other operating costs, offset by a decrease in water production costs of \$4,396 attributed to decreased water consumption in 2013 and a gain on sale of a utility system recognized in 2013 of \$1,025. The gain on sale of utility system is reported in the consolidated statement of net income as a component of operations and maintenance expense.

Operations and maintenance expenses increased in 2012 as compared to 2011 by \$15,100 or 5.9%, primarily due to increases in operating costs associated with acquired utility systems and other growth ventures of