BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

CASCADIA WATER, LLC,

Respondent.

DOCKET UW-240151

RESPONSE TESTIMONY OF STEFAN DE VILLIERS
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

EXHIBIT SDV-1T

November 20, 2024

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Stefan de Villiers, and my business address is 800 Fifth Avenue, Suite 2000, Seattle, Washington 98104.

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

A. I am a Regulatory Analyst with the Public Counsel Unit of the Washington State Office of the Attorney General (Public Counsel).

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Public Counsel.

Q. Please describe your professional qualifications.

A. I have a Bachelor of Science degree in Economics, with minors in Mathematics and Data Science, from the University of Washington in Seattle, Washington.

I joined Public Counsel in April 2024 and have since actively participated in a variety of utility and transportation matters. I have filed testimony before the Washington Utilities and Transportation Commission (Commission) in Cascade Natural Gas Corporation's (Cascade) 2024 general rate case (Docket UG-240008) and Pacific Power & Light Company's (PacifiCorp) Clean Energy Implementation Plan proceedings (Docket UE-210829). I also serve or have served as Public Counsel's lead Regulatory Analyst in Commission cases including the Summit View Water Works 2024 general rate case (UW-240589), Roche Harbor Water System 2024 general rate case (Docket UW-240203), PacifiCorp 2022 and 2023 Power Cost Adjustment Mechanism proceedings (Dockets UE-230482 and UE-240461), Clean Energy

Transformation Act Markets and Compliance Requirements rulemaking (Docket UE-210183), Puget Sound Energy Petition for Planning Exemption proceeding (Dockets UG-240433 and UE-240434), Electric Vehicle Supply Equipment rulemaking (Docket UE-160799), and Waste Management of Washington, Inc., Staff Investigation (Docket TG-240189).

I participate on several advisory groups on behalf of Public Counsel, including the PacifiCorp Electric Integrated Resource Plan Advisory Group, Equity Advisory Group, Demand Side Management Advisory Group, and Low-Income Advisory Group and the Puget Sound Energy Resource Planning Advisory Group. Additionally, I represent Public Counsel on the Washington Interagency Electric Vehicle Coordinating Council's Charging Policy Committee.

I completed the National Association of Regulatory Utility Commissioners Regulatory Training Initiative Rate Case Basics course in May 2024.

Prior to joining Public Counsel, I worked as a Legal-Economic Program Analyst for The Mentor Group, based in Boston, Massachusetts, where I researched developments in environmental litigation, as well as antitrust, data privacy, intellectual property, foreign policy, and national security. Before that, I was an Economic Research Analyst in the United States Department of the Treasury's Office of Europe and Eurasia, in Washington, D.C., where I worked to mitigate the economic effects of Russia's war against Ukraine, especially related to Russian exports of natural gas and oil.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

- Exhibit SDV-2: Cascadia's Response to Public Counsel Data Request No. 19, with Attachment
- Exhibit SDV-3: Cascadia's Response to Public Counsel Data Request No. 25
- Exhibit SDV-4: Cascadia Capital Investment
- Exhibit SDV-5: Cascadia's Response to Public Counsel Informal Data Request No. 6
- Exhibit SDV-6: Cascadia's Response to Public Counsel Data Request No. 29
- Exhibit SDV-7: Rate Phase-In
- Exhibit SDV-8: Cascadia's Response to Water Consumer Advocates of Washington Data Request No. 70
- Exhibit SDV-9: Cascadia's Response to Public Counsel Informal Data Request No. 4
- Exhibit SDV-10: Adjusted Revenue Requirement

Q. Please describe the purpose of your testimony.

A. My testimony discusses the proposed revenue requirement increase of Cascadia Water, LLC (Cascadia or the Company). I recommend the Commission order a phase-in of any approved increase and impose conditions on Cascadia's future capital investment and next rate case filing. I also provide a summary of the testimony of Public Counsel's other witnesses.

Q. Does the fact that you do not address every issue raised in Cascadia's testimony mean that you agree with Cascadia's testimony on those issues?

A. No, it merely reflects that I chose not to address all those issues in my testimony. This should not be read as an endorsement of, or agreement with, Cascadia's position on any issues not addressed. Additionally, I acknowledge that other parties may offer reasonable adjustments to Cascadia's proposed revenue requirement.

II. THE COMMISSION SHOULD MITIGATE RATE SHOCK BY ORDERING CASCADIA TO PHASE IN RATE INCREASES

Q. Please describe the history of Cascadia.

A. Cascadia was formed in 2018 when Northwest Natural Water Company, LLC, acquired Lehman Enterprises, Inc., and Sea View Water, LLC. Since then, the Company has rapidly acquired other small and non-interconnected water systems in Clallam, Jefferson, Kitsap, Island, Snohomish, Skagit, and Grant Counties. Cascadia began with 1,093 customers in 2018 and currently serves approximately 4,000 customers.[1] Almost all of Cascadia's customer base growth has been due to acquisitions, rather than the expansion of existing systems.[2]

Q. Please describe Cascadia's proposed revenue requirement increase in this case.

A. Cascadia has proposed an increase in annual revenue requirement of $1.727 million, or 72.5 percent, across its three major water systems (Island, Peninsula, and Pelican Point). The Island System faces an increase of $960 thousand, or 92.7 percent; the Peninsula System faces an increase of $496 thousand, or 47.2 percent; and the Pelican Point System faces an increase of $271 thousand, or 92.0 percent.[3]

Q. What factors drive this revenue requirement increase?

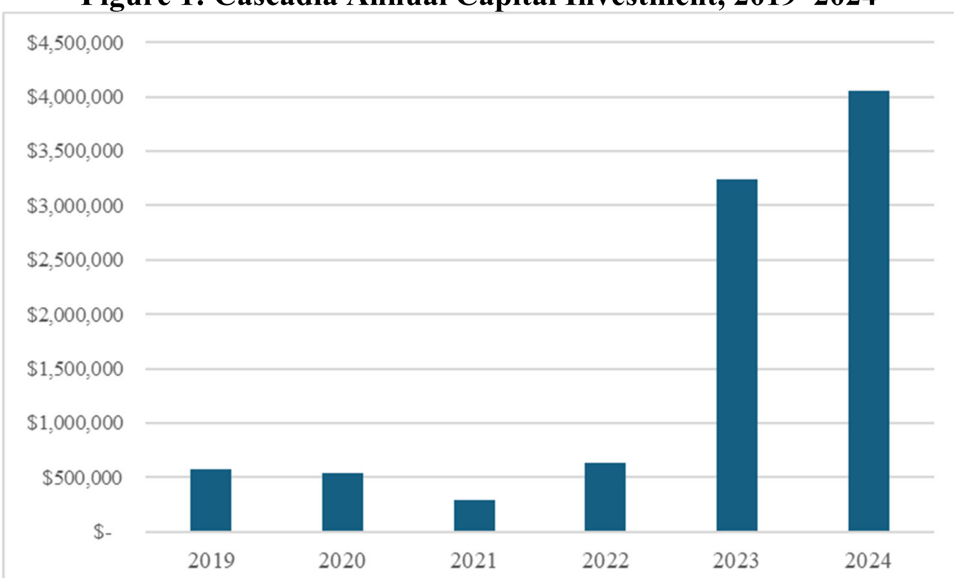
A. As Cascadia acquires new water systems, it invests extraordinary amounts of capital to "improve and standardize" those systems, which are "aging and sometimes neglected."[4] Company Witness Culley J. Lehman admits that these investments are

[1] Stefan de Villiers, Exh. SDV-2, Attachment 1 (Cascadia's Response to Public Counsel Data Request No. 19, with Attachment); Direct Testimony of Matthew J. Rowell, Exh. MJR-1T at 3:15.
[2] De Villiers, Exh. SDV-3 (Cascadia's Response to Public Counsel Data Request No. 25).
[3] Rowell, Exh. MJR-1T at 13 (Table 5). The increases described account for the removal of forgone revenue.
[4] Direct Testimony of Culley J. Lehman, Exh. CJL-1T at 7:5–6.

"most often quite expensive," but defends Cascadia's investment strategy as "proactive."[5] The revenue requirement increase in this case is driven by this capital investment, mostly through the 14 major capital projects that Mr. Lehman describes in his testimony.[6]

Of Cascadia's $10.49 million rate base, $7.85 million, or about 75 percent, was added in the three years since its last rate case.[7] Most of this capital investment came in 2023 and 2024, as shown in Figure one below. Cascadia's average annual capital investment has increased from $513 thousand in 2019–2022 to $3.6 million in 2023–2024. It is important to note that Cascadia intends to continue this pace, investing at least $3-4 million in its rate base in each of the next five years.[8]

Figure 1: Cascadia Annual Capital Investment, 2019–2024[9]



[5] *Id.* at 7:7–9.
[6] *Id.* at 9:6–10:2.
[7] De Villiers, Exh. SDV-4 (Cascadia Capital Investment). Cascadia's water system acquisitions are not considered when calculating capital investment in this context. For example, assets placed into service in 2007 for a system acquired by Cascadia in 2022 would be considered capital investment attributed to 2007, not 2022.
[8] De Villiers, Exh. SDV-5 (Cascadia's Response to Public Counsel Informal Data Request No. 6).
[9] De Villiers, Exh. SDV-4 (Cascadia Capital Investment).

As I will show, this sharp increase in capital investment has a tremendous adverse impact on ratepayers, with average monthly bills increasing by up to 101 percent for some systems under Cascadia's proposed revenue requirement. Cascadia's "proactive" approach to capital investment does not consider these impacts on ratepayers. The Company's approach to capital investment is better suited to a utility with tens of thousands of customers (like its affiliate Northwest Natural Gas Company), where costs can be more easily spread out and absorbed, than it is suited to a utility with a customer base of 4,000. Accordingly, I propose that the Commission intervene to protect ratepayers from Cascadia's failure to invest with rate impacts in mind.

Q. Has the Commission previously approved water utility revenue requirement increases of a similar magnitude to Cascadia's proposal?

A. I have only found three examples of single-case increases approved by the Commission in the last decade which were larger than the 72.5 percent proposed here by Cascadia. Those three cases are listed in Table one below, one of which was for a system later acquired by Cascadia (Pedersen Family).

In one of the three cases, the water utility in question was merely raising rates to recover pass-through costs. In the other two, including the Pedersen Family case, the water utilities were coming in for their first general rate cases in at least seven years. This is notably longer than Cascadia's time between rate cases; Cascadia's last rate case became effective on July 1, 2021, just over three years ago. When accounting for time between cases, Cascadia's requested revenue requirement increase per year is greater than both general rate cases listed in Table one.[10]

Table 1: Largest Water Revenue Requirement Increases, 2014–2024

UTC Docket No.	*Company*	*Filing Type*	*Effective Date*	*Revenue Requirement Increase*	*Notes*
UW-160437	Desert Canyon Utility Co.	General rate case	6/1/2016	180.5%	23 years since last rate case.
UW-210123	Pedersen Family, LLC	General rate case	4/9/2021	97.9%	7 years since last rate case. **Commission ordered rates to be phased in.** This case conducted prior to Cascadia acquisition.
UW-160839	Iliad Water Co., LLC	Pass-through tariff increase	8/1/2016	90.4%	Rate increase purely a pass-through of increased City of Monroe water prices.

Not only are these the only examples of single-case revenue requirement increases larger than Cascadia's proposed 72.5 percent, but I have found no other examples of a water utility increasing its revenue requirement by even 60 percent in a single case in the last decade. The next two largest single-case revenue requirement increases are listed in Table two below. One of these cases is Cascadia's last rate case.

Table 2: Next Largest Water Revenue Requirement Increases, 2014–2024

UTC Docket No.	*Company*	*Filing Type*	*Effective Date*	*Revenue Requirement Increase*	*Notes*
UW-230502	Crown West Realty, LLC	General rate case	8/1/2023	55.7%	9 years since last rate case.
UW-200979	Cascadia Water, LLC	General rate case	7/1/2021	53.5%	Cascadia's first general rate case. **Commission ordered rates to be phased in.**

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[10] Roughly, Cascadia's requested 72.5 percent increase, if approved with an effective date just under four years after its last rate case, would be equal to a **14.6 percent** increase per year ($\sqrt[4]{1 + 0.725} = 1.146$). Pedersen Family's increase after seven years was equal to **10.2 percent** per year ($\sqrt[7]{1 + 0.979} = 1.102$) and Desert Canyon Utility Co.'s increase after 23 years was equal to **4.6 percent** per year ($\sqrt[23]{1 + 1.805} = 1.046$). Calculating a compounding annual growth rate in this way simulates the water utility increasing its revenue requirement each year by a constant percentage.

Q. What do you conclude from this review of prior large revenue requirement increases?

A. Cascadia's requested revenue requirement increase is almost unprecedented in the last decade. In the only three cases with larger revenue requirement increases, the increases were explained by factors not present in this case, including longer gaps since previous rate cases.

Additionally, as Tables one and two show, two of the five largest revenue requirement increases in the last decade were for Cascadia or a system later acquired by Cascadia. In other words, Cascadia customers have already had to endure significant rate increases in the years prior to this rate case. Now, those same customers are faced with another 72.5 percent revenue requirement increase. I discuss this further below.

The Commission should consider both these factors–lack of precedence and compounding rate increases–as evidence that Cascadia's proposed revenue requirement increase could impose a unique burden on customers. This increase warrants concerns about rate shock.

Q. What is rate shock?

A. "Rate shock," or "bill shock," refers to an excessive increase in utility rates that violates the ratemaking principles of stability and predictability. Ratemaking traditionally seeks to ensure "gradualism" in rates, which protects customers from sudden adverse changes in their utility bills.

One approach to mitigating rate shock is a rate "phase-in", where a utility gradually increases its rates over a period of months or years until it reaches the full revenue requirement calculated in a rate case. In one version of a phase-in, the utility forgoes revenue that is not recovered in the initial steps of the phase-in. In other versions, the utility defers that revenue to be recovered later with carrying costs.

Q. Has the Commission previously ordered phase-ins in water rate cases?

A. Yes, the Commission has used phase-ins to mitigate rate shock in water rate cases. Some examples of phase-ins are referenced in Tables one and two above.

Another example of a phase-in can be seen in Summit View Water Works' (Summit View) 2018 general rate case. That rate case, Summit View's first in 12 years, included a proposed 34.4 percent rate increase for domestic water customers. After its review, the Commission determined that the increase was justified by increased costs and necessary investments, and it resulted in rates that were just and sufficient for the Company.[11] However, the Commission also stated:

> We are keenly aware of the impact the proposed 34.4 percent increase would have on domestic water customers. One of our primary concerns when considering requested rate increases is whether the increase will result in "rate shock" to customers. In addressing such concerns in prior matters, the Commission has implemented rate changes gradually in order to avoid shock to ratepayers, as well as to companies.
>
> Concern about rate shock to the domestic water customers of Summit View is warranted in this case. An immediate 34.4 percent increase to the rates of these ratepayers is inconsistent with the Commission's long-standing consideration of gradualism in rates.[12]

[11] *Wash. Utils. & Transp. Comm'n v. Summit View Water Works*, Docket UW-180801, Order 01, ¶ 9 (Oct. 22, 2018).
[12] *Id.* ¶ 10–11.

In other words, even rates that are justified and provide the utility with necessary rate relief can warrant rate shock concerns and require Commission intervention in the form of rate phase-ins.

Q. How does the 2018 Summit View rate increase compare to this case?

A. Summit View's 34.4 percent rate increase is trivial compared to Cascadia's proposed rate increases in this case. Table three shows the monthly bill impact of Cascadia's proposed increase for customers with small meters (comprising almost all of Cascadia's customers). For those customers already on the Island, Peninsula, and Pelican Point systems, the average monthly bill would increase by at least 90 percent and up to 101 percent under the proposed revenue requirement increase.

Table 3: Cascadia Proposed Rate Increases for Small Meters[13]

System	*Meter Size*	*Current Average Bill*	*Proposed Average Bill*	*Proposed Increase ($)*	*Proposed Increase (%)*
Island	5/8 inch	$50	$100	$50	101%
Peninsula	5/8 inch	$40	$78	$38	97%
Pelican Point	5/8 inch	$44	$84	$40	92%
NWWS	3/4 inch	$57	$102	$45	80%
Pedersen	3/4 inch	$39	$65	$26	67%
Discovery Bay	5/8 inch	$49	$66	$18	36%
Aquarius	3/4 inch	$49	$61	$12	23%

If an immediate rate increase of 34.4 percent is "inconsistent with the Commission's long-standing consideration of gradualism," the same must be true for rate increases proposed by Cascadia in this case, which are up to three times larger. Accordingly, I propose the Commission order Cascadia to phase in the rate increase proposed here, as detailed below.

[13] Rowell, Exh. MJR-9; De Villiers, Exh. SDV-6 (Cascadia's Response to Public Counsel Data Request No. 29). Data rounded to nearest whole number.

Q. How do these proposed rate increases compound previous Cascadia rate increases?

A. Most of Cascadia's customers already on the Island and Peninsula systems were also affected by the Company's 2021 rate case, which increased its revenue requirement by 53.5 percent. Thus, if Cascadia's revenue requirement proposed here is approved in the coming months, those customers will have seen their water utility increasing its revenue requirement by about 165 percent in fewer than four years.[14] The impact on their rates will vary, but as seen above, Island and Peninsula customers in this case are facing a rate increase that is even larger than the Company's proposed revenue requirement increase. Thus, the impact on their rates could exceed a 165 percent increase over fewer than four years.

As mentioned previously, similar compounding increase concerns apply for customers on the Pedersen system, who faced a revenue requirement increase of 97.9 percent in 2021.

Even if the Commission finds that Cascadia's capital investments have been reasonable, this level of compounding increases warrants rate shock concerns. The Commission should respond by ordering Cascadia to phase in its rates.

Q. Please describe your recommended rate phase-in.

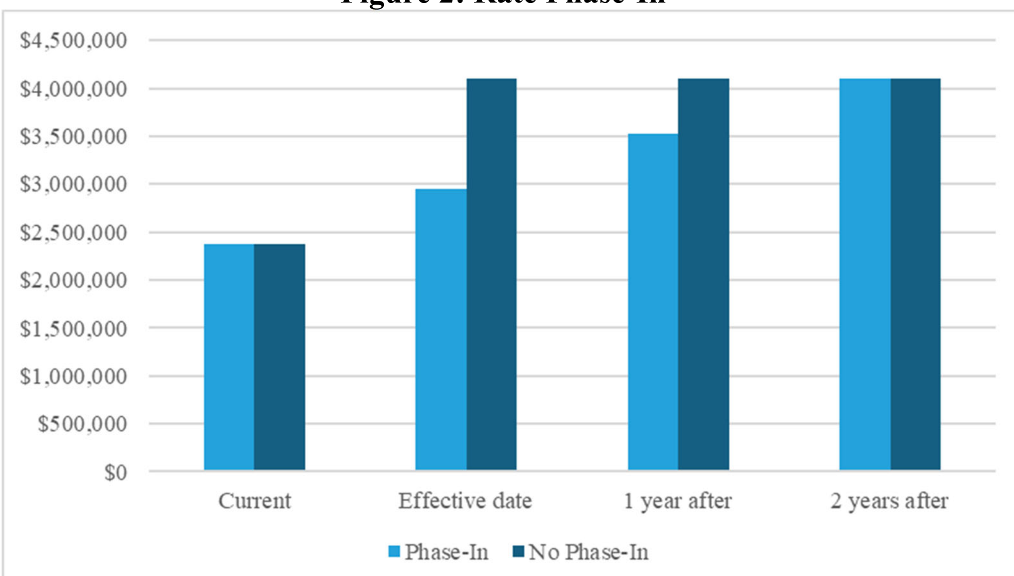
A. Cascadia should be ordered to phase in its rates over a period of two years, as detailed below. Additionally, because Cascadia engaged in aggressive capital investment without sufficient regard for the impact of that investment on customers, the Company should be ordered to forgo the revenue not collected in the first steps of this rate

[14] 1.535 * 1.725 = 2.648, or about 165 percent.

phase-in. As I explain below, this adjustment serves as a proxy for the Company adding to its rate base at a more reasonable rate.

Figure two shows the result of this two-year phase-in, with a third of Cascadia's revenue requirement increase incorporated at every step of the phase-in. Figure two uses the revenue requirement increase proposed by Cascadia in this case, but the mechanism would be similar for any revenue requirement ultimately approved by the Commission, with a third of the increase incorporated at every step.

Figure 2: Rate Phase-In[15]



Q. What is the impact of ordering Cascade to forgo revenue not collected in the first two steps of the phase-in?

A. Under this phase-in, Cascadia forgoes two-thirds of its revenue requirement increase in the first year and another third of that increase in the second year. After two years, Cascadia's full revenue requirement approved by the Commission is incorporated.

[15] De Villiers, Exh. SDV-7 (Rate Phase-In).

In other words, my recommended phase-in fully compensates Cascadia for its approved capital investment, but on a timeline that simulates Cascadia spacing out that capital investment by an additional year or two. Thus, the phase-in is a proxy for Cascadia investing at a more reasonable rate.

Q. Why is it untenable for Cascadia to defer revenue not collected in a phase-in?

A. If Cascadia were to defer revenue not collected in the initial steps of a phase-in, it would recover that revenue later with carrying costs. In practical terms, this would result in customers' bills in the latter stages of a phase-in being higher (and potentially substantially higher) than in the absence of a phase-in, as the Company collected deferred revenue and carrying costs on top of its approved revenue requirement.

It should not count as mitigation of rate shock to protect customers from a rate increase of 90 percent or more in one year, only to incorporate a much greater increase over a period of two years. That Cascadia has forced the Commission to consider this dilemma, in a rate case filed less than three years after its last one, is an indictment of the Company's capital investment strategy. Ordering the Company to forgo rather than defer revenue is thus justified.

Q. Please elaborate on why Cascadia's capital investment strategy may be imprudent.

A. Regardless of the reasonableness of Cascadia's individual capital investments, there are clear reasons for concern that they are imprudent on the whole. Cascadia has made significant investments that drive an almost unprecedented revenue requirement increase, without sufficient documented capital planning.

The Commission requires large public utilities to engage in resource planning, a requirement with which Cascadia's parent company is certainly familiar through its ownership of Northwest Natural Gas Company. As Cascadia's capital investment spikes and it acquires additional water systems and customers, it begins to resemble a large public utility. However, it fails to engage in the planning that should accompany that growth.

In this case, parties have repeatedly asked Cascadia for documentation of its capital investment plans and been met with objections. While Cascadia told the Commission in its last rate that it was working to complete a water system plan for its Peninsula systems, it still has not produced that plan three years later.[16] Additionally, as the testimony of my colleague Scott Duren explains, the water system plan that Cascadia *has* completed (for the Island systems) is inconsistent with and in several cases underestimates the Company's actual capital investment.

In this context, the Commission should impose my recommended rate phase-in, which approximates a more reasonable approach to Cascadia's increased investment. As stated, ordering Cascadia to forgo rather than defer revenue not collected in that phase-in is an appropriate disallowance in the face of insufficient planning.

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[16] UTC Open Meeting June 21, 2024, Microsoft Teams Recording at 1:22:00–1:23:50, Available at https://wutc.app.box.com/v/OpenMeetings/file/827784294737 (last visited Nov. 20, 2024); De Villiers, Exh. SDV-8 (Cascadia's Response to Water Consumer Advocates of Washington Data Request No. 70).

Q. Are there additional factors the Commission should consider in choosing an appropriate phase-in?

A. Yes. The Commission should be aware that Cascadia plans to continue investing in its rate base at a pace of at least $3–4 million per year.[17] While such investment is more than reasonable for a larger utility, Cascadia's rate base is currently worth $10.5 million, so investing at the projected pace would result in that rate base doubling in approximately three years.[18] Additionally, Cascadia continues to pursue acquisitions which would add "aging and sometimes neglected" water systems in need of capital investment to its system.[19]

These factors raise concerns that Cascadia will soon return to the Commission to file a rate case of similar magnitude to this case. Given that Cascadia's current rate case was filed less than three years since its last became effective, a generous assumption that the same timeline will hold for its next rate case complicates any phase-ins longer than two years. This informs and constrains my recommended phase-in.

The Commission should order that future Cascadia rate case filings not become effective until at least six months after the completion of the rate phase-in period approved in this case. Additionally, the Commission should consider imposing conditions on Cascadia's next filing which protect ratepayers from the worst violations of stability and predictability principles.

[17] De Villiers, Exh. SDV-5 (Cascadia's Response to Public Counsel Informal Data Request No. 6).
[18] Rowell, Exh. MJR-1T, at 8 (Table 2).
[19] Lehman, Exh. CJL-1T, at 7:5–6; De Villiers, Exh. SDV-9 (Cascadia's Response to Public Counsel Informal Data Request No. 4).

Q. Which additional conditions should the Commission consider?

A. The following is a non-exhaustive list of conditions which the Commission should consider imposing on Cascadia's future investment and next rate case filing:

1. Cascadia's next rate case filing may not become effective less than six months after the completion of a rate phase-in approved in this rate case.
2. Cascadia's next rate case filing may not result in an average rate increase greater than the one approved in this rate case.
3. Cascadia must, beginning six months after the effective date of this rate case, file with the Commission a semiannual capital project update which describes its major ongoing capital projects and all major capital projects which are at that time planned for the following two years.[20] Concurrent with each filing of its semiannual capital project update, Cascadia must hold a public input meeting to discuss and receive feedback on that update, and it must provide sufficient notice of that public input meeting to all its customers.

III. SUMMARY OF WITNESSES

Q. Can you briefly describe the testimony of Public Counsel's other witnesses?

A. Public Counsel also submits testimony from two other witnesses to address Cascadia's proposed revenue requirement increase in this case.

[20] The definition of a major capital project is left to the Commission, but could include all capital investments of at least $50,000, equal to about 0.5 percent of Cascadia's rate base.

David J. Garrett, Managing Member of Resolve Utility Consulting PLLC, provides testimony on Cascadia's proposed return on equity (ROE). Accounting for Cascadia's low-risk capital structure, he calculates an ROE of 7.9 percent.

Scott Duren, Professional Engineer and a Vice President of Water Systems Consulting, Inc., provides testimony reviewing Cascadia's 14 major capital projects and identifying additional information that is necessary to justify the reasonableness of those investments.

Q. How does the testimony of these witnesses affect Cascadia's proposed revenue requirement increase?

A. Absent any other adjustments, the 7.9 percent ROE that Mr. Garrett calculates results in a revenue requirement increase of $1.538 million, or 64.6 percent, down from Cascadia's proposed increase of $1.727 million, or 72.5 percent.[21] Again, this adjustment does not account for any other reasonable adjustments to the Company's revenue requirement, including specific plant disallowances, changes to the Company's cost of debt, and operating expense adjustments.

Additionally, while Mr. Duren's testimony does not recommend specific plant disallowances at this stage, he identifies projects for which additional information is necessary to determine the reasonableness of Cascadia's capital investments. If Cascadia is unable to produce such information, the Commission should consider plant disallowances for those projects, which would further lower the Company's approved revenue requirement.

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[21] De Villiers, Exh. SDV-10 (Adjusted Revenue Requirement).

Q. Does this conclude your testimony?

A. Yes, it does.