

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: THE YORK WATER COMPANY  
DOCKET NOS. R-2025- 3053442 AND R-2025-3053573

DIRECT TESTIMONY OF GREGORY R. HERBERT

Line  
No.

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

2 A. My name is Gregory R. Herbert. My business address is 300 Sterling  
3 Parkway, Suite 200, Mechanicsburg, Pennsylvania (formerly 207 Senate  
4 Avenue, Camp Hill, Pennsylvania).

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

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

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

10 A. My title is Assistant Project Manager, Rate Studies. My duties and  
11 responsibilities include the preparation of accounting and financial data for  
12 revenue requirement and cash working capital requests, the allocation of  
13 cost of service to customer classifications, and the design of customer rates  
14 in support of public utility rate filings.

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

17 A. Yes. I have testified before the Pennsylvania Public Utility Commission  
18 (“Commission”), the Virginia State Corporation Commission, the New Jersey

1 Board of Public Utilities, the North Carolina Utilities Commission, and the  
2 Illinois Commerce Commission concerning revenue requirements, cost of  
3 service allocation, and rate design. A list of cases in which I have testified or  
4 assisted former Gannett Fleming staff is attached to my testimony.

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

6 A. I have a Bachelor of Science in Economics from the Pennsylvania State  
7 University, University Park, Pennsylvania.

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

9 A. I am a member of the National Association of Water Companies and the  
10 Pennsylvania Municipal Authorities Association.

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

12 A. I joined the Gannett Fleming Valuation and Rate Consultants, LLC in May  
13 2017 as a Rate Analyst. In December 2023, I was promoted to my current  
14 position as Assistant Project Manager, Rate Studies, where I assist utilities  
15 with the preparation of accounting and financial data regarding revenues  
16 under present and proposed rates, including pro forma adjustments to the  
17 historic test year, Future Test Year, and Fully Projected Future Test Year  
18 revenues, and the design of customer rates. I also develop pro forma  
19 revenue requirements and conduct cost allocations by customer class,  
20 capital recovery fee, lead-lag, and depreciation studies for investor-owned  
21 and municipal-owned utilities. Prior to my employment at Gannett Fleming, I  
22 was a Senior Analyst, in the Performance Reporting Group of Cambridge  
23 Associates, LLC, where I oversaw the financial preparation of monthly and

1 annual performance and benchmarking reports for public and private  
2 endowment clients.

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

4 A. The purpose of my testimony is to explain The York Water Company's ("York  
5 Water" or the "Company") cost of service allocation studies and proposed rate  
6 designs set forth in Exhibit No. FVIII and Exhibit No. FVIII-WA.

7 **WATER COST OF SERVICE ALLOCATION STUDY**

8 **Q. Please describe Exhibit No. FVIII.**

9 A. Exhibit No. FVIII, titled "Cost of Service Allocation Study as of February 28,  
10 2027 and Proposed Customer Rates," is the report on the water cost of  
11 service study prepared for York Water. It sets forth the results of the study  
12 based on the estimated conditions during the twelve months ended February  
13 28, 2027.

14 The information in the exhibit includes a description of the methods  
15 used in the study, the allocation of cost of service, and the factors on which  
16 the allocations were based.

17 **Q. Do you have any comments regarding the water cost of service  
18 included in your study?**

19 A. Yes. The Company decided to not include a portion of the revenue  
20 requirement associated with York Water's wastewater operations with its  
21 total water operations revenue requirement within the water cost of service  
22 study, as authorized by amendments to the Public Utility Code made by Act  
23 11 of 2012. Using the revenue requirement developed by the Company, as  
24 described by Mr. Poff, I prepared the cost of service study set forth in Exhibit

1 No. FVIII. The cost of service study allocates among the water customer  
2 classes the entire revenue requirement of the Company's water operations,  
3 which I will refer to, collectively, as the cost of service or total revenue  
4 requirement.

5 **Q. What was the purpose of the water cost of service allocation study?**

6 A. The purpose of the study was to allocate the total cost of service to the  
7 several customer classifications. The study provides a basis for determining  
8 the extent to which the revenues to be derived from each customer  
9 classification are aligned with the cost of serving that classification.

10 **Q. What method of water cost allocation was used in the study?**

11 A. The base-extra capacity method, as described in the 2017 and prior editions  
12 of the Water Rates Manual published by the American Water Works  
13 Association, was used to allocate the costs.

14 **Q. Why did you use that method?**

15 A. The base-extra capacity method is a recognized method which allocates the  
16 cost of providing water service to customer classifications in proportion to the  
17 classification's use of commodity, facilities, and services. It is generally  
18 accepted as a sound method for cost allocation and has been accepted by  
19 this Commission, including in the Commission's Final Order in Aqua  
20 Pennsylvania, Inc.'s 2021 base rate case, which was entered on May 16,  
21 2022, at Docket Nos. R-2021-3027385, *et al.*

22 **Q. Is this method described in Exhibit No. FVIII?**

23 A. Yes. It is described on pages 3 and 4 of the exhibit.

1 **Q. Please outline the procedure which you followed in the cost allocation**  
2 **study.**

3 A. The allocation of costs to customer classifications is presented in Schedule  
4 D, pages 10 through 13 of Exhibit No. FVIII. The items of cost, which include  
5 operating expenses, depreciation expenses, taxes and income available for  
6 return, are identified in column 1 of Schedule D. The cost of each item,  
7 shown in column 3, is allocated to the several customer classifications based  
8 on the allocation factor referenced in column 2. The development of the  
9 allocation factors is presented in Schedule E.

10 Referring to some of the larger cost items, purchased electric power  
11 and treatment chemicals were allocated to customer classifications on the  
12 basis of average daily consumption because they tend to vary with the  
13 amount of water consumed. Pumping and water treatment costs were  
14 allocated partly on the basis of average consumption and partly on the basis  
15 of maximum day extra demand (i.e., the difference between maximum day  
16 and average day demand), inasmuch as the function of the associated  
17 facilities is generally to meet maximum day requirements. Transmission  
18 mains and maximum day booster pumping stations are allocated on the  
19 basis of average consumption, maximum day extra demand, and fire  
20 protection demands. Costs associated with distribution mains and storage  
21 facilities were allocated partly on the basis of average consumption, partly on  
22 the basis of maximum hour extra demand, and partly on the demand for fire  
23 protection service because these facilities are designed to meet maximum  
24 hour and fire demand requirements. Fire demand costs were allocated

1 between public and private fire service in proportion to the relative potential  
2 demands on the system by hydrants and fire services for each classification.  
3 The basis for the allocation of fire demand costs between public and private  
4 fire service is presented in Schedule G in Exhibit No. FVIII.

5 Costs associated with meters and services were allocated in  
6 proportion to the original cost of the meters and services serving each  
7 classification. Capital and maintenance costs associated with fire hydrants  
8 were allocated between the gravity and repumped service areas on the basis  
9 of the number of hydrants owned and maintained by the Company in each  
10 area. Costs for meter reading, billing, and customer accounting and  
11 collecting were allocated on the number of meters and number of bills for  
12 each classification. Administrative and general costs were allocated on the  
13 basis of the allocated direct costs excluding those costs requiring little  
14 administrative and general expense.

15 Annual depreciation accruals were allocated on the basis of the  
16 function of the facilities represented by the depreciation expense for each  
17 depreciable plant account. Certain taxes and return were allocated based on  
18 the results of allocating the original cost measure of value.

19 **Q. What were the sources of the total cost of service data set forth in the**  
20 **third column of Schedule D?**

21 A. The operating expenses, taxes, and income available for return were based  
22 on data prepared by York Water for submission to the Commission in  
23 support of the Company's Supplement No. 165 to Tariff Water-Pa. P.U.C.  
24 No.14.

1           The total operating expense in the amount of \$31,966,547 presented  
2 in Schedule D of Exhibit No. FVIII is the pro forma amount shown in Exhibit  
3 No. FIII-2 of the supporting data filed with the tariff.

4           The depreciation expense of \$15,433,375 by plant account, shown on  
5 Schedule D of Exhibit No. FVIII, was developed from the detail presented in  
6 Exhibit No. FVI, supplemented by additional account detail obtained from the  
7 Company's books and records. The total amount also is the pro forma  
8 amount shown in Exhibit No. FV-1 of the supporting data filed with the tariff.

9           The taxes and income available for return, shown Schedule D of  
10 Exhibit No. FVIII, comport with the data shown for the same items in Exhibit  
11 No. FV-1 of the supporting data filed with the tariff.

12           The original cost less depreciation data shown in Schedule E of  
13 Exhibit No. FVIII were calculated from data presented in Exhibit No. FVI,  
14 supplemented by some additional detail.

15 **Q. Refer to Schedule E of Exhibit No. FVIII and explain how you**  
16 **determined the maximum day and maximum hour factors entered in**  
17 **column 3.**

18 A. The maximum day and maximum hour factors were based on relative  
19 customer classification demands estimated for the system. The estimates  
20 are unchanged from past studies and are supported by results of field  
21 studies conducted by our firm in the Company's service area, as well as  
22 studies for other Pennsylvania water utilities.

23 **Q. Please explain the allocation of public fire costs.**

1 A. Pursuant to Section 1328 of the Public Utility Code, public fire hydrant rates  
2 are limited to 25% of the public fire cost of service. Consequently, the  
3 remaining 75% has become the permanent responsibility of the other  
4 customer classifications. These unrecovered costs have been reallocated to  
5 the other classes on Schedule D, using 5/8-inch meter equivalents.

6 **Q. Why did you use 5/8-inch meter equivalents to reallocate the**  
7 **unrecovered public fire costs?**

8 A. Section 1328 states that the unrecovered portion of the public fire cost of  
9 service shall be assessed to all customers of the public utility and included in  
10 the public utility's fixed or service charge or minimum bill. Allocating these  
11 costs based on 5/8-inch meter equivalents is consistent with the customer  
12 charge cost recovery and also recognizes that customers with larger-sized  
13 meters tend to have higher property values.

14 **DESIGN OF WATER RATES**

15 **Q. Are you responsible for the design of the rate structure proposed by**  
16 **York Water in Tariff Water-Pa. P.U.C. No. 14, Supplement No. 165?**

17 A. Yes.

18 **Q. Is the proposed rate structure presented in Exhibit No. FVIII?**

19 A. Yes. A comparison of the present and proposed base rates is presented in  
20 Schedule H of Exhibit No. FVIII.

21 **Q. What are the appropriate factors to be considered in the design of the**  
22 **rate structure?**

23 A. In preparing a rate structure, one should consider the allocated costs of  
24 service, the impact of radical changes from the present rate structure, the

1 understandability and ease of application of the rate structure, community  
2 and social influences, and the value of service. General guidelines should  
3 be obtained from management to determine the extent to which each of  
4 these criteria is to be incorporated in the rate structure to be designed,  
5 inasmuch as the pricing of a commodity or service ultimately should be a  
6 function of management.

7 **Q. Were guidelines provided to you by management?**

8 A. Yes, after discussing the results of the cost of service allocation study with  
9 management, they provided me with the following guidelines:

- 10 1. Increase public fire hydrant rates, if necessary, to recover 25% of the  
11 cost of service, in accordance with Section 1328 of Public Utility Code;  
12 and
- 13 2. Increase all remaining customer charges and consumption charges to  
14 move revenues by classification toward the indicated cost of service and  
15 so that total revenues recover the total cost of service.

16 **Q. Do the proposed rate schedules of Tariff Water-Pa. P.U.C. No. 14,  
17 Supplement No. 165 comply with the guidelines?**

18 A. Yes, as shown on Schedule A of Exhibit No. FVIII, the revenues under  
19 proposed rates in column 6 result in revenues that are closely aligned with  
20 the allocated cost of service shown in column 2.

21 **Q. Were public fire hydrant rates increased?**

22 A. Yes. The existing public fire hydrant rates were increased to recover  
23 approximately 25% of the cost of service in the gravity service area and 25%  
24 in the repumped service area.

1 **Q. How does the proposed rate design take into account some of the other**  
2 **factors that you noted above?**

3 A. The proposed rate design produces a revenue distribution that is closely  
4 aligned with cost of service for all classes and also recovers the total cost of  
5 service.

6 **Q. Are the proposed customer charges supported by an analysis of**  
7 **customer costs?**

8 A. Yes. Refer to the schedules provided in the Appendix of Exhibit No. FVIII.  
9 The schedules show the unit costs per month for a 5/8-inch meter totaling  
10 \$30.76, with direct costs totaling \$24.85, which equals the proposed 5/8-inch  
11 customer charge of \$24.85 per month.

12 **WASTEWATER COST OF SERVICE ALLOCATION STUDY**

13 **Q. Please describe Exhibit No. FVIII-WA.**

14 A. Exhibit No. FVIII-WA, titled "Cost of Service Allocation Study as of February  
15 28, 2027, and Proposed Customer Rates," is the report on the wastewater  
16 cost of service study prepared for York Water. It sets forth the results of the  
17 study based on the estimated conditions during the twelve months ended  
18 February 28, 2027.

19 The information in the exhibit includes a description of the methods  
20 used in the study, the allocation of cost of service, and the factors on which  
21 the allocations were based.

22 **Q. Do you have any comments regarding the wastewater cost of service**  
23 **included in your study?**

1 A. Yes. The wastewater cost of service I prepared for purposes of this case  
2 does not include a credit from York Water's water operations, as authorized  
3 by amendments to the Public Utility Code made by Act 11 of 2012. Using  
4 the revenue requirement developed by the Company, as described by Mr.  
5 Poff, I prepared the cost of service study set forth in Exhibit No. FVIII-WA.  
6 The cost of service study allocates among the wastewater customer classes  
7 the entire revenue requirement of the Company's wastewater operations.

8 **Q. What was the purpose of the wastewater cost of service allocation**  
9 **study?**

10 A. The purpose of the study was to allocate the total cost of service to the  
11 residential and non-residential customer classifications. The study provides a  
12 basis for determining the extent to which the revenues to be derived from  
13 each customer classification are aligned with the cost of serving that  
14 classification.

15 **Q. What method of cost allocation was used in the study?**

16 A. I used the functional cost allocation methodology described in "Financing and  
17 Changes for Wastewater Systems", Manual of Practice No. 27, published by  
18 the Water Environment Federation ("Manual of Practice No. 27"). This  
19 method allocated the cost of providing wastewater service to customer  
20 classifications in proportion to each classifications' use of the service  
21 provider's facilities and services. Costs are assigned to cost components  
22 using predominant operational purposes as cost-causative factors. The  
23 functional cost method is generally accepted as a sound method for  
24 allocating the cost of wastewater service.

1 **Q. What procedures did you use to apply the cost allocation methodology**  
2 **for wastewater operations?**

3 A. Each element of the cost of service is allocated to customer classifications  
4 according to the functional categories of flow, infiltration and inflow (“I&I”),  
5 customer facilities, and customer accounting. The functional costs are  
6 allocated to customer classifications based on the amount of flow contributed  
7 to the system, the amount of I&I allocated to each class, and the number of  
8 customers.

9 **Q. Have you summarized the results of your cost allocation study?**

10 A. Yes. The results are summarized in columns 1, 2, 3, and 4 of Schedule A in  
11 Exhibit No. FVIII-WA. Column 2 sets forth the total allocated pro forma cost  
12 of service for each customer classification identified in column 1. Column 4  
13 shows the revised total allocated pro forma cost of service for each customer  
14 classification identified in column 1. Column 5 presents each customer  
15 classification's cost responsibility as a percent of the total cost. The cost of  
16 service by class in column 2 was developed in Schedule D. The factors that  
17 allocate the functional costs to customer classes are presented in Schedule  
18 E. The factors that allocate the cost of service to the cost functions are  
19 shown in Schedule F of each study.

20 **Q. Have you compared these cost responsibilities with the proportionate**  
21 **revenue under existing rates for each customer classification?**

22 A. Yes. A comparison of the allocated cost responsibilities and the percentage  
23 revenue under existing rates can be made by comparing columns 5 and 7 of  
24 each Schedule in Exhibit No. FVIII-WA. The revenues in column 8 are

1 simply the revenues that would be required to move toward (or approximate)  
2 the cost of service in column 4, and the increase or decrease from present  
3 revenues is shown in column 10, with the percentage increase or decrease  
4 in column 11.

### 5 **DESIGN OF WASTEWATER RATES**

6 **Q. Are you responsible for the design of the rate structure proposed by**  
7 **York Water in Tariff Wastewater-Pa. P.U.C. No. 1, Supplement No. 14?**

8 A. Yes.

9 **Q. Is the proposed rate structure presented in Exhibit No. FVIII-WA?**

10 A. Yes. A comparison of the present and proposed base rates is presented in  
11 Schedule F of Exhibit No. FVIII-WA.

12 **Q. What are the appropriate factors to be considered in the design of the**  
13 **rate structure?**

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

22 **Q. Were guidelines provided to you by management?**

23 A. The guidelines were to consolidate rates across rate zones. The customer  
24 charges were consolidated for West Manheim, West Donegal, and York

1 Haven customers. Minimum Charge 2 and Minimum Charge – GHL were  
2 also consolidated under proposed rates. Flat Rates 2 through 4 were  
3 consolidated for the residential customers, and commercial flat rates were  
4 established for Flat Rates 2 and 3 where the Company serves these non-  
5 residential flat rate customers. Minimum Charge 1 was increased by twice  
6 the Minimum Charge 2 increase to move closer to a consolidated rate in  
7 future cases. Flat Rate 1 was increased by the same percentage as Flat  
8 Rate Charge 4 as a step towards consolidating the rate with Flat Rates 2  
9 through 4 in future rate cases. The non-residential, Over 10,500 gallons –  
10 GHL, the West Donegal, and York Haven volumetric rates were consolidated  
11 to equal the third block rate for West Manheim customers. The Over 4,000  
12 Gallons – Rate 1 rate was increased about double the Over 4,000 Gallons –  
13 Rate 2 rate increase as a step towards consolidating these rates in future  
14 rate cases.

15 **Q. Do the proposed rate schedules of Tariff Wastewater-Pa. P.U.C. No. 1,**  
16 **Supplement No. 26 comply with the guidelines?**

17 A. Yes, as shown on Schedule A of Exhibit No. FVIII-WA, the revenues under  
18 proposed rates in column 8 result in revenues moving toward the allocated  
19 cost of service shown in column 4.

20 **Q. Does this conclude your direct testimony?**

21 A. Yes, it does.

GREGORY R. HERBERT – LIST OF CASES TESTIFIED OR ASSISTED OTHER  
GANNETT FLEMING STAFF

Year	Jurisdiction	Docket No.	Client Utility	Subject
2017	MO PSC	SR-2017-0286	Missouri-American Water Company	Cost of Service/Rate Design
2018	PA PUC	2018-200208	SUEZ Water Pennsylvania	Revenue Requirements
2018	NJ BPU	WR18050593	SUEZ Water New Jersey, Inc	Cost Allocation/Rate Design
2019	PA PUC	2018-3006814	UGI Utilities Inc. - Gas Division	Cost of Service Allocation Studies
2019	PA PUC	2019-3006904	Newtown Artesian Water Co.	Revenue Req./Rate Design
2019	PA PUC	2019-3010955	City of Lancaster – Sewer Fund	Rev. Req./Cost of Service/Rates
2020	PA PUC	2020-3017206	Philadelphia Gas Works	Cost of Service
2020	PA PUC	2020-3019369	Pennsylvania American Water	Cost of Service
2020	PA PUC	2020-3019371	Pennsylvania American Water	Cost of Service
2020	PA PUC	2020-3020256	City of Bethlehem	Rev. Req./Cost of Service/Rates
2020	CA PUC	A2101003	San Jose Water Company	Rate Design
2021	PA PUC	2021-3026116	Borough of Hanover	Revenue and Revenue Requirements
2021	PA PUC	2021-3026682	City of Lancaster – Water Fund	Revenue and Revenue Requirements
2021	PA PUC	2021-3027385	Aqua Pennsylvania, Inc.	Cost of Service/Rate Design
2021	PA PUC	2021-3027386	Aqua Pennsylvania Wastewater, Inc.	Cost of Service/Rate Design
2022	PA-PUC	2022-3031704	Borough of Ambler	Rev. Req./Rate Design
2022	PA-PUC	2022-3031673	Pennsylvania American Water	Cost of Service
2022	PA-PUC	2022-3031340	York Water Company	Cost of Service/Rate Design
2022	PA-PUC	2022-3032806	York Water Company	Cost of Service/Rate Design
2022	KY-PSC	2022-00161	Northern Kentucky Water District	Cost of Service/Rate Design
2022	PUCO	22-1094-WW-AIR	Aqua Ohio Inc.	Cost of Service
2022	PUCO	22-1096-ST-AIR	Aqua Ohio Inc.	Cost of Service
2023	PA-PUC	2023-3037933	Philadelphia Gas Works	Cost of Service
2023	VA-SCC	PUR-2023-00073	Aqua Virginia, Inc.	Bill Analysis/Rate Design
2024	NJ-BPU	WR24010057	Aqua New Jersey, Inc.	Bill Analysis/Rate Design
2024	IL-CC	24-0044	Aqua Illinois, Inc.	Bill Analysis/Rate Design
2024	PA-PUC	R-2024-3045192	Veolia Water Pennsylvania	Rev. Req./Rate Design
2024	PA-PUC	R-2024-3045193	Veolia Wastewater Pennsylvania	Rev. Req./Rate Design
2024	PA-PUC	R-2024-3047822	Aqua Pennsylvania, Inc. (Water)	Bill Analysis
2024	PA-PUC	R-2024-3047824	Aqua Pennsylvania, Inc. (Wastewater)	Bill Analysis
2024	PA-PUC	R-2024-3050208	Newtown Artesian Water Co.	Rev. Reg./Rate Design
2025	PA-PUC	R-2025-3053112	Philadelphia Gas Works	Cost of Service
2025	NCUC	W-218 Sub. 629	Aqua North Carolina, Inc.	Bill Analysis/Rate Design