

PAWC STATEMENT NO. 4
DOCKET NO. R-2010-2166210

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF
PAUL R. HERBERT

ON BEHALF OF PENNSYLVANIA-AMERICAN WATER COMPANY

CONCERNING

CLAYSVILLE WASTEWATER OPERATIONS

CUSTOMER RATE DESIGN

APRIL 2010

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PENNSYLVANIA-AMERICAN WATER COMPANY

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DIRECT TESTIMONY OF PAUL R. HERBERT

Line
No.

- 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 Q. By whom are you employed?
- 5 A. I am employed by Gannett Fleming, Inc.
- 6 Q. Please describe your position with Gannett Fleming, Inc., and briefly state
7 your general duties and responsibilities.
- 8 A. I am President of the Valuation and Rate Division. My duties and respon-
9 sibilities include the preparation of accounting and financial data for revenue
10 requirement and cash working capital claims, the allocation of cost of service
11 to customer classifications, and the design of customer rates in support of
12 public utility rate filings.
- 13 Q. Have you presented testimony in rate proceedings before a regulatory
14 agency?
- 15 A. Yes. I have testified before the Pennsylvania Public Utility Commission, the
16 New Jersey Board of Public Utilities, the Public Utilities Commission of Ohio,
17 the Public Service Commission of West Virginia, the Kentucky Public Service
18 Commission, the Iowa State Utilities Board, the Virginia State Corporation
19 Commission, the Illinois Commerce Commission, the Tennessee Regulatory
20 Authority, the California Public Utilities Commission, New Mexico Public

1 Regulation Commission, the Delaware Public Service Commission, Arizona
2 Corporate Commission and the Missouri Public Service Commission
3 concerning revenue requirements, cost of service allocation, rate design and
4 cash working capital claims. A list of the cases in which I have testified is
5 provided at the end of my direct testimony.

6 Q. What is your educational background?

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

9 Q. Would you please describe your professional affiliations?

10 A. I am a member of the American Water Works Association and serve as a
11 member of the Management Committee for the Pennsylvania Section. I am
12 also a member of the Pennsylvania Municipal Authorities Association. In
13 1998, I became a member of the National Association of Water Companies
14 as well as a member of its Rates and Revenue Committee.

15 Q. Briefly describe your work experience.

16 A. I joined the Valuation Division of Gannett Fleming Corrdry and Carpenter,
17 Inc., predecessor to Gannett Fleming Valuation and Rate Consultants, Inc.,
18 in September 1977, as a Junior Rate Analyst. Since then, I advanced
19 through several positions and was assigned the position of Manager of Rate
20 Studies on July 1, 1990. On June 1, 1994, I was promoted to Vice President
21 and on November 1, 2003, I was promoted to Senior Vice President. On
22 July 1, 2007, I was promoted to my current position as President.

23 While attending Penn State, I was employed during the summers of
24 1972, 1973 and 1974 by the United Telephone System - Eastern Group in its

1 accounting department. Upon graduation from college in 1975, I was
2 employed by Herbert Associates, Inc., Consulting Engineers (now Herbert
3 Rowland and Grubic, Inc.), as a field office manager until September 1977.

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

5 A. My testimony is in support of the rate design study conducted under my
6 direction and supervision for the Claysville Wastewater Operations
7 ("Claysville") of the Pennsylvania-American Water Company (the
8 "Company").

9 Q. Have you prepared an exhibit presenting the results of your study?

10 A. Yes. Attached to my testimony is Exhibit No. 4-A which presents the results
11 of the proposed rate design and the proof of revenues under present and
12 proposed rates.

13 CUSTOMER RATE DESIGN

14 Q. What are the appropriate factors to be considered in the design of the rate
15 structure?

16 A. In preparing a rate structure, one should consider the impact of radical
17 changes from the present rate structure, the understandability and ease of
18 application of the rate structure, community and social influences, and the
19 value of service. General guidelines should be developed with management
20 to determine the extent to which each of these criteria is to be incorporated
21 in the rate structure to be designed, inasmuch as the pricing of a commodity
22 or service is a function of management.

23 Q. Did management provide rate design guidelines to you?

1 A. Yes, they did. As described in Mr. Nevirauskas' testimony, the guidelines
2 included (1) increase service charges to reflect appropriate levels of cost of
3 service, and (2) design uniform volumetric charges for each classification to
4 move revenues more in-line with the cost of providing service.

5 Q. Do the proposed rates comply with these guidelines?

6 A. Yes, they do.

7 Q. Please describe the rates proposed in this proceeding.

8 A. The proposed rates consist of service or customer charges for each
9 classification plus a single volumetric charge applicable to each class.

10 Q. Please explain the increases in the customer charges and volumetric rates.

11 A. The customer charge under existing rates of \$25.50 per month with a 1,000
12 gallon usage allowance does not recover the fixed costs associated with
13 providing a service lateral for each customer, the costs to bill and collect
14 customers' bills rendered each month and a portion of fixed Infiltration and
15 Inflow (I&I) costs. Under proposed rates, the residential customer charge is
16 set at \$25.00 per month with no usage allowance, and the non-residential
17 rate is set at \$40.00 per month with no usage allowance. These rates will
18 recover the costs associated with customer facilities, customer accounting,
19 and a portion of fixed I&I costs.

20 Volumetric rates were designed to recover the remaining cost of
21 service for each classification so that the proposed revenues by class will
22 move toward the cost of service results.

23 Q. Have you prepared comparisons of present and proposed rates for each
24 classification and each rate zone?

1 A. Yes. Schedule A of Exhibit No. 4-A presents comparisons of present and
2 proposed rates.

3 Q. Have you prepared proof of revenue schedules under present and proposed
4 rates?

5 A. Yes. Schedules B and C of Exhibit No. 4-A, set forth the proof of revenues
6 from the application of present and proposed rates to the customer
7 consumption analysis. Schedule B shows a summary of revenues under
8 present and proposed rates. Schedule C sets forth the detailed application
9 of rates to the billing determinants.

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

11 A. Yes, it does.

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	<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 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	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	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	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 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. 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	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. Corp Cm	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. Corp Cm	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

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
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
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 City Sewerage Company	Cost Allocation and Rate Design
59.	2007	Pa. PUC	R-00072492	City of Bethlehem – Bureau of Water	Revenue Requirements, Cost Allo
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 Corp Com		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.	W-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	PaPUC	2008-2079660	UGI – Penn Natural Gas	Cost of Service Allocation
74.	2009	PaPUC	2008-2079675	UGI – Central Penn Gas	Cost of Service Allocation
75.	2009	PaPUC	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		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	PaPUC	R-2009-2132019	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
80.	S009	Va St Corp Com	PUC-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	Va St Corp Com	2010-00001	Virginia American Water Company	Cost Allocation and Rate Design
83.	2010	KyPSC	2010-00036	Kentucky American Water Company	Cost Allocation and Rate Design
84.	2010	NJ BPU		New Jersey American Water Company	Cost Allocation and Rate Design

PENNSYLVANIA AMERICAN WATER COMPANY
CLAYSVILLE WASTEWATER OPERATIONS

HERSHEY, PENNSYLVANIA

PROPOSED CUSTOMER RATES
AS OF DECEMBER 31, 2010



Harrisburg, Pennsylvania

Calgary, Alberta

Valley Forge, Pennsylvania

PENNSYLVANIA AMERICAN WATER
CLAYSVILLE WASTEWATER OPERATIONS

SUMMARY OF PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010

Customer Class	Present Rates		Proposed Rates	
	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons
Residential				
Customer Charge	\$25.50	\$0.5750	\$25.00	\$2.1000
Customer Charge - Low Income	25.50	0.5750	8.75	2.1000
Residential Unmetered	37.08		92.75	
Commercial	25.50	0.5750	40.00	2.1000
Public	25.50	0.5750	40.00	2.1000

PENNSYLVANIA AMERICAN WATER
 CLAYSVILLE WASTEWATER OPERATIONS
 SUMMARY OF REVENUE UNDER PRESENT AND PROPOSED RATES
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010

Customer Classification (1)	Proforma Present Rates Revenue 12/31/2010 (2)	Bill Analysis Revenues at Present Rates (3)	Adjustment Factor (4)=(2)/(3)	Bill Analysis Revenues Proposed Rates (5)	Revenues Under Proposed Rates (6)=(5)x(4)
Residential	\$207,186	\$207,245	0.99971317	\$495,644	\$495,502
Commercial	87,153	88,360	0.98634037	257,240	253,726
Public	13,122	13,122	1.00000000	46,127	46,127
Total Sales	\$307,461	\$308,727		\$799,012	\$795,356
Other Operating Revenues	1,606	1,606		1,714	1,714
Total	\$ 309,067	\$ 310,333		\$ 800,726	\$ 797,070

PENNSYLVANIA-AMERICAN WATER COMPANY
CLAYSVILLE WASTEWATER

APPLICATION OF PRESENT RATES AND PROPOSED RATES TO CONSUMPTION ANALYSIS
YEAR ENDED DECEMBER 31, 2010

Rate Block 100 Gallons (1)	Number Of Bills (2)	Present Total Consumption (3)	Present Rate (4)	Revenue (5)	Proposed Total Consumption (6)	Proposed Rate (7)	Proposed Revenue (8)
<u>Residential - Monthly</u>							
Customer Charge w/ Minimum 1,000 gallons	5,009	45,951	25.50	127,735	0	25.00	125,231
Low Income	72	660	25.50	1,836	0	8.75	630
All Over 1,000 gallons		<u>117,287</u>	0.5750	<u>67,440</u>	<u>163,898</u>	2.1000	<u>344,186</u>
Subtotal	<u>0</u>	<u>117,287</u>		<u>67,440</u>	<u>163,898</u>		<u>344,186</u>
Total Residential	5,081	163,898		197,011	163,898		470,047
<u>Residential Unmetered - Monthly</u>							
Service Charge	276		37.08	10,234		92.75	25,598
Total Residential	5,357	163,898		207,245	163,898		495,644
<u>Commercial - Monthly</u>							
Customer Charge w/ Minimum 1,000 gallons	1,966	18,571	25.50	50,138	0	40.00	78,648
All Over 1,000 gallons		<u>66,473</u>	0.5750	<u>38,222</u>	<u>85,044</u>	2.1000	<u>178,592</u>
Subtotal	<u>0</u>	<u>85,044</u>		<u>38,222</u>	<u>85,044</u>		<u>178,592</u>
Total Commercial	1,966	85,044		88,360	85,044		257,240
<u>Public - Monthly</u>							
Customer Charge w/ Minimum 1,000 gallons	48	360	25.50	1,224	0	40.00	1,920
All Over 1,000 gallons		<u>20,691</u>	0.5750	<u>11,898</u>	<u>21,051</u>	2.1000	<u>44,207</u>
Subtotal	<u>0</u>	<u>21,051</u>		<u>11,898</u>	<u>21,051</u>		<u>44,207</u>
Total Public	48	21,051		13,122	21,051		46,127
Total	7,371	269,993		308,727	269,993		799,012