

**Exh. RS-7Tr
Docket UW-240151
Witness: Rachel Stark**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

CASCADIA WATER, LLC

Respondent.

DOCKET UW-240151

SETTLEMENT TESTIMONY OF

RACHEL STARK

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Revenue Requirement, Effective Date, Aquarius Surcharge,
Capital Plan, Prioritization*

January 13, 2025

Revised January 22, 2025

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LIST OF EXHIBITS

- Exh. RS-8 Department of Health Letter and Sanitary System Surveys
- Exh. RS-9 Photos from Staff Site Visits
- Exh. RS-10C Invoices Related to Western Water Systems
- Exh. RS-11C Invoices Related to Pelican Point Water System

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3 **I. INTRODUCTION**

4 **Q. Are you the same Rachel Stark who submitted testimony in this proceeding on**
5 **November 20, 2024, on behalf of the Washington Utilities and Transportation**
6 **Commission Staff (Staff)?**

7
8 A. Yes.

9
10 **II. EXECUTIVE SUMMARY**

11 **Q. Please summarize the rate case in this docket.**

12 A. Cascadia Water, LLC, filed proposed rates on February 29, 2024, with an effective
13 date of June 1, 2024. The effective date was later extended to July 1, 2024, and the
14 Commission heard the docket at its June 27, 2024, Open Meeting.

15 Staff, Public Counsel, and a group of customers operating under the name of
16 the Washington Consumer Advocates of Olympic Peninsula requested information
17 from Cascadia about its filing. Cascadia responded to numerous requests, and Staff
18 thoroughly investigated the rate request. Staff's investigation resulted in several
19 adjustments, which the Company accepted. Cascadia filed revised tariffs reflecting
20 the lower revenue requirement as agreed to by the Company and Staff for
21 presentation at the Commission's Open Meeting.

22 The Commission suspended the filing, placing the matter into adjudication.
23 The customer group, which changed its name to the Water Consumer Advocates of
Washington (WCAW), filed a petition to intervene. The Commission granted that

1 petition, set a procedural schedule, and granted Staff’s request that a mediator be
2 assigned to the case.

3 In November 2024, the parties engaged in mediation with the assistance of
4 Administrative Law Judge Amy Bonfrisco. On December 13, 2024, the mediation
5 concluded without a settled resolution among the parties. Staff informed all parties
6 that it was interested in continuing discussions with Cascadia after the all-party
7 discussions ended without resolution. Staff and Cascadia reached agreement in late
8 December 2024 and informed the presiding officer and all parties that they had
9 reached an agreement in principle. The Commission suspended the procedural
10 schedule and set deadlines to address the settlement.

11 Cascadia initially requested to increase revenue by approximately \$1.8
12 million. In September 2024, Cascadia filed its testimony and exhibits, revising its
13 rate request to approximately \$1.7 million. Cascadia updated its calculations,
14 accepted certain adjustments made by Staff to the February filing, and proposed a
15 “cap” to not exceed its initial February request, resulting in a slight decrease in the
16 proposed rates. Staff filed response testimony on November 20, 2024, calculating
17 proposed rates of approximately ~~\$1.67~~ \$1.47 million. No other party presented a
18 revenue requirement proposal, but both Public Counsel and WCAW addressed
19 Cascadia’s filing in their respective response testimonies.

20

21 **Q. Please describe the settlement reached by Staff and Cascadia and what topics**
22 **you will cover in this testimony.**

23

1 A. Staff and Cascadia reached agreement that resolves all issues. Because not all parties
2 have joined the settlement, it is a multiparty full settlement under the Commission's
3 rules. The settlement terms are:

4 **1. Revenue Requirement.** Revenue requirement increase of ~~\$1.67~~ \$1.51 million
5 annually, split between the Western water systems, defined as the Island and
6 Peninsula water systems, and the Pelican Point water systems in the same
7 proportion as filed by Cascadia in September 2024.

8 **2. Phase In.** The revenue requirement increase will be phased in over three phases.
9 The first phase begins on the rate effective date, and half of the revenue
10 requirement increase will go into effect. The deferred revenue from the first year
11 will be recovered through a surcharge that is amortized over two years. On the
12 first anniversary of the effective date, the second half of the rate increase will go
13 into effect, along with one-half of the amortized deferred revenue from the first
14 year. On the second anniversary of the effective date, the second half of the
15 amortized deferred revenue will go into effect. All mitigation and deferral
16 recovery will be done by adjusting base rates; block rates will increase on the
17 first effective date, but not change subsequently.

18 **3. Black Box.** Plant investments presented by Cascadia in this docket are deemed to
19 be prudent, but for any future assets that were not included in this case, prudence
20 will be determined in a later general rate case. Settling parties agree that the
21 revenue requirement increase includes unspecified carrying costs related to the
22 phased in rates.

- 1 **4. Effective Date.** Settling parties request that the Commission issue an order such
2 that the effective date will be April 1, 2025, but they understand that the
3 suspension deadline is May 1, 2025. Settling parties have agreed to an earlier
4 effective date if the Commission is able to accommodate such effective date.
- 5 **5. Stay Out.** Cascadia may file a new general rate case during the phase-in period
6 with rates going into effect no earlier than 36 months after the effective date.
- 7 **6. Aquarius Surcharge.** The surcharge approved in Docket UW-081416; Order 01
8 for the Aquarius water system will be terminated.
- 9 **7. Capital Plan.** Cascadia will publish a capital plan identifying its projected major
10 capital improvements that are reasonably expected to be in-service by the next
11 Company rate case effective date. Major projects are defined as those estimated
12 to cost more than \$150,000. Cascadia will hold virtual customer meetings on or
13 about the first anniversary of the effective date in this proceeding to allow
14 customers to provide feedback regarding the capital plan.
- 15 **8. Prioritization.** Cascadia will review all known future major projects and assign a
16 priority level based on necessity, Department of Health requirements, and
17 engineer review. Cascadia will meet this requirement by filing its water system
18 plans along with a summary of anticipated projects that are estimated to be in
19 service through one year after the 36-month stay out period.
- 20 **9. Consolidated rates.** Rates for all of Cascadia’s Western water systems will be
21 consolidated into a single tariff, with Pelican Point water system rates remaining
22 in its own tariff consistent with Staff witness Scott Sevall’s testimony in Exhibit
23 SS-1T.

1 **III. SCOPE AND SUMMARY OF TESTIMONY**

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

A. The purpose of my testimony is to address certain topics agreed upon between Staff and Cascadia Water, LLC (Company or Cascadia) and to support the settlement stipulation.

Q. Please summarize your recommendations.

A. I support the settlement between Staff and Cascadia. The settlement’s agreed an annual increase of revenue requirement is ~~\$1.67~~ \$1.51 million dollars and will be spread across Cascadia’s Western water systems, known as Island and Peninsula, and its Eastern water system, known as Pelican Point. The settling parties agree to an effective date of April 1, 2025, if the Commission can accommodate the earlier effective date. The statutory deadline for this case is May 1, 2025. I also support the termination of the Aquarius Surcharge, the remaining uncollected balance to be included in rates for all customers throughout the Island and Peninsula systems. In addition, I also support a capital plan and the prioritization of future capital investments. Staff’s recommendation is that the Commission adopt the settlement without condition.

Q. Please summarize what you will be addressing in your testimony.

A. My testimony will address revenue requirement, effective date, plant, Aquarius surcharge, capital plan, and prioritization. Staff witness Scott Sevall will address phase-in, carrying costs, stay out, and consolidated rates.

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

2 A. Yes. I prepared Exhibit RS-8 (Department of Health response letter and Sanitary
3 System Surveys), Exhibit RS-9 (photos from Staff’s site visit), Exhibit RS-10C
4 (invoices related to Western Water Systems), and Exhibit RS-11C (invoices related
5 to Pelican Point Water System.

6

7

IV. ADJUSTMENTS

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9 **A. Revenue Requirement**

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11 **Q. What is the revenue requirement agreed in this settlement for this case?**

12 A. Staff and the Company agreed to a total ~~\$1.67~~ \$1.51 million ~~dollar~~ additional annual
13 revenue requirement in this case to be spread between the Company’s Island and
14 Peninsula and Pelican Point systems.

15

16 **Q. Why does Staff agree to the revenue requirement?**

17 A. Staff calculated an additional annual revenue requirement of ~~\$1.67~~ \$1.47 million
18 ~~dollar~~ in its direct testimony filed on November 20, 2024. This calculation resulted
19 after revisiting Staff’s initial analysis presented at the June Open Meeting and
20 reviewing the Company’s February 2024 filing. The settlement presents a black
21 boxed revenue requirement that, in Staff’s view, is in line with Staff’s revenue
22 requirement calculation plus carrying costs. Staff continues to support its calculation

1 of revenue requirement as fair, just, reasonable, and sufficient.¹

2
3 **B. Effective Date**

4
5 **Q. Does Staff and the Company have an agreed upon effective date for rates?**

6 A. Yes. Staff and the Company agreed to an effective date of April 1, 2025. Both parties
7 recognize due to schedule constraints, if the Commission is unable to accommodate
8 an April 1, 2025, effective date, the statutory deadline for this case is May 1, 2025.
9 Parties agree that an earlier effective date would be reasonable in this case, if the
10 Commission is able to accommodate that earlier date.

11
12 **C. Aquarius Surcharge**

13
14 **Q. What is the Aquarius Surcharge?**

15 A. Aquarius Utilities (Aquarius) was a regulated Company with approximately 960
16 customers before Cascadia acquired it. Aquarius needed routine capital
17 improvements on its systems and secured a loan in the amount on \$2,056,214 from
18 the Drinking Water State Revolving Fund (DWSRF) for the improvements. To pay
19 the loan back, Aquarius implemented a surcharge, which was approved in Order 01
20 in Docket UW-081416. The surcharge became effective September 15, 2008, and
21 was set to expire December 31, 2028. Currently, Aquarius customers pay a \$10.10

¹ Stark, Exh. RS-1T.

1 surcharge each month on their billing statement.

2

3 **Q. What is the Aquarius Surcharge settlement agreement?**

4

5 A. Staff and the Company agree to terminate the Aquarius Surcharge allowing Aquarius
6 assets to be recovered in the same manner as all the other water systems. Cascadia's
7 original proposal had Aquarius customers receiving a rate increase from investments
8 in other systems while maintaining the surcharge rate. This resulted in Aquarius
9 customers paying for improvements across Cascadia's water systems while being the
10 only ones paying for improvements to the Aquarius system. Aquarius needs to be
11 either fully in or fully out. This means that either Aquarius should share in all costs
12 and receive the same benefit of sharing its costs; or Aquarius should be removed
13 completely, not share in all costs, and only pay for its own rate base. It is not
14 equitable to require Aquarius customers to share in costs across other water systems
15 while also bearing the full costs of its own rate base.

16

17 **Q. Why does an Aquarius Surcharge affect Cascadia customers?**

18 A. Cascadia acquired Aquarius Utilities in docket UW-220469, effective August 1,
19 2022. With the acquisition of the Company, Cascadia also acquired all of Aquarius
20 customers. When Cascadia acquired Aquarius, a portion of the DWSRF loan was
21 still listed on the books to be recovered. These approximately 960 customers are now
22 part of Cascadia's Island and Peninsula water systems.

23

1 **Q. Please explain why the Commission should approve the removal of the**
2 **Aquarius surcharge?**

3 A. It is Staff's position that all customers across the Island and Peninsula water systems
4 should bear all costs of expenses and capital improvements. Currently, only Aquarius
5 system customers are paying a monthly \$10.10 surcharge for a capital improvement
6 loan related to the Aquarius water system. This capital improvement loan was for a
7 normal capital investment and did not fund an extraordinary repair or project. While
8 no other customers on the Island and Peninsula systems are paying this capital
9 improvement in their rates, Aquarius customers do bear the costs of all the other
10 improvements across the Island and Peninsula systems with rate consolidation. Even
11 without rate consolidation, Aquarius customers are bearing the costs of capital
12 improvement across the Peninsula water systems. This is an inequitable result which
13 harms Aquarius customers. Terminating the surcharge remedies this.

14
15 **D. Capital Plan**

16
17 **Q. What is the settlement agreement between Staff and Cascadia for a capital**
18 **plan?**

19 A. The settlement provides that Cascadia will submit a capital improvement plan that
20 identifies major capital improvements anticipated to be in-service by the next rate
21 effective date in Cascadia's next rate case. That could be as early as 36 months from
22 the effective date in this case. Major capital improvements are defined as \$150,000
23 or more. Cascadia will also hold virtual customer meetings, allowing customers to

1 provide feedback regarding the capital plan.

2

3 **Q. Please explain why Staff supports this term.**

4

5 A. Staff understands that customers want to better understand the capital improvements
6 for which Cascadia ultimately seeks cost recovery through rates. While Cascadia
7 engages in a public input process through the Department of Health with developing
8 its master plan, this capital plan and customer engagement meetings will provide
9 additional transparency to what may impact future rates.

10

11 **E. Prioritization**

12

13 **Q. What is the prioritization agreed on in the settlement.**

14 A. The settlement provides that Cascadia will identify future major projects, again
15 defined as \$150,000 or more, that are anticipated through the 36-month stay out plus
16 one year.² Cascadia will assign a priority level based on necessity, Department of
17 Health requirement, and engineer review. Cascadia may meet this agreement by
18 filing its Master Plan along with a summary of projects. The summary should
19 indicate what the project is, what the priority level is, a definition of the priority
20 level, and why the project has been assigned the priority level it is assigned.

21

² Full Multiparty Settlement Stipulation Agreement, page 6, paragraph 18.

1 **Q. What are the benefits of the prioritization agreement?**

2 A. This term will make review of future capital projects easier, ensuring that the
3 Company will contemporaneously memorialize its thinking behind its capital
4 improvements. It will also aid in transparency for customers, who can review the
5 prioritization information ahead of the next rate case. This agreement will help add
6 transparency to the processes used by Cascadia in identifying future asset
7 replacement and projects.

8

9 **F. Prudency of Plant**

10

11 **Q. Does Staff deem that the capital improvements in the case are prudent?**

12 A. Yes. Cascadia seeks a prudence determination of specific capital improvements.
13 Staff has reviewed those capital improvements. Based on Staff's review, Staff views
14 the investment as prudent and should be included for cost-recovery in rates.³

15

16 **Q. What is Staff's recommendation?**

17 A. Staff recommends that the Commission adopt the settlement without condition.

18

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

20 A. Yes.

³ See the testimony and exhibits filed by Staff on November 20, 2024. See also Stark, Exhibit RS-8 (copy of Department of Health response letter and Sanitary System Surveys), Exhibit RS-9 (photos from Staff site visit), Exhibit RS-10C (Invoices related to Western Water Systems), and Exhibit RS-11C (Invoices related to Pelican Point Water System).