

PAWC STATEMENT NO. 4  
DOCKET NO. R-2010-2166208

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF  
PAUL R. HERBERT

ON BEHALF OF PENNSYLVANIA-AMERICAN WATER COMPANY

CONCERNING

CLARION WASTEWATER OPERATIONS

CUSTOMER RATE DESIGN

APRIL 2010

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PENNSYLVANIA-AMERICAN WATER COMPANY  
DOCKET R-2010-2166208  
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 Corddry 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 service, and (2) design uniform volumetric charges for each classification to  
2 move revenues more in-line with the cost of providing service.

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

4 A. Yes, they do.

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

6 A. The proposed rates consist of service or customer charges for each  
7 classification plus a single volumetric charge applicable to each class,  
8 eliminating the minimum allowance of 2,999 gallons per month.

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

10 A. The customer charge under existing rates of \$20.00 per month, which  
11 includes a 2,999 gallon minimum allowance, does not recover the fixed costs  
12 associated with providing a service lateral for each customer, the costs to bill  
13 and collect customers' bills rendered each month and a portion of fixed  
14 Infiltration and Inflow (I&I) costs. Under proposed rates, the residential  
15 customer charge is set at \$15.00 per month without a minimum allowance;  
16 the non-residential rate is set at \$30.00 per month. These rates will recover  
17 the costs associated with customer facilities, customer accounting, and a  
18 portion of fixed I&I costs. The bulk user rate is an unmetered rate and is set  
19 at \$2,980 per month.

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?

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  
CLARION WASTEWATER OPERATIONS

HERSHEY, PENNSYLVANIA

PROPOSED CUSTOMER RATES  
AS OF DECEMBER 31, 2010



**Gannett Fleming**  
Valuation and Rate Division

Harrisburg, Pennsylvania

Calgary, Alberta

Valley Forge, Pennsylvania

PENNSYLVANIA AMERICAN WATER  
CLARION WASTEWATER OPERATIONS

SUMMARY OF PRESENT AND PROPOSED RATES

Customer Class	Present Rates		Proposed Rates	
	Monthly Customer Charge	Usage Charge Per 100 Gallons	Monthly Customer Charge	Usage Charge Per 100 Gallons
<u>Residential</u>				
Customer Charge	\$20.00		\$15.00	
Low Income	20.00		5.25	
Minimum 2,999 Gallons		0		NA
Next 7,000 gallons or First 9,999		\$0.4580		\$0.7620
Next 9,000 gallons		0.4410		0.7620
Next 12,000 gallons		0.4110		0.7620
All Over 30,999 gallons		0.3560		0.7620
Residential Unmetered	20.00		40.37	
<u>Non-Residential</u>				
Customer Charge	20.00		30.00	
Minimum 2,999 Gallons		0		NA
Next 7,000 gallons or First 9,999		0.4580		0.7620
Next 9,000 gallons		0.4410		0.7620
Next 12,000 gallons		0.4110		0.7620
All Over 30,999 gallons		0.3560		0.7620
Non-Residential Unmetered	20.00		55.37	
<u>Bulk Unmetered</u>	1,625.00		2,980.00	

PENNSYLVANIA AMERICAN WATER  
 CLARION 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	\$567,173	\$566,960	1.00037509	\$907,084	\$907,425
Commercial	374,678	374,860	0.99951353	767,421	767,048
Public	195,364	195,441	0.99960602	415,112	414,949
Bulk (Unmetered)	19,500	19,500	1.00000000	35,760	35,760
Total Sales	\$1,156,715	\$1,156,762		\$2,125,378	\$2,125,182
Other Operating Revenues	2,050	2,050		2,870	2,870
Total	\$ 1,158,765	\$ 1,158,812		\$ 2,128,248	\$ 2,128,052

PENNSYLVANIA-AMERICAN WATER COMPANY  
CLARION WASTEWATER OPERATIONS

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 Metered - Monthly</u>							
Customer Charge w/ Minimum 2,999 gallons	22,207	486,220	20.00	444,143		15.00	333,108
Low Income	264	5,780	20.00	5,280		5.25	1,386
Next 7,000 gallons or First 9,999 gallons		223,854	0.4580	102,525	715,854	0.7620	545,481
Next 9,000 gallons		21,916	0.4410	9,665	21,916	0.7620	16,700
Next 12,000 gallons		7,555	0.4110	3,105	7,555	0.7620	5,757
All Over 30,999 gallons		2,927	0.3560	1,042	2,927	0.7620	2,231
Subtotal	0	256,252		116,337	748,253		570,168
Total Residential	22,471	748,253		565,760	748,253		904,662
<u>Residential Unmetered - Monthly</u>							
Service Charge	60		20.00	1,200		40.37	2,422
Total Residential	22,531	748,253		566,960	748,253		907,084
<u>Commercial Metered - Monthly</u>							
Customer Charge w/ Minimum 2,999 gallons	3,648	75,570	20.00	72,967		30.00	109,451
Next 7,000 gallons or First 9,999 gallons		100,825	0.4580	46,178	176,395	0.7620	134,413
Next 9,000 gallons		81,835	0.4410	36,089	81,835	0.7620	62,358
Next 12,000 gallons		76,874	0.4110	31,595	76,874	0.7620	58,578
All Over 30,999 gallons		527,501	0.3560	187,791	527,501	0.7620	401,956
Subtotal	0	787,036		301,653	862,606		657,306
Total Commercial Metered	3,648	862,606		374,620	862,606		766,757
<u>Commercial Unmetered - Monthly</u>							
Service Charge	12		20.00	240		55.37	664
Total Commercial	3,660	862,606		374,860	862,606		767,421

PENNSYLVANIA-AMERICAN WATER COMPANY  
CLARION WASTEWATER OPERATIONS

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>Municipal Metered - Monthly</u>							
Customer Charge w/ Minimum 2,999 gallons	216	4,976	20.00	4,320	0	30.00	6,480
Next 7,000 gallons or First 9,999 gallons		7,856	0.4580	3,598	12,832	0.7620	9,778
Next 9,000 gallons		8,518	0.4410	3,756	8,518	0.7620	6,491
Next 12,000 gallons		8,336	0.4110	3,426	8,336	0.7620	6,352
All Over 30,999 gallons		506,577	0.3560	180,341	506,577	0.7620	386,011
Subtotal	0	531,287		191,121	536,263		408,632
Total Municipal Metered	216	536,263		195,441	536,263		415,112
<u>Bulk Unmetered - Monthly</u>							
Customer Charge	12		1,625.00	19,500		2,980.00	35,760
Total - Clarion	26,420	2,147,122		1,156,762	2,147,122		2,125,378