

**EXH. MJR-CJL-8JT
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.

PREFILED JOINT REBUTTAL TESTIMONY (NONCONFIDENTIAL) 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

CASCADIA WATER, LLC

**PREFILED JOINT REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
MATTHEW J. ROWELL AND CULLEY J. LEHMAN**

CONTENTS

I. INTRODUCTION1

II. REBUTTAL OF PUBLIC COUNSEL3

 A. Rebuttal of Mr. de Villiers and Mr. Garrett3

 B. Rebuttal of Mr. Duren10

III. REBUTTAL OF WCAW24

 A. Rebuttal of Mr. Gilles24

 B. Rebuttal of Mr. Palmer32

IV. CONCLUSION34

CASCADIA WATER, LLC

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LIST OF EXHIBITS

Exhibit MJR-CJL-9	Pumphouse Photographs
Exhibit MJR-CJL-10	Updated Pumphouse Photographs
Exhibit MJR-CJL-11	RRA Regulatory Focus Article
Exhibit MJR-CJL-12	Estates Reservoir Photographs
Exhibit MJR-CJL-13	Estates Customer Updates
Exhibit MJR-CJL-14	2022 Video of Estates Reservoir

1 **CASCADIA WATER, LLC**

2 **PREFILED JOINT REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **MATTHEW J. ROWELL AND CULLEY J. LEHMAN**

4 **I. INTRODUCTION**

5 **Q. Are you the same Matthew Rowell who submitted Prefiled Joint Testimony**
6 **on behalf of Cascadia Water, LLC (“Cascadia Water” or the “Company”) in**
7 **this proceeding?**

8 A. Yes, on January 13, 2025, I filed the Prefiled Joint Testimony along with Culley
9 Lehman.

10 **Q. Are you the same Culley Lehman who submitted Prefiled Joint Testimony on**
11 **behalf of Cascadia Water in this proceeding?**

12 A. Yes, on January 13, 2025, I filed the Prefiled Joint Testimony along with Matthew
13 Rowell.

14 **Q. Are there any changes to the Settlement from the previous Joint Testimony?**

15 A. Yes, the black box revenue requirement has been adjusted downward to \$1.51
16 million. An updated Settlement Stipulation was filed on January 22, 2025,
17 reflecting the change in the revenue requirement (the “Settlement”). The
18 regulatory staff of the Washington Utilities and Transportation Commission
19 (“Commission Staff” together with Cascadia Water are the “Settling Parties”) and
20 Cascadia Water continue to support the Settlement. This Joint Rebuttal Testimony

1 responds to the testimony filed by Public Counsel and the Water Consumer
2 Advocates of Washington (“WCAW”) as to why the Settlement is supported by
3 Cascadia Water, is in the public interest, and should be approved by the
4 Commission.

5 **Q. After reviewing the testimony of Public Counsel and WCAW, does the**
6 **Settlement still satisfy the public interest?**

7 A. Yes, it does. As discussed in previous testimony, the Settlement is consistent with
8 long-standing aspects of Washington’s public interest standard. The Settlement is
9 the result of carefully negotiated terms that complement each other and must be
10 reviewed as a whole. Cascadia Water is currently not earning a fair return on its
11 investment, and, in fact, as mentioned previously its operating income is currently
12 negative at the existing rates.¹ As explained further below, Public Counsel’s
13 proposal would continue to have Cascadia Water operate at a loss. WCAW’s
14 testimony does not present a revenue requirement but based on the projects
15 WCAW challenges, it would also have Cascadia Water operate at a loss. The
16 Settlement's revenue requirement provides Cascadia Water the opportunity to
17 recover its prudently incurred costs and a fair return on investment, while also
18 providing a more gradual rate increase to customers compared to Cascadia
19 Water's initial filing.

¹ Exh. MJR-1T at 10:3-11:5.

1 **II. REBUTTAL OF PUBLIC COUNSEL**

2 **A. Rebuttal of Mr. de Villiers and Mr. Garrett**

3 **Q. What is Cascadia Water’s response to Mr. de Villiers’ testimony regarding**
4 **the revenue requirement in the Settlement?**

5 A. The Settlement's revenue requirement is justified by the need for Cascadia Water
6 to recover the costs of providing safe and reliable water service to its customers,
7 many of whom are served by small and aging systems that require significant
8 upgrades and improvements. Cascadia Water has invested over \$7.6 million in
9 capital projects since its last general rate case, which have enhanced the quality,
10 reliability, and efficiency of its water systems, as well as maintained compliance
11 with Department of Health (“DOH”) standards and regulations. These
12 investments include new reservoirs, water mains, booster pumps, disinfection
13 systems, generators, meters, and supervisory control and data acquisition
14 (SCADA) systems, among others.

15 Contrary to claims made by some parties in this case, Cascadia Water's capital
16 investment strategy was not driven by a desire to overinvest, but by a prudent and
17 proactive approach to secure the long-term viability and sustainability of its water
18 service. Cascadia Water's investments are consistent with the industry standards
19 and best practices for water utilities, as well as with the Commission's policy of
20 encouraging water utility acquisitions and consolidations to address the
21 challenges faced by small and distressed systems.

1 The Settlement's revenue requirement is reasonable and supported by the
2 evidence in the record, and it reflects a compromise between Cascadia Water and
3 Staff, who conducted a thorough and rigorous review of Cascadia Water's costs
4 and investments.

5 **Q. Mr. de Villiers and Mr. Duren claim that Cascadia Water should have**
6 **waited to make certain investments because there was not an “immediate**
7 **need.” Do you have concerns with such an approach?**

8 A. Yes, “wait and see” is not a prudent way to manage a water utility. Cascadia
9 Water considers not only the need for each project, it also takes into account the
10 costs, including cost savings achieved by constructing a project now versus added
11 costs by delaying a project. Public Counsel argues components of some projects
12 could have been phased in over time, and arbitrarily chooses a 5 year phase-in
13 period. Public Counsel does not directly challenge the need for certain projects,
14 just the timing of when those projects were undertaken, and provides no standard
15 for which Cascadia Water should have made its evaluation on timing. Mr. de
16 Villiers then disallows from rate base the costs of projects that Public Counsel
17 claims could have been phased in over time because they were not “immediately
18 necessary” even though they are used and useful. As discussed below, Mr.
19 Duren’s analysis is incorrect. Public Counsel appears to be shifting the prudence
20 standard to an “immediate need” standard while discounting potential cost
21 savings. Importantly, Public Counsel cannot show that delaying the projects

1 would have resulted in cost savings, and in fact, the evidence shows this delay
2 would have cost more.

3 **Q. How do you respond to the proposed rate increase phase-in by Mr. de**
4 **Villiers?**

5 A. Mr. de Villiers proposes that Cascadia Water phase-in rates in a manner that
6 would forgo any revenue not collected in the initial steps of the phase-in. This
7 deprives Cascadia Water of the opportunity to recover its prudently incurred costs
8 and a fair return on investment, and it would effectively penalize Cascadia Water
9 for making necessary and prudent improvements to its water systems. The phase-
10 in proposed by Mr. de Villiers would undermine Cascadia Water's financial
11 integrity and its ability to attract capital for future investments, as it would result
12 in negative operating income and below-market returns for the Company. The
13 proposed phase-in of rate increases in the Settlement is balanced and in the public
14 interest because it spreads the rate increase over three annual phases, mitigating
15 the impact on customers and aligning with the Commission's policy of
16 gradualism.

17 **Q. Are there any elements of the Settlement that Mr. de Villiers gets wrong?**

18 A. Yes, Mr. de Villiers claims the stay out prohibits Cascadia Water from filing a
19 rate case for three years. The stay out is more nuanced and prohibits new rates,
20 other than those in the Settlement, from being effective for three years.

1 **Q. Mr. de Villers criticizes the overall revenue requirement and the extent of the**
2 **increase in the Settlement. How do you respond?**

3 A. First, the revenue requirement in the Settlement has been revised downward since
4 the Joint Testimony and is very close to Staff's litigated position. Cascadia Water
5 recognizes a settlement requires a compromise, and the Settlement reflects a
6 substantially lower revenue requirement than the Company's litigated position.
7 Further, Cascadia Water agreed to a three-year rate effective period to cushion the
8 rate increase on customers. The revenue requirement allows recovery of plant
9 investments that were needed to make valuable improvements to aging water
10 systems, and that is now used and useful. The water systems at issue in this rate
11 case had not been fully maintained or maintenance had been deferred by prior
12 owners, which is the driving force behind the rate increase. The Settlement
13 combines tariffs, which over the long term, should also help to spread the costs of
14 improvements among customers.

15 Furthermore, Public Counsel asks the Commission to reduce rate base not because
16 the plant is unnecessary, but rather because it contends some of the improvements
17 should have been deferred which would have resulted in higher costs in the future.
18 Cascadia Water disagrees with these criticisms. Nonetheless, the Settlement
19 requires Cascadia Water to make its capital plan available to customers to provide
20 additional insight into the planning process that might assuage some of the
21 concerns raised about future capital plans.

1 **Q. Public Counsel advocates for a revenue requirement increase between \$1.12**
 2 **million and \$1.19 million with a midpoint of \$1.15 million. Public Counsel**
 3 **also advocates for a phase-in without recovery of lost revenue or carrying**
 4 **costs. Please discuss the implications of this proposal.**

5 A. The Public Counsel’s proposed revenue requirement and phase-in imply actual
 6 returns on rate base far below any accepted standard. In fact, in the first year of
 7 Public Counsel’s proposed phase-in Cascadia Water’s operating income (and thus
 8 return on rate base) would be negative. In the second year, Cascadia Water’s
 9 return on rate base would be only 1.72% and in the third year it would be only
 10 4.44%. Using the Public Counsel’s capital structure and cost of debt to derive an
 11 implied ROE from these returns on rate base yields ROEs of negative 5% in the
 12 first year, 0.3% in the second year, and 5.69% in the third year. These returns are
 13 far below any such returns authorized by the Commission to our knowledge.

14 Table 1 below summarizes this analysis:

15 **Table 1: Public Counsel Revenue Requirement Proposal and Implied Rates**
 16 **of Return**

	Year 1	Year 2	Year 3
PC Revenue Requirement Increase	\$384,922	\$769,845	\$1,154,767
PC Revenue Requirement	2,766,066	3,150,989	3,535,911
Operating Expenses	2,871,317	2,970,180	3,069,043
Operating Income	(105,251)	180,808	466,867
Return on Rate Base	-1.00%	1.72%	4.44%
Implied ROE	-5.09%	0.30%	5.69%

Note: The revenue requirement and revenue requirement increase are the mid points of PC's high and low scenarios.			

1
2 **Q. Are the income and return numbers shown in Table 1 above likely to be**
3 **overstated?**

4 A. Yes. The operating expenses including in Table 1 are the proforma test year
5 operating expenses (agreed to by Staff and the Company in the Settlement and by
6 the Public Counsel in its testimony²) adjusted only for revenue dependent
7 expenses (e.g. income tax). Due to continued inflation these test year numbers
8 will understate expenses over the coming years, and thus the returns shown in
9 Table 1 are overstated.

10 **Q. Why is the implied ROE for year three in Table 1 lower than the Public**
11 **Counsel's recommended ROE?**

12 A. The implied ROE shown in Table 1 is derived from the actual test year proforma
13 rate base and does not incorporate the disallowances of prudent used and useful
14 plant additions for which the Public Counsel is advocating. As discussed
15 elsewhere, we believe the Public Counsel's rate base disallowances are
16 inappropriate. Table 1 shows the impact of both Public Counsel's proposed phase-
17 in and its rate base disallowances, namely unprecedently low returns.

² De Villiers, Exh. SDV-11Tr at 6:15.

1 **Q. Do you have any comments on Public Counsel’s recommended return on**
2 **equity?**

3 A. Yes. Public Counsel witness Mr. Garrett recommends a range of ROEs between
4 8.6% and 9.0% with a midpoint of 8.8%. Since Settling Parties are advocating for
5 a black box settlement, the Company is not providing detailed rebuttal of Public
6 Counsel’s ROE testimony. Rather we simply point out that the ROE range is well
7 below any ROE approved by the Commission in recent memory to our
8 knowledge, and is out of touch with national trends on ROEs approved by
9 regulatory commissions. A recent report from S&P Capital shows that the Public
10 Counsel’s proposed high-range ROE is lower than the lowest ROE approved by
11 any regulatory commission included in S&P’s nationwide survey.³ The midpoint
12 of Public Counsel’s proposed ROE (which is what their rates are based upon) is
13 30 basis points lower than the lowest approved ROE included in the survey.
14 Public Counsel has not provided support for why an ROE so much lower than
15 national norms is appropriate for Cascadia Water.

³ Exhibit MJR-CJL-11 RRA REGULATORY FOCUS, 2024 sees diverging ROE trends for water and energy utilities (Nov 21, 2024).

1 **B. Rebuttal of Mr. Duren**

2 **Q. Public Counsel witness Mr. Duren argues Cascadia Water should have taken**
3 **a different phased approach to capital projects, do you agree with that?**

4 A. No. Cascadia Water recognizes the need to plan and phase capital improvement
5 projects to provide adequate levels of service while managing rate increases.

6 Cascadia Water has continued to invest in the development of Water System
7 Plans to assist in assessing infrastructure, identifying deficiencies determining
8 system needs, and phasing of future needed capital improvements.

9 Many of the systems referred to by Mr. Duren had experienced decades of
10 deferred maintenance and were inadequately budgeted to properly support needed
11 system improvements. This resulted in multiple system components operating
12 beyond their useful life. In fact, the need to do multiple major infrastructure
13 improvements was typically the main motivation for prior owners selling the
14 water systems to Cascadia Water.

15 Continued operation of aging or failing infrastructure increases the risk of failing
16 to meet regulatory requirements and increases the probability of catastrophic
17 failures that could put people or property in jeopardy, and decreases service
18 reliability. Cascadia Water identified and completed the critical projects needed to
19 maintain the systems in proper working order.

1 **Q. On page 3, lines 10-11, Mr. Duren states that “The testimony provided herein**
2 **will update previous testimony regarding projects #3, #8, and #12 for which**
3 **Cascadia Water failed to provide sufficient documentation to demonstrate**
4 **that the scope of work for each project was necessary.” Does he provide any**
5 **update to project #8?**

6 A. No, Mr. Duren provides no update to project #8 (the W&B Waterworks
7 reservoir/pumphouse/treatment) in his response testimony.

8 Mr. Duren mentions Cascadia Water had failed to provide sufficient
9 documentation about this project. Mr. Duren had ample time to request discovery,
10 and Cascadia Water has provided Mr. Duren with the information he has
11 requested. The Company issued a supplemental response to a data request
12 (WCAW Data Request No. 47, Exh. MJR-CJL-6) after his initial testimony only
13 mentioned reviewing the water system plan to provide additional clarity. In
14 addition to providing the project report for this project to all interested parties in
15 the case, it was provided in our responsive testimony as pages 86-240 of Exhibit
16 MJR-CJL-6 filed January 13, 2025.

17 **Q. On pages 6-7 of his testimony, Mr. Duren lists his strategies of prioritization**
18 **of projects. How do you respond?**

19 A. Only prioritizing items that are out of compliance for a water system is overly
20 simplistic. While out of compliance items need to be addressed immediately, it is
21 also the goal and mandate of a prudent water system owner to maintain a water

1 system in compliance with standards while meeting system needs. This work
2 necessitates the need to monitor and access system components and initiate
3 repairs and /or replacement prior to failure and a loss of service to the system
4 customers. Having said that, we completely agree with the concept of prioritizing
5 projects. We already utilize this concept with our water system master plans and
6 standardization of systems and the Settlement will further refine this process by
7 requiring Cascadia Water to publish its capital plan and also provide levels of
8 prioritization.

9 Mr. Duren's suggested strategies do not demonstrate Cascadia Water's
10 improvements are inconsistent with his approach. The prefiled direct testimony of
11 Culley Lehman and the prefiled direct testimony of Staff witness Rachel Stark
12 discussed how these capital improvements are in-service, used and useful, and
13 prudent, even if there was some disagreement over individual adjustments.⁴

14 **Q. On page 10, Mr. Duren references a project report for the CAL project that**
15 **he claims was not provided. How do you respond?**

16 A. He is correct that the report was not originally provided as the response to
17 WCAW Data Request No. 4. The Company issued a supplemental response (to
18 WCAW #47, which is included in Exhibit MJR-CJL-6) after Mr. Duren's initial
19 testimony only mentioned reviewing the water system plan. This project report
20 provided all the information he quoted needing for more adequate review. It is

⁴ Exh. CJL-1T at 9-33; Exh. RS-1T at 15:4-19.

1 also the project report the Department of Health used to approve the project. In
2 addition to this report being served to all interested parties in the case, it was
3 provided in our responsive testimony as pages 2-85 of Exh. MJR-CJL-6 filed
4 January 13, 2025.

5 **Q. On page 9 of his tesitmony, Mr. Duren included Table 2 Storage Needs. How**
6 **do you respond to this?**

7 A. The values shown in “Table 2 Storage Needs” are not consistent with the
8 calculation provided in the Washington State Department of Health Water System
9 Design Manual (“Design Manual”). Specifically, a minimum recommended
10 storage volume of 200 gallons per day per Equivalent Residential Unit
11 (“gpd/ERU”) was used for standby storage calculations, which is much too low.
12 The Maximum Daily Demand (MDD) should have been used, which was 500
13 gallons/ERU. Section 7.1.1.3 of the DOH Design Manual states, “We recommend
14 standby (SB) volume equal the Maximum Daily Demand (MDD) for the pressure
15 zone(s) served (i.e., Td =1 day) and adjust SB volume based on factors listed
16 below.”

17 As noted above, standby (“SB”) volume can be adjusted. Under systems with
18 multiple sources, Section 7.1.1.3 notes the following items to justify reduction of
19 SB Volume.

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1. The water system and the local fire authority allow for nesting SB and Fire Suppression Storage (FSS) volumes, where the FSS volume is greater than the SB volume. See Section 7.1.1.4.
2. Two or more sources have permanent on-site auxiliary power that starts automatically when the primary power feed is disrupted. With the largest of these sources out of service, the remaining sources plus SB volume can maintain at least 20 psi throughout the distribution system under Peak Hour Demand (PHD) conditions.
3. Two or more sources receive power from two electrical substations, so that failure of one substation will not interrupt the power supply to the source as documented in writing by the power utility. With the largest of these sources out of service, the remaining sources plus SB volume can maintain at least 20 psi throughout the distribution system under PHD conditions.
4. Sources are located in different watersheds, wellhead protection areas, or aquifers.
5. Converting dead storage to standby storage by providing mechanically redundant booster pumping capacity with permanent on-site auxiliary power that starts automatically when the primary power feed is disrupted.

1 For CAL Waterworks, Items 1, 3, 4, and 5 are either not applicable or
2 unavailable. Consistent with Item 2, CAL Waterworks does have two sources
3 with permanent on-site auxiliary power. However, both sources are located in the
4 same wellhead protection area, which conflicts with Item 4.

5 Based upon the limited resources available on site, Cascadia Water determined
6 that a full reduction from the recommended SB Volume of 500 gpd/ERU (MDD)
7 to the minimum level of 200 gpd/ERU was not justified. The designed reservoir
8 size provides sufficient volume for demands throughout the anticipated 80-year
9 useful life cycle of the new reservoir.

10 **Q. Are there any other considerations related to the design for the reservoir at**
11 **CAL Waterworks?**

12 A. Yes. Cascadia Water owns a triangular shaped 0.22-acre parcel of land which
13 contains both wells, the reservoir, and the pumphouse. The site is limited in size,
14 and effectively using the available space is an important consideration. The 26-
15 foot diameter reservoir effectively used the site while considering the limitation
16 from other infrastructure and necessary setbacks. The installed reservoir has a
17 height of 20-feet. Installing the next size down (26-ft diameter and 15-ft tall)
18 would have provided 59,000 gallons and provided the minimum amount of
19 standby storage. During design, it was estimated that the cost of the reservoir
20 alone would increase from \$170,000 to \$185,000 when moving from a height of
21 15-feet to 20-feet. Increasing the cost by 8.1%, system storage would increase by
22 over 25%. This increased storage volume provides a higher level of service,

1 provides redundancy and resiliency for the system, all within the recommended
2 level of storage as outlined in the Design Manual.

3 **Q. Are there any other considerations to consider when speaking to the new**
4 **pumphouse and booster pumps at CAL Waterworks?**

5 A. Yes. The demolition of the existing pumphouse that was constructed in 1980 was
6 based upon the poor condition of the structure and lack of space to properly
7 support the needed system components. That now-demolished structure had
8 extensive rotting, an appreciable amount of exposed wiring, limited insulation,
9 and inadequate space to safely perform standard operations or repairs. Exhibit
10 MJR-CJL-9 contains photographs of the pumphouse. The poor and inadequate
11 condition of the structure and pumps had been present for multiple years. There
12 was a preliminary design completed in 2008 by the system's previous engineer
13 George Bratton to fully replace the reservoir, structure, and booster pumps that
14 had been deferred. Exhibit MJR-CJL-10 is a picture of the same equipment
15 shown in Exhibit MJR-CJL-9 after the Company eliminated the unsafe
16 conditions.

17 **Q. Would Mr. Duren's phased-in approach have been reasonable?**

18 A. No. According to his testimony provided in Table 3, a phased approach could
19 have been implemented which would incorporate lining the existing concrete
20 reservoir immediately at the cost of \$50,000. The pumps and booster pumps could
21 then be replaced in 5 years at an approximate cost of \$300,000. According to the

1 numbers Mr. Duren provided, the phased approach would increase cost to the
2 consumers by approximately 15%.

3 By addressing long deferred system improvements to CAL Waterworks, Cascadia
4 Water could reduce the total cost to customers and take advantage of reduction in
5 pricing. As noted in Mr. Duren’s testimony:

6 There are typical benefits to completing projects concurrently. By
7 completing multiple projects at once or in batches, inflationary costs
8 in labor and materials can be avoided compared to a project that is
9 deferred for multiple years. Additionally, completing projects
10 sooner can also reduce the risk of operating aging infrastructure or
11 falling out of compliance with regulatory requirements. Lastly,
12 completing multiple projects at once can provide some cost savings
13 for the utility and ultimately the rate payer by saving costs associated
14 with hiring and coordinating multiple contractors, including
15 management and mobilization of multiple projects.⁵

16 **Q. On page 11, lines 10-11, Mr. Duren quoted the tank inspection report and**
17 **inspection video as being “new” materials provided. How do you respond?**

18 A. These materials were provided to Public Counsel during discovery. The
19 inspection report was also included as Exhibit CJL-3 with Cascadia Water’s
20 testimony filed September 26, 2024. Mr. Duren claims the project report was
21 included as Gilles’ exhibit BCG-18 to testimony filed in November 2024. Exhibit
22 BCG-18 was “Cascadia Response (Attachment 3) to WCAW DR 47” that had
23 been provided to Public Counsel on September 25, 2024. Cascadia does not know
24 why Mr. Duren did not have access to these documents prior to Public Counsel’s

⁵ Exhibit SD-3CT, page 5, lines 7-16.

1 first round of testimony filed in November 2024, or its second round of testimony
2 filed in January 2025, as they were key materials throughout the rate case.

3 **Q. On page 12-13 of his Response Testimony, Mr. Duren raises questions about**
4 **alternative options for the Estates reservoir, among other things. What is**
5 **your response?**

6 A. Following the Sanitary Survey and the tank inspection performed at the “Big
7 Reservoir” at Estates, the following information was known:

- 8 • The 30,000 gallon reservoir was installed during the 1970s.
- 9 • The 150,000 gallons reservoir (“Big Reservoir”) was installed in 1982.
- 10 • The 150,000 gallon reservoir showed significant diagonal cracking with ¼”
11 observed gaps noted on internal support wall. Significant diagonal cracking
12 with ¼” observed gaps noted at internal corners of concrete box structure. In
13 addition, there were moderate diagonal cracks noted on internal surfaces of
14 external support walls
- 15 • In the 150,000 gallon reservoir there were plant roots observed growing
16 through the cracks.

17 These observations lead to concerns regarding the state of corrosion in the steel
18 reinforcement within the structure. It is expected that a portion of the steel
19 reinforcement area has been reduced which has weakened the corners.

20 Furthermore, the construction method for this tank did not include the latest
21 requirements for resisting seismic forces which have changed significantly since
22 the adoption of the 2003 International Building Code. In addition, underground
23 reservoirs do not meet current design standards.

1 A structural assessment that would potentially not recommend planning for
2 immediate replacement would require significant investment in a non-destructive
3 testing method such as cover meters and other electromagnetic assessments of the
4 underground structure. The cost for these assessments would not be cost effective
5 or a wise investment for Cascadia Water.

6 The anticipated cost for a significant structural assessment, to potentially extend
7 the anticipated useful life of the structure would be \$75,000 (\$35/sf). Mr. Duren's
8 testimony provides a potential estimate of \$125,000 for preparing and lining the
9 reservoir. Depending on the results of the assessment the total cost of Mr. Duren's
10 proposal would be \$200,000 or more. Mr. Duren also uses a five-year deferral
11 example on page 5, lines 2-4 of his testimony. A \$200,000 cost to customers to
12 possibly extend the life of the reservoir another 5 years is not prudent. The
13 \$200,000 covers approximately 60% of the cost of the new reservoir installation
14 (\$333,615). A temporary fix costing \$200,000 would have been much less cost
15 effective than the permanent \$333,615 fix actually implemented. The replacement
16 reservoir is expected to last fifty years. Spending \$333,615 for a solution that will
17 last fifty years is much more cost effective than a temporary five-year band aid
18 that costs at least \$200,000. Since Mr. Duren's temporary fix would only last five
19 years, it would need to be depreciated at a much faster rate than the permanent
20 fix. \$200,000 depreciated over five years would result in a much higher revenue
21 requirement (and customer rates) than \$333,615 depreciated over fifty years. And
22 then, at the end of the five years a permanent fix would be necessary and, due to

1 inflation, it would likely cost more than the \$333,615. Mr. Duren’s proposal
2 would ultimately cost customers more, not less.

3 In addition, Cascadia could not guarantee that ground water would not intrude
4 into the reservoir due to current or future cracks in the structure, which would
5 result in possible health risk to the served customers. (This is the reason that
6 underground reservoirs do not meet current design standards.)

7 This is an example of where a proactive approach to replace failing infrastructure
8 reduced long-term cost to customers and reduced the risk of a catastrophic failure
9 or falling out of compliance with regulatory requirements.

10 **Q. On page 13, lines 7-9, Mr. Duren states “...the costs for emptying the tank,
11 preparing the existing surfaces, sealing the cracks, and then refilling the tank
12 are estimated to be between \$75,000 and \$125,000.” How do you respond?**

13 A. According to Section 7.7, subsection 1 “Curing of coatings” in the DOH Water
14 System Design Manual, this would have taken the reservoir completely offline for
15 a minimum of 48 hours and up to 7 days, not to mention the additional time
16 needed for the initial concrete prep prior to coating even being able to be applied.

1 **Q. On page 12, lines 11-13, Mr. Duren states “Furthermore, the justification for**
2 **a new booster pump station appears to be primarily based upon the need for**
3 **a new reservoir, as the existing booster pumps are mounted on top of one of**
4 **the existing reservoirs.” How do you respond?**

5 A. The sanitary and structural deficiencies associated with the reservoir and the cost
6 associated with a potential extension to the useful life impacted the timeframe for
7 replacement of both the reservoir and associated pumps.

8 The Estates distribution system has multiple fire hydrants located throughout the
9 distribution system. Prior to installation of the improvements there was a fire
10 within the service area. During this fire event, the fire department attempted to
11 use the fire hydrants which caused the previous pumps to shut down. This resulted
12 in no fire flow and a loss of pressure in the distribution system affecting all users.
13 The new pumps will provide an improved level of service and meet the demands
14 for the system.

15 **Q. On page 3, lines 14-15, Mr. Duren mentions “the manganese treatment for**
16 **Estates”. Does he mention this anywhere else in his testimony, or provide any**
17 **further follow-up?**

18 A. No, he does not. He only refers to the reservoir and booster pump portion of the
19 project. He makes no mention of the manganese level in Well 2 being 160% over
20 the state maximum contaminant level, or any other information regarding the
21 filtration system, which was provided in DRs sent to Public Counsel and Water

1 Consumer Advocates of Washington. This information was provided in Exh.
2 MJR-CJL-4 (p. 12-130), Exh. MJR-CJL-6, and Exh. CJL-5.

3 **Q. On page 14, Mr. Duren lists four systems that he categorizes as low-priority**
4 **for generator installation. Two of those were already approved in the prior**
5 **rate case. What is your response?**

6 A. Cascadia Water prioritizes standby generators on its systems so that customers
7 can count on the service reliability the Company strives to offer.

8 While there are portions of the Diamond Point and Discovery Bay systems that
9 are partially pressurized due to the reservoir, both systems have fire flow
10 capabilities that the partially pressurized reservoir will not meet. Diamond Point
11 needs booster pumps to achieve this (which rely on power). Discovery Bay needs
12 the well pump to refill the reservoir (which relies on power). Discovery Bay also
13 has customers that solely rely on a booster pump to get any pressurization as they
14 literally live up a hill above the reservoir. Cascadia does not prioritize one
15 customer over another that would be without water; the Company continues to
16 strive to provide safe, adequate and reliable drinking water to all of its customers,
17 even in emergencies or natural disasters.

18 **Q. On page 15, Mr. Duren includes Table 4 Prioritizing Generator Purchases.**
19 **How do you respond?**

20 A. While we agree with the math in Mr. Duren's table, Cascadia Water is a
21 proponent of rate consolidation and single tariff pricing to achieve economies of

1 scale, rather than calculating each generator per system. Island Lake and Lynch
2 Cove are currently in a consolidated tariff schedule to begin with, so neither of
3 those systems would pay individually anyway.

4 **Q. On page 16, lines 6-10, Mr. Duren gives a hypothetical situation of**
5 **Monterra’s generator not being purchased and thereby saving the cost. How**
6 **do you respond?**

7 A. If the Monterra system did not have a standby generator, the result would be that
8 192 customers on the Monterra system would be without water in the case of a
9 power outage. Monterra is a primarily 55-and-older retirement community, and
10 although, Cascadia Water does not prioritize one customer over another, refusing
11 to supply this community with a generator as suggested by Mr. Duren would not
12 be reasonable. The Company continues to strive to provide safe, adequate and
13 reliable drinking water to all of its customers, even in emergencies or natural
14 disasters.

15 **Q. Do you have any further follow-up regarding generators?**

16 A. Yes. We continue to agree with Mr. Duren’s original testimony, filed November
17 20, 2024 page 11, lines 19-22: “Including standby generators at sources of supply,
18 particularly groundwater wells, has become an industry standard in the Pacific
19 Northwest, particularly as the seismic vulnerabilities of the region have been
20 identified and the need for resilient infrastructure in the aftermath of a natural
21 disaster has become better understood.” We also continue to point out that

1 generators are recommended throughout the DOH Water System Design Manual,
2 as stated by Mr. Duren himself on page 11, line 24 of that same testimony.

3 **Q. Has the Company had any customers complain about receiving water during**
4 **a power outage thanks to their standby generator?**

5 A. No we have not, and it is the exact opposite. We have had customers thank us for
6 installing a standby generator on their system after a power outage occurs. The
7 windstorm on November 19, 2024, that meteorologists referred to as a “bomb
8 cyclone” knocked power out to the majority of our water systems. As also stated
9 on pages 27-28 of Cascadia Water’s response testimony, filed January 13, 2025,
10 “15 generators on the Cascadia Water systems were running, providing power to
11 support water service to customers. Without the generators, 15 different systems
12 could have potentially been without water, resulting in 15 different boil advisories
13 (once power and water service were restored). Not having a standby generator can
14 pose an acute health risk to customers due to pressure loss, and that is not the
15 standard the Company can maintain.”

16 **III. REBUTTAL OF WCAW**

17 **A. Rebuttal of Mr. Gilles**

18 **Q. At page 2 lines 10-15 of his Responsive Testimony, Mr. Gilles criticizes the**
19 **“black box” nature of the Settlement. How do you respond?**

20 A. Black-box settlements are a way for adverse parties to reach an appropriate result
21 without necessarily agreeing on all of the details of how the result was derived.

1 This is a totally appropriate and efficient way to resolve contentious issues and it
2 has been utilized by the Commission successfully in previous cases. Mr. Gilles
3 claims that the black-box nature of the Agreement “relieves Cascadia of the
4 burden of proving that (sic) revenue requirement agreed to would result in a
5 reasonable rate of return while it simultaneously prevents non-settling parties—
6 and the Commission—from determining whether the resulting rate of return is
7 reasonable.” Both of these claims are incorrect. The Company and Staff disagreed
8 on what the authorized rate of return for Cascadia Water should be and disagreed
9 on the appropriate value of the components of authorized rate of return (return on
10 equity, capital structure, and cost of debt). Both Staff and Cascadia Water
11 submitted extensive testimony supporting their proposed authorized rates of
12 return but ultimately decided that simply agreeing to a revenue requirement
13 between our two proposed revenue requirements (but much closer to Staff’s
14 percentage) was an efficient means of resolving the issues in this case. Since the
15 Settlement’s revenue requirement is between those proposed by Staff and the
16 Company in Direct Testimony its implicit rate of return is also between those
17 proposed by, and supported by, Staff and the Company in Direct Testimony.
18 Therefore, the “burden of proving” the reasonableness of the proposed authorized
19 rate of return is satisfied by the Direct Testimonies of Staff and the Company in
20 support of their respective proposed authorized rates of return. That testimony
21 then, provides a basis for “determining whether the resulting (settlement) rate of
22 return is reasonable.”

1 **Q. At page 2 line 20 through page 3 line 5, Mr. Gilles states, while discussing the**
2 **relative risk of small water utilities compared to other utilities, that “Mr.**
3 **Rowell's response is that apparently water systems must be more risky than**
4 **gas systems because ‘Cascadia Water’s current operating income is**
5 **negative.’” Is this an accurate representation of Mr. Rowell’s Testimony on**
6 **this matter?**

7 A. No. This is a mischaracterization of Mr. Rowell’s Direct Testimony. That
8 testimony stated clearly that in Mr. Rowell’s almost thirty years of experience
9 with utility regulation he had encountered several instances of small water utilities
10 that had negative operating income or were otherwise in poor financial condition
11 and he was aware of no large electric or gas utilities in similar straights outside of
12 extraordinary circumstances.

13 **Q. But Mr. Gilles states on page 2 line 22 through page 3 line 1 that “current**
14 **income does not indicate long term risk of any asset,” and points out that**
15 **Cascadia’s ultimate parent Northwest Natural Holding Company had**
16 **negative net income in the third quarter of 2024. How do you respond?**

17 A. The cited negative quarterly income is an artifact of the seasonal nature of the gas
18 utility business. Gas utilities earn significantly more revenue in the winter months
19 than the summer months while expenses are relatively constant across the year.
20 This can cause quarterly income to vary across the year while the annual income
21 remains healthy. Mr. Rowell never advocated for limiting risk assessments to the
22 most recent quarter.

1 **Q. At page 8 and 9 of his Responsive Testimony, Mr. Gilles opines on “single**
2 **tariff pricing.” How do you respond?**

3 A. Mr. Gilles takes an extremely hard-line position that only cost causation should be
4 considered in rate design. This is out of step with modern regulatory practice and
5 theory. Under Mr. Gilles’ hard-line approach, Cascadia Water would have to
6 deconsolidate the constituent systems that make up the current Island and
7 Peninsula tariffs and operate under thirty different rate structures.

8 The Commission has approved consolidated rate structures for other Washington
9 water utilities. For instance, Washington Water Service Company serves 197
10 water systems under a single tariff, across eight different counties and 28 systems,
11 across two counties under a separate tariff.⁶ These systems are spread across the
12 State and under Mr. Gilles’ approach, Washington Water Service Company would
13 be required to serve its customers under 212 different tariffs.

14 Consolidated rate structures are the norm for most utilities. For instance Puget
15 Sound Energy charges the same rates to its customers in King County, on the
16 Island, and the Peninsula even though the cost of serving them likely differs (for
17 example, due to the need to run power lines to the island or more lines in rural
18 areas). Another example is that the cost to serve new developments can be
19 considerably higher than that of serving older developments because of inflation
20 and depreciation but rates are not set to reflect this cost disparity. In matters of
21 rate design, it is appropriate to consider equity and fairness in addition to the cost
22 of service. It is a legitimate question to ask whether it is unfair for the Island and

⁶ See Docket UW-230236, Order 01 at ¶ 2 (Aug. 18, 2023).

1 Peninsula customers to pay different rates based on the water system to which
2 they are connected. Finally, WCAW is the only party that opposes single tariff
3 pricing.

4 **Q. At BCG-24T, page 5 lines 13-15, Mr. Gilles claims the engineering firm did**
5 **not find a compelling reason for the reservoir to be replaced. How do you**
6 **respond?**

7 A. Mr. Gilles does not have an engineering background or water operations
8 experience and he is misinterpreting this statement. This letter is taken out of
9 context, which is focused on whether there is a coliform issue with the leaking.
10 The letter does not address or otherwise evaluate the structural integrity of the
11 tank in general nor is it intended to.

12 **Q. Mr. Gilles criticized Staff for its review of Cascadia Water's investments.**
13 **How do you respond?**

14 A. Unlike Public Counsel and Mr. Gilles, Staff physically toured Cascadia Water
15 facilities to conduct its investigation and better understand the improvements at
16 issue in this proceeding. Staff also conducted a substantial amount of discovery
17 prior to agreeing to the Settlement, including over fifty data requests, not
18 including over seventy informal data requests issued prior to the litigated
19 proceeding. The WCAW issued approximately 147 data requests and Public
20 Counsel issued 40 data request, all of which were also provided to Staff. Many of
21 these responses included project reports, DOH mandates, DOH approval letters,
22 sanitary surveys, and master plans. This is a substantial amount of discovery for a
23 case of this size. Notably, Staff's litigated revenue requirement is very close to

1 that of Public Counsel if the CAL Waterworks and Reservoir projects are
2 included in rate base, both of which are projects Public Counsel primarily takes
3 issue with concerning timing (and not the underlying need of the entire project)
4 and disregards the long-term cost savings of those projects.

5 **Q. Do you have other evidence to present to explain why the level of investment**
6 **in the current rate case was necessary specifically for the Estates reservoir**
7 **project?**

8 A. Yes, attached as Exhibit MJR-CJL-12 are photographs taken during the
9 demolition process of the underground reservoirs demonstrating the various
10 cracks, and degradation of the structure. These photographs confirmed Cascadia
11 Water's understanding of the problems facing the system. There was a visual
12 inspection report done by a third-party contractor⁷ with video documentation of
13 cracks on the inside of the exterior walls of the reservoir, as well as stress cracks
14 going down the support center wall. The video inspection also revealed images of
15 root infiltration into the tank showing proof of penetration through the walls of
16 the reservoir. It was obvious that there were structural flaws in the tank and
17 penetrations through the concrete affecting the steel structure of the reservoir. The
18 previous owner conducted an underwater inspection in 2007 that proves the
19 cracks got worse over time.⁸ Given the level of deterioration, it was clear to
20 Cascadia Water this project was needed now.⁹

⁷ See Exh. CJL-3.

⁸ See Exh. CJL-4.

⁹ See Exh. CJL-2.

1 Cascadia Water attempted to keep its customers informed regarding this project
2 with updates and included photographs of the updated system. These are included
3 as Exhibit MJR-CJL-13. Finally, Cascadia Water is providing a condensed video
4 from 2022 showing the extent of the deterioration of the system as Exhibit MJR-
5 CJL-14.

6 **Q. On page 5, lines 1, Mr. Gilles quotes that “Cascadia had already indicated to**
7 **DOH that the reservoir would be replaced.” How do you respond?**

8 A. Mr. Gilles is taking this out of context. Yes, Cascadia Water has stated multiple
9 times that at some point in time the reservoir was going to need replacement. This
10 was something we discussed with the previous owner of the system back before
11 we acquired it. Cascadia Water knew that the reservoir was aging and nearing the
12 end of its useful life. At the time of the sanitary survey, Cascadia Water was
13 planning on putting a reservoir replacement in the upcoming water system master
14 plan. So the comment to DOH at the time of the sanitary survey, letting them
15 know that we already planned to replace the reservoir in the future, was a
16 planning conversation between the water system purveyor and the regulator.
17 Then, based on these significant findings, it was necessary for Cascadia Water to
18 complete the project sooner. Due to the significant findings of the sanitary survey,
19 a corrective action plan was required. DOH required a corrective action plan be
20 filed, and the corrective action plan the Company submitted (and received
21 approval from DOH) was for reservoir replacement.

1 **Q. At BCG-24T, page 4, line 19, Mr. Gilles states “the largest expenditure**
2 **relates to the full replacement of the Estates reservoir.” How do you**
3 **respond?**

4 A. This is incorrect, the largest expenditure is the W&B Waterworks
5 reservoir/pumphouse project.

6 **Q. In BCG-24T, pages 3 (line 22) and 5 (line 18) Mr. Gilles references “increases**
7 **in capacity” and “capacity expansion.” How do you respond?**

8 A. First, Mr. Gilles’ does not specify what capacity he is referring to in this round of
9 testimony (e.g., reservoir, connection, pump) even though Cascadia Water has
10 responded to these concerns.

11 Starting with reservoir capacity, there are three reservoir projects in this rate case:
12 W&B Waterworks, Estates & CAL Waterworks. W&B Waterworks expanded
13 capacity due to demand and duty to serve, which is explained in the project report
14 (which was provided in our responsive testimony as pages 86-240 of Exh. MJR-
15 CJL-6 filed January 13, 2025, and served to all interested parties as a
16 supplemental discovery response). The Estates reservoir capacity went down, as
17 explained in Exh. MJR-CJL-1JT, page 20 lines 13-23 and page 21, lines 1-5. The
18 CAL Waterworks storage capacity increased due to demand and duty to serve,
19 which is explained in the project report (which was provided in our responsive
20 testimony as pages 2-85 of Exh. MJR-CJL-6 filed January 13, 2025, and served to
21 all interested parties as a supplemental discovery response). The W&B and CAL

1 reservoir projects were also in the Unified Island Master Plan, Exh. CJL-8, which
2 was approved by DOH in August of 2022.

3 To the extent Mr. Gilles is referencing pump capacity or connection count, those
4 were also addressed in each project report listed above for each respective system.

5 **B. Rebuttal of Mr. Palmer**

6 **Q. Does Cascadia Water dispute the tender truck shuttle system that Mr.
7 Palmer mentions in his testimony?**

8 A. No. While it is admirable that the South Whidbey fire district has a water tender
9 shuttle system, the Company agrees with Mr. Palmer’s page 1 lines 16-17, “in a
10 perfect firefighting world, all structures would have a fire hydrant near them to
11 use to fight fire.”

12 **Q. On page 2 line 13-14, Mr. Palmer states that a tender fills from “the closest
13 available water source, either a hydrant (emphasis added), pond, swimming
14 pool, etc.” How do you respond?**

15 A. The Company agrees that fire departments rely on hydrants provided by water
16 companies. Notably, the more hydrants available, the better the tender shuttle
17 system works. This would support a reasonable addition of hydrants where none
18 exist.

1 **Q. On page 2, line 16, Mr. Palmer states that in a best case scenario with all five**
2 **tenders on site, they can fill their fold-a-tank with 13,800 gallons of water.**
3 **Then on page 4, line 13, he mentions larger homes should have 1,000 gallons**
4 **a minute available to fight fire. What is your response?**

5 A. This math suggests that larger homes have a total of 13 minutes available
6 firefighting capacity without a hydrant. Cascadia Water does not agree that the
7 tender truck shuttle system Mr. Palmer references is efficient without hydrants.

8 **Q. Did Cascadia Water install any new hydrants that were not required due to**
9 **code or replaced due to maintenance issues?**

10 A. No. All hydrants in this rate case were installed due to county code or
11 replacement for maintenance issues.

12 **Q. Do you have any further follow-up points you want to make regarding Mr.**
13 **Palmer's testimony?**

14 A. Yes. Cascadia Water takes fire flow very seriously. We continue to install new
15 fire hydrants when a new main line is installed, in compliance with county code.
16 We also will continue to conduct service maintenance and replacement of our
17 existing fire hydrants, to ensure their operability and availability to fire
18 department tender trucks. Mr. Palmer is only one voice, with experience in one
19 district within the eight counties Cascadia Water operates in, with most counties
20 having multiple districts within each of those counties.

1 Fire danger continues to increase in western Washington, where Cascadia Water
2 operates, and the Company does not want its system to be caught unprepared
3 should an emergency arrive.

4 **IV. CONCLUSION**

5 **Q. Does that conclude your prefiled joint rebuttal testimony supporting the**
6 **Settlement?**

7 **A. Yes, it does.**