

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

RECEIVED 11:00a
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COMMISSION
CLERK

In re: Application for increase in water and)
wastewater rates in Alachua, Brevard,)
Highlands, Lake, Lee, Marion, Orange, Palm)
Beach, Pasco, Polk, Putnam, Seminole,)
Sumter, Volusia, and Washington Counties)
by Aqua Utilities Florida, Inc.)
_____)

Docket No. 060368-WS

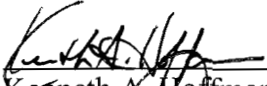
Dated: February 6, 2007

AQUA UTILITIES FLORIDA, INC.'S
NOTICE OF FILING RESPONSE
TO ACCOUNTING DEFICIENCY NO. 33


Aqua Utilities Florida, Inc. ("AUF") hereby files and serves Notice that it has filed twenty copies of the attached Response and a CD ROM containing additional information in response to Deficiency No. 33 as set forth in the Deficiency Letter dated January 2, 2007 from Timothy Devlin, Director, Division of Economic Regulation, to Kenneth Hoffman, counsel for AUF.

- CMP _____
- COM _____
- CTR _____
- ECR _____
- GCL _____
- OPC _____
- RCA _____
- SCR _____
- SGA _____
- SEC _____
- OTH _____

Respectfully submitted this 6th day of February, 2007.



Kenneth A. Hoffman, Esquire
Marsha E. Rule, Esquire
Rutledge, Ecenia, Purnell & Hoffman, P.A.
215 South Monroe St., Suite 420
Tallahassee, FL 32301
850.681.6788 (telephone)
850.681.6515 (facsimile)

RECEIVED & FILED


FPSC-BUREAU OF RECORDS

ATTORNEYS FOR AQUA UTILITIES
FLORIDA, INC.

DOCUMENT NUMBER-DATE

01276 FEB-6 5

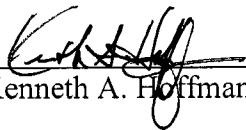
FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Notice and attached Responses (without CD) was served by hand delivery this 6th day of February, 2007, to the following:

Florida Public Service Commission
Rosanne Gervasi, Esq.
Katherine E. Fleming, Esq.
2450 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Office of the Public Counsel
Stephen C. Reilly, Esq.
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400



Kenneth A. Hoffman

Aqua Utilities Florida Inc.
Docket No. 060368-WS
Accounting Deficiencies

Accounting Deficiency No. 33

Rule 25-30.436(4)(h), F.A.C., states, “Any system that has costs allocated or charged to it from a parent, affiliate or related party, in addition to those costs reported on Schedule B-12 of Commission Form PSC/ECR 19 for a Class A utility, or PSC/ECR 20 for a Class B utility, (incorporated by reference in Rule 25-30.437, F.A.C.) shall file three copies of additional schedules that show the following information:

- 1. The total costs being allocated or charged prior to any allocation or charging as well as the name of the entity from which the costs are being allocated or charged and its relationship to the utility.**
- 2. For costs allocated or charged to the utility in excess of one percent of test year revenues:
 - a. A detailed description and itemization; and**
 - b. The amount of each itemized cost.****
- 3. The allocation or direct charging method used and the basis for using that method.**
- 4. The workpapers used to develop the allocation method, including but not limited to the numerator and denominator of each allocation factor.**
- 5. The workpapers used to develop, where applicable, the basis for the direct charging method.**
- 6. An organizational chart of the relationship between the utility and its parent and affiliated companies and the relationship of any related parties.**
- 7. A copy of any contracts or agreements between the utility and its parent or affiliated companies for services rendered between or among them.**

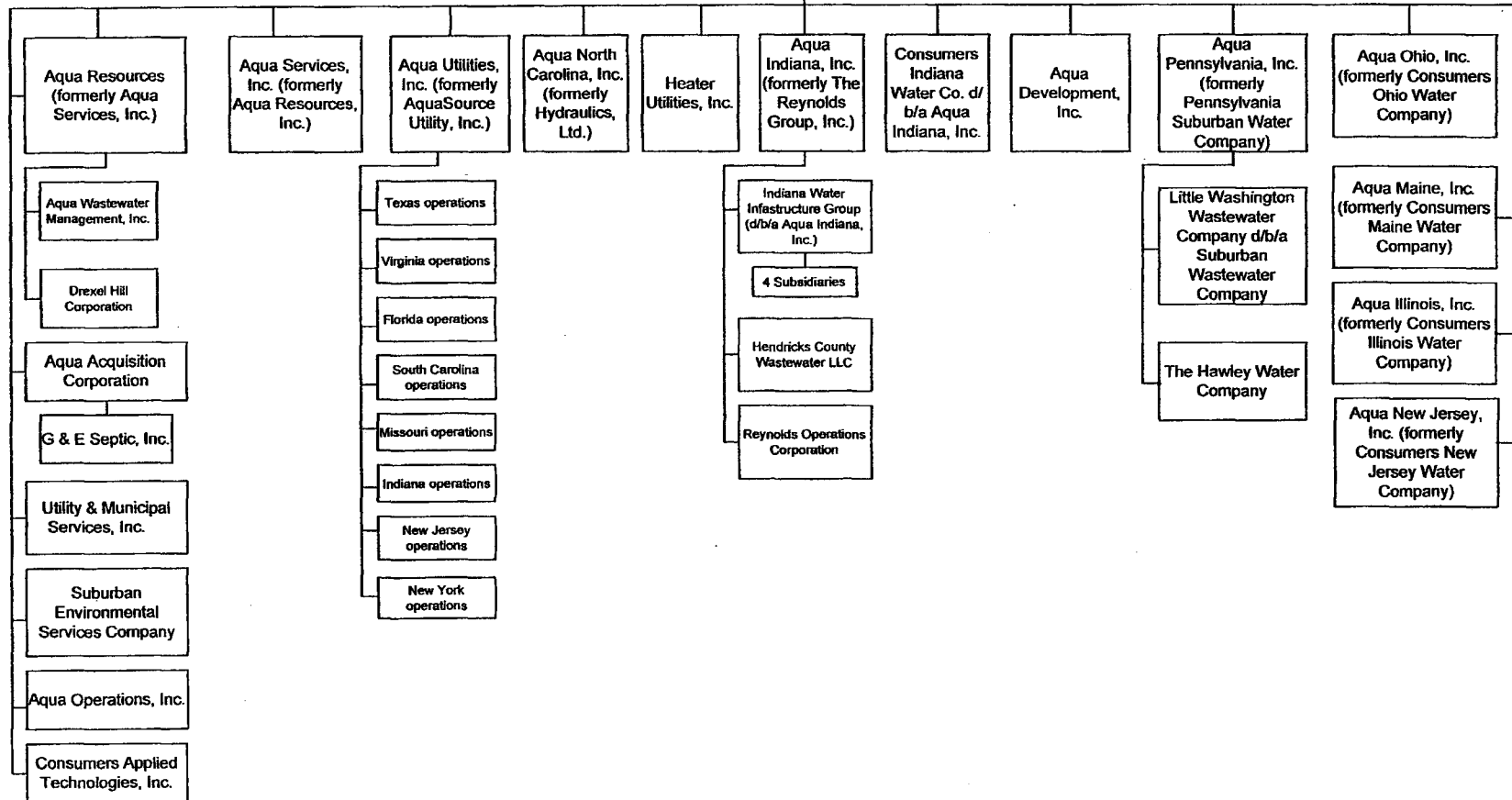
Response:

- 1. Please see attached file “Attach. Acct. Def No. 33 part 1.xls”. This file shows the 2005 total costs to Aqua Utilities Florida, Inc. from Aqua Services for allocated costs. This file includes all the systems in Florida, even those not in this filing. It is the total bill before being allocated to each of the systems. Also,**

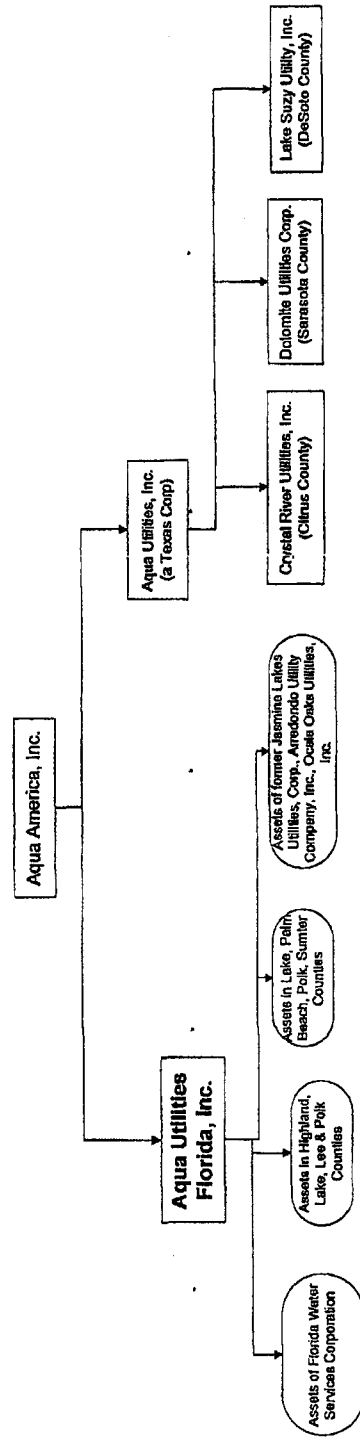
please refer to Part 6 below for the name and relationship to the utility.

2. Please see attached file "Acct Def No 33 part 2.xls" for detail of Corporate Invoices which show the detailed description and itemization, and the amount of each itemized cost.
3. All service related costs are appropriately distributed to the subsidiaries of Aqua America, and pooled by accounting units and distributed to the states based on predetermined allocation methods setup within the general ledger. These accounting units are linked to a table in the general ledger that contains customer counts for the year immediately proceeding the current year. Methods and customer counts are adjusted from year to year as needed. This method was used to spread the shared costs from the Florida Admin Accounts to each of the systems. For rate making adjustment, those costs are spread to each general ledger account within each system using the ERC allocation per the last rate case order in 1996 from FL PSC.
4. Please see attached file "Attach Acct. Def No. 33 part #4.xls" which is a workpaper used to develop the allocation method, including the numerator and denominator of each allocation factor.
5. If time can be directly assigned to a certain state, that time is directly charged based on hours.
6. Please see attached files "Organizational Chart Attach Acct. Def. No. 33 part 6a" And "Organizational Chart Attach Acct. Def. No. 33 part 6b".
7. Please see attached file for copy of Affiliate Agreement.

AQUA AMERICA, INC.
(Formerly Philadelphia Suburban Corporation)



**Florida Consolidation
Legal Entities**



□ = Stock
○ = Assets

Service Company Agreement

AGREEMENT

Agreement dated as of August 8, 2006, between Aqua Services, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business located at 762 W. Lancaster Avenue, Bryn Mawr, PA 19010 (hereinafter "Service Company"), and Aqua Utilities Florida, Inc., 6960 Professional Parkway East Sarasota, FL 34240 (hereinafter referred to individually as a "Aqua Utilities Florida"), and collectively hereinafter referred to jointly as the "Parties" or individually as a "Party".

RECITALS

1. WHEREAS, both Service Company and Aqua Utilities Florida are direct or indirect subsidiaries of Aqua America, Inc., a Pennsylvania corporation (hereinafter "Aqua America"); and
2. WHEREAS, Aqua Utilities Florida has been organized for and is presently engaged in the business of providing potable water and/or wastewater services as a public utility in the State of Florida; and
3. WHEREAS, Service Company maintains an organization whose officers and employees are familiar with the water and wastewater utility business, including the business and operations of Aqua Utilities Florida, and have experience and expertise in management, financing, accounting, customer services, legal affairs, engineering, rates and regulatory matters and the operation of water and wastewater utilities. The officers and employees of Service Company are qualified to aid, assist and advise Aqua Utilities Florida in its business operations through the services to be performed under this Agreement; and
4. WHEREAS, Aqua Utilities Florida is entering into this agreement with Service Company to specifically define the types of services available to it as set forth in Exhibit A attached hereto and made a part hereof; and
5. WHEREAS, Service Company has entered or proposes to enter into agreements similar to this agreement with other affiliated water companies that are direct or indirect subsidiaries of Aqua America (hereinafter collectively "Water Companies"); and
6. WHEREAS, Service Company may engage or subcontract with other companies or persons, including other affiliated companies, to provide portions of the services hereunder; and

7. WHEREAS, the services to be rendered under this Agreement are to be rendered by Service Company to Water Company at their cost to Service Company, as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, Service Company and Aqua Utilities Florida agree as follows:

ARTICLE I. PERSONNEL AND SERVICES TO BE PROVIDED

1.1 During the term of this Agreement as set forth in Article V and upon the terms and conditions hereinafter set forth, Service Company will provide corporate management services for Aqua Utilities Florida. In addition to the management services provided by the officers and employees of Service Company, the officers and employees of Service Company shall furnish to Aqua Utilities Florida the Accounting, Administration, Communication, Corporate Secretarial, Customer Services, Engineering, Financial, Human Resources, Information Systems, Operation, Rates and Regulatory, Risk Management, Water Quality, Legal, Purchasing and Fleet services as set forth on Exhibit A attached hereto, together with such other services as Aqua Utilities Florida and Service Company may agree; provided, however, that Aqua Utilities Florida may perform any such services with its own personnel or engage another company or person to provide those services on its behalf. Service Company may engage or subcontract with another company or person to provide such services on its behalf. If Service Company engages other affiliates of Aqua America to provide any of the services hereunder, such services shall be charged to Aqua Utilities Florida on the same basis as the services provided by the Service Company.

1.2 Service Company shall employ qualified officers and employees to provide the services hereunder and those persons shall be available to serve as officers of Aqua Utilities Florida.

ARTICLE II. PAYMENT FOR SERVICES

2.1 In consideration for the services to be rendered by Service Company as herein provided, Aqua Utilities Florida agrees to pay to Service Company the cost of the services provided to it, determined as provided in this Article II and in Article III.

2.2 The costs for service rendered by Service Company personnel directly for Aqua Utilities Florida shall be charged to Aqua Utilities Florida based on such personnel's time sheets. The costs for services to Aqua Utilities Florida that are rendered in common with similar services to other Water Companies which cannot be identified and related exclusively to services rendered to a particular Florida Water Company, shall be allocated among all Water Companies so served, or, in the case of costs with respect to services rendered to a particular group of Water Companies (including the Florida Water Companies), among the members of such group, based on the ratio of the number of customers served at the immediately preceding year end by Aqua Utilities Florida to the total number of customers served at the immediately preceding calendar year end by such Water Companies or group of Water Companies.

2.3 The amount for a Service Company employee's costs to be billed shall be computed on the employee's total labor rate, including base pay and other compensation, payroll taxes and fringe benefits (calculated on a per hour basis), plus a general overhead factor as set forth in Article III.

2.4 All direct expenses of Service Company incurred in connection with services rendered by Service Company which can reasonably be identified and related exclusively to Aqua Utilities Florida, shall be charged directly to Aqua Utilities Florida.

ARTICLE III. ALLOWANCE FOR OVERHEAD

3.1 In determining the cost for services rendered by the Service Company to Aqua Utilities Florida as herein provided, there shall be added to the base pay rate of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the overhead of Service Company, as defined below, allocable to each such officer or employee. The overhead shall be calculated each year and shall be based on the ratio of the total overhead of the Service Company for the year to the total salaries of the employees for

whose service charges are to be made to the Water Companies, including Aqua Utilities Florida. No general overhead or other markups by the Service Company shall be added to costs incurred for services of consultants or other third parties employed by Service Company.

3.2 The term "overhead" shall include, but not be limited to:

(a) building costs, lease costs, depreciation, utilities, and other costs associated with office space and equipment, and

(b) taxes other than payroll taxes

ARTICLE IV BILLING PROCEDURES AND BOOKS AND RECORDS

4.1 As soon as practicable after the last day of each month, Service Company shall render a bill to Aqua Utilities Florida for all amounts due from Aqua Utilities Florida for services and expenses for such month, computed pursuant to Article II and Article III. Alternatively, Service Company may require any other affiliated company from which it procures services for Aqua Utilities Florida to bill Aqua Utilities Florida for such services and related expenses on the same basis as set forth in Articles II and Article III. Such bills shall be in sufficient detail to show the charge for each service rendered. All amounts shall be paid by Aqua Utilities Florida within thirty (30) days after Water Company's receipt of the bill.

4.2 Service Company agrees to keep its books and records, and to require any other affiliated company providing services to Aqua Utilities Florida hereunder to keep their books and records, available at all times for inspection by representatives of Aqua Utilities Florida or by regulatory bodies having jurisdiction over Aqua Utilities Florida during normal business hours and upon reasonable advance notice.

4.3 Service Company shall at any time, upon request of Aqua Utilities Florida, furnish any and all information required by Aqua Utilities Florida with respect to the services rendered by Service Company or any affiliated companies hereunder, the costs thereof, and the allocation of such costs among the Water Companies.

ARTICLE V

TERM OF AGREEMENT

5.1 This Agreement shall become effective as of the later of (a) the date first set forth above or (b) the date the parties receive the last of any necessary approvals of governmental regulatory agencies having jurisdiction over this agreement. Upon becoming effective, this Agreement shall supersede all prior agreements, written or oral, which shall terminate on the date this Agreement becomes effective. This Agreement shall continue in full force and effect until terminated by either of the parties hereto giving the other party hereto thirty day's notice in writing; provided, however, that this Agreement shall terminate as of the date Aqua Utilities Florida or Service Company ceases to be an affiliate of Aqua America.

5.2 Upon termination of the Agreement without cause by Aqua Utilities Florida, Service Company shall continue to provide services to Aqua Utilities Florida at Aqua Utilities Florida's request for a period of no more than sixty (60) days from and after the effective date of the termination to facilitate Aqua Utilities Florida's transition to another service provider. Such transition shall be provided on the same terms and conditions as set forth in this Agreement, including compensation.

ARTICLE VI

BREACH

6.1 Either Party to the Agreement may terminate this Agreement upon material breach by the other Party. The non-breaching Party shall provide written notice of such breach to the other Party by certified mail, setting forth in detail the alleged failure and/or deficiency. If such breach is not corrected by the breaching Party within thirty (30) days from receipt of written notice by certified mail, this Agreement shall thereupon terminate.

ARTICLE VII OTHER AGREEMENTS

7.1 It is understood by Aqua Utilities Florida that Service Company has entered or may enter into similar agreements with other Water Companies that are affiliated with Aqua America to which similar services are to be furnished. Service Company will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

ARTICLE VIII INFORMATION EXCHANGE

8.1 Aqua Utilities Florida shall provide such information as required by Service Company for Service Company to perform its obligations hereunder. Service Company agrees on behalf of it and its employees and contractors that it will maintain such information as confidential and not disclose such information to third parties. Service Company's obligation of confidentiality will not apply to information which (a) is or becomes available to the public other than as a result of a disclosure by Service Company or its employees or contractors, (b) was in Service Company's possession and obtained on a non-confidential basis prior to its disclosure by Aqua Utilities Florida or (c) becomes available to the Service Company on a non-confidential basis from a person or entity other than Aqua Utilities Florida who Service Company does not know or have reason to know is under an obligation of confidentiality to Aqua Utilities Florida.

ARTICLE IX GENERAL PROVISIONS

9.1 JOINT OBLIGATIONS OF THE PARTIES. Service Company and Aqua Utilities Florida agree to cooperate in all matters that are the subject of this Agreement.

9.2 ARBITRATION. It is the stated purpose and goal of both Parties at all times to resolve any disputes and reach agreement by good faith negotiation between the Parties, without recourse to arbitration or other legal actions. In the event, however, that any such dispute cannot be settled through negotiation, either Party may request that the matter(s) in dispute be referred to arbitration. The demand for arbitration must be submitted to the American Arbitration Association within sixty (60) calendar days after the date of such request, in which case the arbitration shall be conducted at a mutually agreed upon location, in accordance with the rules and procedures then existing under the Commercial Arbitration rules of the American Arbitration Association, provided that notwithstanding anything to the contrary contained in such Rules the following shall apply: The arbitration board shall consist of a single arbitrator. The Parties shall endeavor to agree upon the single arbitrator. If the Parties fail to agree on a single arbitrator within twenty (20) business days, the arbitrator shall be selected by the American Arbitration Association or otherwise in

accordance with such Rules. After the appointment of the arbitrator, the arbitrator shall meet as necessary for the purpose of reaching a determination in the dispute, and the decision of the arbitrator, submitted in writing, to the Parties shall be final and binding upon both Parties. Judgment upon any decision rendered by arbitrator may be entered in any court having jurisdiction. Each Party shall bear the expense of its own witnesses, and the expenses of the arbitrator and any general expenses of the arbitration shall be borne equally by the Parties.

9.3 FORCE MAJEURE. Neither Party will be in default or otherwise liable for any delay in or failure of its performance hereunder due to any act of God, adverse weather condition, fire, flood, riot, strike, terrorism, accident, war, governmental requirement, inability to secure materials, labor or transportation, cable cut or other cause beyond the reasonable control of the affected party.

9.4 STANDARD OF CARE. Service Company shall perform its services with that degree of care, diligence and professional skill and judgment which is normally exercised by professionals in its industry. Except as otherwise expressly set forth in this Agreement, Service Company makes no warranties, representations or other agreements, expressed or implied with respect to this Agreement and the services provided hereunder. Service Company's entire liability to Aqua Utilities Florida for any claim, loss, expense or damage under this Agreement, including any claims for special, incidental, consequential, indirect or punitive damages shall in no event exceed the sums actually paid by Aqua Utilities Florida to Service Company during the most recent calendar year.

9.5 ASSIGNMENT. Neither party may assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld.

9.6 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

9.7 INDEMNIFICATION:

9.7.1 To the extent allowed by law, Service Company shall defend, indemnify and hold harmless Aqua Utilities Florida, its officers, directors, employees and agents from and against any and all liability, including liability to third parties, for personal injury, including death, property

damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suite and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of Service Company or its officers, employees, agents, contractors and subcontractors in connection with services provided pursuant to the terms of this Agreement.

9.7.2 To the extent allowed by law, Aqua Utilities Florida shall defend, indemnify and hold harmless Service Company, its officers, directors, employees and agents from and against any and all liability, including liability to third parties, for personal injury, including death, property damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suite and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of Aqua Utilities Florida or its officers, employees, agents, contractors and subcontractors in connection with services provided pursuant to the terms of this Agreement.

9.8 SEVERABILITY. Each provision of this Agreement is severable from the whole, and if one provision is declared invalid, the other provisions shall remain in effect.

9.9 NO WAIVER. Failure by a party to enforce any provision of this Agreement, or the waiver thereof in any instance, shall not be construed as a general waiver of rights.

9.10 NOTICES. Any notice given or made pursuant to this Agreement will be effective only if in writing and delivered in person, by messenger, by overnight delivery, or by certified mail, return receipt to a Party at the address first written above.

9.11 COMPLETE AGREEMENT. The terms of this Agreement constitute the entire agreement between the Parties concerning the subject matter hereof, and this Agreement may be modified only in a writing signed by both Parties.

9.12 TITLES AND HEADINGS. Titles and headings to sections or paragraphs herein are inserted merely for convenience of reference and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

9.13 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, Service Company and Aqua Utilities Florida have caused this Agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, as of the day and year first above written.

AQUA UTILITIES FLORIDA, INC.

By: _____

Title: Nice President, Operations

AQUA SERVICES, INC.

By: _____

Title: Vice President

EXHIBIT A
to
SERVICE AGREEMENT

Without limitation, services to be provided by the Service Company will include the following:

A. Accounting and Financial Services: Service Company will assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulation of governmental authorities having jurisdiction over Aqua Utilities Florida and will review Aqua Utilities Florida's monthly financial reports, annual reports and other reports, including those to any governmental authorities. The Service Company will advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. The Service Company will assist in the maintenance of accounting records as required by Aqua Utilities Florida. When appropriate, Service Company will cooperate and consult with Aqua Utilities Florida's independent certified public accountants. Service Company will provide assistance to Aqua Utilities Florida in the preparation of all financial reports. The Service Company will also provide services related to accounts payable, payroll, consolidation, SEC reporting/filing, budgeting and long-range planning.

Service Company will assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Service Company will prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by Aqua Utilities Florida.

B. Administration: Service Company will make qualified employees available to perform or assist in the performance of Aqua Utilities Florida's corporate activities. Those employees will keep themselves informed on Aqua Utilities Florida's operations. They will make recommendations to Aqua Utilities Florida for operating expenditures and for additions to and improvements of property, plant and equipment. They will keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect

Aqua Utilities Florida; and advise Aqua Utilities Florida of such developments and conditions to the extent that they may be important to Aqua Utilities Florida. Service Company will provide an internal audit staff for periodic audits of accounts, records, policies and procedures of Aqua Utilities Florida and submit reports thereon.

C. Communications: Service Company will recommend procedures to promote satisfactory relations with employees, customers, communities and the general public and assist in the preparation of communication materials, (including press releases, brochures, audio visual presentations and speeches) plant tours, public exhibits and displays and other related services to inform the public.

D. Corporate Secretarial: Service Company will maintain, in such places and manner as may be required by applicable law, documents of Aqua Utilities Florida, such as minute books, charters, by-laws, contracts, deeds and other corporate records. It will maintain, or arrange for the maintenance of, records of stockholders of Aqua Utilities Florida and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Service Company will review and may assist in the preparation of documents and reports required by Aqua Utilities Florida such as deeds, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings.

E. Customer Service and Billing: Service Company may provide customer service and billing services to Aqua Utilities Florida, including live and automated telephone service to customers, the rendering of periodic bills to customers based on Aqua Utilities Florida's tariffs, collections, assisting customers with water service changes, resolving customer disputes and remittance processing.

F. Engineering: Service Company may provide engineering consulting regarding, and provide engineering services in connection with, the design, permitting and constructing of Aqua Utilities Florida's facilities.

Service Company may conduct facility planning, hydraulic analyses and prepare or review maps, charts, operating statistics, reports and other pertinent data, as needed to support these engineering services. It

may assist Aqua Utilities Florida in the protection of Aqua Utilities Florida's properties by periodic inspection of their structures, tanks reservoirs, dams, wells and electrical and mechanical equipment.

The engineering services provided by Service Company may also include the conduct of field investigations as necessary to obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Aqua Utilities Florida's sources of supply, treatment plants, pumping stations, distribution systems, and such other facilities as Aqua Utilities Florida may request. Service Company may provide a materials management program to arrange for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Aqua Utilities Florida and assist in the evaluation of new and existing products and application procedures.

G. Financial: Service Company will assist in the development and implementation of financing programs for Aqua Utilities Florida, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; advice concerning arrangements for the sale of securities; and assistance in the preparation of necessary papers, documents, registration statements, prospectuses, petitions, applications and declarations. Service Company will prepare reports to be filed with, and reply to inquiries made by, security holders and bond and mortgage trustees.

Service Company will assist Aqua Utilities Florida in treasury and cash management functions, including arrangements for bank credit lines, establishment of collection policies, and development of temporary investment programs.

H. Fleet Services: Service Company may provide various fleet management services, including assistance with vehicle ordering and leasing, fuel card management, vehicle maintenance support and oversight, vehicle signage, vehicle titles and driver training.

I. Human Resources: Service Company will assist in obtaining qualified personnel for Aqua Utilities Florida; in establishing appropriate rates of pay for those employees; and in negotiating with bargaining units, if any, representing Aqua Utilities Florida's employees. Service Company will recommend and/or carry out training programs for the development of personnel and advise and assist Aqua Utilities Florida regarding

personnel. It will also advise and assist Aqua Utilities Florida in regard to group employee insurance, pension and benefit plans and in the drafting or revising of those plans when required. It will provide advice regarding employment laws and procedures and controls to for compliance with such laws.

J. Information Systems: Service Company will make available to Aqua Utilities Florida electronic data processing systems, networks, applications and services. The Service Company will design, implement and maintain a computer network, data communications system, database and applications services, desktop and laptop computers, and peripheral equipment along with periodic upgrades, data backups and recovery procedures for the benefit of Aqua Utilities Florida.

K. Operation: Service Company may develop and assist in the implementation of operating procedures to promote the efficient and economic operation of Aqua Utilities Florida. Periodic operational reviews may be performed by Service Company personnel and recommendations for improvements will be reported to Aqua Utilities Florida.

L. Rates and Regulatory: Service Company personnel will make recommendations for changes in rates, tariffs, rules and regulations and will assist Aqua Utilities Florida in the conduct of proceedings before, and in their compliance with the rulings of, regulatory bodies having jurisdiction over the Aqua Utilities Florida's operation. These personnel will keep abreast of economic and regulatory developments and conditions that may affect Aqua Utilities Florida and advise Aqua Utilities Florida of developments and conditions to the extent that they may be important to Aqua Utilities Florida. Service Company Rates and Regulatory personnel will assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by Aqua Utilities Florida and their respective regulatory commissions. Service Company will also provide qualified personnel to testify on behalf of Aqua Utilities Florida as required during any regulatory proceedings.

M. Risk Management: Service Company will provide a risk management program to review the exposures to accidental loss, recommend methods of protection, either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. Service Company will also supervise investigation procedures, review claims and negotiate and assist in, and evaluate

proposals for, settlement at the request of Aqua Utilities Florida. It will assist in the establishment of safety and security programs for Aqua Utilities Florida.

N. Water Quality Service Company will provide advice and consulting to assist Aqua Utilities Florida in complying with water quality standards of governmental agencies. It will assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing technical assistance and general direction for Aqua Utilities Florida's personnel.

It will also provide laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Aqua Utilities Florida.

O. Legal Service Company will provide legal services, including legal advice and representation on legal matters. The Service Company will also provide oversight of outside council retained to represent Aqua Utilities Florida.

P. Purchasing, Contracts and Sales Service Company will (a) act as purchasing agent for the Aqua Utilities Florida, so far as it is feasible in the purchase of supplies, materials and equipment for which Aqua Utilities Florida may make a requisition; (b) endeavor to secure prompt shipment and deliver thereof; (c) and give Aqua Utilities Florida the full benefit of all cash, trade and quantity discounts obtained with respect to items ordered for Aqua Utilities Florida; (d) keep in touch with market conditions and endeavor to recommend purchases at advantageous times; (e) negotiate purchases and sales of real estate and the terms of leases; and (f) analyze quotations or competitive bids of suppliers or contractors submitted to Aqua Utilities Florida and make recommendations relative thereto.

Service Company Subcontract

Subcontract Agreement

Subcontract Agreement dated as of January 1, 2006 , between **AQUA SERVICES, INC.**, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business located at 762 W. Lancaster Avenue, Bryn Mawr, PA 19010 (hereinafter "Service Company"), and **AQUA PENNSYLVANIA, INC.**, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal place of business located at 762 w. Lancaster Avenue. Bryn Mawr, PA 19010, hereinafter referred to jointly as the "Parties" or individually as a "Party".

RECITALS

1. WHEREAS, both Service Company and Subcontractor are subsidiaries of Aqua America, Inc., a Pennsylvania corporation (hereinafter "Aqua America"); and
2. WHEREAS, Service Company maintains an organization whose officers and employees are familiar with the water and wastewater utility business, and have experience and expertise in accounting, administration, communication, corporate secretarial, customer services, engineering, financial, human resources, information systems, operation, rates and regulatory matters, risk management, water quality, legal, purchasing and fleet services to water and wastewater utilities; and
3. WHEREAS, Service Company has entered into Agreements with water and wastewater utility subsidiaries of Aqua America (hereinafter the "Water Companies") to provide accounting, administration, communication, corporate secretarial, customer services, engineering, financial, human resources, information systems, operation, rates and regulatory matters, risk management, water quality, legal, purchasing and fleet services to such water and wastewater subsidiaries; and
4. WHEREAS, Subcontractor has been organized for and is presently engaged in the business of providing potable water and wastewater services as a public utility in the Commonwealth of Pennsylvania; and
5. WHEREAS, the officers and employees of Subcontractor are familiar with the water and wastewater utility business and have experience and expertise in accounting, administration, corporate

secretarial, customer service, engineering, fleet, information systems, operations, rates and regulatory matters, risk management, water quality, purchasing and legal services ; and

6. WHEREAS, the Service Company has determined that it would be cost-effective to retain Subcontractor to perform these services for Aqua Pennsylvania; and
7. WHEREAS, the Service Company and Subcontractor are entering into this Subcontract to specifically define the types of services that Subcontractor may make available to the Pennsylvania Water Companies as a subcontractor to Service Company as set forth in Exhibit A attached hereto and made a part hereof; and
8. WHEREAS, the services to be rendered under this Subcontract are to be rendered by Subcontractor at the request of Service Company to the Aqua Pennsylvania at their cost to Subcontractor, as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, Subcontractor and Service Company agree that:

ARTICLE I. PERSONNEL AND SERVICES TO BE PROVIDED

1.1 During the term of this Subcontract as set forth in Article V and upon the terms and conditions hereinafter set forth, Subcontractor will provide to Aqua Pennsylvania at the direction of Service Company, the services as set forth on Exhibit A attached hereto, together with such other services as Subcontractor and Service Company may agree; provided, however, that Service Company may perform any such services with its own personnel or engage another company or person to provide those services on its behalf. Service Company may engage or subcontract with another company or person to provide such services for Aqua Pennsylvania.

1.2 Subcontractor shall employ qualified officers and employees to provide the services hereunder.

ARTICLE II. PAYMENT FOR SERVICES

2.1 In consideration for the services to be rendered by Subcontractor as herein provided, Subcontractor will be paid the cost thereof determined as provided in this Article II and in Article III.

2.2 The costs for service rendered by Subcontractor personnel directly for a particular Aqua Pennsylvania shall be charged to Aqua Pennsylvania based on such personnel's time sheets. The costs for services to Aqua Pennsylvania that are rendered in common with similar services to other Water Companies which cannot be identified and related exclusively to services rendered to Aqua Pennsylvania shall be allocated among all Water Companies so served, or, in the case of costs with respect to services rendered to a particular group of Water Companies, among the members of such group, based on the ratio of the number of customers served at the immediately preceding year end by the Aqua Pennsylvania to the total number of customers served at the immediately preceding calendar year end by such Water Companies or group of Water Companies.

2.3 The amount for the Subcontractor personnel's costs to be billed shall be computed on the employee's total labor rate, including base pay and other compensation, payroll taxes and fringe benefits (calculated on a per hour basis), plus a general overhead factor as set forth in Article III.

2.4 All direct expenses of Subcontractor incurred in connection with services rendered by Subcontractor which can reasonably be identified and related exclusively to a water company shall be charged directly to that water company.

ARTICLE III. ALLOWANCE FOR OVERHEAD

3.1 In determining the cost for services rendered by the Subcontractor to a Aqua Pennsylvania as herein provided, there shall be added to the base pay rate of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the overhead of Subcontractor, as defined below, allocable to each such officer or employee. The overhead shall be calculated each year and shall be based on the ratio of the total overhead of the Subcontractor for the year to the total salaries of the employees for whose service charges are to be made to the Water Companies. No general overhead or other markups by the Subcontractor shall be added to costs incurred for services of consultants or other third parties employed by Subcontractor.

3.2 The term "overhead" shall include, but not be limited to:

(a) building costs, lease costs, depreciation, utilities, and other costs associated with office space and equipment, and

(b) taxes other than payroll taxes

ARTICLE IV BILLING PROCEDURES AND BOOKS AND RECORDS

4.1 As soon as practicable after the last day of each month, Subcontractor shall render a bill to the Aqua Pennsylvania with a copy to Service Company for all amounts due from Aqua Pennsylvania for services and expenses for such month, computed pursuant to Article II and Article III. All amounts shall be paid by Aqua Pennsylvania within thirty (30) days after the Aqua Pennsylvania receipt of the bill.

4.2 Subcontractor agrees to keep its books and records available at all times for inspection by representatives of Service Company or Aqua Pennsylvania or by regulatory bodies having jurisdiction over Aqua Pennsylvania during normal business hours and upon reasonable advance notice.

4.3 Subcontractor shall at any time, upon request of Service Company or Aqua Pennsylvania, furnish any and all information required by Service Company or Aqua Pennsylvania with respect to the services rendered by Subcontractor hereunder, the costs thereof, and the allocation of such costs among Water Companies.

ARTICLE V TERM OF AGREEMENT

5.1 This Subcontract Agreement shall become effective as of the date first set forth above. Upon becoming effective, this Agreement shall supersede all prior agreements, written or oral, which shall terminate on the date this Agreement becomes effective. This Agreement shall continue in full force and effect until terminated by either of the parties hereto giving the other party hereto thirty day's notice in writing; provided, however, that this Agreement shall terminate as of the date Subcontractor or Service Company ceases to be an affiliate of Aqua America.

5.2 Upon termination of the Agreement without cause by Services Company, Subcontractor shall continue to provide services at Service Company's direction to Aqua Pennsylvania for a period of no more

than sixty (60) days from and after the effective date of the termination to facilitate Water Company's transition to another service provider. Such transition shall be provided on the same terms and conditions as set forth in this Agreement, including compensation.

ARTICLE VI BREACH

6.1 Either Party to the Agreement may terminate this Agreement upon material breach by the other Party. The non-breaching Party shall provide written notice of such breach to the other Party by certified mail, setting forth in detail the alleged failure and/or deficiency. If such breach is not corrected by the breaching Party within thirty (30) days from receipt of written notice by certified mail, this Agreement shall thereupon terminate.

ARTICLE VII OTHER AGREEMENTS

7.1 It is understood by Subcontractor that Service Company has entered or may enter into similar agreements with other Water Companies that are affiliated with Aqua America to which similar services are to be furnished. Subcontractor will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

ARTICLE VIII INFORMATION EXCHANGE

8.1 Service Company shall provide such information as required by Subcontractor for Subcontractor to perform its obligations hereunder. Subcontractor agrees on behalf of it and its employees that it will maintain such information as confidential and not disclose such information to third parties. Subcontractor's obligation of confidentiality will not apply to information which (a) is or becomes available to the public other than as a result of a disclosure by Subcontractor or its employees, (b) was in Subcontractor's possession and obtained on a non-confidential basis prior to its disclosure to Subcontractor or (c) becomes available to the Subcontractor on a non-confidential basis from a person other than the Water Company or Service Company who Subcontractor does not know or have reason to know is under an obligation of confidentiality with respect to such information.

ARTICLE IX GENERAL PROVISIONS

9.1 JOINT OBLIGATIONS OF THE PARTIES. Service Company and Subcontractor agree to cooperate in all matters that are the subject of this Agreement.

9.2 ARBITRATION. It is the stated purpose and goal of both Parties at all times to resolve any disputes and reach agreement by good faith negotiation between the Parties, without recourse to arbitration or other legal actions. In the event, however, that any such dispute cannot be settled through negotiation, either Party may request that the matter(s) in dispute be referred to arbitration. The demand for arbitration must be submitted to the American Arbitration Association within sixty (60) calendar days after the date of such request, in which case the arbitration shall be conducted at a mutually agreed upon location, in accordance with the rules and procedures then existing under the Commercial Arbitration rules of the American Arbitration Association, provided that notwithstanding anything to the contrary contained in such Rules the following shall apply: The arbitration board shall consist of a single arbitrator. Service Company and Subcontractor shall endeavor to agree upon the single arbitrator. If the Parties fail to agree on a single arbitrator within twenty (20) business days, the arbitrator shall be selected by the American Arbitration Association or otherwise in accordance with such Rules. After the appointment of the arbitrator, the arbitrator shall meet as necessary for the purpose of reaching a determination in the dispute, and the decision of the arbitrator, submitted in writing, to Service Company and Subcontractor shall be final and binding upon both Parties. Judgment upon any decision rendered by arbitrator may be entered in any court having jurisdiction. Each Party shall bear the expense of its own witnesses, and the expenses of the arbitrator and any general expenses of the arbitration shall be borne equally by the Parties.

9.3 FORCE MAJEURE. Neither Party will be in default or otherwise liable for any delay in or failure of its performance hereunder due to any act of God, adverse weather condition, fire, flood, riot, strike, terrorism, accident, war, governmental requirement, inability to secure materials, labor or transportation, cable cut or other cause beyond the reasonable control of the affected party.

9.4 STANDARD OF CARE. Subcontractor shall perform its services with that degree of care, diligence and professional skill and judgment which is normally exercised by professionals in its industry. Except as otherwise expressly set forth in this Agreement, Subcontractor makes no warranties,

representations or other agreements, expressed or implied with respect to this Agreement and the services provided hereunder. Subcontractor's entire liability for any claim, loss, expense or damage under this Agreement, including any claims for special, incidental, consequential, indirect or punitive damages shall in no event exceed the sums actually paid to Subcontractor during the most recent calendar year for the services hereunder.

9.5 ASSIGNMENT. Neither party may assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld.

9.6 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania.

9.7 INDEMNIFICATION:

9.7.1 To the extent allowed by law, Subcontractor shall defend, indemnify and hold harmless Service Company and any Water Company for which services are provided hereunder, its and their officers, directors, employees and agents from and against any and all liability, including liability to third parties ; for personal injury, including death, property damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suits and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of Subcontractor or its officers, employees, agents, contractors and subcontractors in connection with services provided pursuant to the terms of this Agreement.

9.7.2 To the extent allowed by law, Service Company shall defend, indemnify and hold harmless Subcontractor, its officers, directors, employees and agents from and against any and all liability, including liability to third parties , for personal injury, including death, property damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suits and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of Service Company or its officers, employees, agents, contractors and subcontractors in connection with services provided pursuant to the terms of this Agreement.

9.8 SEVERABILITY. Each provision of this Agreement is severable from the whole, and if one provision is declared invalid, the other provisions shall remain in effect.

9.9 NO WAIVER. Failure by a party to enforce any provision of this Agreement, or the waiver thereof in any instance, shall not be construed as a general waiver of rights.

9.10 NOTICES. Any notice given or made pursuant to this Agreement will be effective only if in writing and delivered in person, by messenger, by overnight delivery, or by certified mail, return receipt requested, as follows:

IF TO AQUA SERVICES, INC.
Aqua Services, Inc.
762 West Lancaster Avenue
Bryn Mawr, PA 19010
Attention: President

IF TO PENNSYLVANIA
Aqua Pennsylvania, Inc.
762 West Lancaster Avenue
Bryn Mawr, PA 19010
Attention: President

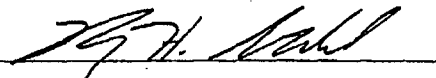
9.11 COMPLETE AGREEMENT. The terms of this Agreement constitute the entire agreement between the Parties concerning the subject matter hereof, and this Agreement may be modified only in a writing signed by both Parties.

9.12 TITLES AND HEADINGS. Titles and headings to sections or paragraphs herein are inserted merely for convenience of reference and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.


9.13. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, Service Company and Subcontractor have caused this Agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

AQUA SERVICES, INC.

By: 
Title: Senior Vice President

AQUA PENNSYLVANIA, INC.

By: 
Title: PRESIDENT

**EXHIBIT A to
SUBCONTRACT AGREEMENT
Aqua Services, Inc. and Aqua Pennsylvania, Inc.**

Without limitation, services to be provided by the Subcontractor will include the following:

A. Accounting and Financial Services: Subcontractor may assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulation of governmental authorities having jurisdiction over Aqua Pennsylvania and may review Aqua Pennsylvania's monthly financial reports, annual reports and other reports, including those to any governmental authorities. The Subcontractor may advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. The Subcontractor may assist in the maintenance of accounting records as required by Aqua Pennsylvania. When appropriate, Subcontractor will cooperate and consult with Aqua Pennsylvania's independent certified public accountants. Subcontractor may provide assistance to Aqua Pennsylvania in the preparation of all financial reports. The Subcontractor may also provide services related to accounts payable, payroll, consolidation, SEC reporting/filing, budgeting and long-range planning.

Subcontractor may assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Subcontractor may prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by Aqua Pennsylvania.

B. Administration: Subcontractor will make qualified employees available to perform or assist in the performance of Aqua Pennsylvania's corporate activities. Those employees will keep themselves informed on Aqua Pennsylvania's operations. They may make recommendations to Aqua Pennsylvania for operating expenditures and for additions to and improvements of property, plant and equipment. They will keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Aqua Pennsylvania; and advise Aqua Pennsylvania of such developments and conditions to the extent that they may be

important to Aqua Pennsylvania. Subcontractor may provide an internal audit staff for periodic audits of accounts, records, policies and procedures of Aqua Pennsylvania and submit reports thereon.

C. Corporate Secretarial: Subcontractor may maintain, in such places and manner as may be required by applicable law, documents of Aqua Pennsylvania, such as minute books, charters, by-laws, contracts, deeds and other corporate records. It may maintain, or arrange for the maintenance of, records of stockholders of Aqua Pennsylvania and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Subcontractor may review and may assist in the preparation of documents and reports required by Aqua Pennsylvania such as deeds, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings.

D. Customer Service and Billing: Subcontractor may provide customer service and billing services to Aqua Pennsylvania, including live and automated telephone service to customers, the rendering of periodic bills to customers based on Aqua Pennsylvanias' tariffs, collections, assisting customers with water service changes, resolving customer disputes and remittance processing.

E. Engineering: Subcontractor may provide engineering consulting regarding, and provide engineering services in connection with, the design, permitting and constructing of Aqua Pennsylvania's facilities.

Subcontractor may conduct facility planning, hydraulic analyses and prepare or review maps, charts, operating statistics, reports and other pertinent data, as needed to support these engineering services. It may assist Aqua Pennsylvania in the protection of Aqua Pennsylvania's properties by periodic inspection of their structures, tanks reservoirs, dams, wells and electrical and mechanical equipment.

The engineering services provided by Subcontractor may also include the conduct of field investigations as necessary to obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Aqua Pennsylvania's sources of supply, treatment plants, pumping stations, distribution systems, and such other facilities as Aqua Pennsylvania may request. Subcontractor may provide a materials management program to arrange for the purchase of equipment, materials, and supplies in volume on a basis

advantageous to the Aqua Pennsylvania and assist in the evaluation of new and existing products and application procedures.

F. Fleet Services: Subcontractor may provide various fleet management services, including assistance with vehicle ordering and leasing, fuel card management, vehicle maintenance support and oversight, vehicle signage, vehicle titles and driver training.

G. Information Systems: Subcontractor may make available to Aqua Pennsylvania electronic data processing systems, networks, applications and services. The Subcontractor may design, implement and maintain a computer network, data communications system, database and applications services, desktop and laptop computers, and peripheral equipment along with periodic upgrades, data backups and recovery procedures for the benefit of Aqua Pennsylvania.

H. Operation: Subcontractor may develop and assist in the implementation of operating procedures to promote the efficient and economic operation of Aqua Pennsylvania. Periodic operational reviews may be performed by Subcontractor personnel and recommendations for improvements will be reported to Aqua Pennsylvania.

I. Rates and Regulatory: Subcontractor personnel may make recommendations for changes in rates, tariffs, rules and regulations and may assist Aqua Pennsylvania in the conduct of proceedings before, and in their compliance with the rulings of, regulatory bodies having jurisdiction over Aqua Pennsylvania's operation. These personnel will keep abreast of economic and regulatory developments and conditions that may affect Aqua Pennsylvania and advise Aqua Pennsylvania of developments and conditions to the extent that they may be important to Aqua Pennsylvanias. Subcontractor Rates and Regulatory personnel may assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by Aqua Pennsylvania and their respective regulatory commissions. Subcontractor may also provide qualified personnel to testify on behalf of Aqua Pennsylvania as required during any regulatory proceedings.

J. Risk Management: Subcontractor may provide a risk management program to review the exposures to accidental loss, recommend methods of protection, either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. Subcontractor may also supervise investigation procedures, review claims and negotiate and assist in, and

evaluate proposals for, settlement at the request of Aqua Pennsylvania. It may assist in the establishment of safety and security programs for Aqua Pennsylvania.

K. Water Quality Subcontractor may provide advice and consulting to assist Aqua Pennsylvania in complying with water quality standards of governmental agencies. It may assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing technical assistance and general direction for Aqua Pennsylvania personnel.

It may also provide laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Aqua Pennsylvania.

L. Legal Subcontractor may provide legal services, including legal advice and representation on legal matters. The Subcontractor may also provide oversight of outside council retained to represent Aqua Pennsylvania.