

*On 2/26/21, John Cupp (UTC) called a meeting with three of his rate staff to provide answers to a few questions I asked. I received this document on 2/26/21. John's comments are the orange comments throughout this document. The questions and answers will hopefully provide you with additional information relating to the Cascadia rate increase request. Rick Smith*

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My responses are below. These are my responses, and we may need clarification from our accounting staff.

Please remember I am not an accountant, so I cannot answer technical questions. And, as I have mentioned, specific financial information is not releasable during the course of an open investigation.

These pages contain questions that were sent to John Cupp with the UTC on three different dates. He responded to the first three questions with a comment that you want to keep in your mind.

***“Please understand we cannot release a lot of information during an open investigation. I’ll get back to you with what answers we can provide.”***

Feb. 4, 2021

- 1) **Based on the attached from Cascadia, could your staff calculate the percentage increase for a 5/8” line and 1,200 usage? It would be nice to get rid of the confusion of the rate being somewhere between 80 and 400%. I believe a current Estates customer would pay \$29.30 for 1,200 cubic feet of water. After phase 3, the bill would be \$68.86, an increase of 135 percent.**

**Reason for asking:** All Cascadia consumers need a rate calculation worksheet that shows how the rates are calculated AND show the increase in those rates from today until the end of the three phases.

- 2) **Can your staff consider multiple rates for the customers of systems separated geographically (Whidbey vs. Peninsula)? Staff policy and practice is single tariff pricing. This has been the case for many years.**

**Reason for asking:** Cascadia needs to show how it benefits peninsula consumers in Estate and Monterra to be part of one large Cascadia Water System with a single rate. IF 'economies of scale' is a valid factor, separate rate worksheets will show this benefit.

- 3) **Can we see a 5 year projection of capital expenditures for Cascadia?** This is not something we look at. One of their documents said they were working on one for NW Water. Estates had a rate increase 2 years ago. How often are they allowed? I am not certain about all of the Estate system, but our area of Blue Ribbon was installed in 1982. A company can file for a rate increase as often as it feels it is necessary. The company bears the burden of proven the need for the increase. Rates are based on a previous "test year," so it seems to me a company would not file so soon as to have overlapping test years.

**Reason for asking:** A 5 year projection for the Cascadia Water System should be part of any rate calculation and recommendation process performed by the UTC in their combined role as "court" and "consumer protection". What is included in rate calculations will be addressed in our March 2 meeting.

Feb. 17, 2021

- 1) **What is the role of the UTC in consumer protection when the UTC functions like a court? Who do consumers turn to if they do not believe that the UTC's "consumer protection" division is representing their interests?** Consumer Protection ensures regulated companies treat consumers fairly, companies' business practices comply with state law and Commission rules, and educates the public of the Commission's roles and actions.
- 2) **Reason for asking:** The UTC Fact Sheet states that "UTC functions like a court and must decide the case based on evidence." It states that "The commission sets a single rate that applies to all customers on all water systems.." It states that "Customers benefit from economies of scale."

I am challenging that statement. Based on my years as a CIO for restaurant chains, I understand the benefits of "economies of scale". That is a corporate perspective. For example, the TEL #10 system on Whidbey has 9 connections. The Estate system has 367. TEL #10 has 2 wells and Estate has 3. Cascadia plans a new well for #10. In June of 2020, TEL #10 got a new generator for \$28,339. Nothing show in the work book for Estate. Please explain how economies of scale benefit the 367 Estate consumers using numbers. If there is a benefit to all consumers based on "economies of scale" your analysts should be able to prove it with numbers.

In that "Fact Sheet", I was quite surprised to see that UTC only requires 12 months of financial information. On 12/31/2019 Cascadia paid \$63,795 for a Water System Plan. Was the information in that plan factored into the rate request? The information on the plan? No. The information in that Water System Plan should be quite useful in showing how "economies of scale" truly benefit all consumers.

- 3) **Is it the UTC that recommends the single rate for all systems or was it Cascadia?** Both.

**Reason for asking:** I talked with Kim Thomas, one of the previous owners of the Estate Water System. She stated that it was the UTC that had suggested they put their water systems under one umbrella. Eric chose not to do so. She was not aware that doing so also meant one rate. It appears that the one rate is the idea of the UTC. Is it?

A single rate is convenient for Cascadia, NW Water and the UTC. One master work book containing consolidated revenue and expense data for 14 water systems is much easier to maintain. It also allows Cascadia to conceal the revenue and expense differences between the 14 systems by treating them as one. To get an accurate understanding of Cascadia's business, their revenues and expenses, and what we can expect in the future, Cascadia's budget information (past and future) needs to be broken down by the 14 water systems. As a retired CIO of a fortune 500 restaurant company, the corporate budget review process would require operations to provide the individual restaurant revenues and expenses (past and projected) plus the corporate department budgets (past and projected) that when combined create the corporate numbers. Cascadia should be able to provide us with the same for all 14 systems. The consolidated numbers that they gave you had to come from somewhere.

This is asking for a lot... but Cascadia is asking for a lot and they need to be able to cost justify the request with the details. **Economies of scale imply that when you have 73% of all the total connections in the four largest systems, you can take the revenues from the larger systems to offset the operating costs of the 10 smaller systems that do not generate the revenues to make them financially feasible on their own.** It is pretty simple and a close look at the individual water systems will show that. Details are provided below in this email. As you know, the number of connections to each system (plus usage) drives the revenue generated by each system. However the major expenses (like generators) for each system are not proportionate to the number of connections and revenues generated.

33% of the connections are in the two peninsula water systems. That requires that you incorporate the geographical distances into any economies of scale thought. In the restaurant world... that meant you have three restaurants in one large city and only one is a smaller city. Economies of scale in many expense related categories could apply to the city with the three restaurants, but not to the smaller city the only one. Cascadia must provide contract maintenance and support for the peninsula systems while the majority of the Cascadia staff lives on Whidbey Island. Their vehicles and equipment will be on Whidbey Island. If the peninsula systems were on Whidbey Island, they could leverage existing personnel and support services.

If the UTC's role is to provide consumer protection for the consumers on the larger systems on the peninsula, Cascadia should NOT be allowed to apply your published "economies of scale" argument to the rate increase request. It sounds good... but results in driving Estate and Monterra rates up in order to pay for Whidbey systems that have a low connection count. Cascadia should be required to treat the peninsula systems as a separate entity. At a minimum, Cascadia should have to justify a single rate for all based on actual numbers. **If "economies of scale benefit all consumers as stated, prove it with the numbers.**

***If Cascadia is not willing to provide a breakdown of individual system revenues and expenses including their new Master Plan, I believe that their request for consolidating all the systems***

***under one Cascadia umbrella and a single rate for all... should be denied by the UTC in their role providing 'consumer protection'.***

- 4) **How do you justify that a single rate is in the best interest of all consumers based on "economies of scale"?** Single tariff pricing spreads the cost so that all customers pay the same price for the same service.

**Reason for asking:** If "economies of scale" benefit all Cascadia consumers, your analysts should be able to show that in numbers in a spreadsheet. As a simple exercise, ask them to show us how economies of scale" benefit individual consumers on TEL #10 and the individual consumers on Estate's System with one acquisition such as TEL #10's new \$28,339 backup generator.

How would a single rate and "economies of scale" benefit all consumers should Cascadia purchase another small water system (30 connections)... for example... in Forks?

- 5) **Do you have a copy of Cascadia's Master Plan and was that data factored into their rate increase request?** I am referring to Culley Lehman's Master Plan mentioned in the "Case Study". We do not have a copy. Rates are not set on future plans, they are based on known and measurable costs.

**Reason for asking:** In the 200979 work book, I find a balance sheet and operating budget for one year. With regard to evidence needed to make a decision or for us consumers to ask questions, we need information relating to the revenues of Cascadia for the past five years and for five years into the projected future. Perhaps that can help us understand the need for the large increase. In the attached case study dated 06/2020 , it states that Culley Lehman is in the process of creating a master plan that outlines upgrades over the next two to five years. A clip from the work book (below) shows an expenditure of \$63,795 for that plan in 12/2019. It should be a good plan for that much money! I would certainly expect this information to be part of the rate making decision. Perhaps I have overlooked it as I search through the work sheets of 200979. For certain it would be part of NW Water's review of Cascadia prior to acquisition. **Could we get a copy of that master plan?** Check with DOH or the company.

- 6) **Do you have water quality reports for each individual Cascadia well?** No. Water quality is a DOH issue.

**Reason for asking:** We would like to see the latest water quality reports for each of the wells operated by Cascadia. We know there are water quality issues over on Whidbey and most likely the reason for a new well for TEL #10. TEL #10 has two wells for 9 connections. And now they need a third. Again, these are costs that peninsula consumers should not have to share based on "economies of scale".

In the same email on 2/17/21, the following three questions were at the bottom of the page.

- If we cannot get satisfactory answers to our questions from either you or Culley, what is our alternative? Depends on the question.

- If the rate increase is approved, what are our options? **You could file a formal complaint. You would need to support your arguments.**
- How long will it be before Cascadia can ask for another rate increase? **See question 3 on page 2.**

Feb. 21, 2021

On February 4, 2021, I initially asked John Cupp if he had a copy of a Water Systems Plan and if his analysts had looked at it. On 2/17 he sent me a note and stated:

“Water system plans are a Department of Health requirement. I would start here: [Drinking Water :: Washington State Department of Health](#)”

When I went to that site, I found that the Department of Health **requires** a Water System Plan under WAC 246-290-100 but I cannot find a completed water system plan on their site.

Culley refers to a Water System Plan in the Cascadia Water Case Study document. That is to show a 2-5 year plan.

***From the Cascadia GRC work book bi-monthly Excel spreadsheet it shows \$63,795 invested in that plan. The Water System Plan appears to be the only document that shows what is planned for the coming 5 years.***

NW Natural Water to John Cupp on 2/25/21

I have been doing some research into NW Natural Water. This is after I read their Strategy document that states “The assets and operations of Lehman and Sea View will be combined under a newly-formed subsidiary of NW Natural Water.” That was dated May 17, 2018. I assume that was the formation of Cascadia. I am also assuming that the UTC has been working with NW Natural for at least three years dealing with water, and for a longer time with natural gas. So to understand our future under Cascadia, we can look at the history with NW Natural Water. Given the UTC’s history with NW Natural, I am assuming you have the answer to the following.

Please remember the article I sent you that shows NW Natural buying water systems [NW Natural is buying water utilities | Street Roots](#). I would like to know if the rate increase requested by Cascadia (as a subsidiary of NW Natural Water) is similar to what they have requested with NW Natural’s prior acquisitions. Their case studies reflect similar goals to enhance the water systems where the previous owners did not have the ability. (see Salmon Valley, T&W, and Falls Water)

- 1) Could you have your analysts provide me with a worksheet that details 1) what the water rate was before NW Natural Water purchased each of the different water systems; 2) what rate increase was requested after the acquisition; and 3) what rate increase was granted by the UTC? I am assuming the analysts within the UTC’s consumer protection group have this information. **I don’t believe this is relevant to the current rate case. This is Cascadia Water’s first rate case.**

Final thought on Economies of scale: IF 'economies of scale' is a valid argument, would not the cost per connection be going down with NW Natural's acquisition of all of these water systems of different sizes scattered throughout the northwest? Remember, on the smaller Cascadia scale, you and I have had a conversation regarding how "economies of scale" is not a valid argument when you have 12 water systems on Whidbey Island and only 2 on the peninsula, with all varying in size and number of connections.

The Falls Water Case Study includes an interesting comment: ***"As for Bruce, partnering with NW Natural Water means he can tap into a seasoned legal department well-versed in dealing with public utility commissions. "It's great to enlist the help of NW Natural Water to help with rate case issues – especially some of the more complex ones," Bruce explains."***

3/1/21

Email from Culley Lehman

Hi Rick,  
Thanks for your email.

There are not two different plans – there is one Comprehensive Water System Plan (listed in the proposed rate case with the UTC). This Plan is currently being reviewed by the Dept of Health, Public Health, Dept of Ecology, and the UTC (rates and regulatory division, not the Consumer Protection division). This Plan was already under development prior to our acquisition of the Estates System, so while universal improvements proposed in the Plan will apply to Estates, we will be filing a separate addendum to include Estates-specific capital projects into the Plan. This was supposed to have occurred prior to the onset of COVID-19, which has significantly delayed the process.

Universal improvements proposed in the Plan include increasing the security at each well site (i.e. fencing, gates, etc). Other universal improvements are SCADA (system monitoring) and new Master Meters; these projects have already been installed. The current standby generator at Estates is only powerful enough to run one booster pump, and not adequate enough to run well pumps or additional booster pumps for fireflow. The standby generator projects for Estates is in the works, with the projected completion date of early spring, which is why it's already factored in to this rate case. The existing reservoirs at Estates are below ground, so we will also be proposing to install an above-ground reservoir, which is more suitable as a replacement to the existing underground reservoirs due to the fact that the underground reservoirs are more susceptible to leaking water out as well as contaminants getting in, and the inability to monitor either one based on the underground location. We're also looking into the potential of drilling a new well at Estates, due to the age of the existing wells.

Neither the Water System Plan or the Estates addendum are at the Customer Review stage. Before we can send you a copy, approval must be received from the regulatory agencies I listed above.

Please let me know if you have any other questions.

Thanks,  
Culley

**Culley Lehman**  
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**From:** [ricksmith.wn29@gmail.com](mailto:ricksmith.wn29@gmail.com) <[ricksmith.wn29@gmail.com](mailto:ricksmith.wn29@gmail.com)>  
**Sent:** Sunday, February 21, 2021 11:19 PM  
**To:** Cascadia Water <[info@cascadiawater.com](mailto:info@cascadiawater.com)>  
**Cc:** 'Cupp, John (UTC)' <[john.cupp@utc.wa.gov](mailto:john.cupp@utc.wa.gov)>  
**Subject:** Request for the Water System Plans

3/1/21

Email from Culley Lehman

Hi Culley.

My name is Rick Smith. I am the Chairman of the Blue Ribbon Farms Property Owners' Association (BRFPOA). This is my first email to you.

To date, I have been gathering information to help educate and inform our 155+ consumers of the Estate Water System. Up until now, I have been fortunate to find the information I am looking for. Based on that information, I have sent a few questions to John Cupp and his staff. I am planning to share these questions and answers with the BRFPOA members via our web site.

I am hoping that you can provide me with the Cascadia Water System Plan for the coming 2-5 years, that you refer to in the attached Case Study of 6/2020. It appears that there are two different plans... one required by the Department of Health and the second, the one referred to in the attached Work Book. Your Work Book shows a Plan for which you paid \$62,795. I believe that both of these plans are pertinent to any request for a rate increase. I expected to see them in the documents on the UTC site. I cannot envision anyone approving any rate increase without first understanding what the future holds for a minimum of 5 years.

I asked John Cupp if he had a copy of a Water Systems Plan and if his analysts had looked at it. He sent me a note and stated:

“Water system plans are a Department of Health requirement. I would start here: [Drinking Water :: Washington State Department of Health](#)”

When I go to that site, I found that the Department of Health **requires** one under WAC 246-290-100 but I cannot find a completed water system plan on their site. I plan to give them a call on Monday for help finding it. The following is from the Department of Health:

## ***Water System Plans***

*Planning is the foundation of a safe, successful, and sustainable public water system. The categories of community systems identified below are required to submit a Water System Plan (WSP) for review and approval.*

*A Group A community water system must submit a WSP or a Plan update under [WAC 246-290-100](#) if it meets any of the following conditions.*

- ***Serves 1,000 or more connections, or***
- ***Is a new Group A water system, or***
- ***Proposes to do any of the following:***
  - *Make infrastructure changes to increase the approved number of connections.*
  - *Expand the service area identified in a previously approved planning document or engineering project.*
  - *Expand the geographical area where direct service is already provided if a planning or engineering document has not been previously approved.*
- ***Seeks to be eligible for the "document submittal exception" process, or***

3/1/21

Email from Culley Lehman

- *Is directed to submit a WSP because of demonstrated operational, managerial, or financial problems, or*
- *Is municipally owned or located in a critical water supply area. If your system falls into this category, but it is not expanding, contact your regional planner about the appropriate planning document, or*
- *Seeks to be eligible for Drinking Water State Revolving Fund (DWSRF) resources and does not have a current WSP that addresses the proposed project.*

I do hope that both of these plans are available for review by John and his staff and by those of us who would like to see what the future holds. Please let me know as soon as possible. I would like to review them prior to the March 2<sup>nd</sup> virtual meeting with John.

I am doing my best to provide accurate information to our Blue Ribbon Farm's 155+ Estate water consumers. I will leave the hard work to John Cupp and the UTC who, based on their own words, are both the "court" and the advocate for "consumer protection".

We appreciate your help.

Rick Smith  
Chairman  
Blue Ribbon Farms Property Owners Association  
(805) 824-3472

**14 Water Systems -->**  
**Only two on the Olympic Peninsula**  
**purchased by Cascadia**

Number of connections

Beachcombers H2O Co.	CAL Waterworks	T.E.L. Company #1	T.E.L. Company #3	T.E.L. Company #4	T.E.L. Company #5	T.E.L. Company #6	T.E.L. Company #10	T.E.L. Company #11	W&B Waterworks	Sea View Water	Estates Inc.	Monterra	Del Bay
N Bluff Road Area Lehman Nov 2018	East Harbor Rd area Lehman Nov 2018	Coles Rd area Lehman Nov 2018	Goldfinch Rd / Windfall Rd Lehman Nov 2018	Seacrest Ln area Lehman Nov 2018	Cliffordville Rd Lehman Nov 2018	Bailey Rd area Lehman Nov 2018	Camelot Ct / Welcome Rd Lehman Nov 2018	Wilkinson Trace / Meander Ln Lehman Nov 2018	Mutiny Bay / Wahl Rd area Lehman Nov 2018	Ft. Nugent / West Beach Rd area Nov-18	Sequim area Apr-19	Port Angeles area Apr-19	Timber Ln / Mutiny Sands Rd Lehman Nov 2018
128	100	73	24	29	8	7	9	8	456	190	367 of 480	188	38 of approved 43

Source

[General information \(wa.gov\)](http://general.information.wa.gov/)  
<https://fortress.wa.gov/doh/eh/portal/odw/si/intro.aspx>

**Cascadia Systems**

Multiple Water System View

Tel Company											
ID Number	WS Name	County	Group	Type	Status	WS Effective	# Active Sources	Connections	Population	Permit Color*	
00678P	TEL COMPANY 11	ISLAND	B		Act	4/9/1991	1	8	22		
30995	TEL COMPANY#1	ISLAND	A	Comm	Act	11/1/1980	3	73	185	Green	
15533A	TEL COMPANY 5	ISLAND	B		Act	1/1/1983	1	8	18		
30372A	TEL COMPANY #8	ISLAND	B		InAct	6/24/1995	0	8	20		
32981Y	TEL COMPANY #2	ISLAND	B		InAct	2/2/1999	0	9	20		
38451X	TEL COMPANY 6	ISLAND	B		Act	4/1/1987	1	7	18		
62060V	TEL COMPANY 10	ISLAND	B		Act	3/1/1990	2	9	20		
64564P	TEL COMPANY #9	ISLAND	B		InAct	6/24/1995	0	6	15		
76976N	TEL COMPANY 4	ISLAND	A	Comm	Act	1/1/1970	1	29	65	Green	
939458	TEL COMPANY 3	ISLAND	A	Comm	Act	3/1/1980	3	24	70	Green	

Multiple Water System View

ID Number	WS Name	County	Group	Type	Status	WS Effective	# Active Sources	Connections	Population	Permit Color*
310406	CAL WATERWORKS	ISLAND	A	Comm	Act	1/1/1970	2	100	235	Green
04979V	BEACHCOMBER H2O CO	ISLAND	A	Comm	Act	1/1/1970	2	128	286	Green
18575K	DEL BAY	ISLAND	A	Comm	Act	7/1/1978	1	38	50	Green
466703	W&B WATERWORKS 1	ISLAND	A	Comm	Act	1/1/1970	5	456	1,048	Green
77148Y	SEA VIEW WATER LLC	ISLAND	A	Comm	Act	1/1/1970	5	190	494	Green
81669	ESTATES INC	CLALLAM	A	Comm	Act	8/1/1981	3	367	913	Green
55990Y	MONTERRA	CLALLAM	A	Comm	Act	1/1/1979	3	188	455	Green

Total Connections **1648**

Estate **22%**  
 Monterra **11%**