

**EXH. MJR-CJL-11  
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,**

**Docket UW-240151**

**Complainant,**

**v.**

**CASCADIA WATER, LLC,**

**Respondent.**

**THIRD EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED JOINT REBUTTAL TESTIMONY OF**

**MATTHEW J. ROWELL AND CULLEY J. LEHMAN**

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

**JANUARY 29, 2025**

## RRA REGULATORY FOCUS

## 2024 sees diverging ROE trends for water and energy utilities

Thursday, November 21, 2024 09:00 AM EST

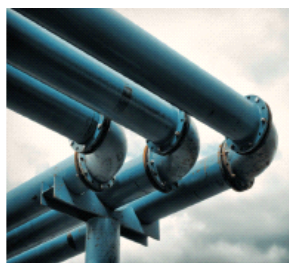
By Heike Doerr  
Platts

In the first nine months of 2024, 14 rate proceedings were completed across 11 states in the water utility sector, with approved returns on equity ranging from 9.10% to 9.80%.

## The Take

- ▶ The average return on equity (ROE) approved through September 2024 declined to 9.53% from the 9.64% average for water utilities nationwide in 2023. The 2023 rate proceedings spanned nine states, with cost-of-capital parameters provided in seven proceedings. The 2023 authorized ROEs ranged from 8.70% to 9.80%. In 2022, 10 water utility rate cases were completed nationwide, with an average ROE of 9.61%.
- ▶ In the third quarter, [American Water Works Co. Inc.](#) completed rate cases in its two largest jurisdictions, New Jersey and Pennsylvania, which together represent over 50% of the company's regulated rate base. While the New Jersey decision was in line with expectations, the litigated Pennsylvania proceeding included an authorized ROE that is below the ROE that Pennsylvania water utilities are authorized to use to calculate the revenue requirements under their infrastructure surcharge mechanisms.
- ▶ While authorized ROEs for water utilities slightly declined in 2024, the averages for distribution-only electric and gas utilities have trended upward.
- ▶ For additional details regarding water utility rate cases from Jan. 1, 2010, through Sept. 30, 2024, refer to this [industry document](#).

Regulatory Research Associates evaluates water utility regulation in more than 20 state jurisdictions and monitors rate proceedings involving rate change requests of at least \$1.0 million for the 10 largest investor-owned and privately held water utilities.



[Water rate case database](#)  
(Excel file)

**New Jersey** — On Sept. 4, the [New Jersey Board of Public Utilities](#) (BPU) [adopted a settlement](#) for [New Jersey-American Water Co. Inc.](#) (NJAW) to increase base water and wastewater rates by \$79.5 million. Additionally, the BPU authorized the implementation of three surcharge mechanisms, which could add an incremental \$87.4 million of revenue through qualified replacement infrastructure investments through 2027.

The order specified a 9.60% ROE, consistent with the previous rate case for NJAW and recent BPU authorizations across water, electric and gas utilities. In approving settlements for [Middlesex Water Co.](#) in [February](#) and for Veolia Water New Jersey (formerly [SUEZ Water New Jersey Inc.](#)) in [May](#), the BPU maintained the 9.60% ROE, which both water utilities had previously been authorized.

**Pennsylvania** — The [Pennsylvania Public Utility Commission](#) [authorized Pennsylvania-American Water Co. Inc.](#) (PAWC) an \$88.1 million (9.99%) water rate increase, based on a 9.45% return on equity (55.99% of capital) and a 7.44% return on a rate base valued at \$4.690 billion for a June 30, 2025, test year. The commission also approved an \$11.2 million wastewater rate, based on similar cost of capital and test year parameters on a rate base of \$1.133 billion. From the bench, commissioners admonished PAWC for water quality and customer service issues in parts of its service territory and ordered an investigation to determine the root causes. The commissioners found that approval of an ROE adder that the law judge had supported would be inappropriate; approval of the order would have resulted in a 9.55% ROE.

By contrast, the company's rate request was predicated on a 10.95% ROE, which included a 25-basis-point adder. The Office of Consumer Advocate had recommended an ROE of 9.10% and found the adder to not be "either necessary or just and reasonable." In previous rate cases, the commission has granted management performance adjustments ranging from 5 to 25 basis points. In a May 2022 [decision](#), [Aqua Pennsylvania Inc.](#) and [Aqua Pennsylvania Wastewater Inc.](#) received a 25-basis-point management performance bonus. The [Essential Utilities Inc.](#) subsidiaries operate with an ROE of 10.00%.

At its Oct. 10 open meeting, the PUC approved the Bureau of Technical Utility Services' report regarding the quarterly earnings of the jurisdictional utilities for the 12 months ended June 30, 2024. The PUC adopted proxy ROEs of 9.90% for electric utilities, 10.15% for gas utilities and 9.65% for water utilities.

NJAW and PAWC are subsidiaries of American Water.

### Water utility rate case decisions (Jan. 1 – Sept. 30, 2024)

Order date	Effective date	Decision type	Company	State	Parent company ticker	ROR (%)	ROE (%)	Common equity as percentage of capital	Rate base (\$M)	Test year end
01/05/24	01/01/24	Settled	The Maine Water Co. (Biddeford & Saco)	Maine	SJW	NA	9.50	51.00	NA	12/31/22
02/14/24	2/1/24	Litigated	Indiana American Water Co.	Indiana	AWK	6.32	9.65	47.41	1,614	4/30/25
	6.30					47.30		1,679	4/30/24	
	6.42					48.19		1,835	7/31/23	
02/14/24	02/21/24	Settled	Middlesex Water Co.	New Jersey	MSEX	6.64	9.60	53.60	563	09/30/23
02/23/24	02/25/24	Litigated	West Virginia-American Water Co.	West Virginia	AWK	7.13	9.80	50.12	873 13	2/29/25
03/07/24	01/01/23	Litigated	California Water Co.	California	CWT	NA	NA	NA	NA	12/31/23
03/27/24	04/01/24	Settled	Veolia Water Delaware Inc.	Delaware	VEOEY	7.05	9.50	NA	NA	12/31/22
05/03/24	05/03/24	Litigated	Kentucky-American Water Co.	Kentucky	AWK	NA	9.70	52.45	489	01/31/25
05/16/24	05/16/24	Settled	Veolia Water New York Inc.	New York	VEOEY	6.55	9.10	48.00	990 (Yr1) 1,039 (Yr2) 1,097 (Yr3) 1,116 (Yr4)	01/31/25
05/22/24	08/08/24	Settled	Veolia Water New Jersey Inc.	New Jersey	VEOEY	7.11	9.60	54.00	1,586	09/30/24
06/12/24	06/12/24	Settled	Artesian Water Co.	Delaware	ARTNA	6.75	9.50	NA	NA	12/31/22
06/28/24	07/01/24	Litigated	Connecticut Water Co.	Connecticut	SJW	6.63	9.20	52.00	693	12/31/22
07/22/24	08/07/24	Litigated	Pennsylvania-American Water Co.	Pennsylvania	AWK	7.44	9.45	55.90	5,823	06/30/25
09/04/24	09/15/24	Settled	New Jersey American Water	New Jersey	AWK	7.15	9.60	54.00	5,051	06/30/24
09/12/24	02/05/24	Settled	Aqua Virginia Inc.	Virginia	WTRG	7.09	9.70	52.13	NA	03/31/23
<b>Average cost of capital parameters</b>						<b>6.90</b>	<b>9.53</b>	<b>51.60</b>		

As of Nov. 18, 2024.

NA = not available; ROR = return on rate base; ROE = return on equity.

Average cost of capital parameters was calculated using data associated with 2/1/24 rate year to represent the Indiana decision.

Source: Regulatory Research Associates, a group within S&P Global Commodity Insights

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### ROE trends compared to electric and gas utilities

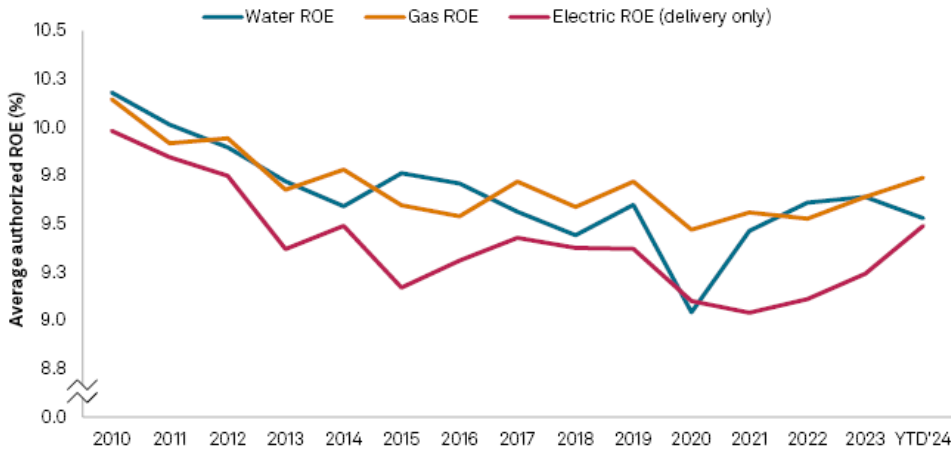
Driven by inflation, higher interest rates and increased capital spending plans, rate case activity remains high, with 83 electric and gas rate case decisions issued by state public utility commissions in the first nine months of 2024. In 2024, heightened rate case activity extended to the water utility sector. RRA has tracked 14 completed water utility base rate proceedings in the first nine months of 2024, compared to 10 in all of 2023.

In 2024, authorized ROEs for water utilities trended down slightly and now align with distribution-only electric utilities, whereas they previously aligned more closely with gas utility averages, which were somewhat higher than those for electric utilities.

In the first nine months of 2024, six distribution-only electric utility rate cases concluded with an authorized ROE of 9.49%. During 2023, the authorized ROE for these utilities was 9.24% compared to an average of 9.11% observed in 2022. RRA's calculations relied on 12 distribution-only electric rate case decisions that included an ROE determination during 2023, versus nine in 2022.

Through September, the average ROE authorized for gas utilities was 9.74% across 21 determinations. The average ROE authorized for gas utilities was 9.64% for cases decided during 2023 versus the 9.53% average observed in 2022. RRA's calculations relied on 43 gas rate case decisions that included an ROE determination during 2023, versus 33 in 2022.

Average electric, gas and water authorized ROEs



As of Nov. 18, 2024.  
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights.  
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