

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

CASCADIA WATER, LLC

Respondent.

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DOCKET UW-240151

**RESPONSE TESTIMONY OF DAVID J. GARRETT ADDRESSING  
THE SETTLEMENT STIPULATION  
ON BEHALF OF THE  
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL  
PUBLIC COUNSEL UNIT**

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**EXHIBIT DJG-18T**

January 22, 2025

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**I. INTRODUCTION & SUMMARY**

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

A. My name is David J. Garrett. I am the managing member of Resolve Utility Consulting PLLC. My business address is 101 Park Ave., Suite 1125, Oklahoma City, Oklahoma 73131.

**Q. Did you previously file testimony in this proceeding?**

A. Yes. I filed responsive testimony in this proceeding on November 20, 2024, on behalf of the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel).

**Q. Please describe the purpose of your settlement testimony.**

A. My settlement testimony addresses the direct testimony of Utilities and Transportation Staff (Staff) witness Scott Sevall regarding rate of return issues. My testimony will outline my agreement with Witness Sevall on several key issues raised in testimony, Exhibit SS-1T and how I incorporated the recommendations to develop revised recommendations regarding a reasonable authorized rate of return for Cascadia Water LLC (Cascadia or the Company).

**Q. Are you sponsoring any exhibits in this testimony?**

A. No.

**II. DISCUSSION**

**Q. Please summarize Staff’s recommendations which you will address in this testimony.**

A. Witness Sevall sponsors Staff’s proposed rate of return recommendation of 6.46

1 percent.<sup>1</sup> This rate of return recommendation is comprised of an imputed capital  
2 structure proposal consisting of 53 percent debt and 47 percent equity. Staff's rate  
3 of return recommendation also incorporates an adjusted cost of debt  
4 recommendation of 3.17 percent. In this testimony, I will address Staff's capital  
5 structure and cost of debt adjustments.

6 **Q. Please summarize the basis of Staff's capital structure adjustment.**

7 A. In direct testimony, Cascadia witness Matthew Rowell supported the Company's  
8 proposed capital structure consisting of 34 percent debt and 66 percent equity.  
9 Witness Sevall testified his analysis showed that a capital structure consisting of  
10 47 percent debt and 53 percent equity was more appropriate. According to Sevall,  
11 for the equity component of capital structure, he used total ownership equity  
12 withholding retained earnings.<sup>2</sup> For the debt component, Sevall used total  
13 liabilities withholding accounts payable and accrued taxes. Sevall concluded that  
14 Cascadia's balance sheet demonstrates its capital structure has much less equity  
15 and much more debt than the Company's proposed capital structure, and that a  
16 capital structure that is weighed too heavily with equity will be more expensive  
17 for ratepayers.<sup>3</sup>

18 **Q. In your opinion, is the capital structure proposed by Sevall reasonable?**

19 A. Yes. Based on Sevall's reasoning, I believe Staff's proposed capital structure for  
20 Cascadia is reasonable. I also discussed in my direct testimony why Cascadia's  
21 proposed capital structure did not contain enough debt to be considered

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<sup>1</sup> Testimony of Scott Sevall, Exh. SS-1T, at 2, Table 1.

<sup>2</sup> *Id.* at 2:10–21.

<sup>3</sup> *Id.* at 6:8–14.

1 reasonable. As Sevall stated, a capital structure that is weighed too heavily with  
2 equity will be more expensive for ratepayers. I agree with Sevall on that point as  
3 well.

4 **Q. Please summarize the basis of Staff's cost of debt adjustment.**

5 A. Cascadia witness Rowell proposed a 5.22 percent cost of debt in direct testimony,  
6 Exhibit MJR-1T.<sup>4</sup> Witness Sevall testified that this was the cost of debt that Staff  
7 and Cascadia had agreed to during the June 27, 2024, Open Meeting.<sup>5</sup> Staff  
8 proposed a cost of debt of 3.17 percent.<sup>6</sup> According to Sevall, Staff's adjusted  
9 cost of debt proposal is based on Cascadia's response to Staff's Data Request No.  
10 3, which shows debt associated with Cascadia. Sevall essentially separated the  
11 Company's debt into holding company debt and Cascadia-specific debt, which  
12 resulted in a weighted cost of debt of 3.17 percent.<sup>7</sup>

13 **Q. In your opinion, is the adjusted cost of debt proposed by Sevall reasonable?**

14 A. Yes. Based on Sevall's reasoning, I believe Staff's proposed cost of debt  
15 adjustment is reasonable.

16 **Q. Have you performed a rate of return calculation for Cascadia that  
17 incorporates Staff's recommendations with your recommendations?**

18 A. Yes. As discussed in my testimony, I proposed an authorized ROE for Cascadia  
19 of 8.6 percent and an imputed capital structure consisting of 46 percent debt and  
20 54 percent equity. The following figure shows the rate of return calculation using

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<sup>4</sup> Direct Testimony of Matthew J. Rowell, Exh. MJR-1T at 16:6–7.

<sup>5</sup> Sevall, Exh. SS-1T at 15:3–6.

<sup>6</sup> *Id.* at 15:8–9.

<sup>7</sup> *Id.* at 15:14–19.

1 Public Counsel's proposed ROE and Staff's proposed cost of debt and capital  
2 structure.

3 **Figure 1**

Capital Component	Proposed Ratio	Cost Rate	Weighted Cost
Long-Term Debt	53.00%	3.17%	1.68%
Common Equity	<u>47.00%</u>	8.60%	<u>4.04%</u>
Total	100.0%		5.72%

4 As shown in this figure, the weighted average rate of return resulting from these  
5 recommendations is 5.72 percent. The following figure shows the rate of return  
6 calculation using Public Counsel's proposed ROE and capital structure, and  
7 Staff's proposed cost of debt.

8 **Figure 2**

Capital Component	Proposed Ratio	Cost Rate	Weighted Cost
Long-Term Debt	46.00%	3.17%	1.46%
Common Equity	<u>54.00%</u>	9.00%	<u>4.86%</u>
Total	100.0%		6.32%

9 As shown in this figure, the weighted average rate of return resulting from these  
10 recommendations is 6.32 percent.

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

12 A. Yes.