

**Exh. RS-26T
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

CROSS-ANSWERING TESTIMONY OF

RACHEL STARK

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***Revenue Requirement, Aquarius Surcharge,
Capital Plan, Prioritization, Fire Flow, Future System Acquisitions***

June 20, 2025

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	EXECUTIVE SUMMARY	1
III.	SCOPE AND SUMMARY OF TESTIMONY	2
IV.	REVENUE REQUIREMENT	6
A.	Impact of the Commission’s Prudence Holding in Order 06	6
B.	Prudency of Cascadia’s the Remaining Nine Capital Projects.....	8
1.	Order 06 found certain projects to be not fully prudent	10
2.	Order 06 did not rule on the prudence of Cascadia’s remaining nine projects.....	18
C.	Additional Adjustments to the Revenue Requirement	28
D.	Aquarius Surcharge	30
V.	CAPITAL PLAN	33
VI.	PRIORITIZATION OF CAPITAL PROJECTS	34
VII.	FIRE FLOW	35
VIII.	FUTURE WATER SYSTEM ACQUISITIONS.....	37
IX.	CONCLUSION.....	41

LIST OF EXHIBITS

- Exh. RS-27 Staff Workbook to Western Water Systems
- Exh. RS-28 Staff Workbook to Pelican Point System
- Exh. RS-29 Environmental Protection Agency (EPA) on Guidance on Improving
Cybersecurity at Drinking Water and Wastewater Systems Training Handout
- Exh. RS-30 Joint EPA and Cybersecurity and Infrastructure Security Agency (CISA)
Factsheet
- Exh. RS-31 Email from a Customer Regarding Working Fire Hydrants
- Exh. RS-32 Department of Health (DOH) Letter to Cascadia regarding the Agate West
Water System

1 **I. INTRODUCTION**

2

3 **Q. Please state your name.**

4 A. Rachel Stark.

5

6 **Q. Are you the same Rachel Stark who submitted testimony in this proceeding in**
7 **Exhibits RS-1Tr, RS-7Tr, and RS-12T on behalf of the Washington Utilities and**
8 **Transportation Commission Staff (Staff)?**

9 A. Yes. To the extent relevant to the questions left to be decided in this matter, I
10 incorporate my prior testimony into my cross-answering testimony. I also
11 incorporate the exhibits that were submitted along with those prior testimonies:
12 Exhibits RS-2r through RS-6, RS-8 through RS-11C, and RS-13.

13

14 **II. EXECUTIVE SUMMARY**

15

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

17 A. On February 29, 2024, Cascadia Water, LLC, filed a general rate case proposing
18 changes to its Tariff WN U-2, which was to be replaced by Tariff WN U-3, for water
19 service in Washington. Initially, Cascadia requested an effective date of June 1,
20 2024.

21 The Company serves approximately 4,000 customers, and the initial filing
22 would generate approximately \$1,788,793 (75 percent) in additional annual revenue.
23 Cascadia later extended the effective date to July 1, 2024, and the Commission heard

1 the docket on its June 27, 2024, Open Meeting. The matter was suspended and set
2 for adjudication.

3 Cascadia and Staff reached a settlement that was opposed by Public Counsel
4 and Water Consumer Advocates of Washington (WCAW). The Commission
5 rejected the settlement agreement in Order 06 which was issued on April 22, 2025,
6 and requested whether Cascadia would be willing to extend the effective date to
7 allow completion of the litigated docket.¹ Cascadia extended its effective date again
8 to October 1, 2025, and the procedural schedule continued.²

9
10 **III. SCOPE AND SUMMARY OF TESTIMONY**

11
12 **Q. What is the purpose and scope of your testimony?**

13 A. The purpose of my testimony is to present Staff's recommendation regarding
14 revenue requirement, capital projects, the Aquarius surcharge, Cascadia's capital
15 planning, fire flow, and future water system acquisitions.

16 I respond to Order 06 and to Public Counsel and WCAW. With respect to the
17 capital projects, I address the 14 projects in this case. I discuss the five projects that
18 the Commission ruled in Order 06 were not fully prudent and the remaining nine
19 projects, all of which Staff deems to be prudent. I also discuss Public Counsel and
20 WCAW's testimony challenging that the Company failed to provide

¹ *Wash Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Final Order 06 Rejecting Settlement, ¶¶ 72, 85 (April 22, 2025) (Order 06).

² *Wash Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Second Prehearing Conference Order and Notice of Hybrid Evidentiary Hearing (May 30, 2025).

1 contemporaneous documentation for its decision making to prove prudence of
2 projects, fire flow, and future water system acquisitions. Below is the list of projects
3 that I will discuss.

- 4 1. Del Bay Watermain replacement & Consolidation with W&B Waterworks #1
- 5 2. CAL Waterworks: Distribution System Loop at Beachwood Drive
- 6 3. CAL Waterworks: Reservoir Replacement & Booster Pump Improvements
- 7 4. W&B Waterworks #1: Watermain Replacement and Pressure Reducing
- 8 Valve (PRV)/Vault to Mutiny Lane
- 9 5. W&B Waterworks #1: Pressure Reducing Valve (PRV)/Vault Replacement
- 10 on Mutiny Bay Road
- 11 6. Rolf Bruun: Disinfection Treatment
- 12 7. Estates: Reservoir, Booster Pumps, and Treatment
- 13 8. W&B Waterworks: Reservoir, Pumphouse, Treatment and Watermain
- 14 Replacement
- 15 9. Sea View: Source Development
- 16 10. Diamond Point: Chlorination System
- 17 11. Agate West: Chlorination System
- 18 12. Generators: Multiple Systems
- 19 13. SCADA Remote Monitoring System: Multiple Systems
- 20 14. Coordination Water System Plan (WSP): Island County

1 Of the list above, projects 3, 4, 7, 12, and 13 were found to be not fully
2 prudent due to contemporaneous documentation in Order 06.³ I will address how the
3 Commission could approach the five projects it found to be not fully prudent and the
4 prudence of the remaining projects. The remaining nine projects were not challenged
5 during earlier stages of litigation, so Staff did not present detailed information about
6 its review of those projects. I discuss those projects in more detail in this testimony.

7
8 **Q. Please summarize Staff's recommendations.**

9 **A. Staff's recommendation is as follows.**

- 10 • Staff's new calculations for the revenue requirement results in an increase of
11 \$1,415,738. This revenue requirement increase will be spread across Cascadia's
12 Western water systems, known as Island and Peninsula, and its Eastern water
13 system, known as Pelican Point.
- 14 • Staff recommends the termination of the Aquarius Surcharge. Currently, the
15 Aquarius Surcharge is being collected from customers on the Aquarius water
16 system. Terminating the surcharge would allow the remaining uncollected
17 balance to be included in rates for all customers throughout the Island and
18 Peninsula systems. Staff witness Scott Sevall discusses this recommendation in
19 his testimony as it relates to rate design.
- 20 • Staff is recommending an 8.1 percent adjustment across the five projects found
21 not fully prudent to reflect the lack of contemporaneous documentation. Staff

³ Order 06, ¶ 63.

1 does not recommend full disallowance be ordered, but rather that the prudence
2 finding in Order 06 should result in only partial disallowance. The projects are in
3 service and provide benefit to customers, making full disallowance unreasonable.

- 4 • Staff recommends that the Commission consider ordering Cascadia to develop a
5 capital plan and the prioritization of future capital investments, which would be
6 communicated to customers and the Commission for greater transparency.
- 7 • Staff reviewed Cascadia's fire flow improvements and found them to be prudent.
- 8 • Future water system acquisitions and rate setting are subject to Commission
9 oversight.

10
11 **Q. Please introduce Staff's witnesses and the scope of their testimony.**

12 A. In addition to myself, Staff presents testimony from Scott Sevall, who will address
13 capital structure, cost of debit, cost of equity, weighted cost of capital, rate design,
14 and consolidated rates.

15
16 **Q. Have you prepared exhibits in support of your testimony?**

17 A. Yes. I prepared Exhibits RS-27 through RS-32.

- 18 • Exh. RS-27 is Staff's workbook to Western Water Systems.
- 19 • Exh. RS-28 is Staff's workbook to Pelican Point System.
- 20 • Exh. RS-29 is the Environmental Protection Agency (EPA) on guidance on
21 improving cybersecurity at drinking water and wastewater systems training
22 handout.

- Exh. RS-30 is the Joint EPA and Cybersecurity and Infrastructure Security Agency (CISA) Factsheet.
- Exh. RS-31 is an email from a customer regarding non-working fire hydrants.
- Exh. RS-32 is the Department of Health (DOH) letter to Cascadia regarding the Agate West Water System.

IV. REVENUE REQUIREMENT

A. Impact of the Commission's Prudence Holding in Order 06

Q. What is Staff's proposed revenue requirement for this case?

A. Staff proposes a total of \$1,415,738 additional annual revenue requirement in this case to be spread between the Company's western water systems and its Pelican Point system. The additional annual revenue for the western water system is \$1,159,457,⁴ and the Pelican Point system's additional annual revenue is \$256,281.⁵

Q. This is a different recommendation than Staff presented during earlier stages of this case. Please explain why Staff has adjusted its revenue requirement recommendation for Cascadia.

A. In Order 06, the Commission held that the Company failed to maintain contemporaneous documentation for projects, 3, 4, 7, 12, and 13, and as a result,

⁴ Stark, Exh. RS-27 (Staff's Workbook to Western Water Systems).

⁵ Stark, Exh. RS-28 (Staff's Workbook to Pelican Point System).

1 could not demonstrate its contemporaneous decision making.⁶ The Commission also
2 noted in Order 06 that the Company increased the costs of its CAL Waterworks
3 project by 8.1 percent when it chose to install a 20-foot reservoir instead of a 15-foot
4 reservoir.⁷

5 Based on the Commission's prudence finding, Staff considered whether an
6 adjustment should be made to disallow a portion of the five projects. The projects are
7 all in service and providing a benefit to customers, as I describe in my settlement
8 testimony and will discuss further in my testimony below.⁸ Staff does not believe
9 that a full disallowance of the five projects would be in the public interest because
10 fully disallowing the projects would not allow the Company to recover any costs for
11 projects providing benefits to its customers. This would be an unreasonably harsh
12 result. Instead, the Commission should opt for a partial disallowance to reflect the
13 Company's lack of contemporaneous documentation while also allowing reasonable
14 costs in rates.

15 Staff considered what a reasonable partial disallowance would be under the
16 circumstances of this case. The overbuild of the CAL Waterworks project, which
17 increased costs by 8.1 percent, provides a measure on which to base a disallowance.
18 The overbuild was a direct result of Cascadia's decision-making, and so is a
19 reasonable deduction to apply to the five projects the Commission found lacked
20 contemporaneous documentation.

⁶ Order 06, ¶ 81.

⁷ Order 06, ¶ 45.

⁸ Stark, Exh. RS-7T at 11:12-14.

1 Staff recalculated the Company's annual revenue requirement by
2 incorporating an 8.1 percent disallowance, resulting in an increase in revenue
3 requirement of \$1,415,738 to be spread across the Western and Pelican Point water
4 systems.⁹ Staff believes this revenue requirement calculation is fair, just, reasonable,
5 and sufficient considering the Commission's prudence determination.

6
7 **B. Prudency of Cascadia's Capital Projects**

8
9 **Q. How does Staff determine prudency for an asset or project?**

10 A. Staff follows the policy described in Commission Docket U-190531 to determine
11 prudency.¹⁰ Staff considers whether a company acted reasonably based on what a
12 company knew, or should have known, at the time it made the decision to incur
13 costs. Staff then reviews what initiated the replacement or repair of an asset or
14 project. During its review, Staff reviews the need, the life of an asset, the costs, the
15 benefit to consumers, whether the Company acted reasonably in the interest of its
16 customers, or if the actions were for the benefit of the Company's shareholders. Staff
17 will determine if the asset is used and useful; meaning, is the asset currently a benefit
18 and being used to provide service to the Company's customers.¹¹ The used and
19 useful principle requires assets to be physically used and useful to current ratepayers

⁹ Stark, Exh. RS-27; Exh. RS-28.

¹⁰ *In Re: Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate effective Date*, Docket U-190531, Policy Statement on Property that becomes Used and Useful After Rate Effective Date (January 31, 2020) (Used and Useful Policy Statement); *See also, Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-031725, Order 14, ¶ 145 (May 13, 2004).

¹¹ Used and Useful Policy Statement, ¶¶ 26, 34.

1 before ratepayers can be asked to pay the costs.¹² Staff removes assets that are fully
2 recovered and no longer depreciated and should no longer be in rates.¹³ When Staff
3 considers whether an asset is used and useful, they do not consider if a shareholder
4 or investor would or did incur a loss.¹⁴

5 Additionally, Staff reviews whether the cost of the asset is known and
6 measurable, meaning the expense is certain and quantifiable. Hence, the Company
7 knows the amount paid and that the change to revenue, expense, or rate base
8 occurred.¹⁵ In this case, Staff has received and reviewed all documentation needed to
9 complete its review to determine the prudence of projects.

10
11 **Q. Please explain the review Staff conducted of Cascadia's capital projects.**

12 A. As I described in my earlier testimony, Staff interviewed the Company, reviewed the
13 filing, requested additional documentation and information, and conducted a site
14 visit.¹⁶ Staff also met with Department of Health (DOH) engineers and discussed any
15 concerns with compliance, customer complaints, review of the Company's systems,
16 and any other items DOH has for requirements and notifications to companies when
17 upgrades or changes are needed.¹⁷ Staff reviewed documentation from DOH
18 including sanitary surveys and emails to the Company, as well as the DOH Water

¹² Lesser, Johnathan and Giacchino, Leonardo, *Public Utilities Report Guide: Principles of Public Utilities Operations and Management*, at 88 (March 2018).

¹³ Used and Useful Policy Statement, ¶¶ 20, 24-25.

¹⁴ Used and Useful Policy Statement, ¶¶ 20, 24-25; RCW 80.04.250.

¹⁵ Used and Useful Policy Statement, ¶¶ 22, 23, 28.

¹⁶ Stark, Exh. RS-1Tr at 15:4-11; Exh. RS-7Tr at 11:11-14, citing Exh. RS-8, Exh. RS-9, Exh. RS-10C, and Exh. RS-11C; Exh. RS-12T; RS-13.

¹⁷ Exh. RS-13.

1 System Design manual.¹⁸ When reviewing DOH information, Staff relies on the
2 DOH engineer's reports and standards, because DOH rules and policies set the
3 standards for water quality and quantity as well as water source protections.¹⁹ The
4 Commission works with DOH and relies on their requirements to ensure water safety
5 because the Commission's authority is to economically regulate the water utility.
6

7 **1. Order 06 found certain projects to be not fully prudent.**
8

9 **Q. Order 06 found that project #3 CAL Waterworks: Reservoir Replacement and**
10 **Booster Pump Improvements was not fully prudent. Please explain why a full**
11 **disallowance is not reasonable.**

12 A. In Commission Order 06, the Commission agreed with Public Counsel and WCAW
13 that the Company failed to demonstrate that the CAL Waterworks: Reservoir
14 Replacement and Booster Pump Improvements were fully prudent due to Cascadia's
15 lack of contemporaneous documentation.²⁰ Staff's position remains the same
16 regarding whether this project is prudent.

17 As stated in my testimony, the Company provided information that the
18 reservoir was built in the 1960s, was leaking, and could not keep up with peak water
19 demands for its customers.²¹ Among discussions with Cascadia and DOH, Staff

¹⁸ Stark, Exh. RS-8; Lehman, Exh. CJL-12 (DOH Water System Design Manual).

¹⁹ WAC 246-290-135.

²⁰ *Wash Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Final Order 06 Rejecting Settlement, at 22:63-122, April 22, 2025.

²¹ Stark, Exh. RS-12T at 3:4 – 6:3; Stark, Exh. RS-8 at 7; Lehman, Exh. CJL-1T at 13:21-14:15

1 reviewed invoices and DOH sanitary survey documents for this system.²² Cascadia
2 was required to take corrective action by June 17, 2023, because there were
3 significant deficiencies to the storage tank to provide protection from contaminants.²³
4 DOH also observed that the Company should consider replacing the reservoir to
5 prevent water loss, finish residential water meter installation, extend the overflow,
6 develop and implement a cross-connection control (CCC) program, and ensure the
7 appropriate CCC device is installed on each high health hazard premises.²⁴ It is also
8 noted that the wellhouse and well are located outside the pumphouse in the open and
9 not protected from unauthorized access and tampering.²⁵

10 The Company updated its system to have a direct water supply line plumbed
11 directly into a chlorine solution tank without a reduced backflow pressure assembly
12 on the supply line. This was needed to be able to maintain continuous chlorination
13 for contamination prevention. In the discussions with the Company, Staff was
14 advised that it was more cost effective by utilizing a standard dimension concrete
15 form to add walls to the reservoir because a custom form would be more expensive.
16 It was also noted the reservoir pumphouse would be replaced soon and the reservoir
17 overflow did not extend all the way to the ground. This would make it difficult to
18 inspect the integrity of the screen, and the report recommended that the Company
19 replace it as needed.²⁶ The survey also indicated that the system does not have a

²² Stark, Exh. RS-8 at 1-19.

²³ Stark, Exh. RS-8 at 1-2.

²⁴ Stark, Exh. RS-8 at 10.

²⁵ Stark, Exh. RS-8 at 7.

²⁶ Stark, Exh. RS-8 at 8.

1 cross-connection control program in place.²⁷ During Staff's site visit, I noted there
2 were leaks on corners of the reservoir.

3 Because there was a clear need for the project, Staff views the project as
4 being prudent. Cascadia has completed the project, and it is in-service and providing
5 benefits to customers. Therefore, a full disallowance is not reasonable, and the
6 Commission should allow recovery of reasonable costs associated with this project in
7 rates.

8
9 **Q. Order 06 found that project #4 W&B Waterworks #1: Watermain Replacement**
10 **and PRV/Vault to Mutiny Lane was not fully prudent. Please explain why a full**
11 **disallowance is not reasonable.**

12 A. When Staff reviewed this project for prudence, we reviewed invoices and held
13 discussions with the Company to determine if this project should be included in
14 rates. This project was needed because the customers who are served off Mutiny
15 Lane were served by a single water line. This line was on a steep slope and under a
16 stream. There was movement on the slope which caused the line to break. The
17 Company temporarily repaired the line to provide service to the customers. However,
18 the temporary fix needed to be replaced with an adequately sized line to be able to
19 meet the demands of the customers.²⁸ This project was included in the Company's
20 Island County Unified Master Plan.²⁹ Cascadia witness Mr. Lehman testifies
21 regarding steps taken and alternatives that the Company considered to reduce

²⁷ Stark, Exh. RS-8 at 1-19.

²⁸ WAC 246-290-230(6) (DOH requirements).

²⁹ Lehman, Exh. CLJ-8 (Cascadia Water LLC Unified Master Plan).

1 expenses.³⁰ The Company provided sufficient information for Staff to evaluate
2 whether the project met the prudence standard. From Staff's point of view, the
3 project is prudent. This asset was placed in service in April 2022; therefore, the asset
4 is used and useful, known and measurable, and customers receive a benefit from the
5 replacement. As a result, full disallowance is not reasonable, and the Commission
6 should allow reasonable costs in rates.

7
8 **Q. Order 06 found that project #7 Estates: Reservoir, Booster Pumps, and**
9 **Treatment was not fully prudent. Please explain why a full disallowance is not**
10 **reasonable.**

11 A. As stated in my testimony, Staff reviewed the prudence of this project for the Estates
12 System.³¹ Staff reviewed DOH's sanitary survey and invoices, had discussions with
13 DOH's engineers, and Staff's evaluation during Staff's site visit. The DOH sanitary
14 survey included significant deficiencies in the electrical wires entering Well 1, which
15 needed to be sealed and completed during the inspection. The report also noted
16 significant findings requiring a corrective action plan for engineering design and
17 construction of the proposed tank 2, because there is obvious leaking in several
18 locations. The report noted that if a new tank is not proposed the Company needs to
19 hire a qualified structural inspector to evaluate the reservoir. This needed to be
20 completed by February 11, 2022.³² Because the reservoir is underground, the
21 Company hired a company to put a robot into the reservoir to perform an inspection.

³⁰ Lehman, Exh. CLJ-1T at 15:14 – 16:23.

³¹ Stark, Exh. RS-12T at 6:20 – 10:8.

³² Stark Exh. RS-8 at 49-75.

1 Additionally, the underground reservoir was leaking and had some rust,
2 cracks, and root intrusion. These deficiencies can introduce contaminants into the
3 water system, which is a health and safety concern for public consumption of the
4 water. The report also had observations that the Company needed to update the
5 Coliform Monitoring plan to meet DOH requirements.³³ The report further observed
6 the Company needed to ensure that cross contamination controls (CCC) were tested
7 annually and ensure yard hydrants with weep holes have CCC. The original system
8 was constructed in the 1970s and later expanded in 1982 and 1983. This system only
9 provides some fire flow, utilizing a (non-standard) portable generator.

10 The sanitary control area (SCA) housed various types of equipment such as a
11 lawn mower and other fuel, which could contaminate the system. DOH identified
12 this as a concern, and the report noted the extra fuel should be moved and not stored
13 with any other chemicals to increase SCA protection.

14 The generator for this system was sized to run only the booster pumps for
15 Tank 1. A larger generator was needed to run both wells and booster pumps without
16 conservation and would increase system reliability. There were no permanent long-
17 term treatments in place; however, there was chlorine bleach available for treatment.
18 To remedy this, the Company installed an updated treatment system for chlorination
19 treatment.

20 The report also noted the annual leakage had increased with the operator
21 repairing several leaks. This system had two tanks tied together with only one

³³ WAC 246-290-300; WAC 246-290-320.

1 overflow. The system drawings show the reservoirs have drains but only one drain is
2 located. Tank 2 was also leaking and therefore the Company planned to replace it
3 with an above ground tank.

4 This project was placed in service in October of 2024, Staff believe that this
5 project is prudent, used and useful, known and measurable and a benefit to
6 consumers. As a result, full disallowance is not reasonable, and the Commission
7 should allow reasonable costs in rates.

8
9 **Q. Order 06 found that project #12. Generators: Multiple Systems was not fully**
10 **prudent. Please explain why a full disallowance is not reasonable.**

11 A. For project #3 CAL Waterworks: Reservoir Replacement and Booster Pump
12 Improvements the DOH sanitary survey stated that the system did not have
13 emergency power.³⁴ The survey also reported that the system did not have frequent
14 (more than two) power or water outages per year. Staff, in discussions with
15 Cascadia, determined the Company did not maintain records for outages. However,
16 the system would benefit from a back-up generator because the back-up generator
17 would ensure that customers would have water during a power outage. Staff and the
18 Company discussed the need for Cascadia to keep accurate records in the future.

19 As I discussed in my testimony, a generator for a system would allow the
20 system's pumps to continue to function during a power failure.³⁵ Generators
21 automatically start during a power outage and will allow customers to continue to be

³⁴ Stark, RS-8 at 1-19.

³⁵ Stark, Exh. RS-12T at 13:15 – 16:2.

1 provided with water during a power failure.³⁶ Additionally, a generator would
2 maintain enough pressure to prevent air pockets that get into the system which could
3 cause problems such as reduced water pressure or sputtering water and with pumps
4 continuing to function, water levels would be maintained. Therefore, there would be
5 less chance for contaminants to enter the water system. This also would reduce the
6 possibility of back-flow issues, reducing the need for a boiled water requirement for
7 customers.

8 Staff views Cascadia's decision to install generators to be prudent. The
9 generators are used and useful, known and measurable, and a benefit to consumers.
10 As a result, full disallowance is not reasonable, and the Commission should allow
11 reasonable costs in rates.

12
13 **Q. Order 06 found project #13 Supervisory Control and Data Acquisition**
14 **(SCADA) System: Multiple Systems was not fully prudent. Please explain why a**
15 **full disallowance is not reasonable.**

16 A. SCADA is a remote monitoring system.³⁷ In Order 06, the Commission deemed the
17 SCADA system to not be fully prudent.³⁸ Staff's position remains unchanged that
18 SCADA is a benefit to both the Company and its customers.³⁹ However, because the
19 Commission deemed that the Company failed to provide contemporaneous

³⁶ Stark, Exh. RS-12T at 13:15 – 16:2.

³⁷ eLynx Technologies. 2025, "A Simple Guide to Understanding SCADA for Water Systems." *eLynx Technologies*. Accessed June 16, 2025. <https://water.elynxtech.com/post/a-simple-guide-to-understanding-scada-for-water-systems>.

³⁸ *Wash Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Final Order 06 Rejecting Settlement, at 22, April 22, 2025.

³⁹ Stark, Exh. RS-12T at 19:16-21 and at 20:1 -20.

1 documentation to install SCADA for all of its systems, Staff made an 8.1 percent
2 adjustment to partially remove costs of SCADA projects throughout the Company's
3 Western and Pelican Point systems.⁴⁰ Staff believes that the Commission could find
4 the project to be fully prudent with additional information, making this adjustment
5 unnecessary.

6 On March 26, 2025, I attended training given by the Environmental
7 Protection Agency (EPA) and Cybersecurity and Infrastructure Security Agency
8 (CISA) regarding guidance on improving cybersecurity at drinking water and
9 wastewater systems.⁴¹ This training included discussions of SCADA systems and
10 using SCADA for security of water systems, which would reduce potential terrorist
11 attacks or a water system being victimized by a cyberattack. SCADA also assists
12 with responding if an attack does occur. Both the EPA and CISA strongly encourage
13 water and wastewater systems to implement a SCADA system to mitigate factors
14 such as attacks and augment the ability to monitor the Company's systems.

15 As previously stated in my testimony, during our site visits with the
16 Company, Staff directly experienced the effectiveness of the Company's SCADA
17 system.⁴² Cascadia demonstrated to Staff how the SCADA was set up, what type of
18 codes they receive, and what the Company does to respond to each code. Cascadia's
19 systems are not geographically close to one another, with some systems on the
20 mainland and some on an island, which require a ferry ride to get to certain systems.

⁴⁰ Stark, Exh. RS-27 and RS-28.

⁴¹ Stark, Exh. RS-30.

⁴² Stark, Exh. RS-12T at 20:11 – 21:11.

1 SCADA provides tangible benefits for system management. It provides
2 efficiencies because the Company operator would be able to receive notifications on
3 their device to be able to immediately respond to codes, such as water levels, pump
4 operations, pump house doors opening, as well as system failures. With SCADA, the
5 Company does not need to employ additional employees to physically monitor its
6 individual systems, which would increase the Company's salary expense. Along with
7 the Company being able to monitor and respond to its systems notifications remotely
8 and respond, a SCADA system would be a benefit against terrorist attacks or the
9 Company's systems being victimized.⁴³

10 SCADA provides material benefits to Cascadia and its customers. The
11 decision to install and utilize SCADA was reasonable and justified. Staff
12 recommends that the Commission allow the entire cost of the project in rates instead
13 of the 8.1 percent decrement based on the ruling in Order 06.

14
15 **2. Order 06 did not rule on the prudence of Cascadia's remaining**
16 **nine projects.**

17
18 **Q. Please provide Staff's analysis of project #1 Del Bay Watermain replacement &**
19 **Consolidation with W&B Waterworks #1.**

20 A. To assess prudence, Staff reviewed the DOH Sanitary Survey.⁴⁴ Staff also had
21 discussions with DOH and the Company and reviewed Mr. Lehman's testimony

⁴³ Stark, Exh. RS-29.

⁴⁴ Stark, Exh. RS-8 at 20-35.

1 regarding the system.⁴⁵ DOH's follow up survey letter identified a significant
2 deficiency, which denotes potential public health risks.⁴⁶ The overflow drain outlet
3 needed to be properly screened or have a flapper valve replaced. The follow-up letter
4 also identified significant findings, which denotes things that need immediate
5 attention.⁴⁷ The Company needed to provide photos of the reservoir hatch and vent
6 and overflow outlet to protect the storage tank of contaminants. The survey also
7 noted observations and recommendations, which denotes violations of drinking
8 water rules and measures to improve technical, managerial, of financial capacity.⁴⁸
9 The Company was to maintain free chlorine residual throughout the system if the
10 existing source and reservoir is being used, the system did not have adequate fire
11 flow, and the well was not working when the sanitary survey was being carried out.
12 The Company was to complete the corrective action by February 22, 2024.⁴⁹

13 Staff also reviewed the Company's testimony regarding this project.⁵⁰ This
14 project was necessary because when this system was purchased, it had a history of
15 leakage exceeding 10 percent. WAC 246-290-820 requires companies to take action
16 to reduce leakage. The Company replaced the existing distribution pipes because the
17 Company could not legally access these pipes through existing easements for service
18 and repairs. The Company also consolidated the water system with W&B
19 Waterworks #1 system because the existing Del Bay reservoir was failing and the old

⁴⁵ Lehman, Exh. CJL-1T at 10:23 – 12:16.

⁴⁶ Stark, Exh. RS-8 at 20-21.

⁴⁷ Stark, Exh. RS-8 at 20-21.

⁴⁸ Stark, Exh. RS-8 at 20-21.

⁴⁹ Stark, Exh. RS-8 at 20:21.

⁵⁰ Lehman, Exh. CJL-1T at 10:23 – 12:16.

1 well needed replacement. Consolidation saved money for consumers, increased fire
2 flow capability, and improved water quality.

3 Staff's review of this asset found the project was prudent because the current
4 assets were removed and the new assets were put in place, which are known and
5 measurable, and used and useful, and is a benefit with the lowest cost to customers.
6 Staff recommends that the Commission allow full cost recovery of this project in
7 rates.

8
9 **Q. Please provide Staff's analysis of project #2 CAL Waterworks: Distribution**
10 **System Loop at Beachwood Drive.**

11 A. Project #2 CAL Waterworks: Distribution System Loop at Beachwood Drive added
12 piping and valving at the intersection of Beachwood Drive and East Harbor Road
13 and was included in the Island County Unified Master Plan.⁵¹ Staff reviewed the
14 Company's testimony filed September 26, 2024, detailing the project.⁵² The project
15 was needed to bring the system into compliance with DOH requirements. The system
16 was providing inadequate service pressures because there was a lack of a loop along
17 East Harbor Road.⁵³ When considering alternatives the Company found it would
18 increase the costs to extend a new larger main. Staff reviewed invoices to confirm
19 the costs associated with the project and had discussions with DOH engineers to
20 consider the need for the project.⁵⁴

⁵¹ Lehman, Exh. CJL-8.

⁵² Lehman, Exh. CJL-1T at 12:17 – 13:18.

⁵³ See, WAC 246-290-230(5).

⁵⁴ Stark, Exh. RS-10C; Exh. RS-13.

1 The project was completed in March 2023, and Staff determined that it is
2 used and useful, known and measurable, and a benefit to the Company's consumers
3 and should be allowed in rates. Staff recommends that the Commission allow full
4 cost recovery of this project in rates.

5
6 **Q. Please provide Staff's analysis on project # 5 W&B Waterworks #1: Pressure**
7 **Reducing Valve (PRV)/Vault Replacement on Mutiny Bay Road.**

8 A. When reviewing this project for prudence, Staff had discussions with DOH
9 engineers regarding Cascadia's projects and any concerns DOH may have for any
10 projects, including this one.⁵⁵ This project was included in the Company Island
11 County Unified Master Plan.⁵⁶ Staff also reviewed invoices for costs, and Mr.
12 Lehman's September 26, 2024, testimony filed in this formal case.⁵⁷

13 Replacing and relocating the PRV's and vault from the intersection of Mutiny
14 Rd and Woodard Avenue to the intersection of Mutiny Bay Rd and Robinson Rd.
15 was needed because the existing PRVs were underground in pressure treated wood
16 sides and an open floor. The location of the PRVs did not provide adequate access to
17 the perform maintenance. The infrastructure was aging and malfunctioning, and the
18 Company was unable to adequately address the situation due to the location of the
19 vault. This impacted the flow and pressure of the water to the customers and to fire
20 hydrants.

21

⁵⁵ Stark, Exh. RS-13.

⁵⁶ Lehman, Exh. CJL-8.

⁵⁷ Stark, Exh. RS-10C; Lehman, Exh. CJL-1T at 17:5 – 18:15.

1 This also impacted the addition of the Del Ray system. This project was
2 needed to allow the Company access to perform maintenance and allow and improve
3 proper flow and proper pressure to all customers that are provided service in this area
4 and to provide enough water to the fire hydrants.

5 The Company did not seek other alternatives when planning this project
6 because moving to a new location was the only viable option for this project. The
7 Company did consider contractor costs for this project and awarded this job to the
8 least expensive contractor bid.

9 This project was completed November 2023, and Staff determined that it is
10 used and useful, known and measurable, and a benefit to the Company's consumers
11 because they now received proper flow and pressure, and was done at a reasonable
12 cost. Staff recommends that the Commission allow full cost recovery of this project
13 in rates.

14
15 **Q. Please provide Staff's analysis of project # 6 Rolf Bruun: Disinfection**
16 **Treatment.**

17 A. When Staff reviewed this project, Staff reviewed invoices to confirm costs, held
18 discussions with DOH and the Company, as well as reviewed the DOH sanitary
19 survey and the follow-up DOH letter to the Company.⁵⁸ Staff also reviewed the
20 Company's testimony regarding this project.⁵⁹

⁵⁸ Stark, Exh. RS-8 at 76-83; Exh. RS-10C.

⁵⁹ Lehman, Exh. CJL-1T at 18:16 – 19:22.

1 The DOH report noted that this was a recently purchased system by Cascadia
2 and that this system needs an accurate, up-to-date map of the distribution system to
3 be completed. This system had a history of coliform bacteria which needed to be
4 resolved. The Company added an addition to the existing pumphouse structure to
5 house chlorination equipment. Piping was also added from the source to the concrete
6 reservoir to allow for chlorination prior to storage.

7 Staff found this project prudent because making these changes allows the
8 Company to be able to maintain contaminant levels at a safe level for consumption.
9 This project was placed in service in October of 2024, and is used and useful, known
10 and measurable, and a benefit to consumers. Staff recommends that the Commission
11 allow full cost recovery of this project in rates.

12
13 **Q. Please provide Staff's analysis for project # 8 W&B Waterworks: Reservoir,**
14 **Pumphouse, Treatment and Watermain Replacement.**

15 A. Staff reviewed project invoices, had discussions with DOH engineers, reviewed the
16 DOH sanitary survey with the DOH follow up letter, EPA Manganese contaminant
17 list, and reviewed the Company's testimony.⁶⁰ This project had a larger concrete
18 storage reservoir, a pumphouse, watermain replacement, and a treatment system for
19 iron, manganese and arsenic. DOH's April 12, 2024, follow up letter to the sanitary
20 survey asked the Company to respond to information in the sanitary survey within 45
21 days of the letter to explain the Company's intentions and provide a schedule to

⁶⁰ Stark, Exh. RS-8 at 84-94; Lehman, Exh. CJL-1T at 22:8 – 24:4; Exh. CJL-7; Exh. CJL-8.

1 address the items found during the inspection.⁶¹ DOH noted significant deficiencies
2 (potential significant public health risks). The overflow screen on the newer 50,000
3 tank needs a finer mesh screen. The letter also noted some observations (violations
4 of DOH standards). Iron and Manganese are present above standards of the EPA
5 which could pose health risks. DOH recommend installing treatment to remove both
6 iron and manganese. DOH asked that the Company notify DOH when the
7 consolidation of W&B Waterworks and Del Bay are completed. DOH also noted
8 recommendations to improve managerial, financial, or technical capacity. The
9 Company was to improve the well enclosures for all four wells because there was not
10 an easy access to the wells. Additionally, the wells were not adequately protected to
11 prevent rodent and bug entry. The Company was also directed to research methods
12 for cleaning manganese build-up and work to remove manganese and arsenic from
13 the water source.⁶² The report also noted that wells 1, 2, 3, and 4 are the sole sources
14 of water to the system and have no treatment currently provided.

15 This asset was placed in service at various times in June, August, and
16 December 2024. The assets are used and useful, known and measurable, and provide
17 a substantial benefit to the Company's customers because the water is now safe, and
18 treatment will continue. Staff recommends that the Commission allow full cost
19 recovery of this project in rates.

20
21 **Q. Please provide Staff's analysis for project # 9 Sea View: Source Development.**

⁶¹ Stark, Exh. RS-8 at 84-86.

⁶² Lehman, Exh. CJL-7.

1 A. This project pertains to development, installation, and approval of a new
2 groundwater source (well and pump) and is included in the Island County Unified
3 Master Plan.⁶³ Staff had discussions with DOH engineers and reviewed the
4 Company's testimony.⁶⁴ This system needed improved water quality because wells 1
5 and 2 did not meet standards or are no longer reliable. The prior owner and Cascadia
6 pursued options to rehabilitate the well. The Company bid out the project and
7 awarded it to the least expensive contractor. It was completed at the end of 2024.⁶⁵

8 Staff found this project to be prudent because the consumers did not have
9 safe or reliable water and replacement of the wells was necessary to meet customer
10 demand. The asset is currently used and useful, known and measurable, and a benefit
11 to consumers because they are not receiving safe and reliable water. The project was
12 constructed at a reasonable cost. Staff recommends that the Commission allow full
13 cost recovery of this project in rates.

14
15 **Q. Please provide Staff's analysis of project # 10 Diamond Point: Chlorination**
16 **System.**

17 A. Staff reviewed invoices to confirm project costs and the DOH sanitary survey, which
18 noted some significant findings.⁶⁶ Those findings concluded that tank 2's drain and
19 overflow outlet did not have a complete screen, and it showed that the issue was
20 repaired with confirmation photos on August 3, 2023.⁶⁷ The report also noted

⁶³ Lehman, Exh. CJL-8.

⁶⁴ Stark, Exh. RS-13; Lehman, Exh. CJL-1T at 24:5 – 25:9.

⁶⁵ Lehman, Exh. CJL-1T at 24:5 – 25:1.

⁶⁶ Stark, Exh. RS-10C; Exh. RS-8 at 36-48.

⁶⁷ Stark, Exh. RS-8 at 36-48.

1 observations on the approved corrective action plan for disinfection treatment, final
2 drawings, project report, and construction documents that were submitted July 11,
3 2023. DOH requested submission once the project is completed to remain in
4 compliance with engineering directive and corrective action plan. The report shows
5 that there was one PRV for all seven pressure tanks. The report shows the Company
6 needed to adhere to requirements under WAC 246-290-200, which states that the
7 Company must install a PRV and be sure there is no isolation valve between the
8 PRV and the pressure tank.⁶⁸

9 This system was originally constructed in 1961, and this project came into
10 service in November of 2024. Staff also read in Mr. Lehman's testimony that the
11 Company considered alternatives for this project and chose the least expensive
12 contractor.⁶⁹ Staff determined that this project is used and useful, known and
13 measurable, and a benefit to customers because the new pumphouse in the system is
14 able to store the chlorination equipment and it was installed to minimize the coliform
15 bacteria that was historically present. This project was conducted at a reasonable
16 cost. Staff recommends that the Commission allow full cost recovery of this project
17 in rates.

18
19 **Q. Please provide Staff's analysis on project # 11 Agate West: Chlorination**
20 **System.**

⁶⁸ Stark, Exh. RS-8 at 36-48; WAC 246-290-200 requires the application of good engineering criteria in the construction of public water systems. The state Department of Labor and Industries (L&I) and ODW agree that an adequately sized ASME Section VIII pressure relief valve (PRV) must be installed in the water piping adjacent to each pressure tank.

⁶⁹ Lehman, Exh. CJL-1T at 26:3-13.

1 A. When reviewing prudence of this project, Staff reviewed documents provided by the
2 Company as well as the Company's testimony describing this project.⁷⁰ This project
3 was needed because the system had a history of chloroform bacteria in the
4 distribution system.⁷¹ In the DOH letter to the Company, the Company was required
5 to take corrective action by October 18, 2024.⁷² The requirement was to design and
6 install ongoing and continuous disinfection treatment to comply with DOH
7 requirements.⁷³ Because of the configuration of the Agate West system, it was
8 necessary to install a new building adjacent to the system source to house
9 chlorination equipment.

10 This project was placed in service Feb 1, 2025, and Staff has determined that
11 it is used and useful, known and measurable, is prudent because it provides safe
12 drinking water to the Company's customers and should be included in rates.
13

14 **Q. Please provide Staff's analysis of project # 14 Coordination Water System Plan**
15 **(WSP): Island County.**

16 A. This project was to develop a water system plan as required by DOH for the
17 Company's eleven water systems owned and operated in Island County.⁷⁴ Staff
18 reviewed this project for prudence by reviewing the Company's testimony
19 describing the details about the project.⁷⁵ This is a detailed, 1,155 page plan

⁷⁰ Lehman, Exh. CJL-1T at 26:18 – 27:19.

⁷¹ Lehman, Exh. CJL-1T at 26:18-21.

⁷² Stark, Exh. RS-32 at 1.

⁷³ WAC 246-291-451(5).

⁷⁴ WAC 246-290-100.

⁷⁵ Lehman, CJL-1T at 30:13 – 33:6.

1 developed by Davido Consulting Group (DCG) at a cost of \$150,000 and was
2 approved by DOH in August of 2022.⁷⁶ Plans are developed to anticipate future
3 needs of the systems.⁷⁷ This project is required by DOH and assists the Company in
4 prioritizing capital projects for the future.

5 Staff finds that this project is a prudent expense, is known and measurable,
6 and is a benefit to customers because they can receive a copy and review what future
7 expenditures could be included in rates.

8
9 **C. Additional Adjustments to the Revenue Requirement**

10
11 **Q. Were there any additional adjustments made for Staff's calculation of revenue**
12 **requirement at this stage of the case?**

13 A. Yes. When Staff reviewed the workbook to make an adjustment to the five projects
14 identified as not fully prudent in Order 06, Staff found a mathematical format error
15 in the Company's workbook for the Pelican Point System.

16
17 **Q. Please explain the mathematical correction, and how the change affected the**
18 **revenue requirement?**

19 A. In the "inputs" tab in the Excel Pelican Point workbook, column AE is the column
20 that totals the ending accumulated depreciation, and column AF is the total for
21 calculating rate base.⁷⁸ Both columns AE and AF calculated incorrectly because the

⁷⁶ Lehman, Exh. CJL-8.

⁷⁷ Lehman, Exh. CJL-8 at 5-6.

⁷⁸ Stark, Exh. RS-28 at inputs tab.

1 Company entered the total amount for rate base manually by subtracting the
2 accumulated ending depreciation from the original cost. Column AE was subtracting
3 original cost from rate base. Staff fixed the formulas in the workbook to correctly
4 calculate these columns, by taking the ending depreciation less the original cost.
5 Then taking the original cost less the ending accumulation minus salvage value. With
6 this correction, the workbook correctly calculated cell AE6 for the ending
7 accumulated depreciation from \$406,807 to \$455,408. The correct calculation also
8 correctly calculated cell AF6 for rate base from \$835,811 to \$787,210.
9

10 **Q. Were there any adjustments made in the Pelican Point System workbook?**

11 A. As stated earlier in this testimony, Staff made an adjustment of 8.1 percent across the
12 five projects that the Commission found were not fully prudent due to the
13 Company's lack of contemporaneous documentation. This adjustment also results in
14 removing \$211 from the accumulated ending depreciation and \$1,724 from the rate
15 base. With the calculation formula fixed and the 8.1 percent adjustment, rate base
16 reduced from \$835,811 to \$785,485. This adjustment reduced the additional revenue
17 requirement from \$260,529 to \$256,281.⁷⁹
18

19 **Q. What adjustment was made in the Western Systems workbook?**

20 A. Staff confirmed that the formula error found in the Pelican Point System workbook
21 was not in the western systems workbook. As stated earlier, Staff made an

⁷⁹ Stark, Exh. RS-28.

1 adjustment of 8.1 percent across the five projects that the Commission found were
2 not fully prudent due to the Company's lack of contemporaneous documentation.
3 This adjustment also removed \$34,832 from the accumulated ending depreciation
4 and \$412,190 from the rate base. This adjustment reduced the additional revenue
5 requirement from \$1,211,844 to \$1,159,457.⁸⁰
6

7 **D. Aquarius Surcharge**
8

9 **Q. What is the Aquarius Surcharge?**

10 A. Aquarius Utilities (Aquarius) was a Commission-regulated Company with
11 approximately 960 customers before Cascadia acquired it. Aquarius needed routine
12 capital improvements on its systems and secured a loan in the amount of \$2,056,214
13 from the Drinking Water State Revolving Fund (DWSRF) for the improvements. To
14 pay the loan back, Aquarius implemented a surcharge, which was approved in Order
15 01 in Docket UW-081416.⁸¹ The surcharge became effective September 15, 2008,
16 and was set to expire December 31, 2028. Currently, Aquarius customers pay a
17 \$10.10 surcharge each month on their billing statement.
18

19 **Q. Does Staff have a recommendation about the Aquarius Surcharge?**

20 A. Yes. In Exhibit RS-1Tr and Exhibit RS-7Tr⁸², I previously proposed to terminate the

⁸⁰ Stark, Exh. RS-27.

⁸¹ *In the Matter of the Petition of Aquarius Utilities, LLC*, Docket UW-081416, Order 01 Granting Surcharge Tariff, August 28, 2008.

⁸² Stark, Exh. RS-1Tr at 16:1 – 17:3; Exh. RS-7Tr at 7:12 – 9:13.

1 Aquarius Surcharge allowing Aquarius assets to be recovered in the same manner as
2 all the other water systems. Staff maintains its position and continues to propose to
3 remove the surcharge.

4
5 **Q. What was Cascadia's original proposal for the Aquarius Surcharge?**

6 A. Cascadia's original proposal had Aquarius customers receiving a rate increase from
7 investments in other systems while maintaining the surcharge rate.

8
9 **Q. What would the result be in the original proposal by the Company?**

10 A. This resulted in Aquarius customers paying for improvements across Cascadia's
11 water systems while being the only ones paying for improvements to the Aquarius
12 system.

13
14 **Q. Why does Staff believe that the proposal by the Company is not the right**
15 **treatment for the Aquarius Surcharge?**

16 A. The Aquarius system needs to be either fully in or fully out. This means that either
17 Aquarius should share in all costs and receive the same benefit of sharing its costs; or
18 Aquarius should be removed completely, not sharing in all costs, and only pay for its
19 own rate base. It is not equitable to require Aquarius customers to share in costs
20 across other water systems while also bearing the full costs of its own rate base.⁸³

21

⁸³ See, RCW 80.28.022.

1 **Q. How does the Aquarius Surcharge affect Cascadia customers?**

2 A. Cascadia acquired Aquarius Utilities in docket UW-220469, effective August 1,
3 2022.⁸⁴ With the acquisition of the Company, Cascadia also acquired all Aquarius’
4 customers. When Cascadia acquired Aquarius, a portion of the Drinking Water State
5 Revolving Fund (DWSRF) loan was still listed on the books to be recovered.
6 Approximately 960 customers are now part of Cascadia’s Island and Peninsula water
7 systems.

8
9 **Q. Why should the Commission approve the removal of the Aquarius surcharge?**

10 A. All customers across the Island and Peninsula water systems bear all costs of
11 expenses and capital improvements. Currently, only Aquarius system customers are
12 paying a monthly \$10.10 surcharge for a capital improvement loan related to the
13 Aquarius water system. This capital improvement loan was for a normal capital
14 investment and did not fund an extraordinary repair or project.⁸⁵ In other words, it is
15 the same type of capital expense that is being shared across other water systems.

16 While no other customers on the Island and Peninsula systems are
17 contributing to the Aquarius surcharge, Aquarius customers bear the costs of all the
18 other improvements across the Island and Peninsula systems with rate consolidation.
19 Even without rate consolidation, Aquarius customers are bearing the costs of capital
20 improvement across the Peninsula water systems. This means with, or without, rate
21 consolidation, Aquarius customers would share costs for capital improvements

⁸⁴ *In the Matter of the Petition of Aquarius Utilities, LLC*, Docket UW-081416, Order 01 Granting Surcharge Request (Aug. 28, 2008).

⁸⁵ *In the Matter of the Petition of Aquarius Utilities, LLC*, Docket UW-081416, Order 01.

1 across all the western systems while paying for the total cost of capital improvements
2 for the Aquarius system. This is an inequitable result which harms Aquarius
3 customers, and by terminating the surcharge, it would remedy this issue.
4

5 V. CAPITAL PLAN

6

7 **Q. In the rejected settlement agreement between Staff and Cascadia, was there an**
8 **agreement for a capital plan?**⁸⁶

9 A. Yes, the settlement provided for Cascadia to submit a capital improvement plan that
10 identifies major capital improvements anticipated to be in-service by the next rate
11 effective date in Cascadia's next rate case.⁸⁷ Major capital improvements were
12 defined as \$150,000 or more.⁸⁸ The settlement also stated that Cascadia will also
13 hold virtual customer meetings, allowing customers to provide feedback regarding
14 the capital plan.⁸⁹
15

16 **Q. Does Staff have a recommendation with respect to a capital plan in this case?**

17 A. Yes. Even though the Commission rejected the settlement agreement, Order 06 did
18 not address the idea of Cascadia developing and sharing its capital plan.⁹⁰ Staff
19 continues to support the recommendation that Cascadia develop and share its capital

⁸⁶ *Wash. Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Full Multiparty Settlement at ¶ 17 (revised Jan. 22, 2025).

⁸⁷ Full Multiparty Settlement at ¶ 17.

⁸⁸ Full Multiparty Settlement at ¶ 17.

⁸⁹ Full Multiparty Settlement at ¶ 17.

⁹⁰ *Wash. Utils. & Transp. Comm'n v. Cascadia Water LLC*, Docket UW-240151, Order 06.

1 plan. Staff updates its recommendation to include requiring Cascadia to file a capital
2 improvement plan consistent with what was contemplated by the settlement
3 agreement.

4 Staff understands that customers want to better understand the capital
5 improvements for which Cascadia ultimately seeks cost recovery through rates.
6 While Cascadia engages in a public input process through DOH in developing its
7 master plan, Staff's recommendation to require a capital plan and customer
8 engagement meetings will provide additional transparency for both customers and
9 the Commission regarding what may impact future rates.
10

11 VI. PRIORITIZATION OF CAPITAL PROJECTS

12

13 **Q. What is prioritization and what would Staff like to be reported?**

14 A. Prioritization is the idea that future major projects be assigned a priority level based
15 on necessity, DOH requirements, and engineer review.⁹¹ The settlement agreement
16 presented in this case contained a prioritization term. Staff recommends that the
17 Commission consider ordering Cascadia to prioritize its major projects consistent
18 with what was contemplated by the settlement agreement. Specifically, Cascadia
19 would identify future major projects defined as \$150,000 or more, that are
20 anticipated one year prior to implementation.⁹² Cascadia will assign a priority level
21 based on necessity, DOH requirement, and engineer review. Cascadia may meet this

⁹¹ See, Full Multiparty Settlement at ¶ 18.

⁹² Stark, Exh. RS-7T at 10:13-15; Full Multiparty Settlement at ¶ 18.

1 agreement by filing its Master Plan along with a summary of projects. The summary
2 should indicate what the project is, what the priority level is, a definition of the
3 priority level, and why the project has been assigned to the priority level it is
4 assigned.⁹³

5
6 **Q. What are the benefits of Cascadia providing prioritization information?**

7 A. Requiring Cascadia to provide prioritization information will make reviewing future
8 capital projects easier and help to ensure that the Company will contemporaneously
9 memorialize its thinking with respect to capital improvements. Prioritization will
10 also aid in transparency for customers and Staff, who will be able to review the
11 prioritization information ahead of the next rate case. This will help add transparency
12 to the processes used by Cascadia in identifying future asset development, repair,
13 and replacement.

14
15 **VII. FIRE FLOW**

16
17 **Q. WCAW Witness Palmer criticizes Cascadia's efforts to upgrade its systems to**
18 **provide fire flow.⁹⁴ How does Staff respond?**

19 A. Staff reviewed the need for fire flow upgrades. As shown in the DOH water system
20 design manual, fire hydrants and fire flow are normally overseen by the local fire
21 protection authority or the county Fire Chief or Fire Marshal.⁹⁵ As stated in witness

⁹³ Stark, Exh. RS-7T at 10:13-15; Full Multiparty Settlement at ¶ 18.

⁹⁴ Palmer, Exh. HLP-1T.

⁹⁵ Lehman, Exh. CJL-12 at 192.

Palmer's testimony, Cascadia's water systems did not meet fire flow requirements and did not have working fire hydrants.⁹⁶ Witness Palmer's testimony discussed that the fire department developed a water tender shuttle system to provide 500 gallons a minute for two hours to fight fire. This shuttle tender system is dependent on how far water tenders are required to travel back and forth to a working hydrant. Witness Palmer also discussed that the most convenient water supply is a hydrant system capable of providing 500 gallons of water per minute for 30 minutes.⁹⁷ Additionally, he said that the last count conducted was approximately 4 years ago noted there were over 320 fire hydrants on south Whidbey. Notably, while some residential systems provided fire flow, the majority did not.⁹⁸

Q. Were there other concerns about fire flow brought to Staff's attention during this case?

A. Yes. During Staff's review, a customer provided a written comment to the Commission about house fires and the Company's failure to provide big enough pipes for working hydrants.⁹⁹ Additionally, during the three customer information meetings, Staff heard comments from numerous customers that they were concerned about house fires. Customers were concerned that the Company did not provide enough water to fire hydrants and for the fire department to properly fight a house fire to prevent a total loss. Customers were also concerned about protection from fire

⁹⁶ Palmer, Exh. HLP-1T at 3:12-16.

⁹⁷ Palmer, Exh. HLP-1T at 3:20-23 and at 4:1-5.

⁹⁸ Palmer, Exh. HLP-1T at 5:7 -10.

⁹⁹ Stark, Exh. RS-31.

1 to other homes nearby the burning structure. Customers commented that Cascadia
2 had several hydrants that did not work or were not connected to the water system.

3 The DOH water system design manual lays out specifics about fire flow for
4 water systems.¹⁰⁰ By Cascadia installing pumps with higher capacity to its systems,
5 fire flow was addressed because with the updated pumps, water would be maintained
6 to customers while fighting a fire.

7
8 **Q. What is Staff's recommendation on fire flow?**

9 A. Staff reviewed the need for fire flow, corresponding requirements on working
10 hydrants, and having enough water during a fire event with DOH and the Company.
11 Staff's review showed the Company would need to have bigger booster pumps to
12 maintain water for its customers during the time a fire is being put out, making the
13 Company's actions prudent. DOH may make recommendations to the Company to
14 upgrade its system to be able to provide proper fire flow during fighting a fire and
15 maintaining water for its customers.¹⁰¹

16
17 **VIII. FUTURE WATER SYSTEM ACQUISITIONS**

18
19 **Q. Public Counsel Witness De Villiers notes that Cascadia may continue to acquire**
20 **water systems and expresses concern about future rate increases.¹⁰² Does Staff**
21 **have an opinion on future acquisitions by Cascadia?**

¹⁰⁰ Lehman, Exh. CJL-12 at 192, 7.1.14. DOH Water System Design Manual.

¹⁰¹ Lehman, Exh. CJL-12 at 192, 7.1.14. DOH Water System Design Manual.

¹⁰² De Villiers, Exh. SDV-1T at 15:7-11.

1 A. Yes. The state legislature requires every water company to furnish service that is
2 safe, adequate, and efficient¹⁰³ and to construct and maintain facilities connected
3 with the distribution of the service that is efficient and safe.¹⁰⁴ When a company does
4 not have the financial (or other) means to provide safe and efficient service, the
5 Commission supports acquisition of the water company by another service provider
6 that does have the means to provide safe, efficient service. This occurs most often
7 when plant and equipment start to fail due to age, lack of maintenance, or increased
8 demand placed on the system.

9
10 **Q. Does the Commission have approval authority over acquisitions or transfers of**
11 **water companies or systems?**

12 A. Yes. Any system that is already under Commission regulation remains under the
13 Commission's jurisdiction when it is transferred. Likewise, any currently regulated
14 company acquiring a non-regulated system automatically brings that system under
15 regulation.¹⁰⁵

16
17 **Q. What does Staff review during an acquisition?**

18 A. Staff reviews the rates and rate base of the system or company to be acquired,
19 including the book value of all plant and assets. Staff also reviews the financial
20 fitness of the acquiring company to provide necessary operation and maintenance in
21 an on-going manner.

¹⁰³ RCW 80.28.010 (2).

¹⁰⁴ RCW 80.28.010 (11).

¹⁰⁵ WAC 480-110-433.

1 **Q. Does the Commission have the authority to deny an acquisition of a water**
2 **company or water system?**

3 A. Yes. Before selling, leasing, or assigning any property or facilities necessary to
4 providing water service, a water utility must obtain authorization from the
5 Commission.¹⁰⁶ Additionally, before acquiring any property, capital stock, or bonds
6 of a public service company, the acquiring water utility must obtain Commission
7 approval.¹⁰⁷

8
9 **Q. When a company acquires another company or system can it immediately raise**
10 **the rates for customers?**

11 A. No. When a company acquires another company or system that was already under
12 regulation, it must adopt the tariff in effect for that company or system. Similarly,
13 when a company acquires another company or system that was not under regulation,
14 it must incorporate the systems into the existing tariff at the rates that were in
15 existence before the acquisition.¹⁰⁸ This protects customers from rate increases based
16 solely on an acquisition.

17
18 **Q. Did Cascadia seek Commission approval for the acquisition of its currently**
19 **owned systems?**

20 A. Yes. The following table shows the acquisitions of other companies by Cascadia.

¹⁰⁶ WAC 480-110-555.

¹⁰⁷ WAC 480-143-130; WAC 480-143-140.

¹⁰⁸ WAC 480-110-433 (1) and (2).

Company	Docket	Acquired Effective Date	Last General Rate Case Effective Date
Pelican Point	UW-210564	Sept. 1, 2021	April 1, 2007
Northwest Water Service, Inc.	UW-220425	May 12, 2022	Nov. 1, 2019
Aquarius Utilities	UW-220469	Aug. 1, 2022	March 25, 2016
Pedersen Family, LLC	UW-220900	Feb. 1, 2023	April 9, 2021

1 **Q. Were customers of these systems given notice that Cascadia was seeking to**
2 **acquire those systems?**

3 A. Yes. Whenever a company applies to merge or consolidate any franchises, property,
4 or facilities with any other company, it must provide customer notice.¹⁰⁹

6 **Q. Did Cascadia adopt the rates that were in effect for those customers prior to**
7 **acquisition?**

8 A. Yes.

10 **Q. After the acquisitions, who was responsible for any deferred repairs,**
11 **maintenance, or replacement not performed by the prior owners of these**
12 **systems?**

13 A. Cascadia became responsible for deferred repairs, maintenance, repairs, and upkeep
14 of the water systems it acquired. The Commission expects water companies to
15 provide safe and efficient service to customers, so there is an expectation that any
16 repairs or replacement necessary to that end should be undertaken by the Company

¹⁰⁹ WAC 480-143-210.

1 before there is any system failure. The Company is also required to comply with any
2 DOH mandates for repairs or replacements. Once Cascadia acquires a water system,
3 it is responsible for it.
4

5 IX. CONCLUSION 6

7 **Q. What is Staff's recommendation in this case?**

8 A. Staff recommends reducing the original cost of the five projects that Order 06 found
9 not fully prudent by 8.1 percent, as shown in Exhibits RS-27 and RS-28. This
10 reduces Staff's recommended revenue requirement by \$56,635, for a new
11 recommendation of \$1,415,738.¹¹⁰ Staff recommends that the Commission consider
12 allowing the full cost of project # 13, SCADA based on new analysis presented in
13 my cross-answering testimony above, instead of applying the 8.1 percent partial
14 disallowance.

15 Staff also recommends the following conditions to be included: the Company
16 to file a capital plan containing planned improvements and replacements; the
17 Company indicate prioritization levels of each of the capital projects; and the
18 Company conduct regular customer meetings to discuss upcoming capital
19 improvements and their potential rate impact. These additional recommendations
20 were terms in the rejected settlement agreement, and Staff believes these conditions
21 would provide material benefit to the parties and customers.

¹¹⁰ Stark, Exh. RS-27; Exh. RS-28.

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

2 **A.** Yes.