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
ADDRESSING THE SETTLEMENT STIPULATION
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT SDV-11T

January 22, 2025

RESPONSE TESTIMONY OF STEFAN DE VILLIERS

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EXHIBITS LIST

Exhibit SDV-12	Revenue Requirement
Exhibit SDV-13	Rate Impacts, with Attachment
Exhibit SDV-14	Cascadia's Response to Public Counsel Data Request No. 30

I. INTRODUCTION & 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. Are you the same Stefan de Villiers who previously filed testimony in this proceeding?

A. Yes. On November 20, 2024, I filed responsive testimony before the Washington Utilities and Transportation Commission (Commission) on behalf of the Public Counsel Unit of the Washington State Office of the Attorney General (Public Counsel), which was designated as Exhibit SDV-1T.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Public Counsel.

Q. What additional exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following additional exhibits:

- Exhibit SDV-12: Revenue Requirement
- Exhibit SDV-13: Rate Impacts, with Attachment
- Exhibit SDV-14: Cascadia's Response to Public Counsel Data Request No. 30

Q. What is the purpose of your testimony?

A. My testimony responds to the Settlement Stipulation (Settlement) between Cascadia Water LLC (Cascadia or the Company) and Commission Staff (Staff), filed on January 10, 2025. My testimony presents Public Counsel's alternative calculations regarding revenue requirement and a rate phase-in.

Q. Are you responding to the most recent Settlement in this proceeding?

A. Throughout my testimony, I exclusively reference the Settlement filed on January 10, 2025. As of this testimony's filing, I understand via an email from Staff that a new Settlement will be filed on the same day as my testimony responding to the initial Settlement. I am aware that the new Settlement will include a lower revenue requirement, though it will remain well above Public Counsel's calculated range. I have not yet received or reviewed any other terms of the new Settlement. I reserve the right to amend my testimony as necessary to respond to the new Settlement. As of now, I anticipate that I will need to supplement final numbers from the new Settlement without other substantive changes to my testimony.

Q. Please describe the terms of the initial Settlement.

A. The Settlement intends to fully resolve Cascadia's general rate case, originally filed February 29, 2024. Its terms include the following:

1. Cascadia's total revenue requirement increases by $1.67 million, or 70.1 percent, across its whole system.[1] The revenue requirement is a black box, meaning no agreed capital costs are presented, but all Cascadia's plant investment is deemed prudent.[2]
2. Cascadia's 29 small water systems in Clallam, Jefferson, Kitsap, Island, Snohomish, and Skagit Counties (previously split between the Island/Mainland and Peninsula Systems) are consolidated into one major system, called the

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[1] Joint Testimony of Matthew J. Rowell and Culley J. Lehman, Exh. MJR-CJL-1T, at 3:17–18 (filed Jan. 13, 2025).
[2] *Id*. at 4:12–15.

Western Systems. The Western Systems' revenue requirement increases by $1.41 million, or 67.5 percent.[3]

3. Cascadia's Pelican Point System, in Grant County, remains separate from the Western Systems. Its revenue requirement increases by $262 thousand, or 89.0 percent.[4]
4. Resulting rate increases are phased in, with the first increase implemented on the rate effective date, the second increase implemented one year later, and a slight decrease (once deferred costs are fully recovered) implemented three years after the rate effective date.[5] The phase-in includes an unspecified amount in carrying costs resulting from deferred implementation.[6]
5. Cascadia may not file a new general rate case until three years after the rate effective date in this case, which is proposed as April 1, 2025.[7]
6. The $10.10 monthly surcharge for Aquarius customers is removed and the outstanding value of the associated loan is recovered from all customers in the Western Systems as a rate base asset.[8]
7. Cascadia agrees to develop and communicate to customers a capital plan discussing future major capital improvements (projects with total costs of $150,000 or more) by one year after the rate effective date.[9] Cascadia also agrees to prioritize future major capital improvements.

[3] *Id*. at 6:19–21.
[4] *Id*.
[5] *Id*. at 9:10–19.
[6] *Id*. at 4:12–15.
[7] *Id*. at 4:16–22.
[8] *Id*. at 5:1–3.
[9] *Id*. at 5:4–18.

Q. Please escribe Public Counsel's position on the Settlement.

A. Public Counsel continues to believe that this rate increase is driven by a capital investment strategy from Cascadia which did not sufficiently account for the impact on its ratepayers. Staff and Cascadia deem the Company's plant investment prudent, but my colleague Scott Duren identifies at least three instances where Cascadia could have better planned and prioritized its investments to mitigate the impact on ratepayers. In addition, my colleague David Garrett responds to the black box settlement with a capital cost range that adopts Staff's cost of debt proposal and calculates two returns on equity (ROEs) and capital structures.

As a result, Public Counsel calculates a revenue requirement increase range of $1.12–1.19 million, with a midpoint at $1.15 million, well below the Settlement's proposed $1.67 million. Additionally, Public Counsel continues to support the two-year phase-in proposal I described in my initial testimony, which forgoes deferred revenue as a reasonable adjustment in the face of Cascadia's insufficient capital planning.

II. REVENUE REQUIREMENT

Q. Does the Settlement still include an "almost unprecedented" revenue requirement increase?

A. Yes, it does. In my initial testimony, I described how Cascadia's requested revenue requirement increase was almost unprecedented in the last decade.[10] I reviewed all water utility revenue requirement increases approved by the Commission since 2014

[10] Response Testimony of Stefan de Villiers, Exh. SDV-1T, at 8:3–6 (filed Nov. 20, 2024).

and found only three examples of larger single-case increases. All those increases were explained by factors not present in this case, including longer gaps since previous rate cases. On a per-year basis, Cascadia's requested increase was larger than any other general rate case increase in the last decade.

All of this is still true under the Settlement. Cascadia requested a 72.5 percent revenue requirement increase and the Settlement includes a 70.1 percent increase. Both in absolute terms and on a per-year basis, this is still an unprecedented increase.

Q. How does this increase compound previous Cascadia rate increases?

A. I noted in my initial testimony that, in the last decade, two of the five largest revenue requirement increases were for Cascadia or a system later acquired by Cascadia.[11] As such, the Settlement's revenue requirement increase would compound previous large Cascadia rate increases, imposing a unique burden on the Company's customers.

Specifically, Cascadia's last general rate case, in 2021, increased its revenue requirement by 53.5 percent.[12] If the Settlement's increase is approved, Cascadia's customers will have seen their water utility increasing its revenue requirement by about 161 percent in fewer than four years.[13]

Q. Do you have any concerns about Staff's revenue requirement calculations supporting the Settlement?

A. Yes, I do. Staff's revenue requirement calculations do not make any adjustments to Cascadia's major capital investments. As the testimony of Public Counsel's expert water system engineer details, several of Cascadia's capital investments were not

[11] *Id.* at 8:7–12.
[12] *Id*. at 7 (Table 2).
[13] 1.535 * 1.701 = 2.611, or about 161 percent.

immediately necessary and the Company's capital investment strategy did not sufficiently account for impacts on ratepayers. As such, several adjustments to Cascadia's rate base are in order.

Staff has not engaged a water system engineer to evaluate Cascadia's capital investments and its evaluation of prudence is based in part on a tour of the Company's system led by the Company itself.[14] I am concerned that Staff did not sufficiently investigate or account for the unreasonableness of Cascadia's capital investment strategy. As such, Staff's calculated revenue requirement is too high.

Additionally, I understand via an email from Staff that the revenue requirement calculations in its November 20, 2024, testimony overstated Cascadia's revenue requirement by double counting certain depreciation expenses. Staff's November testimony calculated a revenue requirement of $1.61 million.[15] My own calculations suggest that removing the error in Staff's calculations will result in a revenue requirement of $1.47 million.[16]

Q. Did Staff's November testimony include any expense adjustments which you deem to be reasonable?

A. Yes. I reviewed Staff's November testimony describing adjustments to Cascadia's operating expenses as filed. These include adjustments to Cascadia's employee bonuses, costs associated with an accident not covered by insurance, recovery of late fees and penalties, travel expenses, office expenses, and membership fees.[17] In my

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[14] Response Testimony of Rachel Stark, Exh. RS-1T, at 14:10–18 (filed Nov. 20, 2024).
[15] *Id*. at 3:10–12.
[16] De Villiers, Exh. SDV-12 (Revenue Requirement).
[17] Stark, Exh. RS-1T, at 8:3–6.

view, these all constitute reasonable adjustments to Cascadia's filing, and I have incorporated them in my calculation of Cascadia's revenue requirement.

Q. Did Staff's November testimony include any other adjustments which you deem to be reasonable?

A. Yes. I reviewed Staff's November testimony describing its removal of the Aquarius surcharge from rates and its addition of the outstanding value of the associated loan to the Western Systems rate base.[18] This adjustment is also made in the Settlement. In my view, this constitutes a reasonable adjustment, and I have also incorporated it into my calculation of Cascadia's revenue requirement.

Q. Please describe Public Counsel's calculated revenue requirement increase.

A. Public Counsel calculates a revenue requirement increase range of $1.12–$1.19 million, with a midpoint of $1.15 million. This range incorporates $2.54 million in plant investment disallowances testified to by Mr. Duren. Its upper and lower bounds are determined by the costs of capital calculated by Mr. Garrett, the higher of which is very similar to the cost of capital originally proposed by Staff.

Without any plant investment adjustments, the upper bound of Public Counsel's range would be $1.46 million, very similar to Staff's calculated $1.47 million revenue requirement increase. The revenue requirement increases calculated by each party are described in full below.

Table 1: Revenue Requirement Increases[19]

Party	**Public Counsel**				**Staff**	**Settlement Agreement**	**Company**
Scenario	*Low*	*Mid*	*High*	*No Plant Adj.*			
Increase ($m)	**1.12**	**1.15**	**1.19**	**1.46**	**1.47**	**1.67**	**1.73**

[18] *Id*. at 16:10–21.
[19] De Villiers, Exh. SDV-12 (Revenue Requirement).

Increase (%)	47.0%	48.5%	50.0%	61.3%	61.8%	70.1%	72.5%
WACC	5.72%	N/A	6.32%	6.32%	6.46%	N/A	8.97%

Q. Please describe the plant investment disallowances recommended by Mr. Duren.

A. Mr. Duren recommends plant investment disallowances for three of Cascadia's major capital projects. For each of the projects he discusses, he testifies that full implementation of the projects was not needed immediately, and the projects could have been phased in over several years instead. I have adopted the following plant investment disallowances in response to Mr. Duren's testimony:

1. **Project #3 (CAL Waterworks):** $1.02 million in rate base adjustments due to Mr. Duren's finding that only $75,000 in costs were immediately necessary.
2. **Project #7 (Estates):** $1.45 million in rate base adjustments due to Mr. Duren's finding that only $75,000–$125,000 (midpoint of $100,000) were immediately necessary.
3. **Project #12 (Generators):** $75,658 in rate base adjustments due to Mr. Duren's finding that two generator projects were not immediately necessary.[20]

III. CONSOLIDATION AND PHASE-IN

Q. How does the Settlement's rate consolidation affect ratepayers?

A. As previously described, the Settlement proposes a uniform set of rates for all ratepayers in Cascadia's Western Systems. This consolidation, while appealing in principle, has significant near-term effects for systems which currently have monthly bills that are lower than the Western Systems' average. In other words, those systems

[20] *Id.*

which have the most "ground to make up" in rates will be most negatively impacted in the short term by rate consolidation.

Customers with small meters on the Pedersen and Peninsula systems currently have the lowest average monthly bills, about $9–$10 less per month than the next lowest system.[21] In addition, small meter customers on the Peninsula system have the highest average monthly water use in the Western Systems.[22] These factors mean that imposing any uniform set of rates for the Western Systems would lead to significant billing increases for the Pedersen and Peninsula systems as they catch up to–and in Peninsula's case, pass (because of high water use)–the other systems. As a result, the Commission should be especially aware of the Settlement's impacts on these systems.

Notably, neither the Settlement nor the testimony filed in support of it contain any discussion of the rate impacts that it would produce. In its initial filing on September 26, 2025, Cascadia included calculations of their proposed rates' impacts on average monthly bills.[23] Neither Cascadia nor Staff do so here. My own calculations of average monthly bills under the Settlement's rates are provided later.

Q. Does Public Counsel oppose the rate consolidation proposed in the Settlement?

A. Not in principle, no. However, Public Counsel highlights the need to implement such a consolidation cautiously, with awareness of its near-term impacts on the systems being consolidated.

The Commission should know that, absent any checks, Cascadia plans to continue its rapid pace of capital investment in years to come. In my initial testimony,

[21] Direct Testimony of Matthew J. Rowell, Exh. MJR-9 (filed Sep. 26, 2024) (Proposed Bills).
[22] De Villiers, Exh. SDV-14 (Cascadia's Response to Public Counsel Data Request No. 30).
[23] Rowell, Exh. MJR-9 (Proposed Bills).

I noted that Cascadia's current pace of investment would lead to the Company's rate base doubling in approximately three years.[24] This is cause for concern, and the Commission can encourage more reasonable investment practices by establishing a precedent of disallowing imprudent investments in this case. In addition to that intervention, however, further action should be taken to reduce the impact of that capital investment on rates. Rate consolidation constitutes one possible approach, spreading the impacts of capital investment across as large a ratepayer base as possible.

If the near-term impacts on highly affected systems like Pedersen and Peninsula are sufficiently mitigated in this case (via plant investment disallowances and a robust phase-in, for example), the future benefits of a consolidated system are appealing. As such, Public Counsel does not oppose rate consolidation here in principle.

Q. Please describe the Settlement's phase-in.

A. As previously stated, the Settlement provides for rates to be phased in over three years, with deferred and carrying costs fully recovered. In practice, this means that most Cascadia customers will see a significant increase in their rates on the rate effective date and another significant increase one year after the rate effective date. The phase-in provides for some decrease in rates to come three years after the rate effective date, when deferred revenue has been fully recovered, but this coincides with the end of Cascadia's "stay out" period, when new, higher rates will likely go into effect and counteract any decrease.

[24] De Villiers, Exh. SDV-1T, at 15:3–9.

Q. Please elaborate on how the Settlement's phase-in treats deferred revenue.

A. As I explained in my initial testimony, some phase-ins require companies to forgo revenue that is not recovered in the initial steps of the phase-in, while other phase-ins allow the utility to defer that revenue, to be recovered later with carrying costs.[25] Public Counsel's position continues to be that Cascadia's capital investment strategy did not sufficiently account for impacts on ratepayers, and deferred revenue should be foregone in any phase-in to simulate a more reasonable rate of investment.[26] This approach approximates how rates would have increased had Cascadia adopted a prudent investment strategy that staggered improvements over time to balance service improvements with rate shock.

The Settlement does not take this approach and allows Cascadia to recover all deferred revenue with carrying costs, beginning one year after the rate effective date. As I will show, this produces exactly the kind of rate shock that the Commission should seek to avoid.

Q. How do the Settlement's revenue requirement, phase-in, and rate consolidation combine to affect rates?

A. Table two shows the impact of the Settlement's proposed rates on average monthly bills in each Cascadia system across the phase-in period. Of particular note is the impact on the Pedersen and existing Peninsula systems. Driven by the Settlement's unprecedented revenue requirement increase, the consolidation of rates without

[25] *Id*. at 9:1–3.
[26] *Id*. at 13:1–4.

specific regard for system-level impacts, and the recovery of deferred revenue, these systems see massive rate increases right away.

Peninsula would see a 110 percent increase in average monthly bills on the rate effective date, while Pedersen would see a 56 percent increase. One year after the rate effective date, Peninsula's average monthly bills would be 171 percent higher than they are currently, while Pedersen's would be 118 percent higher. These two systems would only see marginal relief three years after the rate increase, at which point Cascadia would be free to increase rates again. Increases of this magnitude over such a short time period clearly constitute rate shock.

These are the most extreme rate impacts of the Settlement, but almost every other system (minus Aquarius) would also be forced to adjust to average bill increases of 65 percent or greater over just one year. These exorbitant increases are another example of why any phase-in approved by the Commission should forgo revenue not collected in the initial steps.

Table 2: Average Monthly Bills, By System (Settlement)[27]

	Current	*Rate effective date*	*% change from current*	*1 and 2 years after*	*% change from current*	*3 years after*	*% change from current*
Island	$49.81	$68.04	37%	$91.91	85%	$83.95	69%
Peninsula	$39.55	$83.21	110%	$107.08	171%	$99.12	151%
NWWS	$56.72	$69.56	23%	$93.43	65%	$85.47	51%
Aquarius	$59.43	$54.04	-9%	$77.91	31%	$69.95	18%
Pedersen	$38.67	$60.42	56%	$84.29	118%	$76.33	97%
Discovery Bay	$48.58	$63.04	30%	$86.91	79%	$78.95	63%
Pelican Point	$43.95	$63.33	44%	$92.79	111%	$82.97	89%

[27] De Villiers, Exh. SDV-13 (Rate Impacts).

Q. Please describe Public Counsel's proposed phase-in.

A. Public Counsel continues to advocate for the phase-in proposal I recommended in my initial testimony, which incorporates the revenue requirement increase in three equal steps over a period of two years and forgoes any revenue not collected in the initial steps of the phase-in.[28] An example of this phase-in is provided in Figure one below.

IV. CALCULATED RATES

Q. How does Public Counsel's revenue requirement calculation translate to rates?

A. The midpoint of Public Counsel's calculated revenue requirement increase range is $1.15 million, which results in a total revenue requirement of $3.54 million for Cascadia. I have calculated rates to correspond with this revenue requirement, for which the final step (two years after the rate effective date) is presented below.

Table 3: Western Systems Calculated Final Step Rates[29]

	5/8 or 3/4-inch meters		1-inch meters		2-inch meters	
Base Rate	$41.47		$82.94		$331.76	
	Block (cubic ft.)	Rate (per 100 cubic ft.)	Block (cubic ft.)	Rate (per 100 cubic ft.)	Block (cubic ft.)	Rate (per 100 cubic ft.)
Block 1	0–500	$3.22	0–1250	$3.22	0–4000	$3.22
Block 2	500–1000	$5.09	1250–2500	$5.09	4000–8000	$5.09
Block 3	1000+	$6.44	2500+	$6.44	8000+	$6.44

Table 4: Pelican Point Calculated Final Step Rates[30]

Base Rate	$41.24	
	Block (cubic ft.)	Rate (per 100 cubic ft.)
Block 1	0–900	$1.01
Block 2	900–5500	$1.60

[28] De Villiers, Exh. SDV-1T, at 11:19–12:7.
[29] De Villiers, Exh. SDV-13 (Rate Impacts).
[30] *Id.*

Block 3	5500+	$2.02

Q. Do these rates mitigate the most extreme impacts of Cascadia's rate increase?

A. To an extent, yes. Given Cascadia's massive capital investment in recent years, which I described in more detail in my initial testimony, it is difficult to entirely mitigate the unreasonable impacts on ratepayers.[31] Lowering Cascadia's revenue requirement provides some relief, but still results in rate shock absent a robust phase-in, especially for systems which are negatively impacted in the short term by rate consolidation. As such, both a lower revenue requirement and my recommended phase-in are necessary to sufficiently mitigate the impacts of Cascadia's rate increase on ratepayers.

The Peninsula system provides a good example of the impact of Public Counsel's calculated rates. Here, even under Public Counsel's calculated revenue requirement, the addition of rate consolidation leads to an increase in average monthly bills that exceeds Cascadia's initial rate increase request. Absent a robust phase-in, this increase would still constitute rate shock. However, my phase-in proposal means that Peninsula customers will not feel the full effect of this rate increase until two years after the rate effective date. To illustrate this, below is a graph of Peninsula's average monthly bills under the Settlement, Cascadia's initial filing, and Public Counsel's calculated final step rates.

For other systems less negatively affected in the short term by rate consolidation, or positively affected by it, Public Counsel's calculated rates lead to a much more palatable increase over the two-year phase-in. Graphs illustrating the impacts of Public Counsel's rates in comparison to the Settlement's rates and

[31] De Villiers, Exh. SDV-1T, at 5:5–10.

Cascadia's initial filing for each of the Company's systems can be found in Exhibit SDV-13, Attachment 1. Finally, a list of the average monthly bills for each system under Public Counsel's calculated final step rates is provided below and contrasted with Cascadia's initial filing.

Figure 1: Peninsula Average Monthly Bills[32]

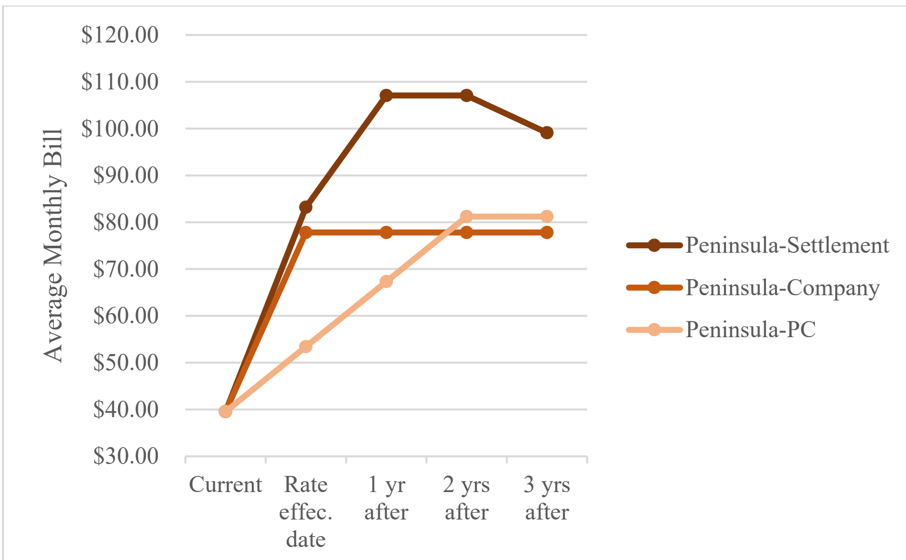

Table 5: Average Monthly Bills, By System (PC and Cascadia)[33]

	Current	*PC final step rates*	*% change from current*	*Cascadia initial proposal*	*% change from current*
Island	$ 49.81	$70.84	42%	$100.24	101%
Peninsula	$ 39.55	$81.21	105%	$77.81	97%
NWWS	$ 56.72	$71.88	27%	$101.87	80%
Aquarius	$ 59.43	$61.27	3%	$70.94	19%
Pedersen	$ 38.67	$65.63	70%	$64.55	67%
Discovery Bay	$ 48.58	$67.42	39%	$66.08	36%
Pelican Point	$43.95	$82.00	87%	$84.27	92%

[32] De Villiers, Exh. SDV-13 (Rate Impacts, Attachment 1).
[33] De Villiers, Exh. SDV-13 (Rate Impacts).

Q. Does this conclude your testimony?

A. Yes, it does.