



UW-240151

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June 24, 2024

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" or the "Company") hereby files a response to comments filed by the Water Consumer Advocates of Olympic Peninsula Advocates (original comments are in italics; Cascadia Water's responses are in non-italics).

1. The rates proposed by Cascadia Water, LLC ("Cascadia") in this rate case are not just, fair or reasonable for the customers in Cascadia's "Peninsula System".

The rates proposed in this rate case **are** just, fair and reasonable to recover the costs of providing safe, adequate and reliable drinking water, which is our primary responsibility as a regulated public water system in Washington state.

The Water Consumer Advocates of Olympic Peninsula ("Advocates")1- Their name has changed slightly since the Estates and Monterra customers provided comments in the 2021 Cascadia rate case, Docket UW 200979, as Water Consumers Advocates-Dungeness Estates. The Advocates now speak for the customers from the four water systems acquired by Cascadia since 2021, as well as for customers in the Estates and Monterra systems. Exhibit 1 lists the 250 customers have oppose this rate case through the Advocates' representation.

Cascadia has acquired **seven** water systems on the peninsula since the 2021 rate case, not four. It is unclear which four systems are being included, and which three are being excluded. In addition, Exhibit 1 includes several first-names only, which is impossible to count as a "real" customer. In addition, it lists names of customers that are not located on the Olympic Peninsula.

We also have both verbal and written communication from customers that were included on the list, who have **not** given permission for their names to be included or to be represented.

2. Cascadia's attempts to obtain extraordinary rates in defiance of public utility ratemaking principles are unfortunately not new.

Cascadia is not attempting to obtain extraordinary rates in defiance of public utility ratemaking principles. We are seeking to recover costs of operating thirty water systems that have had very little improvements since their formation. We have followed all public utility ratemaking principles. If the Advocates are speaking to combining tariffs, that was specifically spoken to in the Order from our 2021 rate case (Docket UW-200979): "The decision today does not preclude the Company from requesting single tariff pricing, or the Commission from considering the appropriateness of single tariff pricing, in future proceedings involving Cascadia."

3. Less than three years after the conclusion of Docket UW 200979, Cascadia now seeks further increases of 24% to 102% for Peninsula System customers. Moreover, it is unclear whether further massive increases in price are on the horizon as the Advocates have been denied important information from Commission Staff and Cascadia that support the current rate proposal, as well as Cascadia's future capital planning.

This rate case is not about future spending. This rate case is about recovering historical costs for assets and expenses that have already gone into service (or will be in service within the rate year). The Advocates were given the opportunity to access the 'important information' they reference above, and have been unwilling to sign a confidentiality agreement.

4. As such, Cascadia owes its customers, who must pay for its infrastructure, and the Commission, clear explanations of its capital plan process and how these plans serve to benefit its users. In this case Cascadia has declared vital information about its capital plans, and other documents to support its proposed rates, to be confidential to keep it from its customers.

This rate case is not about the capital plan process. That is held in a separate forum with Department of Health and Water System Planning. That is the appropriate time for customers to provide feedback for the company to consider about future investment. Cascadia is not declaring information and documents to be confidential to keep it from its customers, but rather to protect proprietary information. It is alarming that the Advocates are not willing to sign a confidentiality agreement, as that is the most prudent way of protecting confidential information/documentation.

More troubling, Cascadia may not even have a clear capital maintenance and improvement plan for the Peninsula Systems at all. The Advocates have learned that the Water Service Plan ("WSP") for the Estates and Monterra that was supposed to be submitted by Cascadia to the Washington Department of Health ("DOH") in the years since the 2021 rate case has never been completed or submitted to DOH.

Since Cascadia acquired additional systems on the Olympic peninsula after the 2021 rate case, they were incorporated into the existing document, so the WSP was not filed until recently. Cascadia is currently in the pre-plan process with DOH, with a meeting scheduled for July 2nd.

5. Rather than working cooperatively with its customers to explain its capital expansion and improvement plans, Cascadia provided no opportunity for customer input on the multi-million dollar expenses it has included in this filing.

For the Estates reservoir, which is the most expensive improvement project on the Olympic Peninsula in this rate case, customer feedback was not required, since it was part of a Corrective Action Plan with the Department of Health. We did, however, hold a virtual public meeting with the Estates customers to discuss this project on February 9, 2022. We also kept them updated through notices and consumer confidence reports.

This case and the rate increases contained therein, present the Commission with three central issues:

- The prudence of Cascadia's investments must be assessed. Sound ratemaking principles require that the Commission consider whether expansion of the regulated firm's capital is used and useful and, thus, prudent.*

This has been assessed and proven by WUTC Staff via on-site visits, pictures, video calls, and invoices.

To understand whether long-lasting capital investments meet this criterion, the Commission and its customers must be able to see individual investments in the framework of a long term capital plan.

Again, speaking to the Estates reservoir, which seems to be what the Advocates are most concerned about as it is the most expensive project within this rate case on the Olympic Peninsula, it is not part of a long term capital plan, because it was an emergency Corrective Action Plan that needed to be addressed after being called out from a routine sanitary survey by the Department of Health. The WB Waterworks reservoir/treatment project, however, which is the most expensive upgrade in this particular rate case, was included in the 2021 WSP (or "long term capital plan"). As was the CAL Waterworks reservoir and booster station project, also in this rate case.

In this regard, Cascadia has provided no evidence to the Commission about such a plan. If one exists it has not been communicated to its rate-paying customers.

Cascadia has a WSP that was approved by the DOH in 2021 for island systems. As was mentioned at the last rate case, that was already in development prior to acquiring Estates/Monterra, so they were not included in that document. Their WSP, as mentioned before, was recently filed, later than originally anticipated, to include new peninsula systems. Having said that, the Estates reservoir project would have been included in a long-term capital plan if it hadn't been necessary to replace the leaking, root-infiltrated existing underground reservoirs first. The Estates reservoir project therefore isn't included in the peninsula WSP now that it is no longer a future project. Furthermore, Cascadia has provided evidence that a WSP for the peninsula has been under development by providing invoices from the engineering firm as part of responses to WUTC Staff. Staff has also been included and invited to the pre-plan meeting with DOH. The WUTC Staff will still have a final review and approval stage once the WSP is approved. But this rate case is not the avenue for that.

Moreover, the information made available to the Advocates indicates that much of the capital expansion for which these rate increases are sought has not even been deployed. For instance, the costs for the new of the above ground reservoir in the Estates system are included in this rate case, filed on February 29, 2024, when this new plant was not in service.³ This Commission should not allow undeployed capital to be included in the rate base or Cascadia would be incented to procure assets well in advance of their deployment to earn a return on them. This forces ratepayers to pay for capital assets that are not used or useful.

All capital expansion in this rate case has been deployed with the exception of a portion of our largest two projects: the Estates reservoir project (on the Olympic Peninsula) and the WB Waterworks reservoir/treatment project (on Whidbey Island). The reservoirs themselves have been constructed for both projects. Less than 20% of the total project remains for the Estates project. Approximately 30% remains for the WB Waterworks project. Both projects are expected to be completed in the next several months. As stated in RCW 80.04.250, the Commission allows rates to take effect for projects that aren't completed until up to 48 months after the new rate effective date. It is common practice to include investments in a current rate case where all aspects of the project will be used and useful within the rate year. As is the case for both of these projects, completion is well within that timeframe.

Customer input and impact are part of the prudence analysis. Operating a utility is a public trust. The regulated utility is provided with a monopoly and a guaranteed rate of return on its reasonable investments that benefit its ratepayers. As such, the utility also has a responsibility to communicate effectively with its customers, take their economic circumstances into consideration, and work cooperatively with them to improve service in a manner that is prudent for the specific circumstances in the locale where the utility is situated. Here, the Company has simply not made its case that the investments at issue were necessary, prudent and part of a cohesive plan, nor has it effectively communicated any such plan to its customers.

We respectively disagree with this entire paragraph. Economic circumstances are not considered as to whether an emergency corrective action plan needs to be issued for a leaking, root-infiltrated reservoir to be replaced. The analysis that WUTC Staff completes for rate cases is proven to be effective at aiding the Commissioners to set rates that are fair, just and reasonable. Again, speaking specifically to the Estates reservoir, the Company has communicated well beyond any requirement that the system's reservoir project was in existence. The virtual meeting held with the Estates customers on February 9, 2022 was specifically in response to the DOH sanitary survey that called out the reservoir, that started this whole process of a corrective action plan.

In terms of 'making the case' that this project in specific was necessary, prudent and part of a cohesive plan: According to the Advocates' own exhibit number 4, (the Department of Health Sanitary Survey from January 12, 2022, survey date December 8, 2021), the existing underground leaking tank was called out as a Significant Finding. As the report also mentioned, we were already planning to replace the tanks in the future. We had already started drafting the peninsula master plan at this point, and knew we were going to replace the existing tanks, as they were approaching the end of their service lives, and being underground are impossible to visually inspect. This is one reason why they are no longer allowed by DOH. The reservoir investment changed from future to prudent due to the DOH survey (which is why these surveys take place).

There is no reason to allow Cascadia a 12% rate of return. Sound ratemaking principles require that the Commission specifically determine the allowed rate of return for a specific utility based on that utility's risk profile, capital market conditions and other factors. Presumably, one reason this Commission has allowed the acquisition of smaller water utilities by larger entities like Cascadia is because they can take advantage of lower costs of capital. Yet, Cascadia has provided no evidence that its economic cost of capital is 12%, the same rate of return afforded smaller utilities with significantly higher costs of capital. The distortionary effects of allowing an excessive rate of return (known as the Averch-Johnson Effect) are clearly laid out in the economic literature around sound ratemaking principles and should be addressed in this case and avoided.

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.

*6. The Commission must reject the rates proposed by Cascadia Water, LLC ("Cascadia") in this docket because it has not met its burden of proving that its claimed expenses were prudently incurred leading to rates that are "just and reasonable." These standards are well-settled in Washington law. "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 405 *12, (March 2, 2020).*

Again, we believe we have proved our expenses were prudently incurred, as verified by WUTC Staff and reviewed by the Public Counsel.

7. Of the 48 water private companies regulated by the Commission, most are small operators serving a limited number of customers within a small community located in rural areas in Washington. These factors sometimes limit a small water company's ability to maintain and make necessary upgrades to its system, leading to distressed systems. Cascadia has developed a business plan that takes advantage of this situation, which is financially lucrative. Under its self-described "acquisition strategy," 4 Cascadia identifies small water systems in Washington typically owned by a family or homeowners association that wants to get out of the water business, as in the case with the Estates and Monterra water systems. Cascadia purchases a system at a bargain price and then quickly makes costly investments in them.

This argument contradicts itself. To date Cascadia has not acquired any distressed systems because all systems we have acquired have had a green operating permit. This does not, however, mean investment/capital is not necessary or prudent on these systems. As the Advocates mention, our acquisitions have typically been from investor-owned operators looking to retire, and therefore were not interested in financing the costly improvements their systems in some cases drastically needed. While it is confidential what amount we spend on acquisitions, it is a mutually agreed-upon price, and is therefore never a "bargain price". Furthermore, we have not requested cost recovery of any transaction or transition costs associated with the acquisitions to date.

Since the last rate case, Cascadia acquired 15 new systems and spent \$6.5 million on capital improvements for its Washington systems. Cascadia consolidates its purchases and files a rate case to recover the costs of its investments from all those customers through steeply raised rates.

To clarify, the total capital improvements listed is spread out over 30 water systems. We are applying the economy of scale principle when seeking to consolidate systems into common rates where such consolidation is appropriate.

At issue here is the fact that this investment strategy is underpinned by the guaranteed 12% rate of return that this Commission has allowed water companies to recover for the past twenty years since Wash. Utilities & Transp, Comm's v. Rainer View Water Co., Docket UW 010877, Sixth Supplemental Order (July 12, 2002).

This rate case is not the platform to discuss the Commission's stance on an established rate of return. That should be decided in a generic docket commenced by the Commission that is applicable to all water utilities in Washington state. To clarify, the 12% rate of return is not a guarantee. To quote the WUTC Water Rates FAQ factsheet: "State law requires rates to be fair and reasonable for customers but high enough to allow the utility to earn a return on its investment."

8. Since Docket UW 200979, Cascadia has acquired three other water systems that it has included in the "Peninsula System" in this case: Pedersen (UW 220900); Aquarius Utilities (UW 220469); Discovery Bay Village. It also acquired the Pelican Point Water Company in eastern Washington (UW 210564). The Estates and Monterra systems are included in the Peninsula System. In all the acquisition approval dockets, Cascadia's boilerplate applications represented that its parent company had sufficient funds to make improvements to the needy acquired company "over time," suggesting that its parent would make capital investments that would accrue to the benefit of, and at the expense of, shareholders—not at the expense of ratepayers.

The benefit of having a parent company fund our capital investments/upgrades means that we do not need to go through the lengthy process of applying for outside loans. We have never suggested that we will not seek to recover costs of operating and investing in water systems through rates, as we are legally allowed to do as an investor-owned utility. We do recognize that rates are set by WUTC, need to be fair, just and reasonable, on prudent investments, which we believe we have demonstrated. To quote our application for the transfer of the Estates system, via Docket UW-190117: "Estates will need capital investment in the future, and the current owners do not have the financial capacity to invest in the system...Cascadia, through its parent companies, will be able to provide this investment over time, therefore benefiting Estates' customers."

These acquisitions were all approved under WAC ch. 480-143 on the consent docket, with little, if any, regulatory scrutiny, under the applicable “no harm” and “public interest” standards. The Cascadia acquisition boilerplate applications did not discuss the likely consequences of the consolidation of its planned systems. Yet these acquisitions have led to Cascadia’s immediate rate requests here that will cause significant harm to ratepayers through the exorbitant rate increases sought, which cause rate shock. The customer “benefit” promised by Cascadia of its “acquisition strategy” simply has not occurred.

We disagree with this paragraph. The acquisition of our most recent peninsula systems (Pedersen) now benefits the Estates customers directly, as there is now a larger customer base to help pay for their reservoir project. As the Pedersen customers will then benefit when their systems receive investment/upgrades. This is founded on the basic principle of economy of scale.

9. Ratepayers face an endless cycle of rate cases if Cascadia files one every two to three years—like this one—to propose additional rate increases to recover the investments made as part of Cascadia’s “water acquisition” strategy, because that company promises to acquire more water systems in Washington in the future. In gas and electric regulatory proceedings, under RCW 80.28.430, consumers may have a means to be funded for participation in rate cases, but that statute does not apply to water cases. Groups like the Advocates simply do not have the means to pay for full participation in water rate cases involving well-funded corporations with full-time legal and regulatory staff like those of Cascadia.

To quote the WUTC Water Rates FAQ factsheet: “Regulated water companies can propose rate increases at any time, for any amount.”

10. The general ratemaking principle is that ratepayers should not bear any costs for which the company has failed to demonstrate prudence, up to and including the full costs of the investment. In cases of imprudence or failure to meet the prudence burden, the Commission typically disallows the difference between the cost of the chosen project... and the expense of the least cost option.

We stand by our investments as all being prudent.

*In cases of imprudence or failure to meet the prudence burden, the Commission typically disallows the difference between the cost of the chosen project... and the expense of the least cost option. WUTC v. Pacific Power & Light Company, DOCKET UE-152253, Order 12, 2016 Wash. UTC LEXIS 343 at *85 (September 1, 2016). In that case, the Commission explained the legal standard for determining prudence: (7) Regulated public service companies bear the burden of proof that their investment decisions are prudent. The Commission’s legal standard for assessing the prudence of such decisions is “what would a reasonable board of directors and company management have decided given what they knew or reasonably should have known to be true at the time they made a decision.”*

Any reasonable board of directors or company management would have decided to replace the Estates reservoir (especially with it already being in the capital investment scope) as soon as they found out it was leaking and had root infiltration, especially with the limited remaining life of the asset and knowing that underground reservoirs are no longer allowed by DOH.

(8) We examine three factors in evaluating whether the investment was prudent: (a) Was the initiation of the project prudent? (b) Was the continued construction of the project prudent? and (c) Were the construction expenses prudently incurred? The second and third factors are examined using the same prudence test as the first factor but applied at a different point in time and necessarily premised on a reevaluation of the project.

A) The initiation was from a DOH sanitary survey, so yes. B) The continued construction of the project was to complete the project and to meet drinking water standards, so yes. C) We went through a bid process and went with the lowest bid, so yes.

11. In Pacific Power & Light, the Commission disallowed the costs of a SCR immersion control system chosen by the company to meet government regulations out of three options available at the time. The Commission noted that this choice may have been prudent at the time it was made, but over the next two years it proved to be more costly and Pacific Power failed to do a reasonable economic analysis of changing factors that showed that the SCR system was not the least cost alternative, and ratepayers should not bear the consequences.

This is not relevant to any of the capital investments in this rate case. A functioning, non-leaking reservoir, for example, is an absolute necessity of a water system.

12. Applying Commission prudence standards, most of Cascadia's improvements were not prudent—certainly not Cascadia's decision to install a new above-ground Estates water reservoir, which is a good example that calls into question all improvements that Cascadia has made to the water systems in this case.

We fundamentally disagree, as does the Washington State Department of Health, Office of Drinking Water, who approved the emergency corrective action plan for the Estates reservoir. While we appreciate their comments, our job as the water purveyor is to know when to make the right decision for the water system, even when some vocal customers do not agree.

From the 2021 rate case, Cascadia management certainly gained knowledge about the demographics of its Peninsula customers, most of whom are senior citizens living on fixed incomes, or other economically challenged citizens.

Two of our systems on the Peninsula (Estates and Diamond Point) have private airports. We're not clear if this falls into the category of "economically challenged citizens". (For comparison, none of our systems on the island or mainland have private airports.) We do understand the economic impact that this may impose on some customers, which is why we prioritized our capital improvements based on system need and potential health impacts.

Cascadia management knew, or should have known, that these customers have limited funds for water services and that rate increases of up to 102% after a rate increase of 53.5% three years earlier would cause a major harmful customer impact. Informed by this knowledge, Cascadia management should have determined those necessary investments that had to be made, and when they needed to be made, to minimize costs that customers would have to pay in rates. Water systems' true needs, rather than an investment strategy, should have driven Cascadia management capital investment decisions, but they did not. Prudent Cascadia management should have considered—but did not—the least cost alternatives required to meet customer needs and DOH standards, such as repairs to preserve the useful life of the underground tanks. Yet, Cascadia management did not do so.

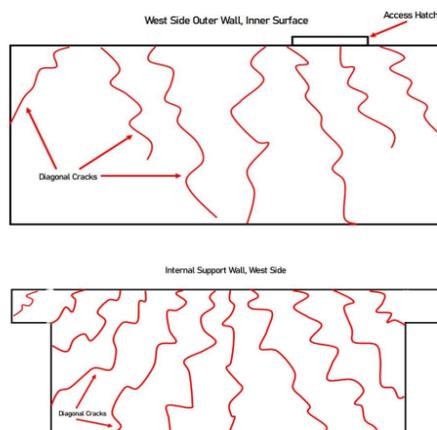
We fundamentally disagree. As we stated in the previous answer, we prioritized our capital improvements based on system need and potential public health risks. The CAL Waterworks pumphouse was not structurally sound, with a leaking reservoir. The WB Waterworks reservoirs were not meeting system demand due to leaks and age, and water quality was a definite concern. We have explained the needs for the Estates reservoir project at great length. The Del Bay mainline extension and consolidation was to address leaking infrastructure that was also inaccessible, as well as water quality issues and getting this system off disinfection. The Rolf Bruun disinfection system was a mandate by DOH. None of these investments were done without prudence to back them up.

13. No reasonable board of directors or company management would have decided to make a million dollar plus investment to the Estates' water system without a thorough investigation of the condition of the plant to determine if replacement was necessary rather than discretionary, or if replacement was required by DOH, with the goal of minimizing customer impact. Yet Cascadia made that decision shortly after the last rate case was finished with no such investigation and no DOH requirement.

We agree that no reasonable board or management would have made this decision without a thorough investigation. The truth of the matter is that we did make that decision with such investigation and in response to a DOH requirement. The Consumer Confidence Report that was sent to all Estates customers in 2022 read as follows:

Reservoir update:

Cracks in the reservoir for your system were detected during our routine sanitary survey last December with the Dept of Health (DOH). We filed a Corrective Action Plan with the DOH to outline next steps for installing a new reservoir. This Corrective Action Plan was approved. Along with DOH staff, a virtual public meeting was held in February of this year to review the results of that sanitary survey. After the meeting, a third party vendor completed further (underwater) investigation to determine if there were any alternatives to a new reservoir. The report unfortunately came back that the cracks were a bit more dire than expected (see pictures below). We recently completed the surveying needed for the engineering. We are on target to meet our design deadline from the Corrective Action Plan of August 29, 2022.



Again, to confirm the section that reads: **“After the meeting, a third party vendor completed further (underwater) investigation to determine if there were any alternatives to a new reservoir. The report unfortunately came back that the cracks were a bit more dire than expected (see pictures below).”**

14. Capital improvement decisions should have been made based upon WSPs that laid out orderly plans to be carried out over time, after receiving customer input and with customer knowledge. Such WSPs would have provided customers with some idea of Cascadia’s capital plans and some opportunity to provide input. Yet Cascadia has no WSP for the Estates and Monterra systems that showed that Cascadia planned to install the above-ground tank immediately after the 2021 rate case was finished. The rate case Open Meeting was in June of 2021. The Estates sanitary survey was not conducted until December of 2021.

DOH did not require immediate replacement of the Estates’ water tanks at that time or even after Cascadia told DOH that it was going to do so prior to DOH’s Sanitary Survey Report, dated January 11, 2022 (Exhibit 4).

Again, this is factually incorrect. Tank 2 was called out on the sanitary survey report as a Significant Finding with a requirement to submit a corrective action plan by February 11, 2022.

The Cascadia management’s decision during 2021 to replace the Estates’ underground tanks at cost of over a million dollars was simply part of its overall “water acquisition” investment strategy to over-invest in newly acquired systems, gold-plating them in a way that exceeded customers’ needs but provided Cascadia with a 12% rate of return on this investment.

This is completely false. We addressed a finding from a DOH sanitary survey, followed by a corrective action plan, followed by the lowest bid out of three. In addition to that, there were other bids received for “fancier” reservoir materials. Cascadia management opted to go with lesser expensive concrete material instead of glass fused steel tanks that are substantially more money to try to mitigate cost to customers and show that we make prudent investments. This is representative of all our investments.

Cascadia embarked on a spending spree after the last rate case, making \$6.5 million in overall capital improvements for its newly acquired and existing Washington systems that it now wants returned through the excessive rates here. Nothing in this case supports the prudence of Cascadia’s decisions.

Again, this is distributed over 30 water systems, and is representative of the neglect previous owners placed on their former water systems. As previously stated in the application for the acquisition of the Estates system “Estates will need capital investment in the future, and the current owners do not have the financial capacity to invest in the system.” We believe we have proved the prudence of our investments.

15. Cascadia made the decisions at the heart of this case because Cascadia thought them to be in Cascadia's best financial interest—without consideration of customer impact. Cascadia—not ratepayers—should pay the consequence for its decisions, which were not prudent at the time they were made and over time became even less prudent.

We fundamentally disagree with this paragraph. This has already been addressed in our multiple other responses.

16. Estates customers were completely surprised by Cascadia's decision to replace the existing two underground water tanks with an above-ground reservoir, when the existing system was just fine and fully operational. A DOH report filed by Cascadia, Exhibit 6, shows that the smaller tank had a remaining life of 4 years and the larger tank of 8.5 to 9.5 years and that DOH gave them a condition rating of "5" out of "10, which means "moderate deterioration.

This is categorically false. As we have addressed, we held a virtual public meeting with Estates customers on February 9, 2022 to address the sanitary survey. The Advocates' own exhibit 4 includes the sanitary survey as well as exhibit 8 that is a transcript of the meeting where we discuss the reservoir at length. The exhibit provided is only a partial transcript. There are 34 pages of the transcript in total. We do not know where the report for Exhibit 6 came from, or who filled it out. Having said that, a service life for an asset is a general timeframe. Clearly in this instance, the service life of Tank 2 did not meet the 60-year assignment given to it in 1981. Furthermore, the report even calls out that the Tank 2 has a critical rating of "1", which is quoted as "The water system would essentially shutdown if this component fails."

17. Cascadia installed a new above ground reservoir in 2023, when it did not have to do so, in a way that caused maximum disruption and inconvenience to the residents who had to deal with this installation.⁷

This is factually inaccurate. We did not install a new above ground reservoir in 2023. As Advocates have tried to argue, the reservoir was only recently completed. They have previously argued in these comments that the asset is not yet used and useful. Now they are saying that it was installed in 2023. To clarify, the project started in December of 2023. The reservoir itself was not constructed until 2024. We appreciate the Advocates finally confirming in this section of the comments that the Estates reservoir is installed, and therefore should be allowed into rates.

DOH never required this installation and never made an underground inspection of the existing reservoirs to determine if they needed immediate replacement.

To our knowledge, DOH does not conduct underground inspections. As previously stated, Cascadia, did however, have a video inspection of the inside of the tank which revealed cracks on the structural walls and root infiltration.

Without any investigation of the actual tank condition and with no customer input, Cascadia made the decision to install the aboveground reservoir before DOH made its January 12, 2022, DOH Sanitary Survey Report as the result of a December 8, 2021, inspection of the above-ground facilities.

Again, this is not true. Cascadia was planning to replace the tanks in the future, so the timeline changed with the sanitary survey results. The survey was done on December 8, 2021. Cascadia management was present at the survey, and therefore knew what the report was going to say before it came out over a month later.

Exhibit 4. The Sanitary Survey Report identified only one significant deficiency that was immediately fixed. The Report revealed that -Cascadia told DOH prior to its December 8, 2021, inspection date that it planned to replace both buried reservoirs with an above-ground storage tank, something it never told the Commission about during the June 27, 2021, Open Meeting, when Culley Lehman vaguely alluded to “future plans” which would be done over time, possibly years, that could include a new reservoir.

Again, this is not true. When the sanitary survey took place on December 8, 2021, and the leaks were detected, Cascadia management commented to DOH that they were going to replace the tanks. We did not tell DOH prior to the survey. At the open meeting in June of 2021, a WSP for the peninsula systems was discussed, and at that time replacing the Estates reservoir was still just a future plan.

Cascadia also never told its Estates customers about its 2021 decision to actually replace the underground tanks.

The decision to actually replace the underground tanks did not come in 2021. The comment at the sanitary survey was that we were planning to replace them in the future. The findings from the survey just sped that process up. The transcript from the February 9, 2022 virtual meeting clarifies that we discussed replacing the tanks, and were going to get an underwater inspection done. Then the June 2022 consumer confidence report confirmed to all the customers that repairing the tanks was not possible, and we had decided to move forward (with the filing of the corrective action plan) with replacing the tanks.

DOH did not require the installation of a new reservoir in this Report, noting that this was entirely a decision left to Cascadia. The Report (p. 5) said, “If a new tank is not proposed, hire a qualified structural inspector to evaluate the reservoir.” The Report did not request a corrective action plan for the existing tanks—but only for the proposed tank—based on Cascadia’s representations that it planned to replace the existing tanks with an above-ground tank.

To clarify, the report **did** request a copy of the structural inspection reports and corrective action plan for the existing tanks if Cascadia was not going to replace them.

The DOH inspection did not determine the actual condition of the existing underground tanks, or it would not have been required Cascadia to hire “a qualified structural inspector to evaluate the reservoir.” DOH only did an aboveground inspection. DOH never had the underground tank inspected, as DOH usually did before approving the Corrective Action Plan submitted by Cascadia for the new above-ground tank.

As previously stated, DOH does not conduct underground tank inspections of underground tanks. This is a large part why DOH no longer allows underground tanks. The structural inspection was only required if we were going to keep the underground tanks. Once the underwater inspection was completed, it was more than apparent that we were moving forward with replacing the underground tanks.

There was no imminent water leakage from the existing tanks. DOH noted that Cascadia had repaired the leakage so that “the 2021 leakage should decrease. The 3- year annual average is less than 10 percent, which meets the state standard.” (P. 4.)

False. As the Advocates’ exhibit 4 (the Sanitary Survey report) states: “Tank 2, the larger tank, has several locations on the north side and one on the east side that are leaking.” Furthermore, the repairs the report is mentioning are as follows: “The water operator repaired several leaks and a source meter this year.” This has nothing to do with the underground reservoirs.

The Report noted no problems with tree roots in the existing tanks.

The problems with the tree roots in the existing underground tanks were found with the underwater inspection.

The Report noted no cracks in the reservoir.

The Report used the terminology “several locations that are leaking”.

The Estates underground tanks had useful lives of 60 years as of 2022, with four years remaining for Tank 1 and 8.5 years remaining for Tank 2 and a condition rating of 5.

As previously stated, these are estimates, much like the asset lives in the WUTC Annual Report and rate case workbook. Unfortunately, the tank did not make it to its full 60 years.

18. Cascadia hired DCG, an engineering firm, to review the DOH Sanitary Survey Report. On February 1, 2022, DCG wrote Cascadia “We agree that underground reservoirs are a potential problem due to the fact that surface or ground water could leak into the reservoir as opposed to an above ground reservoir where water inside of the reservoir would leak out. Although there is no indication that leakage is a current concern based upon routine coliform monitoring, the company plan on installing a new above ground reservoir and discontinuing use of the existing below ground reservoir.” (Exhibit 7)(Emphasis supplied) DCG did not recommend against installing the new above ground reservoir because DCG was hired to submit its plans for construction of the new reservoir!

To clarify, DCG was hired to submit our corrective action plan, as was required from the Sanitary Survey Report by DOH, filed in Advocates’ exhibit 4.

19. After receiving the DOH Report and the DCG letter Culley Lehman met with several customers, currently part of the Advocates, on February 9, 2022. A transcript of this meeting (Exhibit 8) from the Cascadia website shows that these customers were very concerned about a new above ground reservoir, questioning the need for it because of the adequacy of the existing below ground tanks. Even though Cascadia had made the capital decision to replace them before the DOH inspection Mr. Lehman assured the customers that Cascadia was still doing its diligence and did not know its course of action yet. He said that a diver would go into the tank to determine its true physical condition. The customers asked for updates. None of this happened because Cascadia had already made up its mind to spend over \$1 million to install the new reservoir prior to this meeting---it just never told Estates customers about it before starting the project.

First, this contradicts Advocates’ previous claims that they did not know Cascadia was planning to replace the tanks. Second, as previously stated, we told the customers in the consumer confidence Report sent in June 2022 that we were moving forward with replacing the underground tanks.

20. Cascadia has tried to justify its decision to install the new reservoir—made before the DOH site survey—after the fact, claiming that DOH had identified serious deficiencies in its Sanitary Site Survey Report, requiring the underground tanks to be replaced. The Report did no such thing. DOH did approve the corrective action plan for the new reservoir but never conducted the required underground tank examination, which involves physically going into the underground tank for inspection, so DOH did not know whether irreparable cracks existed. Cascadia did not do a physical inspection of the tanks with a diver, either. There is no evidence that the condition of those tanks required immediate replacement rather than repairs.

False. DOH does not physically enter underground tanks. As stated before, Cascadia had a third party conduct a physical inspection of the tanks with an ROV (remote operating vehicle) that produced video evidence that concluded there was no other option than to replace the underground tanks.

21. In sum, there is no evidence that installing the above-ground reservoir was immediately necessary. Clearly, this million-dollar plus capital improvement was a discretionary choice by Cascadia and part of its ongoing “water acquisition” strategy—made with no consideration whatsoever of the impact of that choice on its Estates customers.

All answers and evidence provided (including Advocates’ own exhibits) prove that this is not true.

22. The starting point for any prudence analysis of a water utility’s capital investment is the Water Service Plan (“WSP”) that the water utility is required to submit to DOH under WAC 246-290-100(1)(B). The WSP must show how the water system operator “will address present and future needs in a manner consistent with other relevant plans.” WAC 246-290-100(1)(b). WSPs are important documents because they list the company’s assets and describe its plans to repair, maintain, or replace components. The WSP identifies those capital improvements that are required by DOH to stay in compliance with Washington law and those that are discretionary for the water company. The WSP and the projects contained therein must be reviewed and approved by DOH. Before it can obtain approval from DOH for its WSP, the water system owner must hold “an informational meeting with the water system consumers and notify consumers in a way that is appropriate to the size of the water system.” WAC 246-290-100(8)(a). WSPs tell the customers and regulators about anticipated costs and are useful to determine if there are any benefits of costsharing across consolidated companies. Cascadia had a WSP for the Whidbey Island systems. In Docket 200979, this WSP was useful to show that the anticipated costs for the Whidbey systems would never be less than or equal to anticipated costs for the Estates and Monterra system so that use of single-tariffed rates for the consolidated systems was not justified.

This is incorrect. Estates and Monterra were not consolidated into one single tariff rate because, at that time, Cascadia had not completed the WSP for the peninsula systems and had not yet made significant investments into those systems. Per the WUTC Order for Docket UW-200979: “The decision today does not preclude the Company from requesting single tariff pricing, or the Commission from considering the appropriateness of single tariff pricing, in future proceedings involving Cascadia.”

23. The 2021 rate case included historical cost information for the water systems which Cascadia consolidated for the 2021 rate case (12 on Whidbey Island and 2 on the Olympic Peninsula). Cascadia did not break down the costs between the Whidbey and Estates/Monterra systems. The Advocates were able to determine, with much difficulty, that the vast majority of costs were for the Whidbey systems. Little was spent on the Peninsula systems. The Advocates determined that the Peninsula systems customers would never benefit from consolidation in the future even if Cascadia made capital improvements that would replace the entire existing Estates and Monterra systems. Using an asset inventory provided by DOH, the Advocates determined that the total cost for such improvements would be \$1.4 million.⁸

Unfortunately, this is a highly inaccurate number. This is provable because the reservoir project alone for Estates is \$1.1 million. That does not leave much leftover for main line replacement, valve replacement, hydrant replacement, well replacement, etc.

24. The 2021 rate case showed the injustice of cross-subsidization for disparate water systems at the expense of ratepayers who will never receive any benefit. That issue is present in this rate case as well because water systems, and their economic needs vary such so much, based upon the plant in each system, remaining life of that plant, size of the system, geography etc. Water systems are not contiguous, and it is practically questionable as whether any economy of scale exists, one of the theoretical underpinnings for consolidated tariffs. Even if systems are grouped allegedly by geography, as in this case, that does not change the fact that the systems within the group may have such varying needs that cross subsidization across all systems within that group is not justified.

We disagree with this. To clarify, the 2021 rate case order specified “While the Commission finds that single tariff pricing is, as a general matter, beneficial to all customers, we recognize the strong opposition to single tariff pricing by many of the company’s customers in the Sequim area.”

25. At the June 27, 2021, Open Meeting in Docket 200979, the Commissioners questioned Cascadia General Manager Culley Lehman about the lack of information about future capital improvement plans for the Estates and Monterra systems, because none was in the record. Mr. Lehman said that Cascadia was working with DOH to “finalize” a WSP that would include the Estates and Montera systems.⁹ Culley spoke in vague terms of future projects that would be prioritized by need and done over time, after receiving customer input. He said that Cascadia is “aware of customer impact” and tries “to listen to our customers as much as possible” and that the Estates and Monterra WSP would go out to customers for feedback.¹⁰ In the past three years, this has never happened.

As previously stated, the WSP for Estates/Monterra was held back to include the more recent peninsula acquisitions, to save overall costs. As also stated, the Estates reservoir was on our radar, but low priority until the DOH sanitary survey in December of 2021. We conducted a virtual customer meeting on February 9, 2022 specifically to address this very issue. We then notified the customers on their consumer confidence report after a decision had been made. We have also kept them apprised of the reservoir project in every CCR since then.

26. Because of the great cost disparity between the Whidbey and Peninsula systems in Docket UW 200979, the Commission ordered Cascadia to develop separate tariffs for the two systems, reflecting these cost differences. Commissioner Rendahl directed Cascadia to separate the costs and expenses for the two systems during the June 27, 2021, Open Meeting in Docket UW 20097911.

To clarify, the “great cost disparity” was because we had owned the island systems for longer, therefore had more time to invest in necessary upgrades. Cascadia management also operated the island systems prior to Cascadia ownership, and therefore knew the prudent capital investments needed for those systems.

27. Despite its representations to the Commission at the June 27, 2021, Open Meeting, three years later Cascadia still has not produced a WSP for the Estates and Monterra systems. Yet it included \$169,092.06 in costs¹² in this rate case for work on a WSP that has never been “finalized.” Immediately after the last rate case, Cascadia decided in late 2021 to make major capital improvements to the Estates system by installing an entirely new above-ground reservoir, pump house, and supporting equipment at a cost of \$1,150, 057, 13 which it has included in this rate case even though the new reservoir was not in-service as of the date it filed this rate case. Cascadia did so without advising Estates customers, obtaining any customer input, or submitting a WSP.

We have answered this in previous answers. The WSP now includes more than just Estates & Monterra on the peninsula. We are in the pre-plan stage with DOH. The WSP can not be finalized until DOH approves it, which includes approval from WUTC as well. The reservoir not being in-service on the date of the rate case filing has nothing to do with the rate case. The asset will be used and useful within the rate year. The claim that we did not advise Estates customers is factually incorrect as stated throughout our responses.

28. The Advocates represent water consumers who are being asked to pay for costs that they were never told about before they were incurred and never had a chance to question. This is like forcing a consumer with no competitive choice in cars to pay for a Mercedes Benz when a KIA would provide necessary transportation services, assuming the consumer even has an immediate need for a car in the first place. At the very least, that consumer should be entitled to see all information that supports the price tag he must pay. So, too, in this rate case the Advocates should be entitled to information to understand the rates Cascadia expects them to pay, but they have been denied access to this necessary, helpful information from Cascadia, Commission Staff, and even Public Counsel. A member of the Advocates has sent emails to Culley Lehman with questions about the new and old water reservoirs in the Estates system, which have never been answered. Commission Staff have been unwilling to answer questions from representatives of the Advocates, telling them that they should let Staff do its analysis and that they can ask for information through Public Records Act requests once this rate case is closed. While Staff held three informal consumer meetings, they did not answer many of the questions asked. Unlike in the prior rate case, the Advocates’ experience in this case with Staff has been dismissive, disappointing and non-helpful.

We unfortunately disagree with the Advocates’ claims in this paragraph. As Advocates state, there have been **three** informal consumer meetings held (April 22, 2024, May 15, 2024 and June 12, 2024). We believe WUTC Staff have gone above and beyond for this rate case. Cascadia staff have answered a great deal of questions on this rate case. This was the same claim Advocates made in the last rate case in 2021. To clarify, answers that are not well received are different than lack of answers.

29. The Advocates sent informal data requests to Cascadia on May 28, 2024, and the responses have been non-informative, referring to the workbooks filed with the rate case application or directing the Advocates to file a Public Records Act request for Cascadia documents with the DOH.

Many of the informal data requests were for documentation that we do not disclose (drafts, memos, etc.). In addition, some information requests were documents the Advocates had already obtained through Public Records Requests, and some of the questions were repeated variations of themselves. We were

also not going to share confidential information, or versions of documents that had not been finalized or were not ready for customer review (like the peninsula WSP).

30. Unlike the 2021 rate case, Cascadia in this case submitted a letter on April 12, 2024, claiming confidentiality for certain information filed in this rate case to prevent public disclosure: The specific confidential information that Cascadia Water is disclosing is: (1) the confidential organization chart of NW Natural Holding Company; (2) the confidential (unredacted) version of Cascadia Water's general ledger; and (3) additional confidential information that may be requested in this docket. Confidential information is sensitive information due to the competitive market for water utility acquisitions and the identification of employee names and compensation data and, as such, comprises valuable commercial information. The Advocates dispute this overbroad claim of confidentiality, which Cascadia did not make in the 2021 rate case, or that there is a "competitive market for water utility acquisitions." Cascadia provides no support for this claim but has used it to designate a lot of information filed in this case as "confidential" and in its data requests responses. Cascadia has hindered access to this information, conditioned upon the execution of a confidentiality agreement. Cascadia provided such an agreement to representatives of the Advocates saying that it would provide access to its "confidential information" if they signed it. Because the Advocates protest Cascadia's misuse of the confidentiality process and designation, and because of their mistrust of Cascadia, the representatives of the Advocates have refused to sign this agreement. So, their access to Cascadia information has been restricted to what is in Cascadia's workbook, which does not provide answers to questions such as: WSP. Cascadia's workbook records \$169,092.06 for WSPs, as noted above, but it has not provided one for Estates and Monterra systems three years after it said it would— not even a draft. Why not?

As previously stated – we do not provide unfinalized documents/drafts to customers. As Advocates are aware, there is a review period for customers to provide comment on the WSP. That will be the time customers will be able to review and comment on the WSP.

Metering costs. In the 2021 rate case, Cascadia said that it included \$150,000 in costs for the meters it had installed in the Monterra system (June 27, 2021 Open Meeting). Yet, few actual meters were installed at that time. If costs for installation were included in the 2021 rate case, why does Cascadia have an entry for \$224,438.69 in costs¹⁴ for those meters in this rate case? See Exhibit 9

The previous rate case was the cost for meters at that time. The cost in this rate case is for costs incurred after the previous rate case. The covid process greatly impacted the speed in which meters could be installed on this system; they have slowly been installed over time..

Duplication. Have other costs allegedly covered by the 2021 rate case been duplicated in this case?

No. WUTC Staff has gone through all of our financial records submitted to analyze this case in great detail.

Cost allocations. Have costs for capital improvements been properly allocated to the systems where they were incurred? Have the capital costs been allocated properly, or have operating costs been included?

Yes, yes and operating costs are also included as part of this rate case. All costs have been assigned depending on which system they were incurred, and shared costs were allocated.

Cost of capital. How did Cascadia determine its total cost of capital?

All asset costs and the calculation of cost of capital are located in the workbook filed with our rate case.

Value of the new reservoir. What underlies the costs for the Estates' new above-ground water system? The Advocates learned that Cascadia gave Clallam County an estimated value of \$225,000 for the new Estates Reservoir when it applied for a building permit, that it now claims is valued at \$1,150,057 in the rate case workbook. See Exhibit 3.

The total cost of the project is \$1.1 million. That includes the reservoir, the booster station, and filtration, yard piping, electrical and other small miscellaneous costs (demolition of the existing underground tanks, site prep, etc).

Affiliate interest. The Advocates cannot get information as to specific vendors and service providers used for the expensed improvements to determine any connections between Cascadia and the many other companies under the NW Holding umbrella.

None of our vendors or service providers used for any improvements in this rate case are affiliated with the NW Holdings family of companies.

If DOH's asset inventory showed that the total cost for replacing everything in the Estates and Monterra systems would be \$1.4 million, how can an expenditure of \$1,150,057 for a new Reservoir be justified?

As stated above, the \$1.4 million cost to replace the entire system is a highly inaccurate number. The new reservoir project alone (just for the Estates system) is \$1.1 million. For rough numbers, it is roughly \$1 million per mile just to replace 6" water line.

31. While understanding and appreciating the roles that Commission Staff and Public Counsel play in rate cases, the Advocates also have a role. Their members are the actual consumers who will have to pay the rates Cascadia charges, and they have every right to be heard and to represent their viewpoint on what is happening to them. Their ability to fully understand and question the proposed rates has been seriously hampered by their inability to get sufficient information from Cascadia, Commission Staff and Public Counsel.

As previously stated, Advocates' counsel and two of their selected members were provided a confidentiality agreement. To date we have not received a signed copy back. The WUTC rate case process has been in place for decades. WUTC Staff plays an integral role in analyzing the financial

aspect. Public Counsel also now plays an integral role in representing the customers and is the voice on their behalf.

*32. As explained in Section II.B b., full replacement of serviceable underground water reservoirs was not required by DOH and not necessary. Even if they had leakage or tree root problems, there is no evidence that Cascadia could not have found a less expensive alternative to full replacement. The DOH Sanitary Survey Report (Exhibit 4, p. 4) noted that Cascadia had made some repairs to address leakage problems. This shows that repairs were possible. There is no evidence that Cascadia explored less expensive options to full replacement—a key factor in the Commission’s disallowance in WUTC v. Pacific Power & Light Company, DOCKET UE-152253, Order 12, 2016 Wash. UTC LEXIS 343 at *85 (September 1, 2016).*

This has already been answered. The repairs to address leakage problems were not related to the reservoir at all, it was out at distribution lines scattered throughout the system.

33. Cascadia also had other options, other than excessive increased rates, to pay for needed capital improvements to water systems. RCW 80.28.022 provides: In determining the rates to be charged by each water company subject to its jurisdiction, the commission may provide for the funding of a reserve account exclusively for the purpose of making capital improvements approved by the department of health as a part of a long-range plan, or required by the department to assure compliance with federal or state drinking water regulations, or to perform construction or maintenance required by the department of ecology to secure safety to life and property under RCW 43.21A.064(2). Expenditures from the fund shall be subject to prior approval by the commission and shall be treated for rate-making purposes as customer contributions. This statute provides Commission oversight before the capital improvement is made and provides a needed control to insure the prudence of such improvement.

That is not relevant to this rate case. Cascadia is seeking recovery on costs already incurred.

34. Cascadia could have imposed a capital improvement surcharge on Estates and Monterra customers through a separate tariff, like previous owner, Eric Thomas. Exhibit 10. Cascadia removed this surcharge in tariffs filed in the last rate case, so clearly it knew of this option, but chose to ignore it.

To clarify, there was no capital improvement surcharge in place for Estates or Monterra. The page submitted in Advocates’ Exhibit 10 was a blank sample page that the previous owner probably left in the generic tariff when he filed it. As is evident by the “n/a” for the specific surcharge amount, and the expiration date of “**MM DD, YYYY, or upon recovery of \$PP,PPP**”. Cascadia adopted the existing rates when we acquired the Estates and Monterra systems. There were no surcharges in place upon acquisition in 2019 via Docket UW-190117.

Surcharge to expire MM DD, YYYY, or upon recovery of \$PP.PPP loan principal plus interest charges and state excise taxes, whichever occurs first. Surcharge may be paid (within 90 days of effective date) in a one-time payment sum of \$PPP.PP per customer and save interest cost.

<u>Monthly Charge</u>	<u>Rate</u>
Each connection or customer	n/a

Issued	<u>June 5, 2018</u>	Effective	<u>July 27, 2018</u>
Issued by	<u>ESTATES WATER SYSTEM</u>		
By	<u>ERIC THOMAS</u>	Title	<u>PRESIDENT</u>

35. *Cascadia could have proposed that its new rates be phased in over several years, as was ordered in the last rate case. This principle of gradualism helps mitigate rate shock, which the Commission has approved in other water cases. Wash. Util. & Transp. Comm'n v. Summit View Water Works, Docket UW-180801, Order 01 (Oct. 22, 2018).*

We are working with WUTC Staff and Public Counsel on appropriate rate design.

36. *Clearly, Cascadia did not consider other ways to pay for capital improvements except through increased rates, as part of its "water acquisition" strategy. What makes Cascadia's actions most troubling here are its deliberate actions to ignore customer impact or customer input, despite its representations to the Commission at the June 27, 2021, Open Meeting that Cascadia is "aware of customer impact" and tries "to listen to our customers as much as possible." Cascadia should not be rewarded for this disingenuousness through increased rates to cover business decisions that harm ratepayers. Customer impact is an important part of the prudence analysis, and companies like Cascadia should be sanctioned for not considering in any way the impact of their investment decisions on customers.*

We have answered this. Our primary responsibility is to provide safe, adequate, and reliable drinking water. This does come with a cost. It would harm our customers the most to have the leaking, root-infiltrated underground reservoir collapse and shut the system down, as per Advocates' exhibit 6 which specified "The water system would essentially shutdown if this component fails." Also, the cracks and the root-infiltration during any loss of pressure event in the reservoir, could allow contaminants to enter the system, leading to public health issues which is another serious harm to our customers. This is another reason Cascadia acted with our customers best interest in mind.

37. This Commission has allowed water companies to recover a 12% rate of return for the past twenty years, since Wash. Utilities & Transp, Comm's v. Rainer View Water Co., Docket UW 010877, Sixth Supplemental Order (July 12, 2002). Public Counsel has asked this Commission to reconsider this determination in many dockets: UW 210744; UW 210560; UW 220052; UW 220206; UW 220206; UW 220218. The Advocates join in that request because there is no current justification for such a high rate, particularly in this rate case. Cascadia filed no evidence to support its requested 12% rate of return. Other utilities—even water utilities—do not get such a high rate of return. On June 13, 2024, the Commission allowed a modest rate increase of 14.5% for Sequim water company, Solmar Water System, (Docket UW-240290) which submitted a cost of capital of 10.09%. Electric, gas and sanitary services recently have experienced median returns on equity from 7.5% to 8.6% (<https://www.readyratios.com/sec/industry/49/?>), while Cascadia's parent corporation, NW Natural Holdings, had a return on equity of 6.64% in 2023 (<https://finance.yahoo.com/quote/NWN/financials>).

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Advocates are not comparing equal examples. Solmar Water System is one water system. Cascadia Water has 30. We have addressed the ROE topic elsewhere in our responses.

38. If Cascadia's true economic cost of capital is less than 12% it is incentivized to expand its capital regardless of whether that investment is necessary. While this may have the beneficial impact of increasing the pace of capital improvement, its downside can be that capital may be replaced before it is economically necessary, or capital investments may be made that a competitive firm would not undertake if not justified on the grounds of modernization, labor cost reduction, etc. As the Commission is not able to police every action of the regulated utility, sound rate-making principles focus on analyzing the Company's true economic cost of capital and setting its allowed rate of return accordingly.

We have addressed the ROE topic elsewhere in our responses.³⁹ *The rate of return is supposed to allow the company to recover its economic cost of capital—which can also be understood as the risk-adjusted return the Company would earn on its best alternative for its investment funds. Small firms in risky endeavors need to pay a higher interest rate than large low-risk firms (such as NW Holdings, the parent of Cascadia) that are guaranteed a return on their reasonable investments. Choice of a rate of return is a critical component of the regulatory process. If the Commission sets a rate that exceeds the company's true economic cost of capital, the company is incentivized to over invest, which is precisely the result in this rate case due to Cascadia's "water acquisition" strategy. This leads to "gold plating" where plant and equipment exceed consumers' needs.*

We do not "gold plate" our investments. WUTC Staff has been on site to confirm that we do not "gold plate" our investments. We are reutilizing the existing structures at the Estates reservoir for the new booster station and filtration to reduce cost of a brand new pumphouse. We also opted for a concrete reservoir (rather than glass fused steel options) to save costs.

40. In addition to the many reasons the proposed excessive rates should be rejected, approving them with this high rate of return will only incentivize Cascadia to make more over investments, leading to inevitable future rate cases to the harm of its customers.

Cascadia remains committed to investing in our water systems that have been neglected by previous owners. We will continue to invest in our water systems to bring them up to DOH current standards. We will be utilizing our WSP, as we have been doing for our island systems. However, when serious issues like the Estates underground reservoir arises, we will not hesitate to make the investment needed to ensure the safety of our customers'/ratepayers' drinking water supply.

41. This case presents many difficult, vexing questions for the Commission. The Advocates appreciate the opportunity to present the views of hundreds of consumers directly impacted by the Commission's decision in this case. The Advocates urge the Commission's serious consideration of those views. These consumers cannot, and should not pay, the rates proposed by Cascadia for business decisions made that deliberately ignored customer impact and customer input and that caused unnecessary costs.

Per the WUTC Water Rates FAQ factsheet: "In reviewing rate-increase requests, the UTC functions like a court and must decide the case based on the evidence." "Water companies request rate increases for a variety of reasons, including replacing old pipes, **installing new storage tanks**, and upgrading treatment equipment." "State law requires rates to be fair, just and reasonable for customers but high enough to allow the utility to earn a return on its investment." Cascadia Water feels we have provided ample evidence that our investments and costs in this rate case were for legitimate costs.

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Sincerely,

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