

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKET NO. R-2024-3045192

AND

DOCKET NO. R-2024-3045193

PREPARED DIRECT TESTIMONY

OF

GREGORY R. HERBERT, ASSISTANT PROJECT MANAGER

GANNETT FLEMING
VALUATION AND RATE CONSULTANTS, LLC

REGARDING INCOME STATEMENT, OPERATING REVENUE AND EXPENSE
ADJUSTMENTS

February 2024

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REGARDING INCOME STATEMENT, OPERATING REVENUE
AND EXPENSE ADJUSTMENTS

1 **Q. State your name and business address.**

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

4
5 **Q. By whom are you employed?**

6 A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC
7 (“Gannett Fleming”).

8
9 **Q. Please state your position with Gannett Fleming, and briefly describe your
10 general duties and responsibilities.**

11 A. My title is Assistant Project Manager, Rate Studies. My duties and responsibilities
12 include the preparation of accounting and financial data for utilities regarding
13 revenues under present and proposed rates, including pro forma adjustments to
14 the base year and projected rate year revenues, and the design of customer rates.
15 Additionally, my responsibilities include developing pro forma revenue
16 requirements, and conducting cost allocations by customer class, capital recovery
17 fee, lead-lag, and depreciation studies for investor-owned and municipal-owned
18 utilities.

19
20 **Q. Have you presented testimony in rate proceedings before a regulatory
21 agency?**

22 A. Yes. I have presented testimony before the Pennsylvania Public Utility
23 Commission, the Virginia State Corporation Commission, the Illinois Commerce

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1 Commission, and the New Jersey Board of Public Utilities. A full list of the cases
2 in which I have testified or assisted Gannett Fleming staff is attached as Appendix
3 A.

4
5 **Q What is your educational background?**

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

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

10 A. I am a member of the American Water Works Association and the National
11 Association of Water Companies. I am also a member of the Pennsylvania
12 Municipal Authorities Association.

13
14 **Q. Briefly describe your work experience.**

15 A. I joined Gannett Fleming in May 2017. Prior to my employment at Gannett
16 Fleming, I was a Senior Analyst in the Performance Reporting Group of Cambridge
17 Associates, LLC where I oversaw the financial preparation of monthly and annual
18 performance and benchmarking reports for public and private endowment clients.

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

20 A. The purpose of my testimony is to explain and support the Veolia Water
21 Pennsylvania, Inc. ("VWPA") Water Division and Wastewater Division income
22 statements, pro forma revenue and expense claims based on the Historic Test
23 Year ("HTY"), Future Test Year ("FTY") and Fully Projected Future Test Year

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1 (“FPFTY”) ending September 30, 2023, 2024 and October 31, 2025. Additionally,
2 I will be supporting the water and wastewater proposed rate design.

3
4 **Q. Have you prepared exhibits which present and support VWPA’s claims in**
5 **this proceeding?**

6 A. Yes. Exhibit No. GRH-1 sets forth: VWPA’s Combined Water and Wastewater
7 income statement, summary of rate base, and summary of operation and
8 maintenance expense, taxes other than income, depreciation and tax adjustments
9 for the Historic, Future, and Fully Projected Future Test Years. Exhibit No. GRH-
10 2 sets forth: VWPA’s water income statement, revenue and revenue adjustments
11 under present rates for the twelve months ended September 30, 2023, 2024, and
12 October 31, 2025; VWPA’s revenue and revenue adjustments under proposed
13 rates for the twelve months ending October 31, 2025; and a summary of VWPA’S
14 rate base. Exhibit No. GRH-3 sets forth VWPA’s water operation and maintenance
15 expense, taxes other than income, depreciation and tax adjustments for the
16 Historic, Future and Fully Projected Future Test Years. Exhibit No. GRH-4 sets
17 forth: VWPA’s wastewater income statement, revenue and revenue adjustments
18 under present rates for the twelve months ended September 30, 2023, 2024, and
19 October 31, 2025; VWPA’s revenue and revenue adjustments under proposed
20 rates for the twelve months ending October 31, 2025; and a summary of VWPA’S
21 rate base. Exhibit No. GRH-5 sets forth VWPA’s wastewater operation and
22 maintenance expense, taxes other than income, depreciation and tax adjustments
23 for the Historic, Future and Fully Projected Future Test Years.

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WATER OPERATIONS INTRODUCTION

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Q. Please summarize the Company’s request in this filing.

A. The Company is requesting \$15,494,620 in additional annual water revenue or an increase of 26.4% in total revenue, which includes the roll-in to base rates of the Company’s current Distribution System Improvement Charge (“DSIC”). The total change to the Company’s base rates is an increase of \$19,442,205 where the DSIC and State Tax Adjustment Surcharge (“STAS”) will be reset to zero.

Q. Please describe Schedule 1 of Exhibit No. GRH-2.

The three income statements labeled Schedule 1 in Water Exhibit GRH-2 are summarized by the following service areas:

The Combined Water Division, which includes all water service areas of VWPA Water, Bethel Water, Kensington Water, Overbrook Water and Mahoning Township.

Main Division which includes the revenue requirements of VWPA Water (or existing Main Division), Bethel Water, Overbrook Water, and Kensington Water service areas, and

Mahoning Township which was acquired by the Company during the prior case, and as part of the Final Order, the Company was required to develop a separate revenue requirement and income statement for Mahoning Township.

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1 The Company's income statements in Schedule 1 of Exhibit No. GRH-2,
2 incorporate the information contained in Schedules 2 through 11 as well as Exhibit
3 No. GRH-3

WATER PRO FORMA RATE BASE

6 **Q. Please describe Schedule 1.1.**

7 A. Schedule 1.1 summarizes the Company's Original Cost Measure of Value or Rate
8 Base as of September 30, 2023, 2024 and October 31, 2025. As stated in the
9 schedule, the Original Cost of Utility Plant in Service and Accumulated
10 Depreciation for each year are derived from the Company's Depreciation Study
11 performed as of December 31, 2021 and rolled forward with actual plant additions,
12 retirements and transfers through September 30, 2023 and projected plant
13 additions, retirements and transfers through September 30, 2024 and October 31,
14 2025. The CIAC and Contributions are based on the Company's HTY figures.
15 Additions to CIAC and Contributions for the FTY and FPFTY are included in the
16 totals for Schedule 1.1. Deferred Taxes are supported in Statement 3 and Exhibit
17 No. GRH-3 Schedule 35. Materials and Supplies equal the 12-month average of
18 Material and Supplies in the HTY as shown in response to MFR-V-11. Cash
19 Working Capital is supported in Statement 4 and Exhibit No. HW-1.

20 **Q. What is the Company's total Original Cost Measure of Value as of October**
21 **31, 2025?**

22 A. The Company's total Original Cost Measure of Value as of October 31, 2025 is
23 \$356,215,489.

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WATER PRO FORMA REVENUE ADJUSTMENTS

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Q. Describe the development of pro forma revenues under present and proposed rates.

A. Schedule 4, in Exhibit No. GRH-2 develops the pro forma revenues under present rates. Column 1 equals per books revenue by customer class. Column 3 summarizes the application of present rates to the consumption analysis shown on Schedule 5. Column 4 is the calculated adjustment factor needed to adjust bill analysis revenues from Column 3 to the levels of Column 2. This adjustment factor is used in Schedule 2 and adjusts revenue under proposed rates. Column 5 is equal revenue under present rates after application of the adjustment factor. Column 6 summarizes the application of present rates to the pro forma adjustments in Schedules 5, 7 and 9. Column 7 represents the annualized DSIC revenue based on the current level of 7.5%. Column 8 is the pro forma revenue under present rates, the sum of Columns 5, 6, and 7. Schedule 2 develops the pro forma revenues under proposed rates. Column 2 is the pro forma revenues from present rates derived in Column 8 of Schedule 4. Column 3 is the revenues under proposed rates from the bill analysis in Schedule 2. Column 4 is the adjustment factor from Schedule 4. Column 5 multiplies Column 4 by Column 3 to develop revenues under proposed rates. Column 6 summarizes the application of proposed rates to the pro forma adjustments in Schedules 3, 7 and 9. Column 7 summarizes the total pro forma revenues under proposed rates and is the sum of Columns 5 and 6. Column 8 shows the pro forma proposed dollar increase and Column 9 is the pro forma percentage increase.

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1 **Q. Please explain the revenue adjustments under present rates in Exhibit No.**
2 **GRH-2, Schedules 9, 9.1, 9.2, 9.3, and 9.4.**

3 A. Schedule 9 summarizes the adjustments on Schedules 9.1 and 9.2 and calculates
4 revenue related to the adjustments under present and proposed rates.

5 Adjustment 1 on Schedule 9.1 annualizes revenue for customer growth by
6 customer class. Lines 1 through 11 calculate the revenue associated with the
7 HTY annualized growth. Lines 12 through 18 calculate the revenue associated
8 with the FTY growth in number of customers. Lines 19 through 25 calculate the
9 revenue associated with the FPFTY growth in number of customers.

10 Adjustment 2 on Schedule 9.2 calculates the Declining Usage adjustment
11 for the residential and commercial classes based on present rates based on the
12 regression analysis in Workpaper GRH-1-1. Line 1 is the number of normalized
13 bills based on the bill analysis on Schedule 6. Line 2 is the actual daily usage per
14 customer (gallons) for the test year. Line 3 is the projected daily usage for 2024,
15 or FTY. Line 4 is the difference between Line 2 and Line 3, or the projected
16 declining usage for the future test year. Line 5 annualizes this difference by
17 multiplying the declining usage in line 5 by the number of bills in line 1. Lines 7-9
18 calculate the revenue impact under present rates for declining usage for the Future
19 Test Year.

20 A similar calculation is done for 2025, the fully projected future test year.
21 Line 10 is the number of normalized bills based on the bill analysis on Schedule 6.
22 Line 11 is the actual daily usage per customer (gallons) for the test year. Line 12
23 is the projected daily usage for 2025, or FPFTY. Line 13 is the difference between

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1 Line 11 and Line 12, or the projected declining usage for the future test year. Line
2 14 annualizes this difference by multiplying the declining usage in line 14 by the
3 number of bills in line 10. Lines 16-19 calculate the revenue impact under present
4 rates for declining usage for the Fully Projected Future Test Year. See Workpaper
5 GRH-1-1 for the detailed regression analysis.

6 Adjustment 3 on Schedule 9.3 adjusts revenue for the change of
7 Commercial customers identified as Residential customers and Industrial
8 customers classified as Commercial customers in the historic test year billing data.
9 The adjustment moves the Commercial customers erroneously classified as
10 Residential customers to the Commercial class, and moves Industrial customers
11 erroneously classified as Commercial customers to the Industrial class. This
12 adjustment is not reflected in Schedule 9 but is included in the calculation of
13 revenues under present and proposed rates on Schedules 5 and 3.

14 An additional adjustment in Schedule 9.4 for the Overbrook service area
15 shows the change in rate structure from charging each customer premise by
16 number and types of water fixtures within the household or commercial
17 establishment to metered rates. The number of monthly bills is multiplied by 3,700
18 gallons, which is the service area's average monthly usage, to calculate the
19 projected annual usage for Overbrook.

20 A revenue contribution under proposed rates of \$237,000 was contributed
21 from the Main Division to Mahoning Township to mitigate the rate increase to the
22 Mahoning customers. This contribution allowed for the proposed rates for
23 Mahoning customers to be the same as the proposed rates for the Main Division.

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1 **Q. Please describe Schedule 10 of Exhibit No. GRH-2.**

2 A. Schedule 10 in Exhibit No. GRH-2 shows bill comparisons at various usage levels
3 for each customer class.

4

5 **Q. Please describe Schedule 11 of Exhibit No. GRH-2.**

6 A. Schedule 11 in Exhibit No. GRH-2 shows a summary of present and proposed
7 tariff rates for each customer class and service area.

8

9 **WATER PRO FORMA OPERATION AND MAINTENANCE EXPENSE**

10 **ADJUSTMENTS**

11 **Q. Please explain the development of the pro forma HTY, FTY and FPPTY**
12 **operation and maintenance expense shown in Exhibit No. GRH-3.**

13 A. The pro forma HTY, FTY and FPPTY adjustments are summarized in Exhibit No.
14 GRH-3, Schedule 1. The four Schedule 1 Expense summaries are broken out by
15 the Combined Water Division (all water service areas), the Main Division (VWPA,
16 Overbrook and Kensington), Bethel Water, and Mahoning Township. The
17 adjustments are detailed in Schedules 2-31.

18

19 **Q. Please explain the calculation of each adjustment.**

20 A. Adjustment 1 adjusts Labor Expense for the FTY and FPPTY as shown in
21 Workpaper GRH-2-1. The Company is hiring eleven new employees in 2024
22 which is reflected in the adjustment.

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1 Adjustment 2 calculates the Employee Group Health and Life Insurance
2 expense for the FTY and FPFTY. This expense was adjusted to include the new
3 employees in the FTY and FPFTY and increases the cost using the inflation factors
4 described in Adjustment 30 for the FPFTY.

5 Adjustment 3 calculates the Employee Pension Benefits expense for the
6 FTY and FPFTY. This expense was adjusted using the estimated ASC 715-30
7 Net Periodic Pension Cost for the HTY and by the inflation rate for the FPFTY as
8 described in Adjustment 30.

9 Adjustment 4 calculates the Employee PEBOP expense for the FTY and
10 FPFTY. This expense was adjusted using the estimated ASC 715-30 Net Periodic
11 Pension Cost for the HTY and by the inflation rate for the FPFTY as described in
12 Adjustment 30.

13 Adjustment 5 calculates the 401K Matching and Other Benefits for the FTY
14 and FPFTY. This expense was adjusted for the FTY and FPFTY based on 3.75%
15 of the total gross labor expense calculated in Workpaper GRH-2-1.

16 Adjustment 6 calculates the Purchased Water Expense for the FTY and
17 FPFTY. The expense for the Future Test Year was based on the HTY cost of
18 purchased water, increased by the Future Test Year Inflation Rate for Main, Veolia
19 PA Water service area and Mahoning Township. Bethel Water Purchased Water
20 Expense was based on the HTY cost, increased by 7.9% which is the rate increase
21 that will be in effect for the purchased water from Chester Water Authority. The
22 per books expense for the Fully Projected Future Test Year was increased by the

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1 Fully Projected Future Test Year Inflation rate. The calculation of the inflation rates
2 is detailed in Adjustment 30.

3 Adjustment 7 calculates the Purchased Power Expense for the FTY and
4 FPFTY. The expense for the Future Test Year was based on the three-year
5 trended cost per kWh of purchased power. The expense for the Fully Projected
6 Future Test year was increased by 2021 through the Fully Projected Future Test
7 Year trended cost per kWh of purchased power. The calculation of the inflation
8 rates is detailed in Adjustment 30. The actual expense for this account for the year
9 ending September 30, 2023 was \$2,245,114 (see Line 5 of Adjustment 7) which
10 included \$204,029 that was recorded in Account 50620, Fuel – Power Production.
11 Adjustment 8 shows the adjustment of Account 50620 to show the corrected
12 amount of costs booked for Fuel – Power Production.

13 Adjustment 8 calculates the Fuel – Power Production Expense for the FTY
14 and FPFTY. The amount for the FTY was adjusted to the correct expense of
15 \$2,000 in this account for 2023 and then was increased by the FTY Inflation rate.
16 The expense for the Fully Projected Future Test year was increased by the FPFTY
17 Inflation rate. The calculation of the inflation rates is detailed in Adjustment 30.

18 Adjustments 9 and 10 calculate the Chemical and Materials and Supplies
19 Expenses for the FTY and FPFTY. In the Chemical account, the expense for the
20 FTY was based on the FTY estimated cost. The expense for the FPFTY was
21 increased by the FPFTY Inflation rate. The calculation of the inflation rates is
22 detailed in Adjustment 30. The Materials and Supplies expense was based on the

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1 HTY costs, increased by the FTY Inflation rate, and the FPFTY expense was
2 increased by the FPFTY Inflation rate detailed in Adjustment 30.

3 Adjustment 11 calculates the Management & Services Expense for the FTY
4 and FPFTY based on the Company's response to MFR-III-06 and excludes non-
5 recoverable management fees incurred in 2023.

6 Adjustment 12 calculates the Lab Testing Fees for the FTY and FPFTY.
7 The FTY expense is calculated based on the average of the expense for 2022 and
8 2023. The expense for the FPFTY was increased by the FPFTY Inflation rate.
9 The calculation of the inflation rates is detailed in Adjustment 30.

10 Adjustment 13 calculates the Outside Contracts Expense for the FTY and
11 FPFTY. The expense for the FTY was based on the two-year average expense,
12 increased by the FTY Inflation Rate. The expense for the FPFTY was increased
13 by the FPFTY Year Inflation rate as shown in Adjustment 30.

14 Adjustment 14 calculates the Outside Professional Services Expense for
15 the FTY and FPFTY. The FTY expense is based on the three-year average,
16 increased by the FTY Inflation Rate. The expenses for the FPFTY are increased
17 by the FPFTY Inflation rate. The calculation of the inflation rates is detailed in
18 Adjustment 30.

19 Adjustments for 15 and 20, Rent – Building and Property Expense and
20 Advertising Expense were not applied, as there were \$0 in costs recorded during
21 the HTY.

22 Adjustment 16 calculated the Rental of Equipment for the FTY and FPFTY.
23 The expense for the FTY was based on the HTY costs, increased by the FTY

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1 Inflation rate. The expenses for the FPFTY are increased by the FPFTY Inflation
2 rate. The calculation of the inflation rates is detailed in Adjustment 30.

3 Adjustment 17 calculates the Transportation Expense for the FTY and
4 FPFTY. The Lease portion of the expense for the FTY and FPFTY is based on
5 Company projections. The additional expenses in this account are increased by
6 the relevant Inflation Rates for each year.

7 Adjustment 18 for the Property and General Liability Insurance Expense is
8 adjusted downward to \$0 for the FTY and FPFTY, as the Company is booking
9 these costs with Management and Services Fees for the FTY and FPFTY.

10 The Workers Compensation Expenses, Adjustment 19, for the FTY and
11 FPFTY is based on projected estimates provided by the Company.

12 Adjustment 21 calculates the Regulatory Commission Expense – Rate
13 Case Amortization for the FPFTY. The FPFTY expense includes the normalization
14 of projected rate case expense over 3 years.

15 Adjustment 22 and 23 calculates the Regulatory Commission Expense and
16 Bad Debt Expense for the FTY and the FPFTY and is adjusted based on projected
17 revenues under present rates for the FTY and FPFTY and under proposed rates
18 for the FPFTY.

19 Adjustment 24 calculates the Fringe Benefits Transferred for the FTY and
20 the FPFTY. The expense adjustment was based on the historic percentage of
21 benefits transferred of 37.54%. This percentage is multiplied by the total projected
22 fringe benefits listed in the adjustment.

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1 Adjustment 25 calculates the Office Expense and Utilities for the FTY and
2 the FPFTY. The expense for the FTY is based on the three-year average costs
3 and was increased by the FTY inflation rate. The FPFTY expense was increased
4 by the FPFTY inflation rate. The calculation of the inflation rates is detailed in
5 Adjustment 30.

6 Adjustment 26 calculates the Postage and Air Freight Expense for the FTY
7 and the FPFTY. The FTY and FPFTY expense adjustments were based on the
8 2024 increase to bulk postage.

9 Adjustment 27 calculates Other O&M expenses for the FTY and FPFTY.
10 The expense for the FTY is based on the two-year average of historic expense,
11 increased by the FTY Inflation Rate. The expense for the FPFTY is increased by
12 the FPFTY Inflation rate. The calculation of the inflation rates is detailed in
13 Adjustment 30.

14 Adjustment 28 shows the Operation and Maintenance expense adjustment
15 due to estimated costs incurred for the Company's Customer Assistance Program.

16 Adjustment 29 shows the Transaction Costs incurred by the Company for
17 the Kensington, Overbrook and Mahoning Township acquisitions.

18 Adjustment 30 calculates the FTY and FPFTY Inflation Adjustment rate
19 based on the Consumer Price Index (CPI) published by the Blue Chip Financial
20 Forecasts as of September 1, 2023. The calculation averages four quarters of
21 projected 2024 CPI for the FTY inflation rate. The FPFTY Inflation Rate is
22 calculated based on the first quarter of 2025 projected CPI and estimates for the
23 second, third and fourth quarters based on the CPI for the first quarter.

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1 **WATER PRO FORMA TAXES OTHER THAN INCOME, DEPRECIATION AND**

2 **INCOME TAX ADJUSTMENTS**

3 **Q. Please explain the development of the pro forma HTY, FTY and FPFTY taxes**
4 **other than income, depreciation and income taxes shown in Exhibit No.**
5 **GRH-3.**

6 A. The pro forma Historic Test Year, Future Test Year and Fully Projected Future
7 Test Year adjustments are summarized in Exhibit No. GRH-3, Schedule 1. The
8 adjustments are detailed in Schedules 32-35.

9
10 **Q. Please describe your adjustments to Taxes Other Than Income.**

11 A. Adjustment 31 calculates the FTY and FPFTY adjustment for Real Estate Taxes.
12 The FTY Adjustment eliminates the refund received in 2023 and increases the
13 Public Utility Realty Tax Act (“PURTA”) and Property tax by the FTY inflation rate.
14 The FPFTY expense increases the FTY expense by the FPFTY inflation rate.

15 Adjustment 32 calculates the FTY and FPFTY adjustment for Payroll taxes
16 based on the Payroll Tax workpapers, Workpaper GRH-2-1.

17 Adjustment 33 shows the Adjustment to Depreciation Expense based on
18 Company provided data. Additionally, the schedule reflects the amortization of
19 acquisition adjustments for Brown Manor, Kensington, Overbrook and Mahoning
20 Township.

21 Adjustment 34 shows the adjustment for Income Taxes for the FTY, and
22 FPFTY under present rates and Income Taxes for FPFTY under proposed rates.

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WATER CUSTOMER RATE DESIGN

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

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

Q. Did management provide rate design guidelines to you?

A. Yes, it did. The guidelines included (1) increase the customer charges to be more in line with customer costs, (2) develop private fire rates to move toward the cost of providing private fire service, (3) maintain the blocking structure by customer class for the Main Division that was implemented in the last case, (4) increase the public fire hydrant charges that are below 25% of the cost of service to a rate that moves toward 25% of the cost of service, (5) propose rates for Mahoning, Overbrook and Kensington to be the same as the rates proposed for the Main Division, (6) move the Bethel Water monthly customer charges to be the same as the monthly customer charges proposed for the Main Division, (7) change the Bethel volumetric rate structure by customer class to be the same as the Main Division volumetric rate structure, (8) propose Bethel volumetric rates which move

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1 closer to consolidating to the Main Division rates in future rate proceedings, and
2 (9) increase rates by customer classification in a manner that moves the revenues
3 recovered from each classification toward the indicated cost of service

4

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

6 A. Yes, they do.

7

8 **Q. Please describe the rate structures for each classification.**

9 A. The existing Main Division residential rate structure consists of monthly customer
10 charges, which vary by meter size, and a single block consumption rate. The
11 single block structure for residential customers is appropriate because larger-use
12 residential customers do not typically have better load factors and, therefore, do
13 not warrant lower consumption rates as consumption increases. This proposed
14 single block structure results in a consumption rate of \$11.7100 per thousand
15 gallons. Mahoning, Overbrook and Kensington proposed rates move to these
16 proposed Main Division rates and single block rate structure for the residential
17 class.

18 The proposed residential Bethel Water customer charges move to the
19 proposed Main Division rates. The Bethel volumetric rate structure moves from a
20 three-block rate structure to a single block rate structure, similar to the Main
21 Division rate structure, which results in a consumption rate of \$5.0500 per
22 thousand gallons. The proposed rate structure changes allow for the Bethel Water
23 service area to potentially consolidate to the Main Division rates in future rate

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1 proceedings.

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3 **Q. Please explain the rate structure for non-residential customers.**

4 A. The proposed existing Main Division non-residential rate structure will continue
5 with the same customer charges by meter size as the proposed residential
6 customer charges and a two-block consumption rate structure, except for large
7 industrial. The first block rate (up to 25,000 gallons per month) for the non-
8 residential classes is the same as the residential single block rate. The second
9 block rate (usage over 25,000 gallons per month) varies among the commercial,
10 industrial and public classes and is lower than the first block rate. This enables
11 the proposed revenues to be more aligned with the allocated cost of service for
12 these classes. The Mahoning, Overbrook and Kensington non-residential
13 customers move to this Main Division rate structure under proposed rates.

14 The proposed non-residential Bethel Water rate structure moves the
15 customer charges by meter size to the proposed Main Division rates, and a change
16 from the present three-block rate structure to a two-block rate structure, similar to
17 the Main Division. The proposed first block rate (up to 25,000 gallons per month)
18 for the non-residential classes is the same as the residential single block rate. The
19 second block rate (usage over 25,000 gallons per month) results in a consumption
20 rate of \$4.0190 per thousand gallons. These proposed changes align the Bethel
21 Water service area to potentially consolidate to the Main Division rates in future
22 rate proceedings.

23 The proposed rate structure for the large industrial class is the same basic

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1 structure under existing rates with the take-or-pay provision based on a monthly
2 requirement of 7,000,000 gallons per month rather than the existing 84 million
3 gallons per year. The proposed customer charges are the same as the other
4 classes and there is a single consumption rate.

5
6 **Q. Please explain the increases in the customer charges.**

7 A. The existing customer charges for residential, commercial, industrial, large
8 industrial and public classes are well-below cost of service. The proposed
9 customer charges reflect an approximate 27.0% increase over the existing base
10 rate customer charges.

11 The increase to the 5/8-inch customer charge is from \$15.59 (including
12 DSIC) to \$19.80 per month. This increase reflects the movement toward the
13 indicated cost of service of \$21.03 per month based on fully-allocated customer
14 costs and \$19.80 per month based on direct customer costs. The customer cost
15 analyses include the unrecovered cost of Public Fire Service of \$4.87 per month.
16 The calculation of customer costs is shown on Schedule H of VWPA Exhibit No.
17 CEH-1.

18
19 **Q. What changes are you proposing to Private Fire Protection rates?**

20 A. The existing private fire protection rates generate revenues that are below the cost
21 of service for private fire. Therefore, the proposed rates for private fire protection
22 are increased approximately 58% to move revenues toward the indicated cost of
23 service. The Bethel proposed private fire rates were calculated based on the

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1 present Main Division private fire rates, increased by 42% in order to move closer
2 to consolidating the rates to the Main Division in future rate proceedings.

3

4 **Q. Please explain the proposed Public Fire Protection hydrant rates.**

5 A. The current cost of providing public fire protection service is \$142.00 per hydrant
6 per month. The present monthly rate per hydrant is \$25.83 per month in the
7 Harrisburg service area, \$25.83 per month in Mechanicsburg, \$20.00 per month in
8 Bloomsburg and Dallas. All of these rates are below 25% of the cost of service.

9 The Public Fire Hydrant Rate calculated at 25% of the cost of service is
10 approximately \$35.50 per month. The public hydrant rate for Bloomsburg and
11 Dallas of \$20.00 per month will be increased to \$24.00 per month to move closer
12 to the Harrisburg, Mechanicsburg and Mahoning proposed rates. The \$25.83 per
13 month charge in Harrisburg, Mechanicsburg and Mahoning will be increased to
14 \$28.41 per month. The rate for Bethel will be maintained at \$28.66 and \$38.20
15 per month, as these rates are currently above the Main Division public fire hydrant
16 rates. Although the proposed rates still remain below the 25% cost of service level,
17 the proposed rates reflect a movement toward the 25% cost of service level.

18

19 **Q. Do the proposed rates result in movement toward the cost of service for
20 each classification?**

21 A. Yes, as Schedule A of Exhibit No. CEH-1 demonstrates, the revenues under
22 proposed rates are better aligned with the cost of service by classification than the
23 revenues under present rates.

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1 **Q. Have you prepared comparisons of present and proposed rates for each**
2 **classification?**

3 A. Yes. Schedule 11 of Exhibit No. GRH-2 presents comparisons of the present and
4 proposed rate schedules. The schedule shows the customer charges and the
5 consumption rates for each classification, as well as private and public fire rates.

6
7 **Q. Have you prepared proof of revenue schedules under present and proposed**
8 **rates?**

9 A. The Company has provided billing data to develop the application of present and
10 proposed rates to the bill analysis in Exhibit No. GRH-2.

11

12 **WASTEWATER OPERATIONS INTRODUCTION**

13 **Q. Please summarize the Company's request in this filing.**

14 A. The Company is requesting \$568,719 in additional annual wastewater revenue or
15 an increase of 34.8% in total revenue.

16

17 **Q. Please describe Schedule 1 of Exhibit No. GRH-4**

18 Schedule 1 of Exhibit No. GRH-4 is the Company's income statement which
19 incorporates the information contained in Schedules 2 through 7 as well as Exhibit
20 No. GRH-5. The three Schedule 1s are summarized by the following wastewater
21 service areas:

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1 The Combined Wastewater Division, which includes all the
2 wastewater service areas of Columbia County and Mahoning
3 Township,
4 Columbia County Wastewater, and
5 Mahoning Township Wastewater.

6

7

WASTEWATER PRO FORMA RATE BASE

8 **Q. Please describe Schedule 1.1.**

9 A. Schedule 1.1 summarizes the Company's Original Cost Measure of Value or Rate
10 Base as of September 30, 2023, 2024 and October 31, 2025. As stated in the
11 schedule, the Original Cost of Utility Plant in Service and Accumulated
12 Depreciation for each year are derived from the Company's Depreciation Study
13 performed as of December 31, 2021 and rolled forward with actual plant additions,
14 retirements and transfers through September 30, 2023 and projected plant
15 additions, retirements and transfers through September 30, 2024 and October 31,
16 2025. Cash Working Capital is supported in Statement 4 and Exhibit No. HW-1.

17

18 **Q. What is the Company's total Original Cost Measure of Value as of October**
19 **31, 2025?**

20 A. The Company's total Original Cost Measure of Value as of October 31, 2025 is
21 \$5,726,939.

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WASTEWATER PRO FORMA REVENUE ADJUSTMENTS

- 1
- 2 **Q. Describe the development of pro forma revenues under present and**
- 3 **proposed rates.**
- 4 A. Schedule 4, in Exhibit No. GRH-2 develops the pro forma revenues under present
- 5 rates. Column 1 equals per books revenue by customer class. Column 3
- 6 summarizes the application of present rates to the consumption analysis shown
- 7 on Schedule 5. Column 4 is the calculated adjustment factor needed to adjust bill
- 8 analysis revenues from Column 3 to the levels of Column 2. This adjustment factor
- 9 is used in Schedule 2 and adjusts revenue under proposed rates. Column 5 is
- 10 equal revenue under present rates after application of the adjustment factor.
- 11 Column 6 summarizes the application of present rates to the pro forma
- 12 adjustments in Schedules 5, 7 and 9. Column 8 is the pro forma revenue under
- 13 present rates, the sum of Columns 5, 6, and 7. Schedule 2 develops the pro forma
- 14 revenues under proposed rates. Column 1 is the pro forma revenues from present
- 15 rates derived in Column 8 of Schedule 4. Column 2 is the revenues under
- 16 proposed rates from the bill analysis in Schedule 2. Column 3 is the adjustment
- 17 factor from Schedule 4. Column 5 multiplies Column 4 by Column 3 to develop
- 18 revenues under proposed rates. Column 6 summarizes the application of
- 19 proposed rates to the pro forma adjustments in Schedules 3, 7 and 9. Column 7
- 20 summarizes the total pro forma revenues under proposed rates and is the sum of
- 21 Columns 5 and 6. Column 8 shows the pro forma proposed increase and Column
- 22 9 is the pro forma percentage increase.

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1 **Q. Please explain the revenue adjustments under present rates in Exhibit No.**
2 **GRH-4, Schedules 7 and 7.1.**

3 A. Schedule 7 summarizes the adjustments on Schedule 7.1 and calculates revenue
4 related to the adjustments under present and proposed rates.

5 Adjustment 1 on Schedule 7.1 annualizes revenue for customer growth by
6 customer class. Lines 1 through 11 calculate the revenue associated with the HTY
7 annualized growth. Lines 12 through 18 calculate the revenue associated with the
8 FTY growth in number of customers. Lines 19 through 25 calculate the revenue
9 associated with the FPFTY growth in number of customers.

10

11 **Q. Please describe Schedule 8 of Exhibit No. GRH-5.**

12 A. Schedule 8 shows bill comparisons at various usage levels for each customer
13 class.

14

15 **Q. Please describe Schedule 9 of Exhibit No. GRH-5.**

16 A. Schedule 9 shows a summary of present and proposed tariff rates for each
17 customer class and service area.

18

19 **WASTEWATER PRO FORMA OPERATION AND MAINTENANCE EXPENSE**

20

ADJUSTMENTS

21 **Q. Please explain the development of the pro forma HTY, FTY and FPFTY**
22 **historic test year operation and maintenance expense shown in Exhibit No.**
23 **GRH-5.**

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1 A. The pro forma HTY, FTY and FPFTY adjustments are summarized in Exhibit No.
2 GRH-5, Schedule 1. The three expense Schedule 1s are summarized by the
3 Combined Wastewater Division (all service areas), Columbia County Wastewater,
4 and Mahoning Township Wastewater. The adjustments are detailed in Schedules
5 2-18. The Sewer expense adjustments by expense account are labeled as the
6 same adjustment number that corresponds with the Water Operation and
7 Maintenance expense adjustments for ease of developing the Combined Water
8 and Wastewater Schedules in Exhibit No. GRH-1.

9

10 **Q. Please explain the calculation of each adjustment.**

11 A. Adjustment 1 adjusts Labor Expense for the projected wage percentage increases
12 during the FTY and FPFTY.

13 Adjustment 2 calculates the Employee Group Health and Life Insurance
14 expense for the FTY and FPFTY. This expense was based on the historic test
15 year cost, increased by the FTY Inflation Rate. The expense for the FPFTY year
16 was increased by the FPFTY Inflation rate. The calculation of the inflation rates is
17 detailed in Adjustment 30.

18 Adjustment 3 calculates the Employee Pension Benefits expense for the
19 FTY and FPFTY. This expense was based on the historic test year cost, increased
20 by the FTY Inflation Rate. The expense for the FPFTY year was increased by the
21 FPFTY Inflation rate. The calculation of the inflation rates is detailed in Adjustment
22 30.

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1 Adjustment 4 calculates the Employee PEBOP expense for the FTY and
2 FPFTY. This expense was based on the historic test year cost, increased by the
3 FTY Inflation Rate. The expense for the FPFTY year was increased by the FPFTY
4 Inflation rate. The calculation of the inflation rates is detailed in Adjustment 30.

5 Adjustment 5 calculates the 401K Matching and Other Benefits for the FTY
6 and FPFTY. This expense was adjusted for the FTY and FPFTY based on 1.7%
7 of the total gross labor expense.

8 Adjustments 9 and 10 calculate the Chemical and Materials and Supplies
9 Expenses for the FTY and FPFTY. In each expense, the expense for the FTY was
10 based on the three-year average, increased by the FTY Inflation Rate. The
11 expense for the FPFTY year was increased by the FPFTY Inflation rate. The
12 calculation of the inflation rates is detailed in Adjustment 30.

13 Adjustment 12 calculates the Lab Testing Fees for the FTY and FPFTY.
14 The FTY expense is calculated based on the average of the expense for 2022 and
15 2023, increased by the FTY Inflation rate. The expense for the FPFTY was
16 increased by the FPFTY Inflation rate. The calculation of the inflation rates is
17 detailed in Adjustment 30.

18 Adjustment 13 calculates the Outside Contracts Expense for the FTY and
19 FPFTY. The expense for the FTY was based on the two-year average expense,
20 increased by the FTY Inflation rate. The expense for the FPFTY was increased by
21 the FPFTY Year Inflation rate as shown in Adjustment 30.

22 Adjustment 14 calculates the Outside Professional Services Expense for
23 the FTY and FPFTY. The FTY expense is based on the three-year average,

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1 increased by the FTY Inflation Rate. The expense for the FPFTY is increased by
2 the FPFTY Inflation rate. The calculation of the inflation rates is detailed in
3 Adjustment 30.

4 Adjustment 17 calculates the Transportation Expense for the FTY and
5 FPFTY. The Lease portion of the expense for the FTY and FPFTY is based on
6 Company projections. The additional expenses in this account are increased by
7 the relevant Inflation Rates for each year.

8 Adjustment 18 for the Property and General Liability Insurance Expense is
9 adjusted downward to \$0 for the FTY and FPFTY, as the Company is booking
10 these costs with Management and Services Fees for the FTY and FPFTY.

11 Adjustment 19 calculates Workers Compensation expenses for the FTY
12 and FPFTY. The expense for the FTY is based on the historic test year cost,
13 increased by the FTY Inflation rate. The expenses for the FPFTY are increased
14 by the FPFTY Inflation rate. The calculation of the inflation rates is detailed in
15 Adjustment 30.

16 Adjustment 22 and 23 calculates the Regulatory Commission Expense and
17 Bad Debt Expense for the FTY and the FPFTY and is adjusted based on projected
18 revenues under present rates for the FTY and FPFTY and under proposed rates
19 for the FPFTY.

20 Adjustment 25 calculates the Office Expense and Utilities for the FTY and
21 the FPFTY. The expense for the FTY was based on the three-year average cost,
22 increased by the FTY Inflation rate. The expense for the FPFTY is increased by

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1 the FPFTY Inflation rate. The calculation of the inflation rates is detailed in
2 Adjustment 30.

3 Adjustment 30 calculates the FTY and FPFTY Inflation Adjustment rate
4 based on the Consumer Price Index (CPI) published by the Blue Chip Financial
5 Forecasts as of September 1, 2023. The calculation averages four quarters of
6 projected 2024 CPI for the FTY inflation rate. The FPFTY Inflation Rate is
7 calculated based on the first quarter of 2025 projected CPI and estimates for the
8 second, third and fourth quarters based on the CPI for the first quarter.

9
10 **WASTEWATER PRO FORMA TAXES OTHER THAN INCOME, DEPRECIATION AND**

11 **INCOME TAX ADJUSTMENTS**

12 **Q. Please explain the development of the pro forma HTY, FTY and FPFTY taxes**
13 **other than income, depreciation and income taxes shown in Exhibit No.**
14 **GRH-5.**

15 A. The pro forma Historic Test Year, Future Test Year and Fully Projected Future
16 Test Year adjustments are summarized in Exhibit No. GRH-5, Schedule 1. The
17 adjustments are detailed in Schedules 19-21.

18
19 **Q. Please describe your adjustments to Taxes Other Than Income.**

20 A. Adjustment 32 calculates the FTY and FPFTY adjustment for Payroll taxes based
21 on the historic test year cost, increased by the annual payroll tax rate of 7.65%.

22 Adjustment 33 shows the Adjustment to Depreciation Expense based on
23 Company provided data estimated for the FTY and FPFTY. Additionally, the

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1 schedule reflects the adjustment for amortization of the Mahoning Wastewater
2 acquisition.

3 Adjustment 34 shows the adjustment for Income Taxes for the FTY, and
4 FPPTY under present rates and Income Taxes for FPPTY under proposed rates.

WASTEWATER CUSTOMER RATE DESIGN

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

9 A. In preparing a rate structure, one should consider the allocated costs of service,
10 the impact of radical changes from the present rate structure, the understandability
11 and ease of application of the rate structure, community and social influences, and
12 the value of service. General guidelines should be developed with management
13 to determine the extent to which each of these criteria is to be incorporated in the
14 rate structure to be designed, inasmuch as the pricing of a commodity or service
15 is a function of management.

17 **Q. Did management provide rate design guidelines to you?**

18 A. Yes, it did. The guidelines included (1) increase customer charges to be more in
19 line with customer costs and consolidate Mahoning customer charges in the non-
20 residential class, (2) maintain the Mahoning monthly flat rate structure for the
21 residential class, (3) eliminate the two block volumetric rate block structure, (4)
22 maintain the special non-residential rates for the four Mahoning Wastewater
23 customers, (5) maintain the Columbia County rate structure with an across-the-

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1 board increase to the present rates, and (6) increase rates by customer
2 classification in a manner that moves the revenues recovered from each
3 classification toward the indicated cost of service.

4

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

6 A. Yes, they do.

7

8 **Q. Please describe the rate structures for the Mahoning Wastewater residential**
9 **customer classification.**

10 A. The existing residential rate structure consists of a monthly flat rate customer
11 charge for all meter sizes. This proposed monthly flat rate is \$77.00, or an increase
12 of 37.0% from the present monthly flat rate of \$56.20

13

14 **Q. Please explain the rate structure for non-residential customers.**

15 A. The proposed non-residential rate structure will consolidate to one customer
16 charge for all meter sizes that results in a proposed customer charge of \$65.85.
17 The two tier, inclining rate block structure was eliminated, and the proposed
18 volumetric rate for all usage is \$6.3790 per thousand gallons.

19 The proposed Columbia Country Wastewater rates maintain its current
20 monthly minimum and five tier declining block structure. It was justified to give
21 these customers an across-the-board increase that recovers the projected
22 revenue requirement and moves proposed rates closer in line for a single-tariff rate
23 structure in future rate proceedings, as these rates have not been changed since

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1 the year 1998.

2

3 **Q. Do the proposed rates result in movement toward the cost of service for**
4 **each classification?**

5 A. Yes, each Schedule A of Exhibit No. CEH-3 demonstrates, the revenues under
6 proposed rates are better aligned with the cost of service by classification than the
7 revenues under present rates.

8

9 **Q. Have you prepared comparisons of present and proposed rates for each**
10 **classification?**

11 A. Yes. Schedule 9 of Exhibit No. GRH-4 presents comparisons of the present and
12 proposed rate schedules. The schedule shows the customer charges and the
13 consumption rates for each classification, as well as private and public fire rates.

14

15 **Q. Have you prepared proof of revenue schedules under present and proposed**
16 **rates?**

17 A. The Company has provided billing data to develop the application of present and
18 proposed rates to the bill analysis in Exhibit No. GRH-4.

19

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

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

APPENDIX A

GREGORY R. HERBERT – LIST OF CASES TESTIFIED OR ASSISTED

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