COZEN O'CONNOR

April 27, 2018

**Jonathan P. Nase**
Direct Phone 717-773-4191
Direct Fax 215-372-2340
jnase@cozen.com

**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. -- WASTEWATER (GENERAL RATE INCREASE FILED PURSUANT TO 66 PA. C.S. § 1308, INCLUDING ANSWERS TO 52 PA. CODE § 53.52)**

**SUPPLEMENT NO. 1 TO TARIFF WASTEWATER – PA PUC NO. 1**

**DOCKET NO. R-2018-3001307**

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 wastewater service:

- Supplement No. 1 to Tariff Wastewater – 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 water service at Docket No. R-2018-3001306. These two filings are related and HVUS requests that they be consolidated for purposes of adjudication and decision.

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

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | |
| v. | : | Docket No. R-2018-3001307 |
| Hidden Valley Utility Services, L.P. -- Wastewater | : | |

**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. -- Wastewater, 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



DATED: April 27, 2018

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

**James M. Kettler**
**HVUS Statement No. 1**
**(Wastewater)**

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No. R-2018-3001307 |
| | : | |
| Hidden Valley Utility Services, L.P. -- Wastewater | : | |
| | : | |

---

# 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 KETTLER**

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

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

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

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

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

A. A copy of my resume is attached as **Exhibit JMK-1**.

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

A. I am responsible for the overall operations of the company.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PUC" or "COMMISSION")?**

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

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

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

## DESCRIPTION OF HVUS AND ITS WASTEWATER SYSTEM

**Q. PLEASE DESCRIBE HVUS.**

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

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

HVUS's wastewater system serves approximately 1,154 residential and non-residential customers. It also serves approximately 18 availability customers. An additional 207 residential units are currently permitted for wastewater treatment but, as stated above, the present owners do not intend further development.

**Q. PLEASE DESCRIBE THE HISTORY OF THE HVUS WASTEWATER SYSTEM.**

A. In the early 1970's, the sewer system consisted of sanitary sewer collection lines which were connected to underground holding tanks. Sewage was hauled from the holding tanks to a nearby treatment facility at Laurel Hill State Park. The Resort was not able to obtain a permit to construct a sewage treatment plant because Jefferson Township was preparing an overall Act 537 sewage facilities plan. The Jefferson Township Act 537 Plan was completed and adopted in 1980. This plan concluded that it was not financially feasible to construct an overall public sewer system to serve the Bakersville area of Jefferson Township, Kooser State Park or Hidden Valley. The plan recommended that Hidden Valley and Kooser State Park develop separate sanitary sewer systems to serve their own needs. Following this decision, Hidden Valley planned and constructed a 100,000 gallon per day sewage treatment plant which utilized a woodland spray field to dispose of the treated effluent. The effluent spray field was the preferred disposal method because the watershed is classified as high quality cold water fishery. Pennsylvania Department of Environmental Protection ("DEP") regulations require that alternatives to stream discharges be evaluated for technical feasibility in high quality watersheds.

The current wastewater system has been in operation since the mid-1980's. These systems are designed to be constructed in phases to serve the need of the developing community. The wastewater system includes two separate plants, Plant No. 1 has a 100,000 GPD capacity and Plant No. 2 has a 30,000 GPD capacity. Treated effluent from both plants is pumped to a storage lagoon for treatment on a 20 acre wooded spray field.

The wastewater system planning was approved by Jefferson Township and DEP in 1993. The wastewater treatment capacity is planned to be enlarged in phases from the current 130,000 GPD capacity to ultimately be 380,000 GPD capacity.

The wastewater treatment plant serving Hidden Valley has a number of unusual operational conditions because of the flow variations from the transient resort population. Peak flows are seen on winter weekends, with low flow conditions during the week and in the spring and fall. The 300,000 gallon volume equalization tanks at Plant No. 1 are an integral part of the treatment system to accommodate these flow variations.

**Q. PLEASE DESCRIBE THE HVUS WASTEWATER SYSTEM AS IT EXISTS TODAY.**

A. HVUS operates two sewage treatment plants. Sewage Treatment Plant No. 1, located near the main entrance of the Resort at State Route 31, has been in operation since 1982. Plant No. 1 currently serves 864 Equivalent Dwelling Units and is rated at 100,000 gallons per day. The treated effluent from the extended aeration Plant No.1 is pumped to and held in a 3 million gallon capacity lined effluent lagoon. Water held in the effluent lagoon is land applied to a 20 acre spray field during the spring, summer and fall months and is blended with snowmaking water during the winter. Sewage Treatment Plant No. 2 is located on the eastern side of Hidden Valley near the golf course, hole #2. Plant No.2 is an aerated facultative lagoon plant rated at 30,000 gallons per day. Treated effluent from Plant No. 2 is also pumped to the 3 million gallon lagoon, from which it is land applied to the same 20 acre spray field, or blended with snowmaking water.

The Hidden Valley wastewater collection system contains six grinder pump stations. The pump stations were installed in 1985 at the Westridge townhomes, in 1987, at the Highland townhomes, and in 1989 at the Fairway Lots. In 1994 a grinder station was installed in Stonewood, another station was installed in 2005 for phase 2 of Westridge, and the last pump station was installed in 2008 for the Summit Village, phase 2. The stations are equipped with temporary storage volume for emergencies, as well as an alarm light and horn that are activated by a high water level in the pump station or a power outage. Each pump station is equipped with duplicate grinder pumps for back-up in case of mechanical pump failure.

**Q. WHAT ARE THE CURRENT ISSUES CONFRONTING THE HVUS WASTEWATER SYSTEM?**

A. As the system is aging, the primary issues of the wastewater system are maintenance driven. There is no anticipated growth in population of the service area. Growth of the system is dependent on development of the land in the service area. At this time, the owners of the property have no plans for additional development. Therefore additional sewage treatment expansion is not needed for at least 5 years.

The transient nature of the community, and the seasonal nature of the population, make for a number of unusual operational conditions. Peak flows occur only a few times a year, primarily during the ski season holidays and weekends. At other times of the year, flows are so low that some grinder pump stations do not pump for months at a time, and there are times with virtually no flows into Plant No. 2.

The next couple of years require focus on maintenance operations, not only in pumps and motors, but aging wet wells and metal tanks. HVUS recently added an additional employee to allow daily operations to be covered during peak periods, while stepping up maintenance operations during slow periods.

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

A. We have had no notices of violations issued by DEP in the last three years.

## OVERVIEW OF REQUESTED WASTEWATER RATE INCREASE

**Q. WHY IS HVUS SEEKING A WASTEWATER RATE INCREASE AT THIS TIME?**

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

Another purpose of the rate request is to restore the financial integrity of the company. HVUS has not requested a wastewater rate increase since August 11, 2005 when the system was approved for public service. Since that time, the Resort

community, which is the service area, has not had the projected growth as shown in the original tariff request. The Resort has also been sold twice, and the current owners of the Resort have said that there are no plans for additional real estate development beyond the lots already with service. In addition, the new owners have stopped all hotel/conference business, which has had a drastic adverse impact on revenues. The only "commercial" activities within the service area are the ski area and the golf area. The ski area is a 90 day business each year. The golf center has very low usage, and again is a seasonal business.

Over the past 13 years, the cost of operations has gone up. For example, prior to 2011, there was no payment by HVUS for the use of the land on which the system's facilities are located. Now HVUS leases the property from the Resort, with an annual cost of living adjustment. Since August 2017, the payments have been approximately $4,100 per month, which is allocated 2/3 to HVUS's wastewater system and 1/3 to HVUS's water system. Payroll has doubled since 2005, through increases in pay, plus the addition of another employee. Overall operational costs have also increased. Electric service, which is a large portion of the cost, have risen over 25% since 2005, primarily due to increases in direct electric cost, but also due to additional equipment within the system. Additional testing requirements for wastewater have increased lab fees. HVUS has also transitioned to a liquid chemical feed system, as opposed to a gas system. Compared to our first year operating the new system, the chemical expense has risen by approximately 30%.

Additionally, HVUS has invested significant dollars since 2005 in capital improvements and maintenance and repairs. HVUS has not had the revenues to retire

debt in the past 5 years, and additional revenue from this request will allow HVUS to reduce its debt service.

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

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

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

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

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

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

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

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

A. Not at this time.

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

A. Not at this time.

**Q. PLEASE EXPLAIN THE IMPORTANCE OF THE PROPOSED WASTEWATER RATE INCREASE TO HVUS?**

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

The two sewage treatment plants operate 24 hours a day, 7 days a week, during low flows and high flows. In addition to the two treatment plants, the system has 6 pump stations with 2 pumps each. With the extreme weather conditions at 3,000 feet, there is greater need for maintenance of the pump stations than at lower elevations.

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

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

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

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

Rather than punishing HVUS, the Commission opted to give HVUS incentives to come into compliance with the Pennsylvania Public Utility Code ("Code"). The Commission ordered HVUS to complete a detailed list of tasks. If HVUS fails to complete the required tasks in a timely manner, the Commission Order provides for the initiation of proceedings pursuant to 66 Pa. C.S. § 529. If, on the other hand, HVUS does complete the required tasks in a timely manner, the *McCloskey* case will be closed without penalties being imposed.

Since the Commission Order was entered on January 18, 2018, HVUS has made a good faith effort to complete the required tasks in a timely manner, and thereby comply with the Commission's directives and return to compliance with the Code and the Commission's regulations and Orders. Complying with that Order, however, will take time and money. Penalizing HVUS by denying it the resources necessary to improve its facilities and services will not benefit consumers. Moreover, such a penalty is unnecessary, given that the Commission has adequate other enforcement mechanisms if HVUS fails to comply with the Order.

The Commission is to balance the interests of consumers and utilities. In this case, granting HVUS a reasonable rate increase will benefit both consumers and the utility. By restoring HVUS to a sound financial footing, the company will be able to enhance the facilities and service it is providing to consumers. This result would be consistent with the Commission's approach in the *McCloskey* case.

## CONCLUSION

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

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

# Exhibit JMK-1

**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 B.S Architecture, College of Architecture, Art, and Planning
1982

**Paul R. Herbert**
**HVUS Statement No. 2**
**(Wastewater)**

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No. R-2018-3001307 |
| | : | |
| Hidden Valley Utility Services, L.P. -- Wastewater | : | |
| | : | |

---

# 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. It was prepared by me.

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

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

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

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

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

A. The total revenue requirement as shown on the Company's operating statement, page 6, column 8 of Exhibit PRH-2 is $479,071. It is worth noting that, although the Company filed a rate increase request for its wastewater system on the same day as it filed a rate increase request for its water system, the Company is not asking to combine water and wastewater revenue requirements pursuant to 66 Pa. C.S. § 1311(c).

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

A. The revenue requirement consists of operation and maintenance expenses of $279,831, depreciation expense of $60,907, and net operating income of $138,333.

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

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

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

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

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

## MEASURE OF VALUE

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

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

Cash working capital, calculated by the rule-of-thumb method, is added to the net utility plant. The total original cost measure of value is $1,384,157 as of December 31, 2017. The rate base amount is brought forward to the operating statement on page 6 to determine the rates of return under present and proposed rates.

## RATE OF RETURN

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

A. Page 6 of Exhibit PRH-2 shows a Company rate of return under proposed rates of 9.99%. It is based on total pro forma revenues of $479,071, less operating income deductions of $340,738, resulting in income available for return of $138,333. The income available for return divided by the original cost measure of value of $1,384,157 results in a rate of return of 9.99%.

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

A. Yes. The Company can support a rate of return of 10.13%, as presented in the memorandum from Mr. Harold Walker, CRRA, found in Schedule No. 7, page 22 of the Exhibit. The memorandum sets forth the recommended capital structure and cost rates for debt and common equity. Mr. Walker has prepared this memorandum under my direct supervision.

## PRO FORMA REVENUE

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

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

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

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

## PRO FORMA OPERATION AND MAINTENANCE EXPENSES

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

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

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

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

A. The adjustments under present rates are as follows:

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

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

E3 – Adjusts depreciation expense for the historic test year.

The adjustments under proposed rates are as follows:

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

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

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

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

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

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

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

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

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

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

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

A. Yes.

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

A. The calculation of state and federal income taxes under proposed rates are shown on Schedule 6, page 21 of the Exhibit. Due to operating losses under present rates, there are no income taxes under present rates. Taxable income is also slightly negative under proposed rates as well, resulting in no income tax claim under proposed rates.

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

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

# Exhibit PRH-1

| | Year | Jurisdiction | Docket No. | Client/Utility | Subject |
|---|---|---|---|---|---|
| 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 | WV PSC | 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 City Sewerage 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 | City 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 City Sewerage 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 | Rev. Requirements and Rate Design |
| 13. | 1995 | Pa. PUC | R-953379 | Carnegie Natural Gas Company | Rev. 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 | City 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 | WV PSC | 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 City Sewerage 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. CC | 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 | City 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.CC | PUE-2002-0375 | 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.CC | 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 City Sewerage 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 |
| 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 |

## PAUL R. HERBERT – LIST OF CASES TESTIFIED

| | Year | Jurisdiction | Docket No. | Client/Utility | Subject |
|---|---|---|---|---|---|
| 55. | 2007 | Oh. PUC | 07-1112-WS-IR | 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 City Sewerage Company | Cost Allocation and Rate Design |
| 59. | 2007 | Pa. PUC | R-00072492 | City 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 | Va St CC | PUE-2008-0009 | 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 CC. | W-01303A-08-0227<br>SW-01303A-08-0227 | Arizona American Water Co. - Water<br>- 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. | 2009 | Va St CC | PUE-2009-0059 | 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 | Ct PU RgAth | 10-09-08 | United Water Connecticut | Cost Allocation and Rate Design |
| 92. | 2010 | Pa PUC | R-2010-2179103 | City 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 | City 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 |
| 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, City of – Sewer 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 |

## PAUL R. HERBERT – LIST OF CASES TESTIFIED

| | Year | Jurisdiction | Docket No. | Client/Utility | Subject |
|---|---|---|---|---|---|
| 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 | VAStCom | 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

Exhibit PRH-2

HIDDEN VALLEY UTILITY SERVICES, L.P.

Hidden Valley, Pennsylvania

# WASTEWATER
# RATE STUDY AND DATA
# IN SUPPORT OF
# PROPOSED SUPPLEMENT NO. 1 TO
# TARIFF WASTEWATER 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 wastewater 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 wastewater system without rate relief. An increase in wastewater 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 wastewater service.

We recommend that the Company file with the Public Utility Commission, Supplement No. 1 to Tariff Wastewater-Pa. P.U.C. No. 1, which proposes an increase in wastewater rates for all classes of service. The overall increase in annual operating revenue from customers is approximately 63.1 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

Paul R Herbert

PAUL R. HERBERT
President

PRH:mle
062969.000

TABLE OF CONTENTS

HIDDEN VALLEY UTILITY SERVICES, L.P. – WASTEWATER

SPECIFIC REASONS FOR PROPOSED INCREASE IN WASTEWATER 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 Wastewater-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 wastewater 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 wastewater service pursuant to 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.

| | Present Rates | Proposed Rates |
|---|---|---|
| Rate of Return | (3.34)% | 9.99% |

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.

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Debt | 47.30% | 10.00% | 4.73% |
| Equity | 52.70% | 10.25% | 5.40% |
| Total | 100.00% | | 10.13% |

PROPOSED RATES

Under Supplement No. 1 to Tariff Wastewater-Pa. P.U.C. No. 1, the Company proposes to increase the customer charge from $27.00 per quarter to $43.50 per quarter for all meter sizes or 61.1%. The availability charge was increased from $15.00 per quarter to $24.30 per quarter, or 62.0%. In addition, the Company is

proposing to raise the consumption charge to $2.520 per hundred gallons for all water usage. This is a change from the existing declining block rates. 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 Wastewater-Pa. P.U.C. No. 1 clearly indicate that the level of revenues from the Company's present wastewater rates is inadequate, and immediate rate relief is necessary. It is essential that the rates proposed under Supplement No. 1 to Tariff Wastewater-Pa. P.U.C. No. 1 become effective as soon as possible, in order that the Company recover the cost of rendering wastewater service, including a return on the depreciated original cost of the wastewater system's used or useful property, and enable the Company to provide its customers with efficient, safe and reliable service.

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

TOTAL NUMBER OF CUSTOMERS SERVED AS OF DECEMBER 31,

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

| Classification | 2016 | 2017 |
|---|---|---|
| Residential | 1,125 | 1,126 |
| Non-Residential | 28 | 28 |
| Availability | 18 | 18 |
| Total | 1,171 | 1,172 |

NUMBER OF CUSTOMERS WHOSE BILLS WILL INCREASE

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

| Classification | 2017 |
|---|---|
| Residential | 1,126 |
| Non-Residential | 28 |
| Availability | 18 |
| Total | 1,172 |

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 wastewater 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 wastewater service will not decrease.

HIDDEN VALLEY UTILITY SERVICES, L.P. – WASTEWATER

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 wastewater service. The overall increase in revenues from sale of wastewater is approximately 63.1%.

(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 based 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 - WASTEWATER

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 | 12 Months Ended 31-Dec-17 | Pro Forma Test Year Adjustments Ref. | Pro Forma Test Year Adjustments Amount | Pro Forma Present Rates, 31-Dec-17 | Adjustment Reference | Under Proposed Rates, Supplement No. 1 to Tariff Wastewater Pa-PUC No. 1 Increase | Under Proposed Rates, Supplement No. 1 to Tariff Wastewater Pa-PUC No. 1 Pro Forma 31-Dec-17 |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | Operating Revenue | $ 290,724 | pg. 7 | $ 2,915 | $ 293,639 | pg. 7 | $ 185,432 | $ 479,071 |
| 2 | | | | | | | | |
| 3 | Operating Revenue Deductions: | | | | | | | |
| 4 | Operation and Maintenance | | | | | | | |
| 5 | Expenses | $ 259,572 | Sch. 4 | $ 19,340 | $ 278,912 | Sch. 5 | $ 919 | $ 279,831 |
| 6 | | | | | | | | |
| 7 | Depreciation | 136,197 | Sch. 4 | (75,290) | 60,907 | | $ - | 60,907 |
| 8 | | | | | | | | |
| 9 | Total Operating | | | | | | | |
| 10 | Revenue Deductions | $ 395,769 | | $ (55,950) | $ 339,819 | | $ 919 | $ 340,738 |
| 11 | | | | | | | | |
| 12 | Total Income Before Taxes and Return | $ (105,045) | | $ 58,865 | $ (46,180) | | $ 184,513 | $ 138,333 |
| 13 | | | | | | | | |
| 14 | Less: Federal and State Income Taxes | $ - | | $ - | $ - | Sch. 6 | $ - | $ - |
| 15 | | | | | | | | |
| 16 | | | | | | | | |
| 17 | Net Operating Income | | | | | | | |
| 18 | Available for Return | $ (105,045) | | $ 58,865 | $ (46,180) | | $ 184,513 | $ 138,333 |
| 19 | | | | | | | | |
| 20 | | | | | | | | |
| 21 | Original Cost Measure of Value | $ 1,384,157 | pg. 8 | $ - | $ 1,384,157 | | $ - | $ 1,384,157 |
| 22 | | | | | | | | |
| 23 | Rate of Return | -7.59% | | | -3.34% | | | 9.99% |

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

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

| Customer Classification | Revenues Per Books, 12/31/2017 | Adjustment to Present Rates Bill Analysis | Application of Present Rates to Bill Analysis* |
|---|---|---|---|
| (1) | (2) | (3) | (4)=(2)+(3) |
| Residential | $ 261,286 | $ 2,620 | $ 263,906 |
| Commercial | 28,369 | 284 | 28,653 |
| Availability Customers | 1,069 | 11 | 1,080 |
| Total | 290,724 | 2,915 | 293,639 |

| Customer Classification | Application of Present Rates to Bill Analysis | Application of Proposed Rates to Bill Analysis* | Increase over Pro Forma Present Rates | Percentage Increase |
|---|---|---|---|---|
| (1) | (2) | (3) | (4)=(3)-(2) | (5)=(4)/(2) |
| Residential | $ 263,906 | $ 427,402 | $ 163,496 | 62.0% |
| Commercial | 28,653 | 49,919 | 21,266 | 74.2% |
| Availability Customers | 1,080 | 1,750 | 670 | 62.0% |
| Total | $ 293,639 | $ 479,071 | $ 185,432 | 63.1% |

* Appendix, Schedule 2.

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

ORIGINAL COST MEASURE OF VALUE AS OF DECEMBER 31, 2017

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

| | As of 12/31/2017 |
|---|---|
| Original Cost of Utility Plant In Service | $ 3,046,002 |
| Less: Accumulated Depreciation | (1,696,824) |
| Net Utility Plant | 1,349,178 |
| Add: | |
| Cash Working Capital | 34,979 |
| Total Original Cost Measure of Value | $ 1,384,157 |

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

BALANCE SHEET AS OF DECEMBER 31, 2017

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

**ASSETS**

| | |
|---|---|
| **Current Assets** | |
| Cash in bank | $ 23,591 |
| Accounts Receivable | 70,290 |
| Inventory | 1,541 |
| Escrow- Penelec | - |
| Escrow- STC | 24,608 |
| Total Current Assets | 120,030 |
| **Property and Equipment** | |
| Property Plant and Equipment | 3,048,067 |
| Accumulated Depreciation | (2,241,895) |
| Total Property and Equipment | 806,172 |
| Other Assets | - |
| Total Assets | $ 926,203 |

**LIABILITIES AND CAPITAL**

| | |
|---|---|
| **Current Liabilities** | |
| Accounts Payable | $ 14,607 |
| Notes Payable | 502,500 |
| Other Liabilities | - |
| Long Term Liabilites | - |
| Total Liabilities | 517,107 |
| **Capital** | |
| Contributed Capital - JMK | 560,630 |
| Net Income | (109,325) |
| Distributions | (42,210) |
| Total Capital | 409,096 |
| Total Liabilities and Capital | $ 926,203 |

HIDDEN VALLEY UTILITY SERVICES, L.P. - WASTEWATER

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

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

| Account | Wastewater Utility Plant in Service @ 12/31/2017 | Ratemaking Reserve @ 12/31/2017 | Wastewater Utility Plant in Service Less Reserve | Annual Accrual |
|---|---|---|---|---|
| 361.2 Collection Sewers - Gravity | $ 221,533 | $ 79,687 | $ 141,846 | $ 2,769.16 |
| 370.3 Receiving Wells | 72,909 | 49,260 | 23,649 | 2,085.20 |
| 371.3 Pumping Equipment | 49,057 | 3,671 | 45,386 | 970.53 |
| 380.4 Treatment & Disposal Equipment | 102,917 | 59,479 | 43,438 | 2,050.33 |
| 381.4 Plant Sewers | 2,599,586 | 1,504,727 | 1,094,859 | 53,031.55 |
| Total | $ 3,046,002 | $ 1,696,824 | $ 1,349,178 | $ 60,906.77 |

# APPENDIX

# HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

## COMPARISON OF PRESENT AND PROPOSED RATES

| | Present | Proposed | Increase |
|---|---|---|---|
| Quarterly Customer Charge | | | |
| Meter Size | | | |
| 5/8 | $ 27.00 | $ 43.50 | 61.1% |
| 3/4 | 27.00 | 43.50 | 61.1% |
| 1 | 27.00 | 43.50 | 61.1% |
| 1 1/2 | 27.00 | 43.50 | 61.1% |
| 2 | 27.00 | 43.50 | 61.1% |
| 3 | 27.00 | 43.50 | 61.1% |
| 4 | 27.00 | 43.50 | 61.1% |
| 6 | 27.00 | 43.50 | 61.1% |
| 8 | 27.00 | 43.50 | 61.1% |
| Availability Charge per Quarter | $ 15.00 | $ 24.30 | 62.0% |
| Consumption Charge per 100 Gallons | | | |
| First 30,000 Gallons per Quarter | $ 1.560 | $ 2.520 | 61.5% |
| Over 30,000 Gallons per Quarter | $ 1.252 | $ 2.520 | 101.3% |

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

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

| Rate Block Per Quarter | Number Of Bills | Total Consumption, 100 Gallons | Present Rate | Present Revenue | Proposed Rate | Proposed Revenue |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| | | | Residential - Quarterly | | | |
| Customer Charge | | | | | | |
| 5/8 | 4,409 | | $ 27.00 | $ 119,043 | $ 43.50 | $ 191,792 |
| 3/4 | 24 | | 27.00 | 648 | 43.50 | 1,044 |
| 1 | 4 | | 27.00 | 108 | 43.50 | 174 |
| Subtotal | 4,437 | | | 119,799 | | 193,010 |
| First 30,000 Gallons | - | 89,788 | 1.5600 | 140,069 | 2.5200 | 226,266 |
| Over 30,000 Gallons | - | 3,225 | 1.2520 | 4,038 | 2.5200 | 8,127 |
| Subtotal | - | 93,013 | | 144,107 | | 234,393 |
| Total Residential | 4,437 | 93,013 | | 263,906 | | 427,402 |
| | | | Commercial - Quarterly | | | |
| Customer Charge | | | | | | |
| 5/8 | 64 | | $ 27.00 | $ 1,728 | $ 43.50 | $ 2,784 |
| 3/4 | 4 | | 27.00 | 108 | 43.50 | 174 |
| 1 | - | | 27.00 | - | 43.50 | - |
| 1 1/2 | 20 | | 27.00 | 540 | 43.50 | 870 |
| 2 | 23 | | 27.00 | 621 | 43.50 | 1,001 |
| 3 | - | | 27.00 | - | 43.50 | - |
| Subtotal | 111 | | | 2,997 | | 4,829 |
| First 30,000 Gallons | - | 10,564 | 1.5600 | 16,480 | 2.5200 | 26,621 |
| Over 30,000 Gallons | - | 7,329 | 1.2520 | 9,176 | 2.5200 | 18,469 |
| Subtotal | - | 17,893 | | 25,656 | | 45,090 |
| Total Commercial | 111 | 17,893 | | 28,653 | | 49,919 |
| | | | Availability Customers - Quarterly | | | |
| Availability Charge | 72 | | $ 15.00 | $ 1,080 | $ 24.30 | $ 1,750 |
| Subtotal | 72 | | | 1,080 | | 1,750 |
| Total | 72 | | | 1,080 | | 1,750 |
| Total | 4,620 | 110,906 | | $ 293,639 | | $ 479,071 |

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

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

| Quarterly Usage 1,000 Gals. | | Quarterly Bills Under Present Rates | Quarterly Bills Under Proposed Rates | Increase | Percentage Increase |
|---|---|---|---|---|---|
| 0.0 | | $ 27.00 | $ 43.50 | $ 16.50 | 61.11% |
| 1.0 | | 42.60 | 68.70 | 26.10 | 61.27% |
| 2.0 | | 58.20 | 93.90 | 35.70 | 61.34% |
| 2.1 | * | 59.76 | 96.42 | 36.66 | 61.35% |
| 3.0 | | 73.80 | 119.10 | 45.30 | 61.38% |
| 4.0 | | 89.40 | 144.30 | 54.90 | 61.41% |
| 5.0 | | 105.00 | 169.50 | 64.50 | 61.43% |
| 6.0 | | 120.60 | 194.70 | 74.10 | 61.44% |
| 7.0 | | 136.20 | 219.90 | 83.70 | 61.45% |
| 8.0 | | 151.80 | 245.10 | 93.30 | 61.46% |
| 9.0 | | 167.40 | 270.30 | 102.90 | 61.47% |
| 10.0 | | 183.00 | 295.50 | 112.50 | 61.48% |
| 11.0 | | 198.60 | 320.70 | 122.10 | 61.48% |
| 12.0 | | 214.20 | 345.90 | 131.70 | 61.48% |
| 13.0 | | 229.80 | 371.10 | 141.30 | 61.49% |
| 14.0 | | 245.40 | 396.30 | 150.90 | 61.49% |
| 15.0 | | 261.00 | 421.50 | 160.50 | 61.49% |
| 16.0 | | 276.60 | 446.70 | 170.10 | 61.50% |
| 17.0 | | 292.20 | 471.90 | 179.70 | 61.50% |
| 18.0 | | 307.80 | 497.10 | 189.30 | 61.50% |
| 19.0 | | 323.40 | 522.30 | 198.90 | 61.50% |
| 20.0 | | 339.00 | 547.50 | 208.50 | 61.50% |
| 25.0 | | 417.00 | 673.50 | 256.50 | 61.51% |
| 30.0 | | 495.00 | 799.50 | 304.50 | 61.52% |
| 35.0 | | 557.60 | 925.50 | 367.90 | 65.98% |
| 39.0 | | 607.68 | 1,026.30 | 418.62 | 68.89% |
| 40.0 | | 620.20 | 1,051.50 | 431.30 | 69.54% |
| 45.0 | | 682.80 | 1,177.50 | 494.70 | 72.45% |
| 50.0 | | 745.40 | 1,303.50 | 558.10 | 74.87% |

* Average quarterly residential usage.

HIDDEN VALLEY UTILITY SERVICES, LP - WASTEWATER

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

| Quarterly Usage 1,000 Gals. | | Present Rates | Proposed Rates | Increase | Percentage Increase |
|---|---|---|---|---|---|
| 0.0 | | $ 27.00 | $ 43.50 | $ 16.50 | 61.11% |
| 1.0 | | 42.60 | 68.70 | 26.10 | 61.27% |
| 2.0 | | 58.20 | 93.90 | 35.70 | 61.34% |
| 3.0 | | 73.80 | 119.10 | 45.30 | 61.38% |
| 4.0 | | 89.40 | 144.30 | 54.90 | 61.41% |
| 5.0 | | 105.00 | 169.50 | 64.50 | 61.43% |
| 6.0 | | 120.60 | 194.70 | 74.10 | 61.44% |
| 7.0 | | 136.20 | 219.90 | 83.70 | 61.45% |
| 8.0 | | 151.80 | 245.10 | 93.30 | 61.46% |
| 9.0 | | 167.40 | 270.30 | 102.90 | 61.47% |
| 10.0 | | 183.00 | 295.50 | 112.50 | 61.48% |
| 11.0 | | 198.60 | 320.70 | 122.10 | 61.48% |
| 12.0 | | 214.20 | 345.90 | 131.70 | 61.48% |
| 13.0 | | 229.80 | 371.10 | 141.30 | 61.49% |
| 14.0 | | 245.40 | 396.30 | 150.90 | 61.49% |
| 15.0 | | 261.00 | 421.50 | 160.50 | 61.49% |
| 16.0 | * | 276.60 | 446.70 | 170.10 | 61.50% |
| 17.0 | | 292.20 | 471.90 | 179.70 | 61.50% |
| 18.0 | | 307.80 | 497.10 | 189.30 | 61.50% |
| 19.0 | | 323.40 | 522.30 | 198.90 | 61.50% |
| 20.0 | | 339.00 | 547.50 | 208.50 | 61.50% |
| 25.0 | | 417.00 | 673.50 | 256.50 | 61.51% |
| 30.0 | | 495.00 | 799.50 | 304.50 | 61.52% |
| 35.0 | | 557.60 | 925.50 | 367.90 | 65.98% |
| 39.0 | | 607.68 | 1,026.30 | 418.62 | 68.89% |
| 40.0 | | 620.20 | 1,051.50 | 431.30 | 69.54% |
| 42.0 | | 645.24 | 1,101.90 | 456.66 | 70.77% |
| 45.0 | | 682.80 | 1,177.50 | 494.70 | 72.45% |
| 50.0 | | 745.40 | 1,303.50 | 558.10 | 74.87% |
| 60.0 | | 870.60 | 1,555.50 | 684.90 | 78.67% |
| 70.0 | | 995.80 | 1,807.50 | 811.70 | 81.51% |
| 80.0 | | 1,121.00 | 2,059.50 | 938.50 | 83.72% |
| 90.0 | | 1,246.20 | 2,311.50 | 1,065.30 | 85.48% |
| 100.0 | | 1,371.40 | 2,563.50 | 1,192.10 | 86.93% |

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

| Line | | Per Books | | | | | Historic Test Year Pro Forma Adjustment - Total System | | Pro Forma | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | Account | 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** | 393,810 | 127,848 | | 259,572 | | | 38,390 | 432,200 | 153,287 | | | 278,912 | |
| 24 | Depreciation | $ 203,279 | $ 67,082 | | $ 136,197 | | E3 | (114,538) | $ 88,740 | $ 27,833 | | | $ 60,907 | |
| 25 | Total | $ 597,089 | $ 194,930 | | $ 395,769 | | | (76,148) | $ 520,940 | $ 181,121 | | | $ 339,819 | |

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. | |

| Account | Actual Cost 2015 | 2016 | 2017 | Per Books 2017 | Pro Forma 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 | 1,000 | | |
| | Total | $96,000 * | | |
| | Normalized Amount (3-year amortization) | | $ 32,000 | |
| | Less: Test Year Rate Case Expense | | 6,390 | |
| | 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 | | | $ (76,148) |

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 - WASTEWATER

## CALCULATION OF INCOME TAXES UNDER PRESENT AND PROPOSED RATES

| | Present Rates | Proposed Rates |
|---|---|---|
| Pro Forma Operating Income | $ (46,180) | $ 138,333 |
| Add Back Depreciation | 60,907 | 60,907 |
| Less: Tax Depreciation | 136,197 | 136,197 |
| Interest Expense | 65,471 | 65,471 |
| State Taxable Income | (186,941) | (2,428) |
| State Income Tax | - | - |
| Federal Taxable Income | (186,941) | (2,428) |
| Federal Income Tax | - | - |
| Total State and Federal Income Taxes | | - |

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 - Sewer Operations' Overall ROR

---

Based upon a review of current information, an overall rate of return of 10.13% based upon the Hidden Valley Utility Services, LP - Sewer 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 - Sewer 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 - Sewer Operations' 2017 capital structure ratios, I believe it is appropriate to evaluate the Hidden Valley Utility Services, LP - Sewer 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 47% debt and 53% 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 - Sewer Operations' capitalization at December 31, 2017.

Hidden Valley Utility Services, LP - Sewer Operations' cost of equity is at least 10.25% reflecting the Hidden Valley Utility Services, LP - Sewer 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 10.13% 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 - Sewer Operations' Overall ROR
Page: 2

| | Recommended Ratios | Cost Rates | Weighted Cost |
|---|---|---|---|
| Debt | 47.3 | 10.00 | 4.73 |
| Common Equity | 52.7 | 10.25 | 5.40 |
| Overall | 100.0 | | 10.13 |