**Exh. RS-1T**
**Docket UW-240151**
**Witness: Rachel Stark**

**BEFORE THE WASHINGTON**
**UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**CASCADIA WATER, LLC**<br><br>**Respondent.** | **DOCKET UW-240151** |

**TESTIMONY OF**

**RACHEL STARK**

**STAFF OF**
**WASHINGTON UTILITIES AND**
**TRANSPORTATION COMMISSION**

***Expense, Depreciation, Rate Base, Revenue Requirement***

**November 20, 2024**

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## LIST OF EXHIBITS

## I. INTRODUCTION

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

A. My name is Rachel Stark, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My email address is rachel.stark@utc.wa.gov.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Regulatory Services, Water and Transportation Section.

**Q. Please state your educational and professional background?**

A. I have been employed by the Commission since 1988 and have worked in various divisions of the agency, including Regulatory Services, Human Resources, Administrative Law, and Consumer Protection. In my current position as a Regulatory Analyst, I review company books and account records; I also analyze, interpret, apply, and enforce the rules and laws of the state of Washington pertaining to regulated companies in general rate cases, and with regard to contracts and other filings for water, solid waste, ferry, auto transportation, and pilotage companies. To assist me with carrying out those duties, I attended the National Association of Regulatory Utility Commission's week-long rate school in October 2022.

**Q. Have you previously testified before the Commission?**

A. Yes. I provided written and oral testimony in Docket UW-170924, a formal complaint brought before the Commission by Gretchen and Sarah Hand against Rainier View Water Company. In that case, I provided testimony on issues including billing accuracy, water quality, and the regulatory requirements of the Commission and the Washington State Department of Health as they pertained to the company's operations. I have also provided oral testimony in cases cancelling the authority to operate of telecommunications companies, household goods carriers, commercial public ferries, auto-transportation companies, and solid waste companies due to failure to pay regulatory fees or file annual reports.

## II. SCOPE AND SUMMARY OF TESTIMONY

**Q. What is the purpose and scope of your testimony?**

A. I will testify on Cascadia Water, LLC's (Cascadia) operating expenses, depreciation, rate base, and revenue requirement for each of its Peninsula, Island, and Pelican Point water systems.

**Q. Please summarize your recommendations.**

A. I first discuss the adjustments Staff recommended before this case became a formal adjudication, adjustments with which the company agrees. I then present Staff's recommendation as to: (1) removing employee bonuses, (2) removing the costs of an accident not covered by insurance, (3) removing tax penalties, (4) removing certain employee travel expenses, (5) removing a penalty and late payment fees associated with annual reporting requirements and regulatory fees payments. I also address: (6) Cascadia's capital additions, and (7) removing the surcharge that applies to the Aquarius Utilities water system customers.

**Q. What is the net effect of Staff's recommended adjustments?**

A. The adjustments I have made, along with the capital structure and cost of capital analysis conducted by Staff witness Scott Sevall, result in an increase to Cascadia's revenue requirement of $1,333,317 for its Peninsula and Island Systems, and an increase to the revenue requirement for its Pelican Point System of $274,423. The total revenue requirement increase recommended by Staff for Cascadia's Peninsula, Island, and Pelican Point water systems is $1,607,740. These recommended revenue requirement increases represent a reduction of $195,048 from the Company's as-filed request for the Peninsula and Island Systems and a reduction of $15,823 from Cascadia's as-filed request for its Pelican Point System.

**Q. Have you prepared any exhibits in support of your testimony?**

A. Yes. I prepared Exhibits RS-2 through RS-6.

- Exh. RS-2 is Staff's workbook for Peninsula and Island Systems
- Exh. RS-3 is Staff's workbook for Pelican Point System
- Exh. RS-4 is Staff's Results of Operations, Restating Adjustments, and Pro Forma Adjustments workbook for Peninsula, Island, and Pelican Point Systems

- Exh. RS-5 is Staff's adjustment for the Aquarius System customer surcharge
- Exh. RS-6 is Cascadia's Response to Staff Data Request No. 29

## III. RATEMAKING PRINCIPLES

**Q. How does Staff evaluate whether a company should recover a cost through rates?**

A. For capital expenses, Staff looks to determine if the Company prudently decided to acquire the asset and whether the asset is in service and used and useful. For operating expenses, Staff looks at whether the Company prudently decided to incur the expense in the course of operating of the company's business and whether the expenses benefit the customers of the company.

**Q. How does Staff determine whether a cost or expense was prudently incurred?**

A. Staff follows established regulatory principles and considers whether the company acted reasonably based on what the company knew, or should have known, at the time it made the decision to incur the cost. To do so, Staff looks at, among other things, whether the expense was necessary, whether the company considered alternatives, and whether the company documented its decision-making process for later review.

**Q. What does it mean for an asset to be used and useful?**

A. The Commission will value utility property that is completed and in service for inclusion in rates.[1] To be considered used and useful, the asset must be capable of providing benefits to ratepayers.[2]

**Q. What makes an expense appropriate to include in rates?**

A. For test-year expenses, Staff largely looks to whether the Company prudently incurred them. Post-test-year expenses that the company seeks to include in rates must be known and measurable, meaning that the expense is not hypothetical and that it is quantifiable. Both test-year and post-test-year expenses must be normal and recurring in that they are not extraordinary or one-time expenses, but rather ordinary expenses that are expected to continue.

## IV. EXPENSE ADJUSTMENTS

**Q. Please discuss how Cascadia's September 26, 2024, filing compares with its initial February filing with respect to expenses.**

A. Cascadia accepted some of the adjustments Staff made to its February filing. Those adjustments included:

**<u>Island and Peninsula</u>**

- a $35,017 reduction for Ask My Accountant/Suspense. This account is for non-operational cost regarding writing off a balance to purchase accounting.

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[1] RCW 80.04.250(1).
[2] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-031725, Order 14, ¶ 145 (May 13, 2004).

This adjustment was made because the cost is included in the Contractual Accounting account in the test year.

- a $21,629.03 reduction for the amount for rent for the Aquarius Utilities office that is no longer in use by Cascadia.
- a $5,870.35 reduction for a bumper replacement for an accident that insurance did not cover and an insurance deductible. Staff determined this expense is non-recurring and should not be recovered in rates.
- a $3,783.56 reduction for charges for move-out expenses for Aquarius Utilities office closure because Cascadia no longer uses this facility, and it is non-reoccurring.
- a $3,184 reduction for no-show ferry fees and Good-to-Go late fees, expenses for the Aquarius Utilities move-out office closure and the Pedersen System Acquisition. Staff determined the Aquarius office location is no longer used by Cascadia and the acquisition expenses for the Pedersen system should be removed because acquisition costs are determined by the assets of the acquired company.
- a $2,432 reduction for acquisition signage and computer and internet charges associated with the Aquarius Utilities office that is now closed and no longer used by Cascadia.

**<u>Pelican Point System</u>**

- a $2,639 reduction for expenses that Cascadia stated were miscoded as utility plant and which should have been expensed under the purchased water account.

- a $22,058 reduction for the professional and contract fees account due to a $55 bounced check charge and the company over-allocating $22,003 in expenses.
- a $94 reduction for an over-allocation of expense from the rental of building, property, and equipment account.
- a $446 reduction because Cascadia over-allocated from the transportation account.
- a $17 reduction for meals for employees based on Staff's determination that employees' meals should not be recovered in customer rates as there is no benefit to customers.
- a $6,758 reduction from the office, postage, phone, and bank charges account because Cascadia over-allocated expenses to the account.
- a $1,247 reduction from the miscellaneous (shared services, lab and tech.) account for mis-coding from assets to expenses.

Staff made these adjustments in the prior informal case because Staff determined these expenses were not prudently incurred for operation of the company and customers would not benefit from their incurrence, therefore, these expenses should not be recovered in rates.

**Q. Does Staff continue to support the adjustments Cascadia accepted?**

A. Yes. Those adjustments continue to be appropriate.

**Q. Does Staff have additional adjustments to propose after reviewing Cascadia's September filing?**

A. Yes. Staff proposes adjustments to salary and wages (bonuses), costs associated with an accident not covered by insurance, late fees and penalties associated with Cascadia's regulatory and tax filings, certain travel expenses, certain office expenses, and membership fees.

**Q. Please describe Staff's adjustments to salary and wages – Employee accounts.**

A. I reviewed Cascadia's salary and wages, including bonuses. Staff is recommending adjustments to salary and wages to remove a total amount of $35,896.67 in bonuses related to Peninsula and Island water systems. That adjustment consists of removing the following:

- $13,351 in bonuses related to all shared Island and Peninsula systems for retention and job duty performance.
- $3,550 in bonuses related to the Aquarius water system.
- $18,995.67 in bonuses related to retention and job duty performance.

Staff also recommends adjustments of $2,627 from the employee and salary account in bonuses related to the Pelican Point water system. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-1. Please also refer to my Exhibit RS-4, Schedule 2.2 Restating Adjustment R-1.

**Q. Why should the Commission disallow amounts related to bonuses?**

A. The Commission has indicated that allowable bonus and incentive pay programs require demonstrable evidence that customers benefit from the expenses. The documentation provided by the company did not show that the programs enhance service or customer experience.

In addition, Staff has concerns about the continuity of the bonus programs, as all of Cascadia's bonus programs included statements that the amount of the bonus is within the sole the discretion of management and condition receipt of a bonus on management approval. In other words, management could decide to adjust the bonus amounts, eligibility criteria, or even cancel a bonus program entirely for any given year. In that case, the bonus program would not be a recurring and normal expense. Under all of those scenarios, the bonus program fails to meet the known and measurable criteria for including in rates. Management's ability to modify or cancel bonus programs also casts doubt on the benefits of the program to customers. This is because management can revise or eliminate bonus programs to affect earnings, which specifically benefits shareholders and not customers.

**Q. Please describe Staff's adjustments to the employee pensions and benefits account.**

A. Cascadia's employee pensions and benefits account included an expense for an accident not covered under insurance in September 2023. The amount related to the accident was $50.94, and Staff removed this amount. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-2.

**Q. Why should the Commission remove the amount related to an accident not covered by insurance?**

A. Insurance premiums are already recovered through rates. Goodman's treatise on ratemaking notes that "the better reasoned decisions" issued by commissions regarding casualty losses brought forth by utilities disallow the recovery through rates. As Goodman explains, "[r]atepayers must be protected from permanent rates that include unusual or one-time items of expense."[3] Allowing one-time expenses not covered by insurance turns ratepayers into the company's insurers when the company is required to carry insurance.

**Q. Please describe Staff's adjustment to Cascadia's regulatory Commission Expenses – Fee account?**

A. Cascadia's regulatory expenses account contains the amount of regulatory fees to be paid to the Commission based on gross intrastate operating revenues. As a general matter, regulatory fees are appropriate to include in rates. However, Cascadia incurred a late fee of $31.10 and a penalty of $250. I removed these amounts, totaling $281.10. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-3.

[3] Leonard Saul Goodman, *The Process Of Ratemaking* 331 (1998) (hereinafter Goodman) at 297-98.

**Q. Why should the Commission disallow the late fee and penalty from Cascadia's regulatory fees account?**

A. Filing and payment of the regulatory fee for the company's annual report is due on or before May 1 of each year. The company has control of when they file and pay the regulatory fee. Late fees and penalties for being untimely should not be recovered by customers, particularly when the Company failed to meet its statutory deadlines.

**Q. Please describe Staff's adjustment to Cascadia's account for Travel, Education, CCR, and Public Relations.**

A. The company's request included $4,587 for meals provided to company personnel. These expenses include food for employees provided by the company for employees during travel, training, and company meetings.

I removed these amounts from Cascadia's Travel, Education, Meals and Education account. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-4.

**Q. Why should the Commission disallow employee meal expenses?**

A. Staff contests the necessity and prudence of the company providing meals to employees for work travel at ratepayer expense where the person would have normally been expected to provide their own meals, and nothing offered by the company indicates that the provision of these meals improves the service offered to ratepayers.[4] When travelling for business purposes, providing meals may be necessary for employees, such as overnight or multi-day travel in which an employee is unable to access normally available self-provisions, e.g., trips qualifying for per diem. However, in this case, Cascadia's costs include multiple instances of providing meals to employees who are traveling from and returning to their homes on the same day, or providing meals for meetings and other activities.

**Q. Please describe Staff's adjustment to Cascadia's account for Office, Postage, Phone and Bank charges.**

A. Staff adjusts Cascadia's expenses related to Office, Postage, phone – Computer and Internet and Telephone by $5,377. This amount includes computer, internet, and telephone charges associated with the Aquarius Office from November 24, 2022, to July 28, 2023, in the amount of $4,268.34. This amount also includes charges for membership dues that are not appropriate to be included in rates in the amount of $1,109. Those membership dues include dues for Beachcombers Community Club. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-5.

**Q. Why should the Commission disallow expenses related to the Aquarius office and certain membership dues?**

A. Cascadia closed the Aquarius office and no longer uses it. Therefore, the expense is not on-going and should be removed from customer rates. Additionally, Staff's

[4] *Jewell v. Wash. Utils. & Transp. Comm'n*, 90 Wn.2d 775, 585 P.2d 1167 (1978).

adjustment for dues and subscriptions is made because these are not required expenses and benefit the company, not ratepayers.

**Q. Please explain Staff's adjustment to Cascadia's tax expense.**

Cascadia incurred a penalty with interest from the Department of Revenue. The penalty and interest were incurred in November 2022 in the amount of $675.38 related to Cascadia's excise tax. Staff recommends that this amount be disallowed. Please refer to my Exhibit RS-4, Schedule 1.2 Restating Adjustment R-6.

**Q. Why should the Commission disallow the tax penalty and interest?**

A. Filing and payment of the company's taxes is under its control. This expense should not be recovered by customers for failure of the company to meet its statutory deadlines.

## V. DEPRECIATION AND RATE BASE

**Q. Please explain what Staff did to evaluate Cascadia's capital additions.**

A. Staff reviewed Cascadia's capital additions beginning with the Company's original February filing. Staff requested additional information through informal data requests, confirmed expenditures and in-service dates, and conducted a 2-day site visit to the company's various systems.

**Q. How did Staff perform the site visit?**

A. During that visit, which took place between April 22 and 23, 2024, Mike Young, Scott Sevall, and I traveled to Port Angeles, the Olympic Peninsula, and Whidbey Island areas to meet with Cascadia representatives Culley Lehman, Amy Lehman and several site managers for systems on the Island. We visited multiple sites, including, Diamond Point, Estates, Monterra, Seaview, and a few of the Terry Edward Lehman systems.

**Q. What did Staff learn on the site visit?**

A. We discussed with Cascadia's representatives the upgrades and improvements to the systems that the company claimed were needed. We saw new generators, multiple reservoirs, and the underground reservoir for the Estates system, which showed cracks. We also saw well heads and leaking holding tanks and reservoirs needing replacement. We asked about how the company's systems worked, particularly its new SCADA system. We learned how effectively the SCADA system worked for this company's operations due to the systems and wells being so far apart, given that it allowed the company to respond to codes, such as water levels and system failures, as needed.

**Q. Did Staff continue its review after this case became a formal adjudication?**

A. Yes. After Cascadia filed its litigation testimony and exhibits in September, Staff again reviewed the company's filing. Staff compared the September filing with the original February filing to identify the similarities and differences. Staff requested additional information through 55 data requests and may seek further discovery as the case progresses.

**Q. Please describe the company's capital additions.**

A. Cascadia is requesting 14 capital additions to be included in rates. Of these projects, 8 were presented in the company's February filing and 6 are new projects that have come online or will come online by the rate effective date. For all of the capital additions, I confirmed expenditures by reviewing invoices and the company's books. I also confirmed in-service dates. I reviewed documentation regarding necessity and alternatives considered by the company based on the most efficient costs to complete a project.

**Q. Does Staff contest any of the capital additions Cascadia seeks to include in rates?**

A. For the Island and Peninsula systems, Staff contests the capital labor moved from salary to capital depreciation in the amount of $7,862. Labor for company staff is already included in salaries for their job duties and are already included in rates. For the Pelican Point system, Staff does not contest any additional capital investments in the depreciation schedule.

**Q. What is the Aquarius surcharge?**

A. Aquarius Utilities needed to do some capital improvements to their system. Aquarius secured a loan in the amount of $2,056,214 from the Drinking Water State Revolving Fund (DWSRF). In Order 01 in Docket UW-081416, effective September 15, 2008, and expiring December 31, 2028. Aquarius customers currently have a $10.10 monthly surcharge on their billing statement for the company to recover for this loan.

**Q. Please explain why the Commission should remove the Aquarius surcharge from rates.**

A. Cascadia acquired the Aquarius system on August 1, 2022. All customers across the Island and Peninsula water systems should bear all costs of expenses and capital improvements. Currently, only Aquarius customers are paying a monthly $10.10 for a capital improvement loan related to the Aquarius water system. This capital improvement loan was for normal capital investment and did not fund an extraordinary repair or project. While no other customers in the Island and Peninsula systems are paying this capital improvement in their rates, Aquarius customers would bear the costs of all the other improvements across Island and Peninsula systems with rate consolidation. Even without rate consolidation, Aquarius customers are bearing the costs of capital improvement across the Peninsula water systems. This is an inequitable result because Aquarius customers are being harmed. Removing this surcharge from Cascadia’s depreciation schedule corrects this harm.

**Q. What is the impact on rate base of removing the Aquarius surcharge?**

A. With the adjustment of the Aquarius surcharge, Cascadia's rate base increased by approximately $341,900. Refer to my Exhibit RS-5.

## VI. REVENUE REQUIREMENT

**Q. How do Staff's adjustments impact Cascadia's revenue requirement?**

A. Staff witness Sevall adjusts Cascadia's capital structure and cost of capital (both debt and equity).[5] Incorporating witness Sevall's adjustments and the adjustments I made to Cascadia's expenses and rate base reduces Cascadia's requested revenue requirement for the Pelican Point system by $15,823. Please refer to my Exhibit RS-3, PFIS tab. Staff's adjustments reduce the revenue requirement for all other systems (Peninsula and Island) by $195,048. Refer to my Exhibit RS-2, PFIS tab. This results in increases to Cascadia's revenue requirement of $274,423 for Pelican Point and $1,333,317 for Island and Peninsula. The overall, total company increase in revenue requirement with Staff's adjustments is $1,607,740, which is $210,871 less than what Cascadia requests.

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

A. Yes.

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[5] Sevall, Exh. SS-1T.