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Commodity Cost Adjustment Clauses

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What Are Commodity Cost Adjustment Clauses?

- Rate mechanisms to pass-through periodically increases or decreases in the per unit cost of producing water



What Commodities May Be Included?

- Power
- Water
- Chemicals
- Residuals Handling

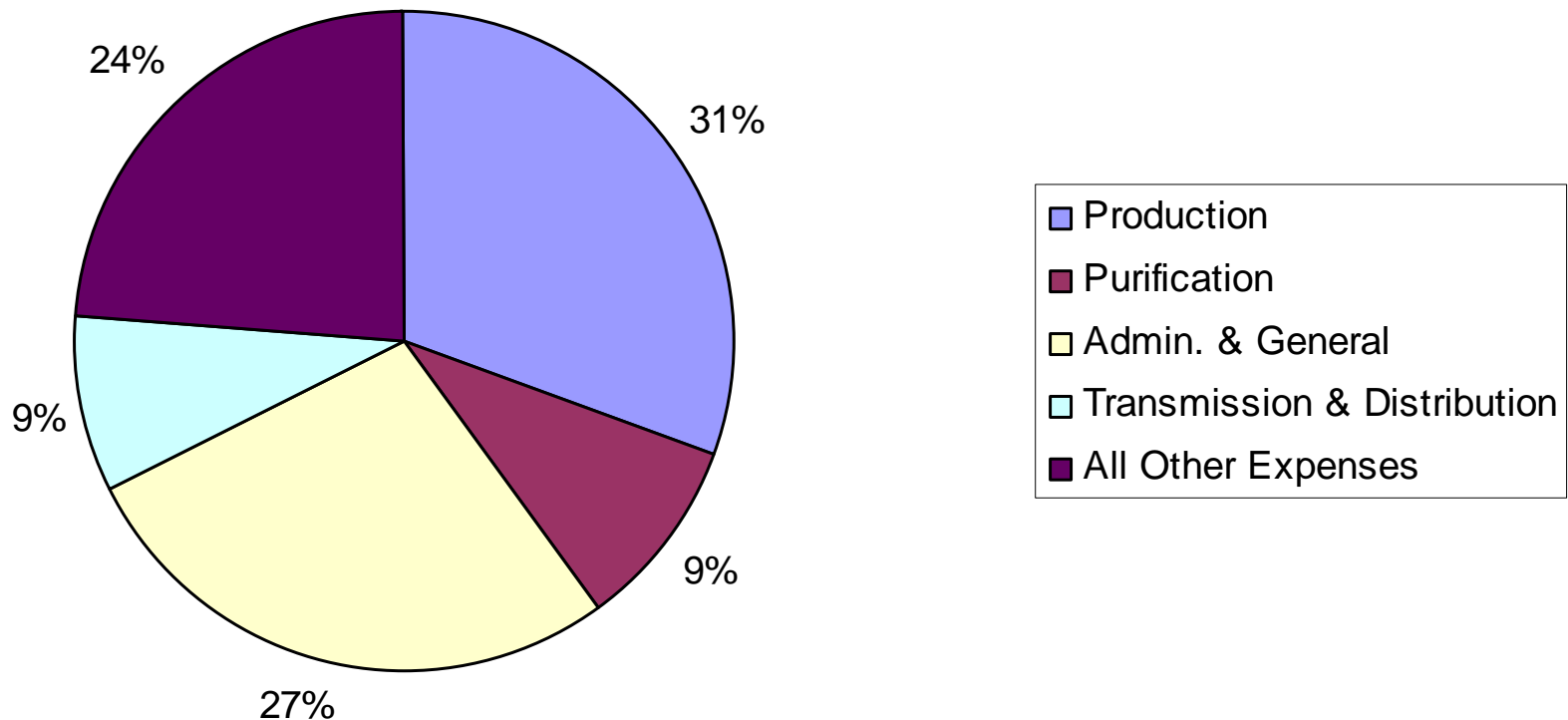


What Commodity Cost Adjustment Clauses Are Not

- Not a pass through of the cost of increased units of the commodity, for ex. increases in greater sales of water requiring greater power chemicals or sludge hauling.
- Not a pass through of increases in commodity costs because of growth.
- Not a pass through of commodity costs if the water company is earning in excess of its last allowed rate of return.
- Not a pass through of Administrative and General Costs (A&G) or Affiliate charges

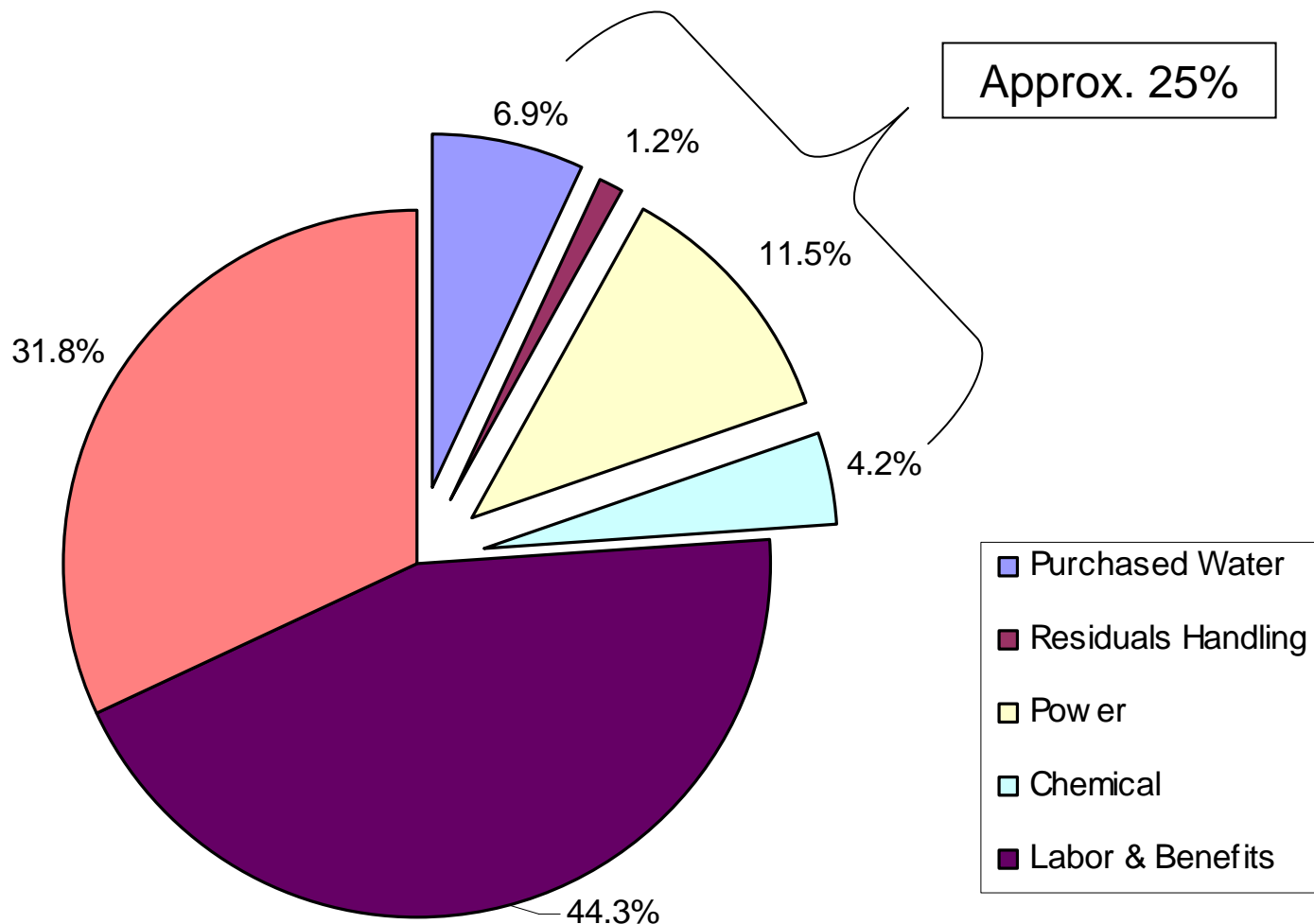


Breakdown of Operating Expenses of Water Companies*





Aqua America – Breakdown of O&M Expenses





Who Cares About Commodity Cost Adjustment Clauses?

- Rating Agencies (S&P, Moodys, Fitch)
- Investors
- Commissions



Commissions Which Allow Commodity Cost Adjustment Clauses

- Connecticut
- Delaware
- Florida
- Illinois
- Indiana
- Missouri
- New Jersey (PWAC and PSTAC)
- New York
- Ohio
- Pennsylvania
- Texas



What is the Incentive to Keep These Costs As Low As Possible?

- Purchased Water and Power Rates are typically set by the same utility commission that regulates the water company
- Chemicals, Sludge Hauling and Property Taxes
 - Pass through only a portion (85%/15%) to provide incentive to challenge costs. (NY PSC and property taxes)



Thank you.

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