EXH. MJR-CJL-1JT
DOCKET UW-240151
2024 CASCADIA WATER, LLC GENERAL RATE CASE
WITNESSES: MATTHEW J. ROWELL
CULLEY J. LEHMAN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADIA WATER, LLC,** **Respondent.**	**Docket UW-240151**

JOINT TESTIMONY (NONCONFIDENTIAL) OF

MATTHEW J. ROWELL AND CULLEY J. LEHMAN

ON BEHALF OF CASCADIA WATER, LLC IN SUPPORT OF THE FULL MULTIPARTY SETTLEMENT STIPULATION

JANUARY 13, 2025

CASCADIA WATER, LLC

PREFILED JOINT TESTIMONY (NONCONFIDENTIAL) OF MATTHEW J. ROWELL AND CULLEY J. LEHMAN

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I. INTRODUCTION

Q. Are you the same Matthew Rowell who submitted Prefiled Direct Testimony on behalf of Cascadia Water, LLC ("Cascadia Water" or the "Company") in this proceeding?

A. Yes, on September 26, 2024, I sponsored the Prefiled Direct Testimony of Matthew J. Rowell, Exhibit MJR-1T, and nine supporting exhibits (Exhibits MJR-2 through MJR-10).

Q. Are you the same Culley Lehman who submitted Prefiled Direct Testimony on behalf of Cascadia Water in this proceeding?

A. Yes, on September 26, 2024, I sponsored the Prefiled Direct Testimony of Culley J. Lehman, Exhibit CJL-1T, and eleven supporting exhibits (Exhibits CJL-2 through CLJ-12).

Q. What is the purpose of your Joint Testimony?

A. This joint testimony provides Cascadia Water's support for the Full Multiparty Settlement Stipulation (the "Settlement"). The Settlement was filed with the Washington Utilities and Transportation Commission ("Commission") on January 10, 2025. The Joint Testimony sets forth Cascadia Water's testimony as to why

the Settlement is supported by Cascadia Water, is in the public interest, and should be approved by the Commission.

In addition to Cascadia Water, the regulatory staff of the Commission ("Staff" together with Cascadia Water the "Settling Parties") has joined the Settlement.

Q. Please summarize why the Settlement satisfies the public interest.

A. As discussed within this testimony, the Settlement addresses and is consistent with long-standing aspects of Washington's public interest standard. The agreed-upon revenue requirement and the proposed timely phase-in of rates helps Cascadia Water move toward the financial health required to continue to provide safe and adequate service while balancing concerns regarding the pace of the rate increase. Cascadia Water is currently not earning a fair return on its investment, and, in fact, its operating income is currently negative at the existing rates.[1] Since its last general rate case, Cascadia Water has made more than $7.6 million in additional investments that were necessary to provide safe and reliable service to its customers. All of the major capital projects were important to meet current system needs. The Settlement provides for recovery of the investment in these used and useful capital assets.

[1] Exh. MJR-1T at 10:3-11:5.

II. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

A. Summary of Key Provision of the Settlement

Q. Why is Cascadia Water supporting the Settlement?

A. The Settlement reflects a fair, reasonable, and intentionally crafted resolution of the issues in this case. RCW 80.28.010 requires water companies to put forth charges that are fair, reasonable, and sufficient while providing safe, adequate, and efficient service. The Settling Parties have reached an agreement that does just that.

As is the case in any settlement, Cascadia Water is not getting everything it asked for in its prefiled case. The Settlement is a compromise of Cascadia Water's litigated positions, that produces an outcome that is fair, just, reasonable and provides sufficient financial resources for Cascadia Water to carry out its business of providing safe and reliable water service to its customers.

Q. What are the key elements of the Settlement from Cascadia Water's perspective?

A. The following items are the key elements of the Settlement:

- Revenue Requirement: The revenue requirement increase in the Settlement is $1.67 million. This is lower than the revenue requirement Cascadia Water proposed in its prefiled testimony but it is sufficient to allow Cascadia Water to recover its expenses and earn a reasonable return on its investment.

- Phase In: The phase-in of the rate increase spreads the increase over three phases through a rate mitigation mechanism. During the first year from the rate effective date, customers will only experience half of the revenue requirement rate increase because of the rate mitigation mechanism that defers the costs, which would have been recovered through the other half of the revenue requirement increase, as a regulatory asset. For the second phase, the rate mitigation mechanism is removed on the first anniversary of the first effective date. The deferred costs will be recovered equally in rates over the second and third years after the effective date. Specifically, the costs deferred will relate to actual costs incurred included in the Company's cost of service. The rate mitigation mechanism and recovery of the regulatory asset will be reflected as changes in the base rate.

- Black Box: The Settlement states that the Settling Parties agree that the plant investment included in this case shall be deemed prudent and that the revenue requirement increase includes unspecified carrying costs related to the phased-in rates.

- Effective Date: The Stipulating Parties are requesting that the Commission issue an order with an effective date of new rates to be April 1, 2025, which is one month before the suspension deadline, if the Commission is able to accommodate such earlier effective date.

- Stay Out: The Settlement allows Cascadia Water to file a new general rate case during the phase-in period with rates going into effect no earlier than 36 months after the effective date.

- Aquarius Surcharge: The Settlement removes the Aquarius surcharge, and the net book value of the plant funded by the related loan will be fully reflected in Cascadia Water's rate base without any offsets.

- Capital Plan and Prioritization: The Settlement requires Cascadia Water, on or about the first anniversary of the effective date in this proceeding, to publish a capital plan that will identify major capital improvements (projects with total costs estimated to be $150,000 or more) that are reasonably expected to be in-service before Cascadia Water's next rate case effective date and to meet virtually with customers to receive their feedback. Although a capital plan is not typically required for water systems, Cascadia Water is aware some customers want additional information as to future capital projects. Including the capital plan requirement in the Settlement is in the public interest because it will alleviate some of the concerns raised by customer groups by providing additional information related to Cascadia Water's expected capital investments. The Settlement also requires Cascadia Water to file its Master Plans along with a summary of known future major projects (projects with total costs estimated to be $150,000 or more), shortly after the Department of Health ("DOH") has approved the Company's pending Master Plan for the former Estates and Monterra systems.

- Consolidated Rates: The Settlement consolidates Cascadia Water's Western systems (Island and Peninsula) into a single tariff and maintains a separate tariff for the Pelican Point system. This aspect of the Settlement is consistent with Staff

witness Scott Sevall's testimony, Exh. SS-1T, which explains the benefits that consolidating systems has for customers.

Q. Should the Commission view the Settlement in a piece-meal manner or is the Settlement in its entirety in the public interest?

A. The Settlement is the result of carefully negotiated terms that complement each other and must be reviewed as a whole. Like any settlement, but particularly here, Cascadia Water was willing to concede some points from its originally filed case to reach the terms in the Settlement. Although Cascadia Water and Staff had disagreements, the Settling Parties were able to reach a revenue requirement and rate structure that both parties agree is in the public interest and allows the Company to recover in rates its prudent expenses. The Settlement is a black-box revenue requirement, which the Settling Parties agree is reasonable, fair, and in the public interest.

B. The Revenue Requirement Allows Cascadia Water to Recover Costs Prudently Incurred But Phases-In the Rate Increase

Q. Please provide a summary of the revenue requirement agreed to in the Settlement.

A. The overall, total revenue requirement increase in the Settlement is $1.67 million. This results in increases to Cascadia Water's revenue requirement of $261,830 for the Pelican Point system and $1,408,170 for the Western systems (Island and Peninsula).

As discussed in the prefiled direct testimony of Matthew J. Rowell, Exh. MJR-1T, Cascadia Water made adjustments to its filed case based on prior discussions with Staff that included the removal of certain expenses, and also forbearance of revenue in excess of the revenue Cascadia Water originally proposed in February 2024, before the tariffs were suspended. The operating expense adjustments recommended by Staff and adopted by Cascadia Water were provided in Exhibit MJR-6, and, together with other aspects of the Company's September 2024 filing, resulted in a revenue requirement of $1.726 million.[2] Staff's testimony recommended a revenue requirement of $1.607 million,[3] which included some minor adjustments to expenses and rate base, along with some proposed adjustments to capital structure and cost of capital. Given the revenue requirements proposed by Cascadia Water and Staff were relatively close, and that there was sufficient testimony to support a revenue requirement close to what both Staff and the Company proposed, the Settling Parties propose a black box revenue requirement of $1.67 million to reach a compromise of the litigated positions. The overall revenue requirement in the Settlement is reasonable in light of the original request made by Cascadia Water, and the evidence set forth in the testimony of Matthew Rowell and Culley Lehman. The prefiled direct testimony of Staff's witnesses Rachel Stark and Scott Sevall support this revenue requirement as well. Ultimately, the revenue requirement in the Settlement is a compromise to reach just, fair, reasonable and sufficient rates.

[2] Exh. MJR-1T at Table 3.
[3] Exh. RS-1T.

Q. If Cascadia Water is accepting the Settlement and less revenue than it requested in its initial case, does that still provide sufficient revenue for the Company?

A. Yes. At the time of filing, each system had negative operating income and Cascadia Water is not earning any return on its investment.[4] In other words, Cascadia Water was substantially underearning and has continued to underearn throughout this rate case since the Company's initial filing in February 2024. Even though the Settlement revenue requirement is less than the initial request, the Settlement will allow Cascadia Water to cover its expenses, begin to earn a return on its investment, and still attract necessary capital on reasonable terms.

Q. Is there evidence in this case supporting a determination that the projects in Cascadia Water's rate base are used and useful, and prudent?

A. Yes. The prefiled direct testimony of Culley Lehman discussed the fourteen projects and other capital investments Cascadia Water implemented since its previous rate case.[5] The prefiled direct testimony of Staff witness Rachel Stark discussed certain adjustments to capital investments but did not identify any of the fourteen projects as being imprudent.[6] All of these capital improvements are in-service, used and useful, and prudent, even if there was some disagreement over individual adjustments.[7]

[4] Rowell, Exh. MJR-1T at 11:4-12:13; Exhs. MJR-3, MJR-4, and MJR-5.
[5] Exh. CJL-1T at 9-33.
[6] Exh. RS-1T at 15:4-19.
[7] Exh. CJL-1T at 9-33.

Q. Does the Settlement remove the Aquarius Surcharge? If so, why?

A. Yes. The Settlement adopts Staff's position by removing the Aquarius surcharge as explained by Staff witness Rachel Stark.[8] The Aquarius surcharge is a monthly payment charged only to customers on the Aquarius system for a capital improvement loan related to the Aquarius water system. By removing the surcharge, which was for normal capital investment, the remaining costs of those capital improvements will be fairly included in the Western systems' rate base going forward.

Q. How does the Settlement propose the phase-in of the rate increase?

A. The Settlement implements the rate increase in three phases. The phase-in proposed in the Settlement provides for recovery of the costs associated with the fifty percent rate mitigation from the first year of new rates over the second and third years. The first phase occurs on the effective date. For that phase, customers will experience fifty percent of the overall increase going into effect. The second and third phases occur 12 months and 24 months, respectively, after the effective date. In the second phase, the rate mitigation will be removed and customers will then experience the full revenue increase, plus one half of the deferred amounts from the first phase. The third phase will collect the second half of the deferred amounts from the first phase.

[8] Exh. RS-1T at 16:1 – 17:3.

Given that the Settlement phases-in rates over an extended time period, the Settling Parties agree the revenue requirement includes unspecified carrying costs.

This provision of the Settlement that phases-in the rate increase recognizes the Commission's policy of gradualism to prevent rate shock by breaking up the rate increase into phases rather than imposing the increase all at once. Cascadia Water believes that given the history of the case where proposed tariffs were initially submitted to the Commission in February 2024, a more streamlined (shorter) phase-in could be justified. The Settlement closely matches the phase-in proposed by Staff in litigation, and the Company agrees a phase-in of this length balances the concern about rate shock with the need for the Company to obtain recovery on its investment.

Q. Does the Settlement consolidate any of Cascadia Water's systems?

A. Yes, the Settlement consolidates Cascadia Water's Western systems (Island and Peninsula) into a single tariff but maintains a separate tariff for the Pelican Point system. The Settlement is consistent with Staff witness Scott Sevall's testimony, Exh. SS-1T, which explains the benefits that consolidating systems provides to customers. As noted in Staff's testimony, the Island and Peninsula systems are similarly situated systems that share water operators and have similar usage patterns, while the Pelican Point system is geographically distant from the Western systems, does not share employees with the Western systems, and is managed separately.

Although Cascadia Water did not initially propose consolidation, the Company agrees this provision of the Settlement is important and in the public interest. There are several benefits to the consolidation of rates: enhanced customer service and ease of doing business, reduced customer confusion, and mitigated rate impacts related to capital investments. The consolidation of rates allows for improved customer service and responsiveness by reducing the complexity of the tariff structure. Reducing the number of tariffs and rates improves understanding of tariffs and rates for both customers and Staff, which in turn should further enhance the customer experience. The larger customer base also mitigates rate volatility for the different systems. Water utilities are highly capital intensive, and a relatively large investment can significantly impact rate base and the associated revenue requirement. By consolidating systems, costs and expenditures can be spread across a larger set of customers and it avoids charging customers disparate rates for similar service.

Q. Does the Settlement include a proposed cost of capital?

A. No, the Settlement is a black box agreement on the revenue requirement and the cost of capital is not specified. Among the primary disagreements between Staff and Cascadia Water in their respective prefiled direct and response testimonies was the cost of capital. Staff and Cascadia Water were approximately only $120,000 apart on the revenue requirement in their respective filed testimonies (i.e., the Company's $1.726 million minus Staff's $1.607 million). For the proposed cost of capital, Staff and Cascadia Water had a sizable difference of 72

basis points in their proposed return on equity.[9] Both Staff and Cascadia Water also had differing proposals for the cost of debt. In an effort to reach an agreement on the ultimate revenue requirement, and in recognition that Staff and the Company were relatively close on many issues, the Settling Parties opted for a black box settlement that does not provide a cost of capital. Litigating the disagreement over the cost of capital issues when the Settling Parties could reach an agreement on the overall revenue requirement is unnecessary and inconsistent with general settlement principles when the agreement as a whole is in the public interest. Furthermore, the Commission has created a policy docket regarding cost of capital for regulated water utilities (UW-240733). As such, it would be appropriate to address any disagreements over certain cost of capital issues in that docket rather than in this proceeding where the Settling Parties reached an agreement on the overall revenue requirement.

Q. What are the proposed rates for the Western systems tariff (combined Island and Peninsula) under the Settlement?

A. The proposed rates for the Western systems are as follows:

Base Rate				
Meter Size	**Year 1**	**Year 2**	**Year 3**	**Year 4 and thereafter**
5/8”	$25.09	$48.96	$48.96	$41.00
¾”	$25.09	$48.96	$48.96	$41.00
1”	$50.18	$97.91	$97.91	$82.00
2”	$200.72	$391.64	$391.64	$328.00

[9] Exh. SS-1T at 7:1-5.

Commodity Rate Per Cubic Foot		
Meter Size	**Block Size Cubic Feet**	**Rate per Cubic Foot**
5/8" and ¾"	0 to 500	$4.71
	501 to 1,000	$7.44
	1,001 and above	$9.42
1"	0 to 1,250	$4.71
	1,251 to 2,500	$7.44
	2,501 and above	$9.42
2"	0 to 4,000	$4.71
	4,001 to 8,000	$7.44
	8,001 and above	$9.42

Q. What are the proposed rates for the Pelican Point system under the Settlement?

A. The proposed rates for the Pelican Point system are as follows:

Base Rate				
Meter Size	**Year 1**	**Year 2**	**Year 3**	**Year 4 and thereafter**
5/8" and ¾"	$21.36	$50.82	$50.82	$41.00

Commodity Rate Per Cubic Foot		
Meter Size	**Block Size Cubic Feet**	**Rate per Cubic Foot**
5/8" and ¾"	0 to 900	$0.99
	901 to 5,500	$1.70
	5,001 and above	$2.00

C. The Other Provisions of the Settlement are in the Public Interest

Q. Please explain the capital plan requirement in the Settlement.

A. As part of the Settlement, Cascadia Water will publish a capital plan identifying major capital improvements (projects with total costs estimated to be $150,000 or more) that it reasonably expects will be in-service by the next Company rate case effective date. To complement the publishing of the capital plan, Cascadia Water will also hold a virtual customer meeting (one for the consolidated Western systems and another for the Pelican Point system) on or about the first anniversary of the effective date in this proceeding, to allow customers the opportunity to provide feedback to Cascadia Water about that plan. Cascadia Water favors this provision of the Settlement because it will increase transparency to customers regarding future capital projects.

The Settlement also provides that Cascadia Water will review known future major projects (projects with total costs estimated to be $150,000 or more) and assign a prioritization level to each project. Although project priority might shift depending on the needs or safety of the systems, this will give customers a better understanding of which projects are likely to proceed. Cascadia Water is also aware customers have expressed interest in the Company's Master Plans which are subject to DOH review and approval. Once its Master Plans are approved by DOH, Cascadia Water will file its Master Plans, along with a summary, with the Commission to provide customers with access to the Master Plans.

These provisions make the Settlement in the public interest because they will provide customers and the parties to this proceeding with additional outreach and transparency to Cascadia Water's capital plans.

III. THE LIMITED OPPOSITION TO THE SETTLEMENT LACKS MERIT

Q. Is the Settlement contested by parties to this case?

A. Yes, Cascadia Water generally understands the Water Consumer Advocates of Washington ("WCAW") will oppose the Settlement and certain investments made by the Company. Although the position of Public Counsel is unknown at the time of filing, it also expressed some reservations about certain investments in Cascadia Water's prefiled case. These issues are summarized below, along with the Company's responses.

Q. At page 9 of his testimony, WCAW witness Blaine C. Gilles discusses the Averch-Johnson effect. Do you have additional context the Commission may find instructive?

A. Yes, Mr. Gilles cites Harvey Averch and Leland Johnson's academic paper published in 1962, *Behavior of the Firm Under Regulatory Constraint*, and implies that its conclusions are widely accepted and that it is relevant to this case. In short, the Averch-Johnson effect is a theoretical idea that rate-of-return based regulation causes utilities to overinvest in plant (either through gold-plating or early replacements). Averch and Johnson's paper was based on a highly stylized theoretical model dependent on unrealistic assumptions, and in the many decades

since its publication the paper's conclusion has not been established empirically. Paul Joskow, in his *Regulation of Natural Monopolies*, points out that "there are significant deviations between the model's assumptions … and how regulators actually regulate.[10]" Most notably the Averch-Johnson model relies on the assumptions that regulators are largely ignorant of the firms they regulate and that there is no regulatory lag. This is clearly not the case, as Commission Staff subjects utilities to thorough audits examining their operating and capital costs and, in the case of water utilities, the DOH examines the appropriateness of capital plans. Additionally, there is substantial regulatory lag inherent in rate base rate-of-return utility regulation. Additionally, in the decades since the Averch-Johnson effect was advanced, attempts to verify it empirically have been largely unsuccessful. In sum, Cascadia Water does not believe that the Commission should fundamentally upend decades of cost-of-service regulation supported by statutes, regulations, and Commission precedent, based on Mr. Gilles' cited academic paper.

Q. At page 14 of his testimony Mr. Gilles argues that small water utilities are inherently less risky than Northwest Natural's large integrated gas utilities, and thus the rate of return allowed for Northwest Natural's large integrated gas utilities should act as an upper bound on what should be allowed for Cascadia Water. How do you respond?

[10] Paul L. Joskow, *Regulation of Natural Monopolies,* MIT Center for Energy and Environmental Policy Research, April 2005, at 118.

A. Mr. Gilles' understanding of the water and gas utility businesses is apparently limited and his discussion of their relative risks is highly flawed. Cascadia Water stands by the arguments made in Mr. Rowell's Direct Testimony on this point and, rather than rebut Mr. Gilles' assertions point by point, we point out a simple undisputed fact: Cascadia Water's current operating income is *negative*; that is, Cascadia Water is currently losing money. Furthermore, in Mr. Rowell's almost thirty years of experience with regulated utilities, he has encountered several small water systems that were losing money or otherwise in severe financial straits but he has never encountered a large integrated gas utility (or electric utility) in a similar situation outside of extraordinary circumstances.

Q. Are there other issues with Mr. Gilles' reliance on Northwest Natural's realized return on equity?

A. Yes, relying on a single realized return from a company that largely operates in a different industry from the utility in question runs counter to any and all accepted methods of determining utility cost of equity. It is a basic precept of finance that the required return on an investment (i.e., its cost of capital) depends on the risk *of that investment*, not on the parent's financing cost.[11] Mr. Gilles acknowledges this himself in his testimony, where at page 17 he states: "The economic cost of a utility's capital depends on the utility's risk profile relative to other investments, and its ability to generate income using financial resources on alternative investments." In other words, the economic cost of a utility's capital does not depend on the realized return of its parent company.

[11] See Morin, Roger A., New Regulatory Finance, 1994 at 520.

Q. At page 25 of his testimony, Mr. Gilles states that "[i]mplementing rules that require prior approval of significant capital projects before they are undertaken would have likely averted many of the issues confronting the Commission in this proceeding and it is my opinion that Washington should adopt a similar policy." How do you respond?

A. Cascadia Water does not agree with Mr. Gilles' statement. All of the capital projects included in Cascadia Water's rate base were necessary for the provision of safe and reliable service. Cascadia Water is confident that this would have been the Commission's finding had they been presented in advance, so this extra regulatory proceeding Mr. Gilles advocates for would have not affected the outcome of this case. Further, Mr. Gilles is recommending a radical departure from traditional utility rate regulation with very little justification. Mr. Gilles cites a policy of the California Public Utilities Commission ("CPUC") regarding notice of significant capital projects (see Exhibit BCG-10). But, that policy only requires notice by the company of its significant capital projects; it does not include "prior approval" by the CPUC as Mr. Gilles erroneously implies. Further, the DOH reviews and approves water utility Master Plans in an open process in which the Commission participates. That DOH process provides the advance review of utility projects Mr. Gilles believes is important. Thus, Mr. Gilles' proposal to have the Commission conduct a similar process would be duplicative and wasteful.

Q. At page 29 of his testimony, Mr. Gilles states that Cascadia Water "disavowed its prior responses" to Public Counsel data requests. Is this correct?

A. No. Cascadia Water has not "disavowed" the answers it provided to Public Counsel's questions prior to the formal discovery process. Mr. Gilles is attempting to argue that the upgrades Cascadia Water has made to its water systems were not necessary. Mr. Gilles appears confused about the necessity of complying with DOH's requirements. To put it simply: The DOH Water System Design Manual contains minimum design standards and the fact that Cascadia Water must bring its systems into compliance with DOH minimum design standards is a regulatory/legal reality. At page 30 lines 1-2, Mr. Gilles tries to refute this simple fact by seizing on Cascadia Water witness Culley Lehman's choice of the word "guidelines" in testimony. Here Mr. Gilles misconstrues one out-of-context statement and attempts to use that to make a sweeping claim about DOH regulation and requirements.

Q. Does Mr. Gilles' testimony regarding the DOH's Water System Design Manual and minimum design standards raise any additional concerns?

A. Yes. The WCAW's position on the DOH's Water System Design Manual and minimum design standards is not entirely clear, but Mr. Gilles' testimony implies that the WCAW believes water utilities are not required to, and should not attempt to, comply with the DOH's *minimum design standards*. If that is the WCAW's position, it is an extraordinary position to take given that failure to meet *minimum design standards* risks the reliability and safety of a water system.

Q. On page 28 of his testimony, Mr. Gilles states "Cascadia also claimed it was required to do the rest of its major improvements because it is required to comply with DOH Design Manual standards." How do you respond?

A. This is a misunderstanding by Mr. Gilles. As the response provided in Mr. Gilles' exhibit states: "When Cascadia Water undertook each of the eight projects, it was a requirement to make sure that project was in compliance with DOH minimum design standards per section 1.5 Minimum System Design Requirements." (see Exh. BCG-15).

This statement is consistent with Cascadia Water's position that when it files a project with the DOH (whether as a follow-up to a Corrective Action Plan, or a response to a DOH Directive Letter, or an investment such as generators), it is required to comply with DOH minimum design standards.

Q. On page 31 of his testimony Mr. Gilles argues: "Thus, for example, the Estates system currently has 367 actual users and has been approved for up to 480 connections. But the reservoir, booster pumps and mains were designed for 520 hypothetical users, based primarily on Cascadia's water rights." How do you respond?

A. As stated in the Direct Testimony of Culley Lehman (at 20), the existing reservoirs had structural deficiencies and significant leaking issues that were a bacteriological concern. They needed to be replaced to ensure the safety and reliability of Cascadia Water's service. Mr. Gilles implies that Cascadia Water oversized the replacement reservoir. However, the replacement reservoir is actually smaller than the tanks it replaced. The size of the prior tanks (180,000

gallons)[12] that Cascadia Water removed was designed for the 520 hypothetical users, based on water rights. The new reservoir that Cascadia Water installed is only 158,600 gallons (see Blaine Gilles Exh. BCG-18, pages 13-15). Since the replacement reservoir actually has a lower capacity than the tanks it replaced, Mr. Gilles claim of oversizing is unsupported.

Q. If Cascadia had made the replacement reservoir even smaller and sized it only to allow capacity for existing customers, would it have resulted in significant cost savings?

A. No, the costs of installing an above ground reservoir does not scale linearly with its size. The overall cost of the project was influenced by many factors and reducing the gallon capacity would not have resulted in meaningful cost savings.

Q. On page 32 of his testimony, Mr. Gilles makes claims regarding Supervisor Control and Data Acquisition ("SCADA") systems. How do you respond?

A. Mr. Gilles' testimony does not fully capture the intricacies of the water utility business. As to his statement that the Company would "pay more to maintain, monitor and protect these systems from hacking" and that "[t]his is a substantial sum for systems that cover only a portion of 4,000 connections," the Company previously stated in in response to UW-240151 WCAW DR 104 (Exh. MJR-CJL-2), it costs only $9,493 per year for the 13 SCADA systems combined. That averages $730 per system. The Company disagrees that is a "substantial sum" as Mr. Gilles claims.

[12] See Exh. CJL-2, page 5.

He further states that, "[i]n a competitive firm concerned about cost effectiveness, one would have expected a detailed cost-benefit analysis showing the economic and service benefits of deploying this new metering system. To my knowledge no such analysis was conducted." First, this is not a metering system. As stated in Culley Lehman's testimony, SCADA monitors real-time tank levels, pressure settings and pump controls (e.g., events, hours). Second, the Company did not incur the cost of conducting a "detailed cost-benefit analysis" because having SCADA systems is a water industry standard. Moreover, the Company installed the same SCADA system that was already installed on its other water systems (since it would be inconsistent with industry standard to have two different types of SCADA systems installed across various water systems).

Q. On pages 32-33 of his testimony, Mr. Gilles makes claims regarding the prudency of standby generators. How do you respond?

A. Cascadia Water stands by the arguments made in Mr. Lehman's Direct Testimony, and notably the Company has not had a single customer complain about receiving water service from a standby generator during a power outage. The convenience, reliability, and safety provided by standby generators are particularly important.

WAC 246-290-420 speaks to water system reliability:

> (1)All public water systems shall provide an adequate quantity and quality of water in a reliable manner at all times.… (4) The purveyor shall address abnormal operating conditions, such as those associated with fires, floods, unscheduled power outages, facility failures, and system maintenance, by using measures consistent with applicable regulations and industry standards to ensure the system is constructed, maintained, and operated to protect against the risk of contamination by cross-connections as a result of loss of system pressure.

Standby generators are a common way for water utilities to address "unscheduled power outages" consistent with these regulations.

Q. What is Cascadia Water's response to WCAW's witness Harry L. Palmer?

A. Mr. Palmer's assertion that it is not necessary to install fire hydrants or other facilities to facilitate fire flow is unfounded. Attached as Exhibit MJR-CJL-3 is a letter from the current South Whidbey Fire/EMS ("SWFE") Assistant Chief that explains the importance of fire hydrants.

Mr. Palmer also claims that certain Cascadia Water systems did not meet fire flow requirements during his tenure as fire chief, but this is not correct. The W&B Waterworks and the TEL Company #1 systems both met fire flow requirements during Mr. Palmer's tenure. As he states on page 4 of his Response Testimony, Exh. HLP-1T at 4, Island County Code 13.03A100 sets fire flow for new and expanded water systems at "500 gpm [gallons per minute] for at least 30 minutes." That calculates to 15,000 gallons for the thirty-minute interval. W&B Waterworks is a gravity fed system with 6-inch and 8-inch mains and a reservoir system with a 100,000-gallon capacity. That 100,000-gallon capacity exceeds the 15,000 gallon capacity minimum, and therefore meets fire flow requirements. The most recent sanitary survey (provided as an exhibit to Culley Lehman's testimony at Exh. CJL-7C) confirms that the W&B Waterworks system has fire hydrants/

meets fire flow.[13] Mr. Palmer's testimony also refers to 1,100 gpm fire flow requirements. This requirement is for commercial structures. Cascadia Water has no commercial structures within the SWFE district; therefore, the 1,100 gpm requirement is irrelevant.

Mr. Palmer also incorrectly claims Cascadia Water systems did not have working fire hydrants during his tenure as chief. The Company has two water systems inside the SWFE District (Mr. Palmer's former district), both of which have fire hydrants. TEL Company #1 fire hydrants were installed in 1990. W&B Waterworks fire hydrants were installed in 1988. The SWFE fire department has utilized Cascadia Water's hydrants in the past to fight fires, as well as to conduct training. During Mr. Palmer's tenure as the fire chief, a residential house fire occurred on the corner of Lancaster & Woodard Rd on May 19, 2019; the SWFE fire department utilized the nearest hydrant on the W&B Waterworks system to fight that fire. Additionally, Cascadia Water is listed as one of the three main water systems on page 32 of the SWFE Community Risk Assessment Standard of Cover.[14]

Finally, Cascadia Water notes that one of the benefits of the Del Bay project that is included in this rate case, is that Cascadia Water was able to extend fire flow to this community that previously had none. Cascadia Water will continue to

[13] For example, Exh. CLJ-7 at 7 lists Well #2 and Well #4 and specifies "Only used in periods of high demand (typically only in the summer or a fire event)." Exh. CLJ-7 at 9 reads "Fire flow is provided to 34 fire hydrants in the distribution system."

[14] See https://www.swfe.org/files/dcd38faa6/Community+Risk+Assessment+SOC+final.pdf.

maintain its existing hydrants and look for ways to install fire flow on the systems that do not have them.

Q. What is Cascadia Water's response to some of the concerns raised by Public Counsel witness Scott Duren?

A. Public Counsel witness Scott Duren raised some questions about the prudency of investment in infrastructure for the Company's water systems. Mr. Duren's criticism is limited to the CAL Waterworks, W&B Waterworks, and standby generators projects. It appears Mr. Duren only reviewed the water system master plan that was approved by DOH in 2022 for the systems on Whidbey Island for those projects.

Mr. Duren's testimony did not identify any requirements that were not met in the capital projects that Cascadia Water completed. Mr. Duren states on page five, line 18 in his testimony that:

> Many utilities that do not raise rates for long periods of time and defer maintenance investments in their systems are put in a position where a sharp increase in spending are necessary to meet the minimum levels of service and severe rate increases, or taking on long-term debt, is required to fund the improvements.

This aligns with the circumstances underlying Cascadia Water's rate case. Deferred maintenance by prior owners of the systems Cascadia Water has acquired left the systems in need of significant upgrades. Cascadia Water has been making the long-needed upgrades and investments into those 'distressed systems' to ensure safe and reliable drinking water now and into the future, which is the very definition of prudent.

Q. Are there other concerns raised by Public Counsel you want to address?

A. Yes. In some areas of Mr. Duren's testimony,[15] he asserts additional information would be helpful to determine the prudency of some projects. The project reports utilized by DOH to approve projects have much of the information Mr. Duren indicated he needed. Each specific project report is developed based upon a thorough analysis of the relevant system and any uncovered deficiencies. The Company's response to WCAW Data Request No. 47 Exh. MJR-CJL-4), and Public Counsel's Informal Request No. 3 (Exh. MJR-CJL-5) provided most of this information. In reference to the WB Waterworks project, for example, Mr. Duren states "[a] detailed description on each of the project's components, including itemized construction costs and justification for why each element was necessary, would be helpful in the review of this project." The project report for the WB Waterworks project, included as Exhibit MJR-CJL-6 (the Company's supplemental response to WCAW Data Request No. 47), includes the project report for the CAL Waterworks project, which has the additional information addressing the concerns Mr. Duren had for that project. This information was inadvertently omitted from Cascadia Water's initial response to WCAW Data Request No. 47. Additionally, the Company provided the bids in Public Counsel's Data Request No. 34 which contains other helpful information, attached as Exhibit MJR-CJL-7C.

[15] Pages 7-10.

Q. Are there concerns raised by Public Counsel about the standby generators you want to address?

A. Yes. The Company agrees with Mr. Duren's testimony, which is in contrast to the testimony of WCAW, that standby generators have "become an industry standard in the Pacific Northwest, particularly as the seismic vulnerabilities of the region have been identified and the need for resilient infrastructure in the aftermath of a natural disaster has become better understood."[16] This is consistent with WAC 246-290-420 (quoted earlier in our testimony) and WAC 246-290-200(1).[17]

While some general questions were raised about the Company's prioritization process, Cascadia Water determined all systems are a priority for having standby generators to ensure customers have access to safe and reliable drinking water, even during abnormal operating conditions such as a power outage. A phased-in approach is not appropriate, as each system is as vulnerable as the next and Cascadia Water is unable to know which systems will lose power and how frequently power losses will occur. For example, during the bomb cyclone on November 20, 2024, 15 generators on the Cascadia Water systems were running, providing power to support water service to customers. Without the generators, 15 different systems could have potentially been without water, resulting in 15 different boil advisories (once power and water service were restored). Not having

[16] Duren at 11:18.

[17] WAC 246-290-200(1) references the *Recommended Standards for Water Works, A Committee Report of the Great Lakes – Upper Mississippi River Board of State Public Health and Environmental Manager* (also known as "10 States Standards") as an example of "good engineering criteria and practices" to follow. Section 6.3.4 of the 10 States Standards says to "ensure continuous service when the primary power has been interrupted, a power supply shall be provided from a standby or auxiliary source."

a standby generator can pose an acute health risk to customers due to pressure loss, and that is not the standard the Company can maintain.

IV. CONCLUSION

Q. Does that conclude your prefiled joint testimony supporting the Settlement?

A. Yes, it does.