

COZEN
O'CONNOR
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April 27, 2018

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PA PUC
SECRETARY'S BUREAU
FRONT DESK

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor – Filing Room
Harrisburg, PA 17120

Re: PENNSYLVANIA PUBLIC UTILITY COMMISSION V. HIDDEN VALLEY UTILITY SERVICES, L.P. – WATER (GENERAL RATE INCREASE FILED PURSUANT TO 66 PA. C.S. § 1308, INCLUDING ANSWERS TO 52 PA. CODE § 53.52)

SUPPLEMENT NO. 1 TO TARIFF WATER – PA PUC NO. 1

DOCKET NO. R-2018-3001306

Dear Secretary Chiavetta:

Enclosed on behalf of Hidden Valley Utility Services, L.P. ("HVUS"), are the original and the requisite CD-ROM of the following tariff supplement, supporting information, statements, and exhibits for filing with the Pennsylvania Public Utility Commission in connection with proposed changes to HVUS's tariffed rates for water service:

- Supplement No. 1 to Tariff Water – Pa. P.U.C. No. 1;
- Supporting Information Required by 52 Pa. Code § 53.52 (in Exhibit PRH-2);
- HVUS Statement No. 1, Direct Testimony of James M. Kettler, President of HVUS (includes HVUS Exhibit No. JMK-1); and
- HVUS Statement No. 2, Direct Testimony of Paul R. Herbert (President of Gannett Fleming Valuation and Rate Consultants, LLC) (including HVUS Exhibit Nos. PRH-1 through PRH-2).

Please note that HVUS is contemporaneously filing for a change in tariffed rates for wastewater service at Docket No. R-2018-3001307. These two filings are related and HVUS requests that they be consolidated for purposes of adjudication and decision.

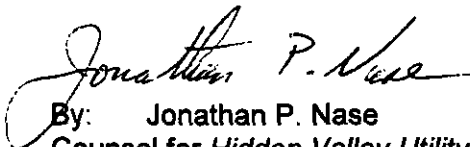
Rosemary Chiavetta, Secretary
April 27, 2018
Page 2

If you have any questions regarding this filing, please direct them to me. Please date-stamp the extra copy and return it with our courier. Copies of this filing have been served in accordance with the enclosed Certificate of Service.

Thank you for your attention to this matter.

Sincerely,

COZEN O'CONNOR



By: Jonathan P. Nase
Counsel for Hidden Valley Utility Services, L.P.

JPN:kmg
Enclosures

cc: Per Certificate of Service
Paul T. Diskin, Director, Bureau of Technical Utility Services
James M. Kettler

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Hidden Valley Utility Services, L.P. -- Water

Docket No. R-2018-3001306

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing 2018 Rate Case of Hidden Valley Utility Services, L.P. -- Water, upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA FIRST CLASS MAIL:

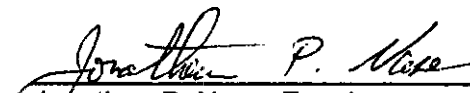
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265

Office of Small Business Advocate
Commerce Building, Suite 202
300 North Second Street
Harrisburg, PA 17101-1303

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

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DATED: April 27, 2018



Jonathan P. Nase, Esquire
Counsel for Hidden Valley Utility Services, L.P.

James M. Kettler
HVUS Statement No. 1
(Water)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Hidden Valley Utility Services, L.P. -- Water

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Docket No. R-2018-3001306

**DIRECT TESTIMONY
OF
JAMES M. KETTLER
PRESIDENT
HIDDEN VALLEY UTILITY SERVICES, L.P.**

Date: April 27, 2018

HVUS Statement No. 1

**DIRECT TESTIMONY OF
JAMES M. KETTLER**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

2 A. James M. Kettler, 811 Russell Ave., Suite 302, Gaithersburg, MD 20879.

3

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. Hidden Valley Utility Services, L.P. as President.

6

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS
8 EXPERIENCE.**

9 A. A copy of my resume is attached as **HVUS Exhibit JMK-1 (Water)**.

10

11 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES IN YOUR CURRENT
12 POSITION?**

13 A. As President, I am responsible for management of the on-site personnel and the overall
14 direction of the organization.

15

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA
17 PUBLIC UTILITY COMMISSION (“PUC” or “COMMISSION”)?**

18 A. Yes. I testified in *Tanya J. McCloskey, Acting Consumer Advocate v. Hidden Valley
19 Utility Services, L.P.*, Docket Nos. C-2014-2447138 and C-2014-2447169
20 (“*McCloskey*”).

21

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my direct testimony is to provide an overview of Hidden Valley Utility
4 Services, L.P. (“HVUS”), its water system and the need for a rate increase.

5

6 **DESCRIPTION OF HVUS AND ITS WATER SYSTEM**

7 **Q. PLEASE DESCRIBE HVUS.**

8 A. Hidden Valley Utility Services, LP, is a Pennsylvania limited partnership, serving as a
9 water and wastewater provider since August 31, 2005 as a PUC regulated utility. The
10 service area for HVUS consists of approximately 1,399 acres and is the geographic
11 boundary of Hidden Valley (the “Resort”), a ski and golf resort community in Jefferson
12 Township, Somerset County, Pennsylvania.

13 The Resort is owned by Seven Springs. The Resort has a conference center,
14 which is currently closed and is not being utilized. The previous owners of the Resort
15 developed a general master plan for the community with a potential build out of an
16 additional 1,700 homes, but the present owners do not intend further development.

17 HVUS’s water system serves approximately 1,156 residential and non-residential
18 customers. In addition, HVUS has approximately 18 availability customers and 50
19 private fire customers.

20

21 **Q. PLEASE DESCRIBE THE HISTORY OF THE HVUS WATER SYSTEM.**

22 A. The Hidden Valley Farm Inn constructed a ski area to attract clients to the Inn in the
23 1960’s. In the early 1970’s, the Resort expanded with additional motel rooms,

1 townhouses and second home lots. A public water system was developed to support the
2 commercial and residential needs of the Resort.

3 The initial Hidden Valley water system consisted of water supplies from a number
4 of small groundwater wells and springs. These sources were replaced with a high-yield,
5 high-quality groundwater well (Well No. 1) drilled in 1982. This groundwater well is
6 able to be treated by chlorination only and pumped to a 250,000 gallon ground level
7 storage tank serving the entire Resort.

8
9 **Q. PLEASE DESCRIBE THE HVUS WATER SYSTEM AS IT EXISTS TODAY.**

10 A. The existing water system consists of two wells, treatment facilities, high-service pumps,
11 a 250,000 gallon storage tank, and a distribution system containing approximately 18
12 miles of water mains, fire hydrants, approximately 1,175 connections, and miscellaneous
13 valves. The majority of connections on the system are seasonal/weekend customers.
14 Demand on the system fluctuates with maximum demands occurring during weekends
15 and holidays.

16 The system has a history of iron and manganese issues dating back in inspections
17 from DEP in 2004. Since 2006, a sequestering system was added for Well No. 1 which
18 brought the iron level into compliance with Pennsylvania Department of Environmental
19 Protection (“DEP”) standards.

20 In addition to sequestration, HVUS has worked to improve water quality by
21 adding loops at dead-ends in the system, increasing flushing of the system, and adding
22 automatic flush valves at existing dead ends that cannot be looped.

1 Q. ARE YOU AWARE OF ANY NOTICES OF VIOLATION ISSUED BY DEP,
2 RELATING TO THE HVUS WATER SYSTEM, IN THE LAST THREE YEARS?

3 A. We have had no notices of violations issued by DEP in the last three years. DEP has
4 established a maximum contaminant level ("MCL") for iron and manganese in public
5 water systems. The MCL for iron is 0.3 mg/L and the MCL for manganese is .05 mg/L.
6 HVUS has consistently complied with these standards.

7

8 **OVERVIEW OF REQUESTED WATER RATE INCREASE**

9 Q. WHY IS HVUS SEEKING A WATER RATE INCREASE AT THIS TIME?

10 A. One purpose of the rate increase is to provide better service to our customers. As became
11 apparent in the *McCloskey* case, our customers demand better service. In order to
12 provide better service, the PUC has required a substantial investment in infrastructure
13 improvements, which HVUS will be implementing over the next couple of years, with
14 the bulk of the improvements over the next 12 to 16 months. One purpose of this request
15 is to provide the revenues to improve the system, and therefore improve services to our
16 customers.

17 Another purpose of the rate request is to restore the financial integrity of the
18 company. HVUS has not requested a water rate increase since August 11, 2005 when the
19 system was approved for public service. Since that time, the Resort community, which is
20 the service area, has not had the projected growth as shown in the original tariff request.
21 The Resort has also been sold twice, and the current owners of the Resort have said that
22 there are no plans for additional real estate development beyond the lots already with
23 service. In addition, the new owners have stopped all hotel/conference business, which

1 has had a drastic adverse impact on revenues. The only “commercial” activities within
2 the service area are the ski area and the golf area. The ski area is a 90 day business each
3 year. The golf center has very low usage, and again is a seasonal business.

4 Over the past 13 years, the cost of operations has gone up. For example, prior to
5 2011, there was no payment by HVUS for the use of the land on which the system’s
6 facilities are located. Now HVUS leases the property from the Resort, with an annual
7 cost of living adjustment. Since August 2017, the payments have been approximately
8 \$4,100 per month, which is allocated 2/3 to HVUS’s wastewater system and 1/3 to
9 HVUS’s water system. Payroll has doubled since 2005, through increases in pay, plus
10 the addition of another employee. Overall operational costs have also increased. Electric
11 service, which is a large portion of the cost, has risen over 25% since 2005, primarily due
12 to increases in direct electric cost, but also due to additional equipment within the system.

13 Additionally, HVUS has invested significant dollars since 2005 in capital
14 improvements and maintenance and repairs. HVUS has not had the revenues to retire
15 debt in the past 5 years, and additional revenue from this request will allow HVUS to
16 reduce its debt service.

17 Additional reasons for the rate increase are described in the testimony of Paul R.
18 Herbert, HVUS Statement No. 2 and the accompanying exhibits.

19
20 **Q. DOES HVUS BILL CUSTOMERS BY THE GALLON FOR WATER SERVICE?**

21 **A.** Yes, so long as the customer’s meter permits us to do that.

22

1 **Q. DID HVUS REQUEST AN INCREASE IN WASTEWATER RATES AT THE**
2 **SAME TIME THAT IT REQUIRED AN INCREASE IN WATER RATES?**

3 A. Yes. However, HVUS is not proposing to spread any wastewater costs to its water
4 customers under Act 11 of 2012.

5
6 **Q. PLEASE DISCUSS HVUS' PAYMENT OF PHONE AND ELECTRIC BILLS.**

7 A. HVUS is current on all of its phone and electric bills. HVUS has set up direct payments
8 with the phone companies, so there is no "human error" in bill payment. The eleven
9 electric invoices per month are now paid on-line, however, due to the large amount of
10 dollars associated with the invoices, we currently do not allow direct payment from our
11 bank account.

12
13 **Q. THE FEDERAL TAX CUTS AND JOBS ACT REDUCED THE FEDERAL**
14 **CORPORATE TAX RATE FROM 35% TO 21%. PLEASE DESCRIBE THE**
15 **IMPACT OF THIS LAW ON HVUS.**

16 A. The new federal corporate tax rate will have no impact on HVUS in regard to taxes paid.
17 HVUS has had a federal and state tax loss since 2005.

18
19 **Q. DOES HVUS HAVE A LONG TERM INFRASTRUCTURE IMPROVEMENT**
20 **PLAN?**

21 A. Not at this time.

22
23 **Q. DOES HVUS HAVE A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE?**

1 A. Not at this time.

2

3 **Q. PLEASE EXPLAIN THE IMPORTANCE OF THE PROPOSED WATER RATE**
4 **INCREASE TO HVUS?**

5 A. The need for a rate increase is great. There is no growth in the system and the usage is
6 lower than projected. In addition, the age of the system requires increased maintenance
7 and replacement of equipment that is worn out.

8

9 **Q. PLEASE IDENTIFY THE OTHER HVUS WITNESSES BEING PRESENTED IN**
10 **HVUS'S DIRECT CASE AND THEIR SUBJECT MATTER AREAS.**

11 A. Paul R. Herbert will testify to the company's income statement, pro forma revenue and
12 expense statements, balance sheet, and original cost measure of value. He will also
13 compare present and proposed rates and present a comparison of bills at present and
14 proposed rates.

15

16 **Q. PLEASE DISCUSS THE COMMISSION'S DECISION IN THE *MCCLOSKEY***
17 **CASE.**

18 A. In that decision, the Commission held that HVUS was not complying with 66 Pa. C.S.
19 § 1501. The Intervenor in that case and the OCA both sought punitive remedies. The
20 Intervenor argued for imposing a civil penalty or placing HVUS into receivership. The
21 OCA argued for a rate reduction of 50%, or a usage allowance for customers. The
22 Commission rejected all of these requests.

1 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
2 facts arise during the course of the proceeding. Thank you.

3

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HVUS EXHIBIT JMK-1 (Water)

James M. Kettler
811 Russell Ave. Suite 302
Gaithersburg, Maryland 20879

Professional Experience

Hidden Valley Utility Services, LP

2005-present

President of Hidden Valley Utility Services, LP, a Pennsylvania limited partnership, formed in 2005 to provide public water and wastewater services for the resort community at Hidden Valley, Pa. Hidden Valley is located in Jefferson Township, Somerset County, Pa. HVUS, LP is a PUC regulated utility with a service area of 1,399 acres and a customer base of 1,168 homes plus commercial properties including a ski area, golf course, and conference center. The utility includes wells for supply of fresh water, treatment plant facilities, and distribution systems for water and wastewater treatment.

Kettler Custom Homes, LLC

2010-present

Owner/operator of custom home building company specializing in design/ build renovations in Maryland, Washington DC and Northern Virginia. Manage the design, bidding, and construction process for projects including private residences, churches, and small offices, with a focus on historic properties. Also design and build custom single family homes for sale in the Maryland suburban areas.

Hidden Valley Resort, LP

1996-2008

President of Hidden Valley Resort, a Pennsylvania Limited Partnership formed In 1996 from a spin off from Kettler Brothers, Inc. Kettler Brothers, Inc. owned and operated Hidden Valley from 1982 thru 1995. HVR owned and operated the business operations at Hidden Valley Resort to include the ski area and associated winter sports, the golf course, the hotel/ conference center, food and beverage, real estate development and new home construction. Mr. Kettler worked with an on-site management team to grow and develop the resort as a four seasons property with annual revenues of \$20M. Mr. Kettler also oversaw the successful sale of the resort to the Buncher Company in 2007.

Kettler Brothers, Inc.

1987-2001

Kettler Brothers Homes, LP

1996-2013

President of residential company focused on land acquisition, development, home design/construction, sales/marketing, and service of new homes in the Washington metropolitan region, including Washington DC., Maryland, Virginia, West Virginia, and Pennsylvania. Mr. Kettler was responsible for managing the team of employees at Kettler Brothers, Inc. who worked with lenders, engineers, government agencies, architects and others to develop, construct and sell an average of 200 homes per year with annual revenues between \$20 - \$30M.

From 1982 thru 1995 Kettler Brothers owned and operated Hidden Valley Resort, in Somerset County, Pennsylvania. Kettler Brothers was responsible for additional land acquisitions to grow the resort property to over 1,300 acres, and then implement a four season strategy by adding conference and hotel operations, a new golf course, plus a doubling of the ski area with new base lodge facilities. Kettler Brothers also developed the new home communities and community common areas, growing the Resort from a few dozen homes to a total of 1,300 units today.

Kettler Forlines, Inc.

1978-1986

Minority owner in small residential developer and home builder located in suburban Maryland. Kettler Forlines also owned Hidden Valley Resort from 1978 thru 1982, and remained at Hidden Valley thru 2005 as the builder of new homes within the Resort. From 1986 through 1988 Mr. Kettler acted as job superintendent of a new home community in Olney Maryland. Responsible for all on site construction and service operations, including coordination with customers on custom options. Worked with subcontractors, government inspectors, utility companies, and customers to successfully deliver one home per week for annual sales and deliveries of \$10 M per year.

Robert Hammond & Associates, Inc.

1984-1986

Project Designer on custom residential homes in the Annapolis waterfront area of Anne Arundel County, Maryland. Responsibilities included all aspects of client coordination to include: design concepts, design development, and construction documents for the successful construction of custom homes. Average home cost approximately \$2.5M.

RTKL Associates - Baltimore, MD

1982-1985

RTKL Associates is a large architectural/engineering firm specializing in hospitals, hotels/conference centers, regional shopping centers and office buildings, with projects in all regions of the United States. Mr. Kettler was responsible for design development and construction documentation for several large office and hotel projects. Operated as a CADD designer, coordination with engineering disciplines of RTKL to create construction packages for the Marriott Orlando World Center, a major conference center and 1200 room resort hotel with an 18 hole golf course and tennis facilities. Other projects included an Atlanta office park, and regional shopping malls along the east coast.

Affiliations

Hidden Valley Foundation, Inc.

1999-2001

Board of Directors

President 2000-2003

The Hidden Valley Foundation, Inc. is a non-profit corporation established in 1984 to provide maintenance and recreational services associated with the operation of the Hidden

Valley homeowner community, It is a master homeowners association, also managing four condominium associations, all located within the Hidden Valley Resort. The property totals approximately 1,700 acres with single-family homes, townhouse and condominium units throughout.

Maryland National Capital Building Industry Association - 1988-present
 Life Member –Board of Directors
 Executive Committee – VP Washington DC 1998-2001
 VP Calvert County 2001-2004
 President 2005

The MNBIA is a not-for-profit organization representing the interest of over 1,200 member firms and more than 100,000 employees, including home builders, remodelers, developers and affiliate professional and service providers in the Maryland Counties of Anne Arundel, Baltimore, Calvert, Carroll, Cecil, Charles, Harford, Montgomery, Prince George’s and St. Mary’s as well as Baltimore city, the Eastern Shore and Washington DC.

Montgomery County Students Construction Trades Foundation, Inc. 1988-present
 Life Member – Board of Directors
 Executive Committee
 President 2007-2009

The Montgomery County Students Construction Trades Foundation, Inc. is a not-for-profit foundation established cooperatively by the Montgomery County business and professional community and Montgomery County Public Schools to promote and encourage the interest of career education related to construction. Students actively participate each year in the Young American Home, a Design/Build Project. The architectural students design a home, and the following year, students interested in specific trades, build and deliver the home for sale. The proceeds from the sale of the home goes toward the construction of future homes.

Friends of the Yellow Barn, LLC 1994-present
 Board member 1995-2012
 President 2012-present

The Friends of the Yellow Barn, LLC is a not-for-profit foundation established in 1994 to support the painting and drawing residency programs at Glen Echo Park, in Montgomery County, Maryland. The Friends’ mission is to raise money through donations and grants to support the building and operational needs of the art studios in the Yellow Barn. The Friends’ philosophy, consistent with the spirit of the late 19th Century Chautauqua movement upon which Glen Echo Park was founded, is that art is universal and thus should be accessible to all. The Friends’ goal is to encourage all area residents of all ages and all means to experience the wonders of the visual arts through drawing and painting.

Education

Cornell University 1982 B.S Architecture, College of Architecture, Art, and Planning

Paul R. Herbert
HVUS Statement No. 2
(Water)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Hidden Valley Utility Services, L.P. -- Water

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Docket No. R-2018-3001306

**DIRECT TESTIMONY
OF
PAUL R. HERBERT
PRESIDENT
GANNETT FLEMING VALUATION AND
RATE CONSULTANTS, LLC**

Date: April 27, 2018

HVUS Statement No. 2

DIRECT TESTIMONY OF PAUL R. HERBERT

1 **Q. Please state your name and address.**

2 A. My name is Paul R. Herbert. My business address is 207 Senate Avenue,
3 Camp Hill, Pennsylvania.

4

5 **Q. By whom are you employed?**

6 A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC.

7

8 **Q. Please describe your position with Gannett Fleming Valuation and Rate
9 Consultants, LLC, and briefly state your general duties and responsibilities.**

10 A. I am President. My duties and responsibilities include the preparation of
11 accounting and financial data for revenue requirement and cash working capital
12 claims, the allocation of cost of service to customer classifications, and the
13 design of customer rates in support of public utility rate filings.

14

15 **Q. Have you presented testimony in rate proceedings before a regulatory
16 agency?**

17 A. Yes. I have testified before the Pennsylvania Public Utility Commission, the New
18 Jersey Board of Public Utilities, the Public Utilities Commission of Ohio, the
19 Public Service Commission of West Virginia, the Kentucky Public Service
20 Commission, the Iowa State Utilities Board, the Virginia State Corporation
21 Commission, the Missouri Public Service Commission, the New Mexico Public
22 Regulation Commission, the Public Utilities Commission of the State of

1 California, the Illinois Commerce Commission, the Delaware Public Service
2 Commission, the Arizona Corporation Commission, the Connecticut Department
3 of Public Utility Control, the Idaho Public Utilities Commission, the Hawaii Public
4 Utilities Commission, the New York State Public Service Commission, and the
5 Tennessee Regulatory Authority, concerning revenue requirements, cost of
6 service allocation, rate design and cash working capital claims. A list of cases in
7 which I have testified is attached to my testimony as **Exhibit PRH-1**.

8
9 **Q. What is your educational background?**

10 A. I have a Bachelor of Science Degree in Finance from the Pennsylvania State
11 University, University Park, Pennsylvania.

12
13 **Q. Would you please describe your professional affiliations?**

14 A. I am a member of the American Water Works Association and served as a
15 member of the Management Committee for the Pennsylvania Section. I am also
16 a member of the Pennsylvania Municipal Authorities Association. In 1998, I
17 became a member of the National Association of Water Companies as well as a
18 member of its Rates and Revenue Committee.

19
20 **Q. Briefly describe your work experience.**

21 A. I joined the Valuation Division of Gannett Fleming Corddry and Carpenter, Inc.,
22 predecessor to Gannett Fleming, Inc., in September 1977, as a Junior Rate
23 Analyst. Since then, I advanced through several positions and was assigned the

1 position of Manager of Rate Studies on July 1, 1990. On June 1, 1994, I was
2 promoted to Vice President and Senior Vice President in November 2003. On
3 July 1, 2007, I was promoted to my current position as President.

4 While attending Penn State, I was employed during the summers of 1972,
5 1973 and 1974 by the United Telephone System - Eastern Group in its
6 accounting department. Upon graduation from college in 1975, I was employed
7 by Herbert Associates, Inc., Consulting Engineers (now Herbert Rowland and
8 Grubic, Inc.), as a field office manager until September 1977.

9
10 **Q. What is the purpose of your testimony in this proceeding?**

11 **A.** The purpose of my testimony is to explain the contents of **Exhibit PRH-2**
12 **(attached)**, filed in support of the proposed Supplement No. 1, to Tariff Water PA.
13 **PUC No. 1.** The Exhibit presents the Company's responses to the Pennsylvania
14 **Public Utility Commission Tariff Regulations** for rate filings required under 52 Pa.
15 **Code § 53.52,** which includes information to be furnished with proposed general
16 **rate increase filings less than \$1 million.**

17
18 **Q. Was Exhibit PRH-2 prepared by you, or under your direct supervision and**
19 **control?**

20 **A.** It was prepared by me.

1

2 **Q. Please explain the contents of Exhibit PRH-2.**

3 A. Exhibit PRH-2 contains statements with respect to the specific reasons for the
4 proposed increase in rates, an explanation of the Company's revenue request
5 and a summary of the proposed rate of return. The exhibit also includes
6 schedules presenting the number of customers served, the income statement,
7 pro forma revenue and expense statements, the balance sheet, a summary of
8 the original cost measure of value, a comparison of present and proposed rates,
9 and bill comparisons at present and proposed rates.

10

11 **Q. Please review the specific reasons for the proposed increase in rates.**

12 A. The specific reasons for the increase are stated on pages 1-2 of Exhibit PRH-2.
13 The Company has not filed for any increase in rates since its initial rates became
14 effective on August 31, 2005. The Company is filing this request for an increase
15 in rates that will enable the Company to have sufficient cash flow necessary to
16 provide reasonable and adequate service. In addition, the Company is required
17 to make upgrades in facilities and service to comply with the Commission's Order
18 in *Tanya J. McCloskey v. Hidden Valley Utility Services, L.P.*, Docket Nos. C-
19 2014-2447138 and C-2014-2447169 (Opinion and Order entered January 18,
20 2018).

21

1 **Q. What is the total revenue requirement for the test year ending December**
2 **31, 2017?**

3 **A. The total revenue requirement as shown on the Company's operating statement,**
4 **page 6, column 8 of Exhibit PRH-2 is \$291,183. It is worth noting that, although**
5 **the Company filed a rate increase request for its wastewater system on the same**
6 **day as it filed a rate increase request for its water system, the Company is not**
7 **asking to combine water and wastewater revenue requirements pursuant to 66**
8 **Pa. C.S. § 1311(c).**

9
10 **Q. What are the components of the total revenue requirement?**

11 **A. The revenue requirement consists of operation and maintenance expenses of**
12 **\$154,056, depreciation expense of \$27,833, income taxes of \$9,756 and net**
13 **operating income of \$99,538.**

14
15 **Q. Please explain the operating statement found on page 6 of Exhibit PRH-2**

16 **A. The operating statements were prepared for Company operations for the twelve**
17 **months ended December 31, 2017. The statement shows the Operating**
18 **Revenues, Operating Revenue Deductions, Income Taxes, Net Operating**
19 **Income, Original Cost Measure of Value, and the Rate of Return for the historic**
20 **test year per books at December 31, 2017, (column 2), the pro forma historic test**
21 **year under present rates, (column 5), and the pro forma test year under**
22 **proposed rates (column 8). Pro forma historic test year adjustments under**

1 present and proposed rates are shown in columns 4 and 7, respectively. The
2 proposed revenue increase is shown in column 7.

3
4 **Q. Please explain the sources of the items on the operating statement.**

5 A. Operating revenues on line 1 are brought forward from the revenue statement on
6 page 7 Exhibit PRH-2. Operation and maintenance expenses and depreciation
7 expense on lines 5 and 7 are brought forward from the operating expense
8 statement found on page 16 of Exhibit PRH-2. Income taxes on line 14 is
9 brought forward from page 21 of the Exhibit. The original cost measure of value
10 on line 21 is brought forward from page 8 of Exhibit PRH-2.

11
12 **MEASURE OF VALUE**

13 **Q. Please explain the original cost measure of value on page 8 of Exhibit PRH-**
14 **2**

15 A. The original cost measure of value as of December 31, 2017, is comprised of the
16 original cost less the ratemaking book reserve for the water utility plant in service.
17 These amounts are set forth on page 10 of the Exhibit.

18 Cash working capital, calculated by the rule-of-thumb method, is added to
19 the net utility plant. The total original cost measure of value is \$993,924 as of
20 December 31, 2017. The rate base amount is brought forward to the operating
21 statement on page 6 to determine the rates of return under present and proposed
22 rates.

1 **RATE OF RETURN**

2 **Q. What is the rate of return based on revenues under proposed rates?**

3 A. Page 6 of Exhibit PRH-2 shows a Company rate of return under proposed rates
4 of 10.01%. It is based on total pro forma revenues of \$291,183, less operating
5 income deductions of \$181,889 and income taxes of \$9,756, resulting in income
6 available for return of \$99,538. The income available for return divided by the
7 original cost measure of value of \$993,924 results in a rate of return of 10.01%.

8
9 **Q. Is this a rate of return that the Company can support?**

10 A. Yes. The Company can support a rate of return of 10.16%, as presented in the
11 memorandum from Mr. Harold Walker, CRRA, found in Schedule No. 7, page 22
12 of the Exhibit. The memorandum sets forth the recommended capital structure
13 and cost rates for debt and common equity. Mr. Walker has prepared this
14 memorandum under my direct supervision.

15
16 **PRO FORMA REVENUE**

17 **Q. Please explain the development of pro forma revenues under present and
18 proposed rates.**

19 A. The summary of pro forma revenues under present and proposed rates is
20 presented on page 7 of Exhibit PRH-2. The pro forma revenues under present
21 rates for the historic test year are developed from the application of present rates
22 to the bill analysis in column 4. The adjustment to revenues per books in column

1 3 results from subtracting the revenues in column 4 from the per books revenues
2 in column 2.

3 The pro forma revenues under proposed rates is presented at the bottom
4 of page 7 by the application of proposed rates to the bill analysis in column 3.
5 The proposed revenue increase and the percentage increase in revenue under
6 proposed rates is shown in columns 4 and 5 respectively. The detailed
7 application of present and proposed rates to the bill analysis is presented in
8 Schedule 2 on page 13 of the Exhibit. Schedule 3 provides a comparison of
9 customer bills under present and proposed rates at various consumption levels.
10

11 **PRO FORMA OPERATION AND MAINTENANCE EXPENSES**

12 **Q. Please explain the development of the pro forma operation and**
13 **maintenance expenses.**

14 **A. The Company shares all its resources between the water and wastewater**
15 **operations. In developing the expenses for the Annual Reports to the**
16 **Pennsylvania Public Utility Commission, the Company attributed 33% of all**
17 **operating expenses to water and 67% of operating expenses to wastewater.**
18 **After discussion with Company officials it was determined that this allocation**
19 **should be adjusted as shown on Schedule 4, page 1 of 4 (page 16 of Exhibit)**
20 **and discussed further below.**

21 Before the revised percentages are applied, the total costs (water and
22 wastewater) need to be adjusted to create a pro forma total expense for water
23 and wastewater.

1

2 **Q. Please explain the pro forma historic test year operation and maintenance**
3 **expense adjustments.**

4 A. The adjustments under present rates are as follows:

5 E1 – Adjusts certain operating expenses based on the three-year average
6 of expenses.

7 E2 – Adjusts for rate case expense, amortized over a three-year period,
8 based on the Company's projection for future rate cases.

9 E3 – Adjusts depreciation expense for the historic test year.

10 The adjustments under proposed rates are as follows:

11 E4 – Adjustment to increase PUC and OCA Assessments based on the
12 proposed rate increase.

13

14 **Q. How are the pro forma operating expense adjustments allocated between**
15 **water and wastewater?**

16 A. After the pro forma adjustments are determined for water and wastewater in total,
17 the total costs are allocated to water and wastewater as follows:

18 Depreciation expense - directly assigned based on the accrual rates
19 applied to the plant in service for each utility.

20 Payroll – remains at the 33% allocation to water and 67% to wastewater
21 based on Company management judgement and recommendation. The
22 Company has three full-time employees.

1 Electricity – allocated 35% to water and 65% to wastewater based on a
2 review of the Company's electric bills.

3 Chemicals – allocated 5% to water and 95% to wastewater based on a
4 review of the Company's bills related to chemicals.

5 Maintenance and Repairs, Gas and Engineering costs – remains at the
6 33% allocation to water and 67% to wastewater based on Company
7 management recommendation.

8 Bank Charges, Insurance, License, Misc. Expenses, Accounting, Legal,
9 Bill Collection, Lab, Rent related to the Office and Storage, Phone, Office
10 Supplies, Answering Service – allocated 50% to water and 50% to wastewater as
11 there are two entities within the Company and the costs are shared equally.

12 Rent related to Facilities – allocated 20% to water and 80% to wastewater
13 as most of the facilities rented are wastewater facilities.

14
15 **Q. Does that conclude the pro forma operating expense adjustments?**

16 **A. Yes.**

17
18 **Q Please explain the calculation of income taxes.**

19 **A. The calculation of state and federal income taxes under proposed rates are**
20 **shown on Schedule 6, page 21 of the Exhibit. Due to operating losses under**
21 **present rates, there are no income taxes under present rates.**

22 Under proposed rates the income from page 6, column 8, is adjusted to
23 determine taxable income by adding back ratemaking depreciation and

1 subtracting tax depreciation and pro forma interest expense. State and Federal
2 Income Taxes are calculated by using tax rates of 9.99% and 21%, respectively.

3

4 **Q. Does this complete your testimony at this time?**

5 **A. Yes, it does. However, I reserve the right to supplement my testimony as**
6 **additional issues and facts arise during the course of the proceeding.**

Exhibit PRH-1

	<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
1.	1983	Pa. PUC	R-832399	T. W. Phillips Gas and Oil Co.	Pro Forma Revenues
2.	1989	Pa. PUC	R-891208	Pennsylvania-American Water Company	Bill Analysis and Rate Application
3.	1991	PSC of W. Va.	91-106-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42)
4.	1992	Pa. PUC	R-922276	North Penn Gas Company	Cash Working Capital
5.	1992	NJ BPU	WR92050532J	The Atlantic Company Wastewaterage Company	Cost Allocation and Rate Design
6.	1994	Pa. PUC	R-943053	The York Water Company	Cost Allocation and Rate Design
7.	1994	Pa. PUC	R-943124	Company of Bethlehem	Revenue Requirements, Cost Allocation, Rate Design and Cash Working Capital
8.	1994	Pa. PUC	R-943177	Roaring Creek Water Company	Cash Working Capital
9.	1994	Pa. PUC	R-943245	North Penn Gas Company	Cash Working Capital
10.	1994	NJ BPU	WR94070325	The Atlantic Company Wastewaterage Company	Cost Allocation and Rate Design
11.	1995	Pa. PUC	R-953300	Citizens Utilities Water Company of Pennsylvania	Cost Allocation and Rate Design
12.	1995	Pa. PUC	R-953378	Apollo Gas Company	Revenue Requirements and Rate Design
13.	1995	Pa. PUC	R-953379	Carnegie Natural Gas Company	Revenue Requirements and Rate Design
14.	1996	Pa. PUC	R-963619	The York Water Company	Cost Allocation and Rate Design
15.	1997	Pa. PUC	R-973972	Consumers Pennsylvania Water Company - Shenango Valley Division	Cash Working Capital
16.	1998	Ohio PUC	98-178-WS-AIR	Citizens Utilities Company of Ohio	Water and Wastewater Cost Allocation and Rate Design
17.	1998	Pa. PUC	R-984375	Company of Bethlehem - Bureau of Water	Revenue Requirement, Cost Allocation and Rate Design
18.	1999	Pa. PUC	R-994605	The York Water Company	Cost Allocation and Rate Design
19.	1999	Pa. PUC	R-994868	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
20.	1999	PSC of W.Va.	99-1570-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42), Cost Allocation and Rate Design
21.	2000	Ky. PSC	2000-120	Kentucky-American Water Company	Cost Allocation and Rate Design
22.	2000	Pa. PUC	R-00005277	PPL Gas Utilities	Cash Working Capital
23.	2000	NJ BPU	WR00080575	Atlantic Company Wastewaterage Company	Cost Allocation and Rate Design
24.	2001	Ia. St Util Bd	RPU-01-4	Iowa-American Water Company	Cost Allocation and Rate Design
25.	2001	Va. St. Corp	PUE010312	Virginia-American Water Company	Cost Allocation and Rate Design
26.	2001	WV PSC	01-0326-W-42T	West-Virginia American Water Company	Cost Allocation And Rate Design
27.	2001	Pa. PUC	R-016114	Company of Lancaster	Tapping Fee Study
28.	2001	Pa. PUC	R-016236	The York Water Company	Cost Allocation and Rate Design
29.	2001	Pa. PUC	R-016339	Pennsylvania-American Water Company	Cost Allocation and Rate Design
30.	2001	Pa. PUC	R-016750	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
31.	2002	Va.St.CorpCm	PUE-2002-00375	Virginia-American Water Company	Cost Allocation and Rate Design
32.	2003	Pa. PUC	R-027975	The York Water Company	Cost Allocation and Rate Design
33.	2003	Tn Reg. Auth	03-	Tennessee-American Water Company	Cost Allocation and Rate Design
34.	2003	Pa. PUC	R-038304	Pennsylvania-American Water Company	Cost Allocation and Rate Design
35.	2003	NJ BPU	WR03070511	New Jersey-American Water Company	Cost Allocation and Rate Design
36.	2003	Mo. PSC	WR-2003-0500	Missouri-American Water Company	Cost Allocation and Rate Design
37.	2004	Va.St.CorpCm	PUE-200 -	Virginia-American Water Company	Cost Allocation and Rate Design
38.	2004	Pa. PUC	R-038805	Pennsylvania Suburban Water Company	Cost Allocation and Rate Design
39.	2004	Pa. PUC	R-049165	The York Water Company	Cost Allocation and Rate Design
40.	2004	NJ BPU	WRO4091064	The Atlantic Company Wastewaterage Company	Cost Allocation and Rate Design
41.	2005	WV PSC	04-1024-S-MA	Morgantown Utility Board	Cost Allocation and Rate Design
42.	2005	WV PSC	04-1025-W-MA	Morgantown Utility Board	Cost Allocation and Rate Design
43.	2005	Pa. PUC	R-051030	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
44.	2006	Pa. PUC	R-051178	T. W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
45.	2006	Pa. PUC	R-061322	The York Water Company	Cost Allocation and Rate Design
46.	2006	NJ BPU	WR-06030257	New Jersey American Water Company	Cost Allocation and Rate Design
47.	2006	Pa. PUC	R-061398	PPL Gas Utilities, Inc.	Cost Allocation and Rate Design
48.	2006	NM PRC	06-00208-UT	New Mexico American Water Company	Cost Allocation and Rate Design
49.	2006	Tn Reg Auth	06-00290	Tennessee American Water Company	Cost Allocation and Rate Design
50.	2007	Ca. PUC	U-339-W	Suburban Water Systems	Water Conservation Rate Design
51.	2007	Ca. PUC	U-168-W	San Jose Water Company	Water Conservation Rate Design

PAUL R. HERBERT – LIST OF CASES TESTIFIED

	<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
52.	2007	Pa. PUC	R-00072229	Pennsylvania American Water Company	Cost Allocation and Rate Design
53.	2007	Ky. PSC	2007-00143	Kentucky American Water Company	Cost Allocation and Rate Design
54.	2007	Mo. PSC	WR-2007-0216	Missouri American Water Company	Cost Allocation and Rate Design
55.	2007	Oh. PUC	07-1112-WS-AIR	Ohio American Water Company	Cost Allocation and Rate Design
56.	2007	Il. CC	07-0507	Illinois American Water Company	Customer Class Demand Study
57.	2007	Pa. PUC	R-00072711	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
58.	2007	NJ BPU	WR07110866	The Atlantic Company Wastewaterage Company	Cost Allocation and Rate Design
59.	2007	Pa. PUC	R-00072492	Company of Bethlehem – Bureau of Water	Revenue Reqmts, Cost Alloc.
60.	2007	WV PSC	07-0541-W-MA	Clarksburg Water Board	Cost Allocation and Rate Design
61.	2007	WV PSC	07-0998-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
62.	2008	NJ BPU	WR08010020	New Jersey American Water Company	Cost Allocation and Rate Design
63.	2008	VaSt CorpCom	PUE-2008-00009	Virginia American Water Company	Cost Allocation and Rate Design
64.	2008	Tn. Reg. Auth.	08-00039	Tennessee American Water Company	Cost Allocation and Rate Design
65.	2008	Mo PSC	WR-2008-0311	Missouri American Water Company	Cost Allocation and Rate Design
66.	2008	De PSC	08-96	Artesian Water Company, Inc.	Cost Allocation and Rate Design
67.	2008	Pa PUC	R-2008-2032689	Penna. American Water Co. – Coatesville Wastewater	Cost Allocation and Rate Design
68.	2008	AZ Corp. Com.	WV-01303A-08-0227 SW-01303A-08-0227	Arizona American Water Co. - Water - Wastewater	Cost Allocation and Rate Design
69.	2008	Pa PUC	R-2008-2023067	The York Water Company	Cost Allocation and Rate Design
70.	2008	WV PSC	08-0900-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
71.	2008	Ky PSC	2008-00250	Frankfort Electric and Water Plant Board	Cost Allocation and Rate Design
72.	2008	Ky PSC	2008-00427	Kentucky American Water Company	Cost Allocation and Rate Design
73.	2009	Pa PUC	2008-2079660	UGI – Penn Natural Gas	Cost of Service Allocation
74.	2009	Pa PUC	2008-2079675	UGI – Central Penn Gas	Cost of Service Allocation
75.	2009	Pa PUC	2009-2097323	Pennsylvania American Water Co.	Cost Allocation and Rate Design
76.	2009	Ia St Util Bd	RPU-09-	Iowa-American Water Company	Cost Allocation and Rate Design
77.	2009	Il CC	09-0319	Illinois-American Water Company	Cost Allocation and Rate Design
78.	2009	Oh PUC	09-391-WS-AIR	Ohio-American Water Company	Cost Allocation and Rate Design
79.	2009	Pa PUC	R-2009-2132019	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
80.	S009	VaSt CorpCom	PUE-2009-00059	Aqua Virginia, Inc.	Cost Allocation (only)
81.	2009	Mo PSC	WR-2010-0131	Missouri American Water Company	Cost Allocation and Rate Design
82.	2010	VaSt CorpCom	PUE-2010-00001	Virginia American Water Company	Cost Allocation and Rate Design
83.	2010	Ky PSC	2010-00036	Kentucky American Water Company	Cost Allocation and Rate Design
84.	2010	NJ BPU	WR10040260	New Jersey American Water Company	Cost Allocation and Rate Design
85.	2010	Pa PUC	2010-2167797	T.W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
86.	2010	Pa PUC	2010-2166212	Pennsylvania American Water Co. - Wastewater	Cost Allocation and Rate Design
87.	2010	Pa PUC	R-2010-2157140	The York Water Company	Cost Allocation and Rate Design
88.	2010	Ky PSC	2010-00094	Northern Kentucky Water District	Cost Allocation and Rate Design
89.	2010	WV PSC	10-0920-W-42T	West Virginia American Water Co.	Cost Allocation and Rate Design
90.	2010	Tn Reg Auth	10-00189	Tennessee American Water Company	Cost Allocation and Rate Design
91.	2010	CtDeptPU Cntrl	10-09-08	United Water Connecticut	Cost Allocation and Rate Design
92.	2010	Pa PUC	R-2010-2179103	Company of Lancaster-Bureau of Water	Rev Rqmts, Cst Alloc/Rate Design
93.	2011	Pa PUC	R-2010-2214415	UGI Central Penn Gas, Inc.	Cost Allocation
94.	2011	Pa PUC	R-2011-2232359	The Newtown Artesian Water Co.	Revenue Requirement
95.	2011	Pa PUC	R-2011-2232243	Pennsylvania-American Water Co.	Cost Allocation and Rate Design
96.	2011	Pa PUC	R-2011-2232985	United Water Pennsylvania Inc.	Demand Study, COS/Rate Design
97.	2011	Pa PUC	R-2011-2244756	Company of Bethlehem-Bureau of Water	Rev. Rqmts/COS/Rate Design
98.	2011	Mo PSC	WR-2011-0337-338	Missouri American Water Company	Cost Allocation and Rate Design
99.	2011	Oh PUC	11-4161-WS-AIR	Ohio American Water Company	Cost Allocation and Rate Design

PAUL R. HERBERT – LIST OF CASES TESTIFIED

100.	2011	NJ BPU	WR11070460	New Jersey American Water Company	Cost Allocation and Rate Design
101.	2011	Id PUC	UWI-W-11-02	United Water Idaho Inc.	Cost Allocation and Rate Design
102.	2011	Il CC	11-0767	Illinois-American Water Company	Cost Allocation and Rate Design
103.	2011	Pa PUC	R-2011-2267958	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
104.	2011	VaStCom	2011-00099	Aqua Virginia, Inc.	Cost Allocation
105.	2011	VaStCom	2011-00127	Virginia American Water Company	Cost Allocation and Rate Design
106.	2012	TnRegAuth	12-00049	Tennessee American Water Company	Cost Allocation and Rate Design
107.	2012	Ky PSC	2012-00072	Northern Kentucky Water District	Cost Allocation and Rate Design
108.	2012	Pa PUC	R-2012-2310366	Lancaster, Company of – Wastewater Fund	Cost Allocation and Rate Design
109.	2012	Ky PSC	2012-00520	Kentucky American Water Co.	Cost Allocation and Rate Design
110.	2013	WV PSC	12-1649-W-42T	West Virginia American Water Co.	Cost Allocation and Rate Design
111.	2013	Ia St Util Bd	RPU-2013-000_	Iowa American Water Company	Cost Allocation and Rate Design
112.	2013	Pa PUC	R-2013-2355276	Pennsylvania American Water Co.	Cost Allocation and Rate Design
113.	2013	Pa PUC	R-2012-2336379	The York Water Company	Cost Allocation and Rate Design
114.	2013	Pa PUC	R-2013-2350509	City of DuBois – Bureau of Water	Cost Allocation and Rate Design
115.	2013	Pa PUC	R-2013-2390244	City of Bethlehem – Bureau of Water	Cost Allocation and Rate Design
116.	2014	Pa PUC	R-2014-2418872	City of Lancaster – Bureau of Water	Cost Allocation and Rate Design
117.	2014	Pa PUC	R-2014-2428304	Borough of Hanover	Cost Allocation and Rate Design
118.	2014	VASStCom	2014-00045	Aqua Virginia, Inc.	Cost Allocation
119.	2015	NJ BPU	WR15010035	New Jersey American Water Company	Cost Allocation and Rate Design
120.	2015	Pa PUC	R-2015-2462723	United Water PA	Cost Allocation and Rate Design
121.	2015	WV PSC	15-0676-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
122.	2015	Id PUC	UWI-W-15-01	United Water Idaho Inc.	Pro Forma Revenues
123.	2015	Mo PSC	WR-2015-0301	Missouri American Water Company	Cost Allocation and Rate Design
124.	2015	Va St Com	PUE-2015-00097	Virginia American Water Company	Cost Allocation and Rate Design
125.	2015	Hi PSC	2015-0350	HOH Utilities, Inc.	Cost Allocation and Rate Design
126.	2016	Ky PSC	2015-00418	Kentucky American Water Company	Cost Allocation and Rate Design
127.	2016	Pa PUC	R-2015-2518438	UGI Utilities, Inc. - Gas Division	Cost Allocation
128.	2016	Il CC	16-0093	Illinois American Water Company	Cost Alloc/Rate Dsgn/Demand Sty
129.	2016	NY PSC	16-W-0130	SUEZ Water New York Inc.	Cost Allocation and Rate Design
130.	2016	Oh PUC	16-0907-WW-AIR	Aqua Ohio, Inc.	Cost Allocation and Rate Design
131.	2016	Ia St Util Bd	RPU-2016-0002	Iowa American Water Company	Cost Allocation and Rate Design
132.	2016	NJ BPU	WR16100957	Atlantic City Sewerage Company	Cost Allocation and Rate Design
133.	2017	Pa PUC	R-2016-2580030	UGI Penn Natural Gas, Inc.	Cost Allocation and Rate Design
134.	2017	Pa PUC	R-2017-2595853	Pennsylvania American Water Co.	Cost Allocation and Rate Design
135.	2017	IL CC	17-0259	Aqua Illinois, Inc.	Cost Allocation and Rate Design
136.	2017	NY PSC	17-W-0528	SUEZ Water Owego-Nichols, Inc.	Cost Allocation and Rate Design
137.	2017	NJ BPU	WR17090985	New Jersey American Water Company	Cost Allocation and Rate Design
138.	2017	Ca PUC		San Jose Water Company	Rate Design

Exhibit PRH-2

HIDDEN VALLEY UTILITY SERVICES, L.P.

Hidden Valley, Pennsylvania

**WATER
RATE STUDY AND DATA
IN SUPPORT OF
PROPOSED SUPPLEMENT NO. 1 TO
TARIFF WATER PA. P.U.C. NO. 1**

GANNETT FLEMING VALUATION AND RATE CONSULTANTS, LLC

Harrisburg, Pennsylvania



Gannett Fleming

Excellence Delivered As Promised

April 27, 2018

Hidden Valley Utility Services, L.P.
811 Russell Ave.
Gaithersburg, MD 20879

Attention: Mr. James M. Kettler, President

Dear Mr. Kettler:

Pursuant to your authorization, we have prepared a water rate study for the Hidden Valley Utility Services, L.P. (Company) based on the level of operations for the twelve-month period ended December 31, 2017. Appropriate ratemaking adjustments for known and measurable changes were made in order to reflect a more current level of cost of service.

On the basis of the supporting data presented in the following report, it is our opinion that the Company cannot continue to operate its water system without rate relief. An increase in water rates will afford an opportunity to achieve an adequate return on the original cost measure of value of its used and useful property that provides water service.

We recommend that the Company file with the Public Utility Commission, Supplement No. 1 to Tariff Water-Pa. P.U.C. No. 1, which proposes an increase in water rates for all classes of service. The overall increase in annual operating revenue from customers is approximately 107.2 percent.

The following report presents our conclusions in appropriate form for filing with the Pennsylvania Public Utility Commission in response to the data required under Subchapter 53.52 of the Commission's Tariff Regulations at Chapter 53 of Title 52 Pa. Code.

Respectfully submitted,

GANNETT FLEMING VALUATION
AND RATE CONSULTANTS, LLC

A handwritten signature in cursive script that reads "Paul R. Herbert".

PAUL R. HERBERT
President

PRH:mle
062969.000

Gannett Fleming Valuation and Rate Consultants, LLC

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HIDDEN VALLEY UTILITY SERVICES, L.P. – WATER
SPECIFIC REASONS FOR PROPOSED INCREASE IN WATER RATES

Pursuant to Subsection 53.52(a)(1) and (b)(1) of Tariff Regulations

Hidden Valley Utility Services, L.P. (Company) submits herewith the data required under 52 PA Code § 53.52 of the Pennsylvania Public Utility Commission Tariff Regulations in support of the proposed rates under Supplement No. 1 to Tariff Water-Pa. P.U.C. No. 1. The supporting data for the tariff revision is for the twelve-month periods ending December 31, 2017, adjusted for ratemaking purposes. The Company has not filed for any increase in rates since the initial rates became effective on August 31, 2005.

Since the date of the initial rates, the Company has experienced higher levels of operation and maintenance expenses as a result of inflation and labor cost increases and has made additional investments in plant in service, through the end of the test year, December 31, 2017. The effect of these increases has resulted in the Company operating at a loss for several years.

The specific reasons for the Company's proposal to increase its rates for water service are as follows:

- (a) To provide sufficient revenues to enable the Company to discharge, properly, its public duty to furnish adequate, safe, and reliable water service pursuant to the safe drinking water standards prescribed and enforced by the PA Department of Environmental Protection and the Federal Environmental Protection Agency;
- (b) To provide the cash flow necessary for the Company to operate,

maintain and renew its facilities properly and meet its financial obligations; and

- (c) To afford the opportunity to achieve an adequate rate of return on the original cost invested in the water property.

RATE OF RETURN

Under present and proposed rates, the indicated rates of return are presented below.

	<u>Present Rates</u>	<u>Proposed Rates</u>
Rate of Return	(4.08)%	10.01%

The rate of return and capital structure are summarized below and are supported by Mr. Harold Walker, CRRA. Refer to the memorandum prepared by Mr. Walker on Schedule 7 of the Appendix. Mr. Walker's memorandum was prepared under the direct supervision of Mr. Herbert.

	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	36.50%	10.00%	3.65%
Equity	<u>63.50%</u>	10.25%	<u>6.51%</u>
Total	<u>100.00%</u>		<u>10.16%</u>

PROPOSED RATES

Under Supplement No. 1 to Tariff Water-Pa. P.U.C. No. 1, the Company proposes to increase the customer charge from \$12.00 per quarter to \$27.00 per quarter for all meter sizes or 125%. The availability charge was increased the same 125% from \$9.00 per quarter to \$20.25 per quarter. In addition, the Company is

proposing to raise the consumption charge to \$1.320 per hundred gallons for all water usage. This is a change from the existing declining block rates. The rates for private fire protection were increased 125%. Refer to page 7 for the increases by classification of customers. The revenues under proposed rates are developed in the Appendix, Schedule 2. Schedule 1 of the Appendix provides a comparison of present and proposed rates. Schedule 3 sets forth the comparison of customers' bills at various consumption levels. Pro Forma Operating Expense and income taxes under present and proposed rates are presented in Schedules 4, 5 and 6, respectively.

The data presented in support of proposed Supplement No. 1 to Tariff Water-Pa. P.U.C. No. 1 clearly indicate that the level of revenues from the Company's present water rates is inadequate, and immediate rate relief is necessary. It is essential that the rates proposed under Supplement No. 1 to Tariff Water-Pa. P.U.C. No. 1 become effective as soon as possible, in order that the Company recover the cost of rendering water service, including a return on the depreciated original cost of the water system's used or useful property, and to enable the Company to provide its customers with efficient, safe and reliable service.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

TOTAL NUMBER OF CUSTOMERS SERVED AS OF DECEMBER 31,

Pursuant to Subsection 53.52 (a)(2) of Tariff Regulations

<u>Classification</u>	<u>2016</u>	<u>2017</u>
Residential	1,125	1,126
Non-Residential	30	30
Availability	18	18
Private Fire	50	50
TOTAL	<u>1,223</u>	<u>1,224</u>

NUMBER OF CUSTOMERS WHOSE BILLS WILL INCREASE

Pursuant to Subsection 53.52 (a)(3) and (b)(3) of Tariff Regulations

<u>Classification</u>	<u>2017</u>
Residential	1,126
Non-Residential	30
Availability	18
Private Fire	50
TOTAL	<u>1,224</u>

NUMBER OF CUSTOMERS WHOSE BILLS WILL DECREASE

Pursuant to Subsection 53.52 (b)(5) of Tariff Regulations

Under the proposed rates, customers' bills will not decrease for water service.

CALCULATION OF THE TOTAL REVENUE DECREASE UNDER
THE PROPOSED RATES PROJECTED TO AN ANNUAL BASIS

Pursuant to Subsection 53.52 (b)(6) of Tariff Regulations

Under the proposed rates, operating revenues for water service will not decrease.

HIDDEN VALLEY UTILITY SERVICES, L.P. – WATER

**STATEMENT OF THE EFFECT OF THE PROPOSED
TARIFF CHANGES ON THE UTILITY'S CUSTOMERS**

**Pursuant to Subsection 53.52(a)(4) through (a)(11)
of Tariff Regulations**

- (a)(4): The proposed tariff changes will increase all customers' rates for water service. The overall increase in revenues from sale of water is approximately 107.2%.
- (a)(5): Refer to page 7 in response to Subsection 53.52(c)(1), for the effect of the proposed tariff changes on the Company's revenues and expenses.
- (a)(6): The proposed tariff changes will enable the Company to improve service to Customers by complying with the Commission's Order dated January 18, 2018.
- (a)(7): Not applicable.
- (a)(8): Not applicable.
- (a)(9): Customer polls were not taken to indicate customer acceptance and desire for the proposed tariff changes. The tariff changes are in the public interest as stated in response to Subsection 53.52(a)(1) of the tariff regulations.
- (a)(10): The Company will introduce the changes to ratepayers by posting notices, mailing notices, and issuing press releases as required by 52 Pa. Code § 53.45. In addition, the Company will discuss its rate filing at the meeting with customers required by Ordering Paragraph No. 5.b. of the Commission's Order in *Tanya J. McCloskey v. Hidden Valley Utility Services, L.P.*, Docket Nos. C-2014-2447138 and C-2014-2447169. This meeting is scheduled for May 19, 2018. The Company will implement the proposed tariff changes upon the Commission's approval.
- (a)(11): Please refer to Commission Order C-2014-2447138 and C-2014-2447169.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

STATEMENT OF THE CALCULATION OF THE RATE OF RETURN UNDER PRESENT RATES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017
AND THE ANTICIPATED RATE OF RETURN UNDER PROPOSED RATES

Pursuant To Subsection 53.52 (b)(2) and (c)(1) of Tariff Regulations

Line No.	Description (1)	12 Months Ended 31-Dec-17 (2)	Pro Forma Test Year Adjustments		Pro Forma Present Rates, 31-Dec-17 (5)	Adjustment Reference (6)	Under Proposed Rates, Supplement No. 1 to Tariff Water Pa-PUC No. 1	
			Ref. (3)	Amount (4)			Increase (7)	Pro Forma 31-Dec-17 (8)
1	Operating Revenue	\$ 143,194	pg. 7	\$ (2,640)	\$ 140,554	pg. 7	\$ 150,629	\$ 291,183
2								
3	Operating Revenue Deductions:							
4	Operation and Maintenance							
5	Expenses	\$ 127,848	Sch. 4	\$ 25,440	\$ 153,287	Sch. 5	\$ 768	\$ 154,056
6								
7	Depreciation	67,082	Sch. 4	(39,249)	27,833		\$ -	27,833
8								
9	Total Operating							
10	Revenue Deductions	\$ 194,930		\$ (13,809)	\$ 181,121		\$ 768	\$ 181,889
11								
12	Total Income Before Taxes and Return	\$ (51,736)		\$ 11,169	\$ (40,567)		\$ 149,860	\$ 109,294
13								
14	Less Federal and State Taxes	\$ -		\$ -	\$ -	Sch. 6	\$ 9,756	\$ 9,756
15								
16								
17	Net Operating Income							
18	Available for Return	\$ (51,736)		\$ 11,169	\$ (40,567)		\$ 140,104	\$ 99,538
19								
20								
21	Original Cost Measure of Value	\$ 993,924	pg. 8	\$ -	\$ 993,924		\$ -	\$ 993,924
22								
23	Rate of Return	-5.21%			-4.08%			10.01%

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

STATEMENT OF OPERATING REVENUES FOR THE TWELVE MONTHS ENDED 12/31/2017
AND THE CALCULATION OF THE PROPOSED REVENUE INCREASE BY CUSTOMER CLASSIFICATION

Pursuant to Subsection 53.52 (b)(4) and (c)(5) of Tariff Regulations

<u>Customer Classification</u> (1)	<u>Revenues Per Books, 12/31/2017</u> (2)	<u>Adjustment to Present Rates Bill Analysis</u> (3)	<u>Application of Present Rates to Bill Analysis*</u> (4)=(2)+(3)
Residential	\$ 119,890	\$ (2,210)	\$ 117,680
Commercial	16,201	(299)	15,902
Availability Customers	660	(12)	648
Private Fire	6,443	(119)	6,324
Total	\$ 143,194	\$ (2,640)	\$ 140,554

<u>Customer Classification</u> (1)	<u>Application of Present Rates to Bill Analysis</u> (2)	<u>Application of Proposed Rates to Bill Analysis*</u> (3)	<u>Proposed Revenue Increase Under Proposed Rates</u> (4)=(3)-(2)	<u>Percentage Increase</u> (5)=(4)/(2)
Residential	\$ 117,680	\$ 242,576	\$ 124,896	106.1%
Commercial	15,902	32,920	17,018	107.0%
Availability Customers	648	1,458	810	125.0%
Private Fire	6,324	14,229	7,905	125.0%
Total	\$ 140,554	\$ 291,183	\$ 150,629	107.2%

* Appendix, Schedule 2.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER
ORIGINAL COST MEASURE OF VALUE AS OF DECEMBER 31, 2017

Pursuant to Subsection 53.52 (C)(1) of Tariff Regulations

	<u>As of 12/31/2017</u>
Original Cost of Utility Plant In Service	\$ 1,628,619
Less: Accumulated Depreciation	<u>(659,872)</u>
Net Utility Plant	968,747
Add:	
Cash Working Capital	19,257
Prepayments	<u>5,920</u>
Total Original Cost Measure of Value	<u>\$ 993,924</u>

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

BALANCE SHEET AS OF DECEMBER 31, 2017

Pursuant to Subsection 53.52 (c)(2) of Tariff Regulations

ASSETS

Current Assets

Cash in bank	\$ 11,620
Accounts Receivable	34,620
Inventory	759
Escrow- Penelec	-
Escrow- STC	12,120
	<hr/>
Total Current Assets	59,119

Property and Equipment

Property Plant and Equipment	1,655,278
Accumulated Depreciation	(1,104,217)
	<hr/>
Total Property and Equipment	551,061

Other Assets

-

Total Assets

\$ 610,180

LIABILITIES AND CAPITAL

Current Liabilities

Accounts Payable	\$ 7,195
Notes Payable	247,500
Other Liabilities	-
Long Term Liabilites	-
	<hr/>
Total Liabilities	254,695

Capital

Contributed Capital - JMK	430,122
Net Income	(53,846)
Distributions	(20,790)
	<hr/>
Total Capital	355,485

Total Liabilities and Capital

\$ 610,180

HIDDEN VALLEY UTILITY SERVICES, L.P. - WATER

SUMMARY OF DETAILED PLANT ACCOUNTS OF THE BOOK VALUE OF
WATER UTILITY PLANT IN SERVICE AND DEPRECIATION RESERVE AS OF DECEMBER 31, 2017

Pursuant to Subsection 53.52 (c)(3) and (c)(4) of Tariff Regulations

Account	Water Utility Plant in Service @ 12/31/2017	Ratemaking Reserve @ 12/31/2017	Water Utility Plant in Service Less Reserve	Annual Accrual
307.2 Wells & Springs	\$ 80,100	\$ 60,472	\$ 19,628	\$ 2,290.86
311.4 Pumping Equipment	70,658	3,127	67,531	1,568.61
320.3 Water Treatment Equipment	602,441	335,437	267,004	10,060.76
330.4 Distribution Reservoirs & Standpipes	314,735	176,530	138,205	5,728.18
331.4 Transmission & Distribution Mains	549,895	82,879	467,016	6,757.81
346.5 Communications Equipment	10,790	1,427	9,363	1,427.05
Total	<u>\$ 1,628,619</u>	<u>\$ 659,872</u>	<u>\$ 968,747</u>	<u>\$ 27,833.27</u>

APPENDIX

HIDDEN VALLEY UTILITY SERVICES, LP - WATER
COMPARISON OF PRESENT AND PROPOSED RATES

	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>
<u>Quarterly Customer Charge</u>			
<u>Meter Size</u>			
5/8	\$ 12.00	\$ 27.00	125.0%
3/4	12.00	27.00	125.0%
1	12.00	27.00	125.0%
1 1/2	12.00	27.00	125.0%
2	12.00	27.00	125.0%
3	12.00	27.00	125.0%
4	12.00	27.00	125.0%
6	12.00	27.00	125.0%
8	12.00	27.00	125.0%

Availability Charge Quarterly	\$9.00	\$20.25	125.0%
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Consumption Charge per 100 Gallons

First 30,000 Gallons per Quarter	\$0.697	\$1.320	89.4%
Over 30,000 Gallons per Quarter	\$0.575	\$1.320	129.6%

Private Fire - Quarterly Charge

	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>
<u>Fire Line Size</u>			
2	\$ 30.00	\$ 67.50	125.0%
4	42.00	94.50	125.0%
6	63.00	141.75	125.0%

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

APPLICATION OF PRESENT RATES AND PROPOSED RATES TO CONSUMPTION ANALYSIS
YEAR ENDED DECEMBER 31, 2017

Rate Block Per Quarter (1)	Number Of Bills (2)	Total Consumption 100 Gallons (3)	Present Rate (4)	Present Revenue (5)	Proposed Rate (6)	Proposed Revenue (7)
<u>Residential - Quarterly</u>						
Customer Charge						
5/8	4,409		\$ 12.00	\$ 52,908	\$ 27.00	\$ 119,043
3/4	24		12.00	288	27.00	648
1	<u>4</u>		12.00	<u>48</u>	27.00	<u>108</u>
Subtotal	4,437			53,244		119,799
First 30,000 Gallons	-	89,788	0.6970	62,582	1.3200	118,520
Over 30,000 Gallons	-	<u>3,225</u>	<u>0.5750</u>	<u>1,854</u>	<u>1.3200</u>	<u>4,257</u>
Subtotal	-	93,013		64,436		122,777
Total Residential	4,437	93,013		117,680		242,576
<u>Commercial - Quarterly</u>						
Customer Charge						
5/8	72		\$ 12.00	\$ 864	\$ 27.00	\$ 1,944
3/4	4		12.00	48	27.00	108
1	-		12.00	-	27.00	-
1 1/2	20		12.00	240	27.00	540
2	23		12.00	276	27.00	621
3	-		12.00	-	27.00	-
Subtotal	<u>119</u>			<u>1,428</u>		<u>3,213</u>
First 30,000 Gallons	-	12,572	0.6970	8,763	1.3200	16,595
Over 30,000 Gallons	-	<u>9,933</u>	<u>0.5750</u>	<u>5,711</u>	<u>1.3200</u>	<u>13,112</u>
Subtotal	-	22,505		14,474		29,707
Total Commercial	119	22,505		15,902		32,920
<u>Availability Customers - Quarterly</u>						
Availability Charge	<u>72</u>		\$ 9.00	\$ 648	\$ 20.25	\$ 1,458
Subtotal	72			648		1,458
Total	72			648		1,458
<u>Private Fire - Quarterly</u>						
Customer Charge						
2	180		30.00	\$ 5,400	\$ 67.50	\$ 12,150
4	16		42.00	672	94.50	1,512
6	<u>4</u>		<u>63.00</u>	<u>252</u>	<u>141.75</u>	<u>567</u>
Total Private Fire	200			6,324		14,229
Total	<u>4,828</u>	<u>115,518</u>		<u>\$ 140,554</u>		<u>\$ 291,183</u>

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

COMPARISON OF BILLS UNDER PRESENT AND PROPOSED RATES
RESIDENTIAL 5/8" - QUARTERLY

Quarterly Usage 1,000 Gals.	Quarterly Bills Under		Increase	Percentage Increase
	Present Rates	Proposed Rates		
0.0	\$ 12.00	\$ 27.00	\$ 15.00	125.00%
1.0	18.97	40.20	21.23	111.91%
2.0	25.94	53.40	27.46	105.86%
2.1 *	26.64	54.72	28.08	105.43%
3.0	32.91	66.60	33.69	102.37%
4.0	39.88	79.80	39.92	100.10%
5.0	46.85	93.00	46.15	98.51%
6.0	53.82	106.20	52.38	97.32%
7.0	60.79	119.40	58.61	96.41%
8.0	67.76	132.60	64.84	95.69%
9.0	74.73	145.80	71.07	95.10%
10.0	81.70	159.00	77.30	94.61%
11.0	88.67	172.20	83.53	94.20%
12.0	95.64	185.40	89.76	93.85%
13.0	102.61	198.60	95.99	93.55%
14.0	109.58	211.80	102.22	93.28%
15.0	116.55	225.00	108.45	93.05%
16.0	123.52	238.20	114.68	92.84%
17.0	130.49	251.40	120.91	92.66%
18.0	137.46	264.60	127.14	92.49%
19.0	144.43	277.80	133.37	92.34%
20.0	151.40	291.00	139.60	92.21%
25.0	186.25	357.00	170.75	91.68%
30.0	221.10	423.00	201.90	91.32%
35.0	249.85	489.00	239.15	95.72%
39.0	272.85	541.80	268.95	98.57%
40.0	278.60	555.00	276.40	99.21%
45.0	307.35	621.00	313.65	102.05%
50.0	336.10	687.00	350.90	104.40%

* Average quarterly residential usage.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

COMPARISON OF BILLS UNDER PRESENT AND PROPOSED RATES
COMMERCIAL 5/8" - QUARTERLY

Quarterly Usage 1,000 Gals.	Quarterly Bills Under		Increase	Percentage Increase
	Present Rates	Proposed Rates		
0.0	\$ 12.00	\$ 27.00	\$ 15.00	125.00%
1.0	18.97	40.20	21.23	111.91%
2.0	25.94	53.40	27.46	105.86%
3.0	32.91	66.60	33.69	102.37%
4.0	39.88	79.80	39.92	100.10%
5.0	46.85	93.00	46.15	98.51%
6.0	53.82	106.20	52.38	97.32%
7.0	60.79	119.40	58.61	96.41%
8.0	67.76	132.60	64.84	95.69%
9.0	74.73	145.80	71.07	95.10%
10.0	81.70	159.00	77.30	94.61%
11.0	88.67	172.20	83.53	94.20%
12.0	95.64	185.40	89.76	93.85%
13.0	102.61	198.60	95.99	93.55%
14.0	109.58	211.80	102.22	93.28%
15.0	116.55	225.00	108.45	93.05%
16.0	123.52	238.20	114.68	92.84%
17.0	130.49	251.40	120.91	92.66%
18.0	137.46	264.60	127.14	92.49%
19.0 *	144.43	277.80	133.37	92.34%
20.0	151.40	291.00	139.60	92.21%
25.0	186.25	357.00	170.75	91.68%
30.0	221.10	423.00	201.90	91.32%
35.0	249.85	489.00	239.15	95.72%
39.0	272.85	541.80	268.95	98.57%
40.0	278.60	555.00	276.40	99.21%
42.0	290.10	581.40	291.30	100.41%
45.0	307.35	621.00	313.65	102.05%
50.0	336.10	687.00	350.90	104.40%
60.0	393.60	819.00	425.40	108.08%
70.0	451.10	951.00	499.90	110.82%
80.0	508.60	1,083.00	574.40	112.94%
90.0	566.10	1,215.00	648.90	114.63%
100.0	623.60	1,347.00	723.40	116.00%

* Average quarterly commercial usage.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER AND WASTEWATER
HISTORIC TEST YEAR - 12/31/2017
PRO FORMA OPERATING EXPENSE ADJUSTMENTS UNDER PRESENT RATES

Line No.	Account	Per Books					Historic Test Year Pro Forma Adjustment - Total System		Pro Forma					
		Total	Water	Water %	Wastewater	WW %	Sched. 4	Amount	Total	Water	Water %	Denotes Change	Wastewater	WW %
	(1)													
1	Payroll	\$ 117,376	\$ 38,733	33%	\$ 78,643	67%			\$ 117,376	\$ 38,734	33%		\$ 78,642	67%
2	Electricity	105,183	34,710	33%	70,472	67%			105,183	36,814	35%	C	68,369	65%
3	Chemicals	14,353	4,736	33%	9,616	67%			14,353	718	5%	C	13,635	95%
4	Maintenance and repairs	21,177	6,988	33%	14,188	67%	E1	10,834	32,011	10,564	33%		21,447	67%
5	Bank Charges	1,062	351	33%	712	67%	E1	(116)	947	473	50%	C	473	50%
6	Insurance	12,143	4,007	33%	8,136	67%	E1	(1,837)	10,306	5,153	50%	C	5,153	50%
7	License	2,807	926	33%	1,881	67%	E1	476	3,283	1,641	50%	C	1,641	50%
8	Misc. Expenses	1,256	414	33%	842	67%	E1	54	1,310	655	50%	C	655	50%
9	Accounting	1,500	495	33%	1,005	67%			1,500	750	50%	C	750	50%
10	Legal	14,383	4,746	33%	9,636	67%			14,383	7,191	50%	C	7,191	50%
11	Rate Case Expense	6,390					E2	25,610	32,000	16,000	50%		16,000	50%
12	Bill collection	19,152	6,320	33%	12,832	67%	E1	-	19,152	9,576	50%	C	9,576	50%
13	Lab	9,577	3,160	33%	6,416	67%	E1	133	9,709	4,855	50%	C	4,855	50%
14	Rent													
15	Office	8,000	2,640	33%	5,360	67%	E1	(533)	7,467	3,733	50%	C	3,733	50%
16	Facility	45,411	14,986	33%	30,426	67%	E1	1,264	46,675	9,335	20%	C	37,340	80%
17	Storage	5,765	1,902	33%	3,863	67%	E1	(584)	5,181	2,590	50%	C	2,590	50%
18	Phone	2,644	872	33%	1,771	67%	E1	47	2,691	1,346	50%	C	1,346	50%
19	Gas	2,732	902	33%	1,831	67%	E1	(413)	2,319	765	33%		1,554	67%
20	Office supplies	1,006	332	33%	674	67%	E1	(99)	907	453	50%	C	453	50%
21	Answer service	919	303	33%	616	67%	E1	(80)	839	420	50%	C	420	50%
22	Engineering	975	322	33%	653	67%	E1	3,635	4,610	1,521	33%		3,088	67%
23	Total Expenses	<u>393,810</u>	<u>127,848</u>		<u>259,572</u>			<u>38,390</u>	<u>432,200</u>	<u>153,287</u>			<u>278,912</u>	
24	Depreciation	\$ 203,279	\$ 67,082		\$ 136,197		E3	(114,538)	\$ 88,740	\$ 27,833			\$ 60,907	
25	Total	<u>\$ 597,089</u>	<u>\$ 194,930</u>		<u>\$ 395,769</u>			<u>(76,148)</u>	<u>\$ 520,940</u>	<u>\$ 181,121</u>			<u>\$ 339,819</u>	

HIDDEN VALLEY UTILITY SERVICES, LP - WATER AND WASTEWATER
HISTORIC TEST YEAR

PRO FORMA OPERATING EXPENSE ADJUSTMENTS
UNDER PRESENT RATES

Adj. Ref.	Explanation						Adjustment Increase (Decrease)
E1	To adjust certain operation and maintenance expenses to reflect the three year average of expenses.						
		Actual Cost			Per Books	Pro Forma	
	Account	2015	2016	2017	2017	3 Year Average Costs	
	Maintenance and repairs	\$ 51,002	\$ 23,854	\$ 21,177	\$ 21,177	\$ 32,011	\$ 10,834
	Bank Charges	1,154	623	1,062	1,062	947	(116)
	Insurance	6,575	12,199	12,143	12,143	10,306	(1,837)
	License	4,583	2,458	2,807	2,807	3,283	476
	Misc. Expenses	1,560	1,114	1,256	1,256	1,310	54
	Bill collection	19,152	19,152	19,152	19,152	19,152	-
	Lab	9,866	9,685	9,577	9,577	9,709	133
	Rent						-
	Office	7,200	7,200	8,000	8,000	7,467	(533)
	Facility	46,659	47,956	45,411	45,411	46,675	1,264
	Storage	5,210	4,567	5,765	5,765	5,181	(584)
	Phone	2,959	2,471	2,644	2,644	2,691	47
	Gas	2,207	2,018	2,732	2,732	2,319	(413)
	Office supplies	1,587	128	1,006	1,006	907	(99)
	Answer service	817	781	919	919	839	(80)
	Engineering	-	12,854	975	975	4,610	3,635

HIDDEN VALLEY UTILITY SERVICES, LP - WATER AND WASTEWATER
HISTORIC TEST YEAR

PRO FORMA OPERATING EXPENSE ADJUSTMENTS
UNDER PRESENT RATES

Adj. Ref.	Explanation	Adjustment Increase (Decrease)
E2	To normalize operating expenses for the estimated cost of the rate case over two years.	
	Revenue Requirement, Rate Base, Depreciation, Rate of Return, Rate Design and Application	\$ 45,000
	Legal Fees	50,000
	Customer Notice and Postage	<u>1,000</u>
	Total	\$96,000 *
	Normalized Amount (3-year amortization)	\$ 32,000
	Less: Test Year Rate Case Expense	<u>6,390</u>
	Adjustment	25,610

* Estimated. Assumes settlement prior to hearings.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER AND WASTEWATER
HISTORIC TEST YEAR

PRO FORMA OPERATING EXPENSE ADJUSTMENTS
UNDER PRESENT RATES

Adj. Ref.	Explanation	Adjustment Increase (Decrease)
E3	To adjust depreciation expense as of December 31, 2017	
	Annual Depreciation Expense as of December 31, 2017	
	Water	\$ 27,833
	Sewer	60,907
	Less: Depreciation Expense Per Books	
	Water	\$ 67,082
	Sewer	136,196
	Adjustment	(39,249)
	Water	(75,289)
	Sewer	
	Total Test Year, Pro Forma	
	Operating Expense Adjustments under Present Rates	<u>\$ (76,148)</u>

HIDDEN VALLEY UTILITY SERVICES, LP - WATER AND WASTEWATER
HISTORIC TEST YEAR

PRO FORMA OPERATING EXPENSE ADJUSTMENTS
UNDER PROPOSED RATES

Adj. Ref.	Explanation	Adjustment Increase (Decrease)
E4	Adjustment for Increase in PUC and OCA Assessments	
	Per Books Assessment	
	Water \$ 717	
	Sewer 1,455	
	Pro Forma*	
	Water 1,485	\$ 768
	Sewer 2,374	919

* Increase based on percentage revenue increase.

HIDDEN VALLEY UTILITY SERVICES, LP - WATER

CALCULATION OF INCOME TAXES UNDER PRESENT AND PROPOSED RATES

	<u>Present Rates</u>	<u>Proposed Rates</u>
Pro Forma Operating Income	\$ (40,567)	\$ 109,294
Add Back Depreciation	27,833	27,833
Less: Tax Depreciation	67,082	67,082
Interest Expense	<u>36,278</u>	<u>36,278</u>
State Taxable Income	(116,093)	33,767
State Income Tax	<u>-</u>	<u>3,373</u>
Federal Taxable Income	(116,093)	30,394
Federal Income Tax	-	6,383
Total State and Federal Income Taxes		\$ 9,756



Gannett Fleming

**Gannett Fleming Valuation and
Rate Consultants, LLC**

Memo

To: Paul Herbert
From: Harold Walker
Date: April 9, 2018
Re: Hidden Valley Utility Services, LP - Water Operations' Overall ROR

Based upon a review of current information, an overall rate of return of 10.16% based upon the Hidden Valley Utility Services, LP - Water Operations' capital structure at December 31, 2017 including a 10.25% cost of common equity is recommended. However, it should be noted that a full-scale company specific cost of equity study has not been conducted at this time. In the event that this rate filing is fully litigated, it may be necessary for one to be performed.

The first step in developing an overall rate of return is the selection of capital structure ratios to be employed. Next, the cost rate for each capital component is determined. The overall rate of return is the product of weighting each capital component by its respective capital cost rate. This procedure results in the Hidden Valley Utility Services, LP - Water Operations' overall rate of return being weighted proportionately to the amount of capital and cost of capital employed by each class of investor.

Based on a review of the Hidden Valley Utility Services, LP - Water Operations' 2017 capital structure ratios, I believe it is appropriate to evaluate the Hidden Valley Utility Services, LP - Water Operations' current cost of capital based upon their capital structure at December 31, 2017 as reported in their annual report to the Pennsylvania Public Utility Commission. Their actual capital structure at December 31, 2017, consisting of 37% debt and 63% equity is similar to the current water and waste water industry practice of 45% debt and 55% equity. Further, the recommended ratios are in line with Standard & Poor's implied ratios based upon published financial benchmarks for a water and waste water utility.

The embedded debt cost rate of 10.0% at December 31, 2017 is equal to the interest rate for their existing issue of debt that was financing the Hidden Valley Utility Services, LP - Water Operations' capitalization at December 31, 2017.

Hidden Valley Utility Services, LP - Water Operations' cost of equity is at least 10.25% reflecting the Hidden Valley Utility Services, LP - Water Operations' actual capital structure at December 31, 2017. This is based primarily upon the most recently authorized return on equity for a large investor-owned utility that we are aware of and other more recent studies. However, as stated before, a full-scale company specific cost of equity study has not been conducted at this time. In the event that rate of return is litigated, it would be necessary for one to be performed.

Based upon the recommended capitalization ratios, actual embedded debt cost, and 10.25% return on common equity, a reasonable overall rate of return of 10.16% is indicated at this time, as shown on page 2 of this memo.

To: Paul Herbert
From: Harold Walker
Date: April 9, 2018
Re: Hidden Valley Utility Services, LP - Water
Operations' Overall ROR
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	<u>Recommended</u> <u>Ratios</u>	<u>Cost</u> <u>Rates</u>	<u>Weighted</u> <u>Cost</u>
Debt	36.5	10.00	3.65
Common Equity	<u>63.5</u>	10.25	<u>6.51</u>
Overall	<u>100.0</u>		<u>10.16</u>