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VIA ELECTRONIC FILING

Washington Utilities and Transportation Commission
ATTN: Mr. Jeff Killip, Executive Director and Secretary
621 Woodland Square Loop SE
Lacey, WA 98503

Re: UW-240151 - Cascadia Water, LLC's General Rate Proceeding; Response to Comments

Dear Mr. Killip,

Cascadia Water, LLC ("Cascadia Water" or the "Company") hereby files a response to comments filed by the Gross Lakeridge Acres Association (original comments are in italics; Cascadia Water's responses are in non-italics).

1. Goss Lakeridge Acres Association ("GLAA") is a homeowners association on Whidbey Island that owns and operates a water system on behalf of its residents. The system, in operation since 1968, currently provides water to fifteen homes and has the capacity to serve a total of 22 homes. In 2012, GLAA constructed an intertie with a 2-inch meter connecting its system to CAL Waterworks, which is owned by Respondent Cascadia Water, LLC ("Cascadia"). Cascadia bills GLAA for water at rates applicable to 2-inch meters.

In 2021, GLAA reported that one vacant lot switched to active status, so the count on our side is 16 and 6 (total of 22). In addition to the 2-inch meter rate for active service, Cascadia also bills GLAA for the remaining 6 standby lots at the tariffed Ready-to-Serve rate per lot.

2. GLAA requests that the Commission deny Cascadia's requested rate increase for the reasons discussed below.

We disagree with this statement and will provide responses below.

3. *“Regulated utilities bear the burden of proving that their decisions are prudent, just as they must demonstrate in rate cases that their proposed rates are just and reasonable.” In the Matter of the Investigation of Avista Corporation et. al, 2020 Wash. UTC LEXIS *12. See also RCW 80.28.020; WAC 480-80-105(3). “Prudent” means “[c]areful or wise in handling practical matters; exercising good judgment or common sense.” The American Heritage Dictionary of the English Language, 5th Ed. A public utility’s duty to act prudently is not limited to its consideration of technical aspects of water system operations but includes accounting for the effects of its decisions on the public to ensure that rates are just and reasonable, recognizing that a utility’s has an “interest in expanding [its] equity ... and reaping the benefit of greater equity returns,” but “this interest is inconsistent with the ratepayer interest in a capital structure that reflects economy.” Wash. Utils. & Transp. Comm’n v. PacifiCorp, Docket UE 100749, Order 06 (Mar. 25, 2011), ¶ 40.*

We have satisfied the burden of proving that our decisions are prudent. This customer has not reached out to request any further documentation as part of this rate case. This system is located on the CAL Waterworks system on Whidbey Island. Mr. Hanson has visited the new pumphouse/reservoir, and seen the old pumphouse/reservoir situation several times (more than any other Cascadia customer).

4. *Cascadia seeks to more than double existing water rates for Whidbey Island customers but presents no evidence proving that its investment decisions have been prudent. Cascadia’s February 29, 2024, letter to the Commission describes some of its investments but offers only conclusory and vague statements that the investments will improve system resiliency or reliability. For example, Cascadia asserts that it installed “new submersible pumps, booster pumps, pressure tanks, and control boxes throughout several well sites, helping to ensure reliable water delivery to our customers.” Cascadia does not provide evidence about the extent to which the old equipment was unreliable or the size of the marginal increase in reliability provided by the new equipment. Similarly, Cascadia does not quantify the alleged benefits of replacing perfectly serviceable water meters. A large expense for a small increase in reliability will certainly increase the rate base (and Cascadia’s profits) but additional evidence is necessary to prove that Cascadia’s investments were necessary and will result in just and reasonable rate increases for consumers.*

We received comments on our last rate case about how our customer letter was too full of information and misleading to our customers. We did not want to overfill the customer letter with that type of information. We replace system components when they fail. Most of our infrastructure is past the point of having a repair being able to improve the service life, so it has been more cost effective to replace it with new components altogether. We do have cases, like the pump at SO3 on our WB Waterworks system, where a repair did the trick. We have not replaced any ‘perfectly serviceable water meters’. So far we are replacing water meters that have failed, due to age. Public Counsel and WUTC Staff were provided more detailed information on these types of investments.

5. Cascadia provides similarly vague conclusory statements regarding other investments or no explanation whatsoever. For example, Cascadia purchased two new pickup trucks in the last year, one of them apparently purchased on February 29, 2024, the day that Cascadia applied to the Commission for the proposed rate increase, suggesting that the timing of the purchase was driven by Cascadia's desire to file a tariff increase rather than the need for a new truck. Everyone would like a new truck, especially if someone else was paying for it together with a requested 12% return on equity, but Cascadia does not explain the reason its purchases were prudent and reflect the ratepayers' interest in economy.

Our trucks are purchased when we hire new personnel. The company currently owns five vehicles spread amongst our five operators and one technician. The most recent truck was purchased January 19th; the allocation in the workbook of February 29 must have been an oversight. These vehicles are for the operators to conduct their day-to-day operations and to respond quickly to customer emergencies, just like they have done many times to GLAA and Mr. Hanson.

6. In addition, Cascadia does not even argue that the proposed rate increase is just and reasonable for its customers let alone submit any evidence to support such an argument. This suggests that Cascadia imprudently failed to consider the financial consequences of its decisions to its customers even though Cascadia proposes to more than double the rates for Whidbey Island customers just fifteen months after the current rates went into effect on December 1, 2022. The previous general rate case resulted in a rate increase of approximately 37%, which was phased in to reduce rate shock. Cascadia now proposes to increase rates for 5/8" meters by 107% and increase rates for 2" meters by 133%. Cascadia provides no evidence that the huge, proposed rate increase, following on the heels of a large rate increase, results in just and reasonable rates for its customers.

Cascadia seeks to recover the costs of expenses and investment into the systems to continue to provide safe and reliable drinking water for our customers. We monitor our capital budget each year based on the prudence of each investment and how it will impact our customers. The investments we have made so far have fixed leaking reservoirs, water quality exceedances, and structural integrity.

7. Cascadia refuses to provide to ratepayers documents and other information that it relies upon in this rate case, even after the ratepayers offered to sign confidentiality agreements. Fundamental principles of due process prohibit Cascadia from relying on undisclosed evidence to support its application for a rate increase.

We have no record of Mr. Hanson, or anyone at GLAA, offering to sign a confidentiality agreement. We have no record of Mr. Hanson reaching out for any documents or information as it relates to this rate case. If Mr. Hanson is speaking about the Water Consumer Advocates of Olympic Peninsula; to date they have not signed a confidentiality agreement. Cascadia has provided all documentation requested by WUTC Staff and Public Counsel.

8. In the absence of evidence proving that its decisions were prudent and that the proposed rates are fair

and just, Cascadia has failed to meet its burden of proof. As a result, the record does not contain substantial evidence on which the Commission must base a decision to allow a rate increase. RCW 34.05.570(3)(e), & (i). Cascadia's request for a rate increase must be denied.

Again, we disagree that there is absence of evidence proving our decisions were prudent. WUTC Staff, along with Public Counsel, has analyzed and verified our supporting documentation to design rates that will be fair, just and reasonable.

II. Cascadia's proposed rates for 2-inch meters are neither just nor reasonable. 9. Even if Cascadia had presented sufficient evidence to support its proposed rate increase, Cascadia does not provide any justification for the difference in the rates proposed for two classes of service: 5/8" meters and 2" meters.

There is an industry standard that is used by the Company and WUTC Staff for calculating the rates for larger meters. The calculations for rate design come from the WUTC General Rate Case workbook.

10. The principle of cost causation is fundamentally important when attributing costs to different customer classes. The cost allocation process is normally conducted by way of a detailed analysis that assigns costs to each customer class based on class attributes. However, Cascadia creates classes based solely on meter size without explaining the reason for billing each class differently.

We bill customers based on the meter size, as that is industry standard. Different meter sizes allow for different amounts of water to flow through the meter at a time. Therefore a 2" metered customer has access to a significantly higher amount of water per minute than a 5/8" metered customer. The demand and potential capacity need placed on the system is therefore much greater for a 2" meter.

11. Under Cascadia's proposal, GLAA homeowners would pay more for water purchased on their behalf by GLAA than if each homeowner purchased water directly from Cascadia even though GLAA relieves Cascadia of many of the costs of delivering water to individual homes. GLAA is a wholesale customer of Cascadia. Cascadia bills GLAA based on the quantity of water that passes through a 2" meter and GLAA passes the cost of water on to its homeowners at the same price charged by Cascadia.

GLAA is only paying for Cascadia to deliver water to the point of withdrawal, which is at their 2" metered intertie. The contract does not allow Cascadia to furnish the water past that point, to the individual homes. It has been the choice by GLAA to maintain this way of operation clear back to 2010, when they first entered into an agreement, as on file via Docket UW-100601.

However, GLAA, not Cascadia: Installed, maintains, and repairs the intertie between the two systems, GLAA water distribution mains, and booster pumps; Pays for water loss due to system leaks; Contracts

with a satellite management agency to provide services of a certified operator as required by the Washington Department of Health; Conducts water quality sampling and other activities to comply with Department of Health regulations and reporting requirements; Bills individual homeowners and collects accounts receivable; and Provides customer support.

This is all as per the contract on file in Docket UW-100601. GLAA can, at any time, reactivate their wells and add filtration for their high arsenic content, and therefore not withdraw any water from their 2” wholesale meter from Cascadia Water. GLAA has had so many leaks in the same section of mainline that they have been encouraged by their previous SMA to replace the entire line, which is another investment they chose not to make. The leaks they have mentioned go unremedied for long periods of time. The General Manager of Cascadia has helped with filling out a Level 2 assessment for the GLAA system to submit to DOH. Any time Mr. Hanson has called to request aid with operational issues, in their numerous unsatisfactory bacteriological tests, Cascadia assisted.

12. Fifteen homes are currently connected to GLAA’s water system. The amount of water used by GLAA homeowners each month varies. The following table reflects the total monthly cost of water (less base rate charges) for fifteen homes under the two rate classes proposed by Cascadia, assuming that 15,000 cubic feet is purchased from Cascadia.

15,000 cubic feet per month is the lowest amount this wholesale customer uses. In the summers, they use upward of 42,000 cubic feet per month. They withdraw a huge amount of water because they have numerous leaks that do not get taken care of right away. The highest amount was summer of 2022, when they used nearly 100k cubic feet in a 2-month cycle, because they allowed a known leak to run its course for an extended period of time.

13. As shown in the table, Cascadia’s proposal would cost each GLAA homeowner 26% more than other residential users who receive water directly from Cascadia. The proposal is neither just nor reasonable because the cost to Cascadia of delivering water to GLAA homeowners is less, not more, than for other Cascadia customers. Moreover, GLAA homeowners already pay the system operation and maintenance costs that are borne by GLAA rather than by Cascadia. Although the proposed base rate for a 2” meter is less than that for fifteen 5/8” meters, Cascadia’s proposal offers no reduction in ready-to-serve charges for lots in GLAA. Overall, the proposed rates that would be charged to GLAA would result in unreasonable and unjust rates.

Our contract is with Goss Lakeridge Acres Association, a non-profit corporation. This is a wholesale customer. Again, GLAA can at any time reactivate their wells and not withdraw any water from Cascadia.

14. Disproportionately charging GLAA for water used while more than doubling rates would detrimentally and unfairly affect GLAA homeowners. Eleven of the fifteen homes connected to the system are owned by retirees on fixed incomes. Two homeowners work part time. Homeowners, due to serious illness or job loss, periodically experience difficulty paying their bills and, until the difficulty passes, their neighbors shoulder the cost of providing water. The proposed rate increases will make life more difficult for those already experiencing financial hardship and will reduce the ability of their neighbors to come to their aid.

GLAA homeowners are customers of the Goss Lakeridge Acres water system that has chosen to withdraw wholesale water from Cascadia.

15. The proposed rate structure would also facilitate Cascadia's ability to acquire small water systems at distressed prices. GLAA homeowners cannot both pay Cascadia's proposed rates and the costs of operating their own water system. In 2012, GLAA constructed the intertie and the pump house needed to connect to Cascadia's system. Work was financed with a loan from Washington's Drinking Water State Revolving Fund ("DWSRF"). The cost of that work and other improvements has totaled more than \$260,000 over the past 12 years. The improvements include some 5,000 feet of pipe that has a useful life of 50 years. The net value of the GLAA system after depreciation is nearly \$200,000. The current balance of the GLAA loan from the DWSRF is \$53,000. The interest rate is 1.0%.

GLAA's wells are high in arsenic, iron and manganese, so back in 2010 they solicited the company who owned the neighboring CAL Waterworks system (Lehman Enterprises) to enter into an agreement to supply wholesale water rather than invest in their own water system and make the necessary upgrades. Part of that agreement was that they would finance the intertie and pumphouse needed to connect to the CAL Waterworks system. They were not forced into that agreement, they could have invested in their own system instead, and/or they could have gone with any other neighboring water system that was willing to aid them.

16. Starting in 2023, GLAA and Cascadia have been engaged in negotiations for Cascadia's acquisition of the GLAA system. Cascadia proposes that it pay nothing to take title to the GLAA system and water rights. Cascadia ascribes no value to the GLAA system and declines to assume or otherwise pay off the balance of GLAA's DWSRF loan after acquisition, arguing that the WUTC would not approve including any amount paid by Cascadia in the rate base for Cascadia's water system on Whidbey Island. Cascadia's argument is incorrect, but it still offers to pay nothing for GLAA's water system and water rights.

We cannot speak to specific negotiations of a potential acquisition. To speak to the broader issue, if a water system admits to having wells high in arsenic, iron and manganese, and numerous issues with leakage in their mainlines, we do not deem their water system to have a high value.

17. The practical effect of Cascadia's actions is clear. Cascadia drives up its rates dramatically by gold plating its investments. The new rates make it even more difficult for GLAA to continue to run its own system, forcing GLAA to convey its system to Cascadia. This result alone renders the proposed rate increase unreasonable and unjust. If the Commission does grant a rate increase to Cascadia, it should be on the condition that Cascadia acquire the GLAA system and pay the balance of the DWSRF loan. Washington Department of Health reports that all other DWSRF loans have been repaid by the new owner of transferred water systems. In addition, Cascadia's assumption of the GLAA loan would be consistent with the terms of its acquisition of other water systems. See NW Natural's 10-K for 2023 (pdf pages 231-234).

We have proven that our investments are prudent. We accept the lowest bid on major projects, including

on the system that GLAA is served by (CAL Waterworks). Mr. Hanson has been on the system's well/reservoir site and seen the upgrades firsthand. We did not repay the DWSRF loan for our most recent acquisition, Aquarius Utilities, as evidenced by the existing surcharge we adopted into rates via Docket UW-220469 and the ongoing Aquarius DWSRF Docket UW-081416.

III. Cascadia has not satisfied its burden of proving that a 12% rate of return meets the standards established 18. The new rates requested by Cascadia would, if approved by the Commission, increase Cascadia's return on equity to 12.0%. However, Cascadia has provided no evidence that a 12.0% return on equity satisfies the requirements established by the United States and Washington supreme courts.

We would accept and actively participate in a generic proceeding opened by the Commission applicable to all water utilities in Washington state to review the standard ROE applicable to all water utilities in Washington state that the Commission has used and approved for decades.

19. A utility is entitled to rates that will permit it to earn a return on its investment in property it uses to serve the public. People's Org. for Wash. Energy Resources v. Wash. Utils. & Transp. Comm'n, 104 Wash.2d 798, 813, 711 P.2d 319 (1985) (POWER) (citing Bluefield Water Works & Imp. Co. v. Public Serv. Comm'n, 262 U.S. 679, 692 (1923)). 20. In setting rates, the Commission is required to apply fundamental ratemaking standards established by the Supreme Court in Bluefield and FPC v. Hope Nat. Gas Co., 320 U.S. 591 (1944). See POWER, 104 Wash.2d at 811. Those standards require the Commission to balance the interests of consumers with those of the industry. Hope, 320 U.S. at 610. The Commission is charged with preventing exploitation of consumers, while ensuring that utilities can earn a return that is: (1) "commensurate with returns on investments in other enterprises having corresponding risks;" and (2) "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." Id. at 603; POWER, 104 Wash.2d at 811. The utility has the burden of proving that it has met the standards for increasing its rates. Attorney Gen. Office v. Wash. Utils. & Transp. Comm'n, 4 Wash.App.2d 657, 682, 423 P.3d 861, 682 (2018); PacifiCorp v. Washington Utilities and Transp. Comm'n, 194 Wash.App. 571, 587, 376 P.3d 389, 386 (2016). 21. Cascadia fails to submit substantial evidence establishing that its proposed 12% rate of return is commensurate with that of other enterprises having corresponding risks. Even a cursory look at returns on equity suggests that 12% is not necessary to attract capital. The median return on equity for electric, gas and sanitary services for the past several years has ranged from 7.5% to 8.6%. <https://www.readyratios.com/sec/industry/49/> Cascadia's parent corporation, NW Natural Holdings, experienced a return on equity of 6.64% in 2023. <https://finance.yahoo.com/quote/NWN/financials> NW Natural's revenue is subject to much more risk than that of Cascadia, and NW Natural appears to have no trouble attracting capital. Cascadia provides no explanation of why the Commission should approve a return on equity nearly twice that of NW Natural's. Furthermore, a Callam County water company chose not to seek an increase in its 10.09% return on equity in the most recent rate case decided by the Commission. 22. In addition, Cascadia does not even attempt to balance its interests in maximizing its return on equity against the interest of its customers. Cascadia's customers are much more exposed to the risks of the economy and vagaries of life than Cascadia, and do not have the financial resources to subsidize a return for Cascadia that is several times the annual increase in Social Security payments. The customers' interests lie in minimizing their monthly bills for water rather than needlessly subsidizing Cascadia's return on equity.

IV. Any significant rate increase should be phased in. 23. The principle of gradualism requires that utilities implement new rates over time so that consumers can adapt to the changing prices. The purpose of the principle is to avoid rate shock to customers. The principle is one means of implementing the statutory requirement that rate increases be fair, just, and reasonable. Wash. Utils. & Transp. Comm'n v. Summit View Water Works, Docket UW-180801, Order 01: Allowing Revised Rates to Become Effective Subject to Conditions, ¶ 9 (Oct. 22, 2018). 24. In Summit View, the Commission held: "Concern about rate shock to the domestic water customers of Summit View is warranted in this case. An immediate 34.4 percent increase to the rates of these ratepayers is inconsistent with the Commission's long-standing consideration of gradualism in rates." Id., ¶ 11. Accordingly, the Commission ordered that the 34.5% increase be phased in over the course of three years. Id., ¶ 12. 25. The Commission reached a similar result in Cascadia's previous rate case, ordering that a 37% increase in rates be phased in over three years. Wash. Util. & Trans. Comm'n v. Cascadia Water, LLC, Docket UW-200979, Order 01, (June 28, 2021). 26. A proportionate amount of time to phase in the 133% increase proposed in this case would be some twelve years. Such a large increase would be unreasonable and unjust for the reasons discussed above. But any rate increase should be phased in over a period that is similar to the ratio between the size of the rate increases and the length of the phase-in periods in Docket UW-180801 and Docket UW-200979 (i.e., roughly 12% increase per year).

We are working with WUTC Staff to reach proposed rates that are fair, just and reasonable as based on the revised revenue requirement after WUTC Staff has completed their thorough analysis of our rate case.

V. Public policy considerations weigh against a large rate increase. 27. Serious public policy issues are raised when a utility, in quick succession, sweeps up many small community water systems, immediately obtains a 37% rate increase, and shortly thereafter seeks a greater than 100% rate increase. The need for future rate increases over a period of a few years would have been known to any prudent utility that performed its due diligence review before deciding to acquire the water systems. But that information is not disclosed to the public or to the Commission at the time that the Commission is asked to determine whether the acquisition is in the public interest. If that information had been disclosed, the customers served by Cascadia or by the water system being acquired might have objected and insisted that certain requirements be imposed as a condition of the Commission's approval.

We disagree with the comment "sweeps up many small community water systems" – so far all acquisitions made by Cascadia have either been from a private investor-owner looking to retire, who is unwilling to invest any more money into their system, or from an HOA with full board/customer approval. The need for significant capital investment demonstrates the dire need of public water systems across the state for serious improvement due to aging infrastructure and water quality issues/concerns.

28. Moreover, Cascadia prepared draft water system plans as early as 2020, but that information was not disclosed in Cascadia's previous rate case. Nor has Cascadia submitted in this case the final water system plan that was completed in 2022. Such plans are required to cover a twenty-year planning period. WAC 246-290-100.

The previous rate case was to recover the costs of the water system plan, not approve the plan itself.

That is done through a separate process with DOH and WUTC, with a public comment period for customers to submit feedback. Neither Mr. Hanson nor anyone from the GLAA system attended that meeting or provide any comments.

29. The failure to disclose information relevant to the public interest and to future rate increases means that only the public is surprised when a large increase is requested shortly after acquisition of a system. The acquiring utility has time to plan, while the public must react on short notice with insufficient information to determine whether the requested rate increase is fair, just, reasonable, and sufficient.

That is why the WUTC has the rate case system in place that it does: WUTC Staff analyzes the information to determine whether the requested rate increase is fair, just, reasonable and sufficient. The Public Counsel unit also reviews this information on customers' behalf.

30. The imbalance in information is aggravated because the purchase and sale documents and other documents relevant to this rate case are withheld from the public. Those documents include information that is relevant to whether an acquisition is in the public interest and whether a rate increase should be granted. But the utility files only "redacted" copies of such documents, redacting not only sensitive information but every word in those documents. The utility absurdly claims that every word is protected confidential business information. Individual consumers do not have the financial resources or, given the speed of WUTC proceedings, the time to litigate against the utility to obtain relevant documents. The Commission should limit the ability of Cascadia to claim confidentiality without first producing a privilege log and making a showing that the information meets the criteria for confidentiality. Absent such a showing, the Commission should require Cascadia to disclose documents and other information regarding each water system that is the subject of this rate case. If such information is not disclosed, the Commission should deny the requested rate increase.

The purchase and sale documents are withheld from the public as they are confidential and hold proprietary information, and also because they do not have anything to do with this rate case. We have not requested to recover acquisition related costs related to closed transactions. Other documents that apply to this rate case have been supplied to WUTC Staff to verify cost, prudence, etc. The Commission does require Cascadia to disclose documents and other information regarding each water system that is the subject of this rate case (i.e. all 30 water systems that we own and operate) – we have made public our entire workbook, which is the basis of the financial information reviewed by WUTC Staff and Public Counsel, and disclosed all additional documentation to WUTC Staff and Public Counsel as requested.

VI. Conclusion and Request for Relief 31. For the foregoing reasons, GLAA requests that the Commission deny the requested rate increase until such time as Cascadia presents evidence sufficient to satisfy its burden of proving that its investment decisions were prudent and that the requested rates are fair, just and reasonable for each class of customer. If any rate increase is granted, GLAA requests that it be phased in over a period of time sufficient to eliminate rate shock to customers. Also, any rate increase should be subject to the condition that Cascadia acquire the GLAA system and pay the balance of the DWSRF loan.

While we cannot speak to specific acquisition terms, we respectfully disagree that acquiring the GLAA system and paying the balance of the DWSRF loan should be a condition to approval for this rate case,

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as it is unfair and unjust to our entire customer base.

Please address correspondence to us with copies to the following:

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Sincerely,

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