Exh. SS-4Tr
Docket UW-240151
Witness: Scott Sevall

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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

SETTLEMENT TESTIMONY OF

SCOTT SEVALL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Phase-in, Stay Out, Carrying Costs, Consolidated Rates

January 13, 2025

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I. INTRODUCTION

Q. Please state your name.

A. My name is Scott Sevall.

Q. Are you the same Scott Sevall who filed testimony in this docket with the Washington Utilities and Transportation Commission (Commission) on behalf of Commission Staff (Staff) on November 10, 2024?

A. Yes.

Q. Please summarize the rate case in this docket.

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

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

The Commission suspended the filing, placing the matter into adjudication. The customer group, which changed its name to the Water Consumer Advocates of

Washington (WCAW), filed a petition to intervene. The Commission granted that petition, set a procedural schedule, and granted Staff's request that a mediator be assigned to the case.

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

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

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

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

1. **Revenue Requirement.** Revenue requirement increase of $1.51 million annually, split between the Western water systems, defined as the Island and Peninsula water systems, and the Pelican Point water systems in the same proportion as filed by Cascadia in September 2024.
2. **Phase In.** The revenue requirement increase will be phased in over three phases. The first phase begins on the rate effective date, and half of the annual revenue requirement increase will go into effect. The deferred revenue from the first year will be recovered through a surcharge that is amortized over two years. On the first anniversary of the effective date, the second half of the rate increase will go into effect, along with one-half of the amortized deferred revenue from the first year. On the second anniversary of the effective date, the second half of the amortized deferred revenue will go into effect. All mitigation and deferral recovery will be done by adjusting base rates; block rates will increase on the first effective date, but not change subsequently.
3. **Black Box.** Plant investments presented by Cascadia in this docket are deemed to be prudent, but for any future assets that were not included in this case, prudency will be determined in a later general rate case. Settling parties agree that the revenue requirement increase includes unspecified carrying costs related to the phased in rates.

4. **Effective Date.** Settling parties request that the Commission issue an order such that the effective date will be April 1, 2025, but they understand that the suspension deadline is May 1, 2025. Settling parties have agreed to an earlier effective date if the Commission is able to accommodate such effective date.
5. **Stay Out.** Cascadia may file a new general rate case during the phase-in period with rates going into effect no earlier than 36 months after the initial effective date in this case.
6. **Aquarius Surcharge.** The surcharge approved in Docket UW-081416, Order 01 for the Aquarius water system will be terminated.
7. **Capital Plan.** Cascadia will publish a capital plan identifying its projected major capital improvements that are reasonably expected to be in-service by the next Company rate case effective date. Major projects are defined as those estimated to cost more than $150,000. Cascadia will hold virtual customer meetings on or about the first anniversary of the effective date in this proceeding to allow customers to provide feedback regarding the capital plan.
8. **Prioritization.** Cascadia will review all known future major projects and assign a priority level based on necessity, Department of Health requirements, and engineer review. Cascadia will meet this requirement by filing its water system plans along with a summary of anticipated projects that are estimated to be in service through one year after the 36-month stay out period.
9. **Consolidated rates.** Rates for all of Cascadia’s Western water systems will be consolidated into a single tariff, with Pelican Point water system rates remaining in its own tariff consistent with Staff witness Scott Sevall’s testimony in Exhibit SS-1Tr.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony will address phase-in, carrying costs, stay out, and consolidated rates (also referred to as single tariff pricing). Staff witness Rachel Stark will address revenue requirement, effective date, plant, Aquarius surcharge, capital plan, and prioritization.

Q. Please summarize your recommendations.

A. I support the settlement stipulation, which adopts a single tariff rate structure that is phased in over three phases with carrying costs, while mandating that Cascadia will not file tariff revisions with an effective date earlier than 36 months of the effective date in this filing.

III. SETTLEMENT

A. Capital Structure, Cost of Debt, Cost of Equity, Weighted Cost of Capital

Q. How does the settlement address the capital structure, cost of debt, cost of equity, and weighted cost of capital?

A. The settlement does not address capital structure, cost of debt, cost of equity, or the weighted cost of capital. Instead, the settlement presents a black box agreement to an overall revenue requirement, which includes carrying costs for the phase-in of rates.

B. Consolidated Rates (Single Tariff Pricing)

Q. How does the settlement deal with single tariff pricing?

A. The settlement adopts single tariff pricing for the Western water systems. The settlement adopts my recommendation to consolidates rates for the Whidbey and Peninsula water systems and maintain separate rates for the Pelican Point water system.[1]

Q. What is the benefit of single tariff pricing?

A. Single tariff pricing ensures against rate discrimination and does not incentivize a Company to invest only in a system which provided service to people who can afford it. Single tariff pricing ensures the benefits from economies of scale are equally spread to all customers.

C. Carrying Cost

Q. How does the settlement deal with carrying costs?

A. Carrying costs are needed to compensate Cascadia for deferring recovery of a portion of its revenue requirement increase.[2] Staff and Cascadia agree that the settlement includes carrying costs, but the settlement does not specify the amount or percentage associated with carrying costs.

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[1] Sevall, Exh. SS-1T at 13:20 – 14:2, 14:10 – 15:16.
[2] Sevall, Exh. SS-1T at 17:1-11.

Q. What are Carrying Costs?

A. Carrying Costs is the interest on the deferred revenue, which typically occurs when phasing in rates. In short, it is interest on the amount of the revenue requirement which is not currently being generated by rates.

Q. What are the benefits of carrying costs?

A. Carrying costs allow rates to be phased in over time, instead of the full rates going into effect immediately.

D. Phase-in of Rates

Q. How does the settlement phase-in rates?

A. The settlement provides for a three-phase phase in of the rate increase. Each phase is 12 months long. Phasing in the rate increase over time allows the Company to increase its rates as needed but also mitigates the bill impact on customers.

Instead of implementing the entire revenue increase on the effective date, one-half of the increase will go into effect on the rate effective date, which is the beginning of year 1. The settlement refers to a "rate mitigation mechanism," which is the deferral of one-half of the revenue requirement increase. On the one-year anniversary of the rate effective date, the beginning of year 2, the second half of the revenue requirement increase goes into effect. The deferred revenue from year 1 will be amortized equally over year 2 and year 3. One-half of the amortized deferral goes into effect on the one-year anniversary of the rate effective date. The second half of the amortized deferral goes into effect on the second anniversary of the rate effective date, the beginning of year 3.

The changes in rates during the phase in period will be done by adjusting the base rate in year 1, and year 2 and after year 3.[3] The agreed upon base rate for the average Western residential customer is $39.00. In the first year, the impact on customers will be mitigated by half the revenue requirement. This means the $39.00 base rate will be lowered to $24.60, a mitigation of (39.00 - 24.60) $15.91. The Company will recover one half of the deferral in year 2 and one half of the deferral in year 3. In year 4, the mitigation and deferral recovery are done, and the base rate is simply $39.00 going forward, barring any new rate increase. Table 1 and Table 2 below illustrate how Cascadia's base rates change over the phase in period.[4]

Table 1 Western Rates

	Year 1	**Year 2**	**Year 3**	**Year 4***
Agreed on residential base rate (ARB)	$39.00	$39.00	$39.00	$39.00
Mitigation and deferral recovery (MD)	($14.40)	$7.20	$7.20	$0.00
Tariff Rate (TR) (ARB+MD=TR)	$24.60	$46.20	$46.20	$39.00

***Year 4 there is no mitigation or deferral, just the base rate.**

Table 2 Pelican Rates

	Year 1	**Year 2**	**Year 3**	**Year 4***
Agreed on residential base rate (ARB)	**$40.00**	**$40.00**	**$40.00**	**$40.00**
Mitigation and deferral recovery (MD)	**($17.73)**	**$8.86**	**$8.86**	**$0.00**

[3] The block rates are revised in year 1 and stay constant through the rest of the phase-in period.
[4] This paragraph speaks to the Western system rates. The same methodology is applied to Pelican, but the base rates are different and shown in Table 2.

Tariff Rate (TR) (ARB+MD=TR)	**$22.27**	**$48.86**	**$48.86**	**$40.00**

***Year 4 there is no mitigation or deferral, just the base rate.**

Q. What is the benefit of phase-in rates?

A. The benefit of the phase in is to mitigate rate shock to the customers and to help with rate stabilization.

E. Stay Out Period

Q. What is the stay out period?

A. The settlement stipulates that the Company will not file tariff revisions increasing rates with an effective date starting before the three-year phase-in ends.

Q. What is the benefit of the stay out period?

A. The benefit of the stay out period is that it allows the phase-in of rates to complete before there is a possibility of another rate case going into effect. This ensures rate stability for customers and avoids pancaking of rate increases.

Q. Is the settlement in the public interest?

A. Yes. The settlement balances both the Company and the customer interests and resolves the issues fairly and in the public interest.

Q. What do you recommend to the Commission?

A. I recommend that the Commission adopt the full multi-party settlement without conditions.

Q. Does this conclude your testimony?

A. Yes.