BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Great Oaks Water Company (U-162-W) for an Order establishing its authorized cost of capital for the period from July 1, 2027 through June 30, 2030.	A.26-05-___ (Filed May 1, 2026)

DIRECT TESTIMONY OF JOHN ROEDER
ON BEHALF OF GREAT OAKS WATER COMPANY (U 162 W)

May 1, 2026

I. IDENTIFICATION OF WITNESS AND PURPOSE OF TESTIMONY

My name is John Roeder. I submit this testimony on behalf of Great Oaks Water Company ("Great Oaks" or the "Company") in support of the Company's application for authority to update its authorized cost of capital.

I am the Chief Executive Officer of Great Oaks, a member of the Company's Board of Directors, and the owner of 100 percent of the outstanding stock of the Company either directly or indirectly through the John W.S. Roeder Continuing Trust. I have been involved in the operation, management, ownership, and investment activities of Great Oaks for nearly my entire life. I am also the creditor holding the Company's $4 million long-term debt. In those roles, I make the Company's capital-investment decisions and am directly familiar with the Company's financing, infrastructure requirements, and regulatory obligations.

The purpose of my testimony is to support Great Oaks' request for a 10.30 percent return on equity, continuation of a 6.50 percent cost of long-term debt, and adoption of a capital structure of 25 percent debt and 75 percent equity, resulting in an overall return on rate base of 9.35 percent. My testimony also explains why Great Oaks is not relying on a consultant-driven market-model presentation and why the Company's actual circumstances support the relief requested.

II. SUMMARY OF THE COMPANY'S REQUEST

Great Oaks requests a cost of capital based on a 25 percent debt / 75 percent equity capital structure, a 6.50 percent cost of long-term debt, and a 10.30 percent return on equity. This produces an overall requested return on rate base of 9.35 percent.

The request is grounded in three considerations. First, Great Oaks must have capital sufficiency and continued access to investment capital to maintain and renew its system over long periods of time. Second, the economics of long-lived water utility infrastructure require that the recovery of returns be aligned with the practical realities of multi-decade investment cycles. Third, Great Oaks is a small, privately financed water utility with a concentrated service territory and a financing structure that differs materially from the public-market paradigm often assumed in traditional consultant-driven cost of capital presentations.

Table 1. Requested Cost of Capital

Component	Capital Structure	Rate	Weighted Rate
Debt	25.00%	6.50%	1.625%
Equity	75.00%	10.30%	7.725%
Total	100.00%		9.350%

III. REGULATORY FRAMEWORK

The legal standards governing cost of capital are well established by the U.S. Supreme Court in *Bluefield Water Works & Improvement Co. v. Public Service Commission* and *Federal Power Commission v. Hope Natural Gas Co*.[1] Those decisions require that a regulated utility be afforded a reasonable opportunity to maintain financial integrity, attract capital on reasonable terms, and earn a return commensurate with returns on investments in enterprises having corresponding risks.

In applying those standards, the Commission does not merely select a number by formula. It also exercises judgment based on the utility's actual circumstances, the quality of the evidentiary record, and the need to balance investor and ratepayer interests. In my view, that judgment function is especially important in a case such as this one, where Great Oaks is privately financed and does not fit neatly within a conventional public-market cost-of-equity model framework.

My testimony is therefore directed toward how Great Oaks actually operates, how its capital is actually committed, and what level of return is necessary to keep prudent long-term investment rational. Those are the practical issues the Commission should evaluate in determining Great Oaks' authorized cost of capital.

IV. GREAT OAKS' SYSTEM, SIZE, AND OPERATING CIRCUMSTANCES

Great Oaks is the smallest Class A water utility in California. It serves a single, geographically concentrated district in the southeastern portion of the City of San Jose and surrounding area in Santa Clara County. At the end of calendar year 2025, Great Oaks had approximately 21,435 active service connections.

[1] *See Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n*. 262 U.S. 679 (1923); *Federal Power Comm'n.. v. Hope Natural Gas Co.* 320 U.S. 591 (1944).

The Company operates approximately 210 miles of distribution mains together with wells, pumping facilities, storage infrastructure, and associated assets necessary to provide safe and reliable water service. Great Oaks relies exclusively on groundwater wells within its service territory as its sole source of supply and does not operate with the same geographic diversification or source-water diversification enjoyed by larger multi-district utilities.

I do not present these facts to overstate risk. I present them because they are part of Great Oaks' actual operating reality. Great Oaks is a smaller, less diversified, privately financed utility with a real physical plant footprint and continuing infrastructure obligations. Those facts matter in evaluating what constitutes an adequate return.

V. CURRENT COMMISSION POSTURE AND GREAT OAKS' STARTING POINT

Great Oaks' currently authorized return on equity is 8.78 percent, as adopted in D.24-12-007.[2] That decision also continued a 6.50 percent cost of long-term debt and used a ratemaking capital structure containing 12.70 percent actual long-term debt, 17.30 percent imputed long-term debt, and 70.00 percent common equity, yielding an 8.10 percent overall return on rate base.

The current ratemaking capital structure is not the same as the Company's actual capital structure. The Commission's current structure includes imputed debt that is not carried on the Company's books. Great Oaks' request in this proceeding is to move to a capital structure that better reflects the way the Company is actually financed and the way capital is actually committed.

Great Oaks also begins this proceeding from a relatively low authorized return on equity when compared with other Class A water utilities. The peer context is important not because Great Oaks seeks to copy another utility's exact outcome, but because it shows that Great Oaks starts from the bottom of the current peer range while continuing to operate and invest under a conservative, equity-supported financial structure.

[2] D.24-12-007, p. 3.

Table 2. Current Authorized Return on Equity for Class A Water Utilities

Utility	Current ROE	Authority / Context
Great Oaks Water Company	8.78%	D.24-12-007
San Gabriel Valley Water Company	9.34%	D.24-12-007
Suburban Water Systems	9.46%	D.24-12-007
Liberty Utilities	9.57%	D.24-12-007
California American Water Company	10.20%	After WCCM Trigger No. 2
California Water Service Company	10.27%	After WCCM Trigger No. 2
Golden State Water Company	10.06%	After WCCM Trigger No. 2
San Jose Water Company	10.01%	After WCCM Trigger No. 2

VI. ACTUAL CAPITAL STRUCTURE, DEBT, AND PRIVATE CAPITAL COMMITMENT

In 2014, I provided capital to Great Oaks through long-term debt financing in the amount of $4,000,000 at an interest rate of 6.5 percent. That debt has remained on the books since then and is expected to be refinanced at maturity in 2028 with a similar level of debt, if the Commission approves.

The Company's actual capital structure is now approximately 25.43 percent debt and 74.57 percent equity, with equity expected to be higher by July 1, 2027. That structure is materially different from the current ratemaking structure that includes imputed debt. The proposed 25 percent debt / 75 percent equity structure more transparently reflects Great Oaks' actual financing and the actual burden borne by private capital.

Table 3. Actual 2025 and Proposed Capital Structure

Component	Actual 2025	Proposed
Long-Term Debt	25.43%	25.00%
Equity	74.57%	75.00%
Total	100.00%	100.00%

This financing posture is conservative. Great Oaks has not attempted to maximize leverage or transfer unusual financial risk to ratepayers. But conservative financing is not the same thing as no capital burden. A structure that relies heavily on equity means that private capital remains deeply committed to the Company's operations and that the authorized return on that equity matters in practical terms.

VII. HISTORICAL INVESTMENT AND GROWTH OF THE SYSTEM

The historical record shows sustained investment over time. Great Oaks' rate base increased from approximately $11.45 million in 2010 to approximately $18.33 million in 2024, with a current 2025 rate base of approximately $18.5 million. Annual capital additions ranged from approximately $0.36 million at the low end to approximately $2.55 million at the high end, with average annual capital additions of roughly $1.52 million.

Those numbers show continued investment, not stagnation. They also show that small changes in the authorized return can matter. When average annual capital investment is on the order of $1.5 million and is being evaluated against long asset lives, the economics of whether to move forward now or defer to later are materially affected by the authorized return.

Table 4. Selected Historical Rate Base and Capital Additions

Selected Year	Rate Base	Annual Capital Additions
2010	$11,451,900	$359,759
2014	$13,582,043	$1,743,032
2016	$13,643,241	$2,552,566
2018	$15,890,327	$2,005,982
2020	$16,832,272	$1,715,490
2022	$18,019,793	$2,346,187
2024	$18,326,076	$1,920,693

Since 2014, Great Oaks' capital expenditures have totaled approximately $17.4 million in plant additions, increasing plant-in-service from approximately $40.8 million to approximately $58.2 million. Those investments have included critical system improvements, wells, storage infrastructure, and other plant necessary to maintain reliability and service quality. They reflect a continuing capital commitment by me as owner and creditor, not merely a passive holding of an existing utility asset.

VIII. CAPITAL SUFFICIENCY AND CONTINUITY OF CAPITAL

Capital sufficiency is the central issue in this proceeding. By capital sufficiency, I mean whether Great Oaks has a return framework that allows it to continue making rational long-term investments in a system with multi-decade asset lives, ongoing public-service responsibilities, and limited access to outside equity capital.

Great Oaks does not access public equity markets. It relies on retained earnings and private capital commitment within the enterprise. For that reason, the authorized return must be sufficient not only to support current operations and near-term investment, but also to sustain the long-term continuity of capital within the Company over successive investment cycles.

That point is especially important for a privately financed utility. Capital invested in Great Oaks must remain committed through renewal, replacement, and reinvestment over long time horizons. If the authorized return is too low, the economic threshold for proactive replacement rises. More projects fall on the 'wait' side of the line rather than the 'do now' side. To be clear, this does not raise the risk of asset failure or jeopardize Great Oaks' ongoing ability to provide safe and reliable service. Instead, it incentivizes longer timelines for undertaking capital projects. In my judgment, that is the risk posed by the current return. Great Oaks can continue operating under it, but it does not adequately support the level of long-term capital commitment that a system like this requires. The requested return better aligns the economics of investment with the Company's continuing obligation to maintain safe and reliable service.

IX. THE ECONOMICS OF LONG-LIVED WATER INFRASTRUCTURE

Water utility infrastructure is long-lived and capital-intensive. Distribution mains can remain in service for decades. Storage and pumping assets likewise involve long investment horizons. Those are not investments whose economics should be judged solely against a short ratemaking cycle or a narrow near-term earnings view.

The Company must often commit capital up front and recover that investment over extended periods of time while facing future regulatory proceedings, changes in construction cost, and other uncertainty. When the authorized return is low, the effect is not limited to one year's earnings. It changes the practical economics of replacement and renewal decisions and can reduce the attractiveness of investing proactively rather than deferring work.

I am not claiming that Great Oaks faces an immediate inability to finance plant. My point is more practical: the Commission should set return at a level that encourages prudent long-term reinvestment in essential infrastructure rather than one that causes management and owners to

hesitate where earlier action would otherwise be sufficiently funded such that the decision to start a project does not require a balancing of the relevant interests.

X. WHY GREAT OAKS IS NOT RELYING ON DCF OR CAPM TESTIMONY

Great Oaks has intentionally chosen not to present a consultant-driven proxy-group finance-model case. That decision should not be read as a lack of seriousness. It reflects my judgment that the most probative record for Great Oaks is one grounded in the Company's actual circumstances rather than one that attempts to import public-market valuation tools into a privately financed setting where the linkage is more formal than real.

Traditional DCF and CAPM studies are designed around publicly traded companies with market prices, analyst coverage, and regular access to public equity markets. Great Oaks has none of those features. It relies on retained earnings and direct private capital support. As the smallest Class A water utility, it is also structurally different from the larger public-market companies that typically form the backbone of such studies.

That does not mean this case lacks quantitative support. The quantitative evidence here is simply of a different and, in my view, more relevant kind: actual capital structure, actual debt, actual rate base growth, actual capital additions, actual private capital commitment, and Great Oaks' position relative to current authorized returns for other Class A water utilities. Those are the numbers that drive real-world investment decisions at Great Oaks.

XI. THE REQUESTED RETURN ON EQUITY IS REASONABLE

The requested 10.30 percent return on equity is reasonable. It is high enough to give the Commission room to move Great Oaks materially off the bottom of the current peer range, but it is not an extreme outlier request. It is, in my judgment, the right strategic and practical request for a utility seeking a meaningful correction while maintaining credibility.

That requested level also aligns with Great Oaks' actual financing posture. The Company is not asking the Commission to reward aggressive leverage or speculative growth. It is asking for a return that better matches the realities of a conservatively financed, privately supported utility with a growing plant base, a single concentrated service area, and long-lived infrastructure responsibilities.

Table 5. Great Oaks Authorized Return on Equity Since 2010

Year	Authorized ROE	Authority
2010	10.20%	D.10-12-057
2011	10.20%	D.10-12-057
2012	10.20%	D.10-12-057
2013	9.79%	D.13-05-027
2014	9.79%	D.13-05-027
2015	9.79%	D.13-05-027
2016	9.79%	D.13-05-027
2017	9.79%	D.13-05-027
2018	9.79%	D.13-05-027
2019	8.85%	D.18-12-002
2020	8.85%	D.18-12-002
2021	8.85%	D.18-12-002
2022	8.85%	D.18-12-002
2023	8.85%	D.18-12-002
2024	8.78%	D.24-12-007
2025	8.78%	D.24-12-007

That history shows a long downward trend in authorized return on equity for Great Oaks. In my view, the Company's current return no longer adequately reflects the practical need to sustain continued investment in a system of this kind.

XII. CONCLUSION

Great Oaks has shown, through its actual operating and financing history, that it is a conservatively financed utility with substantial infrastructure obligations and continuing capital needs. The Company's rate base has grown materially over time, annual capital additions have continued, debt has remained stable since 2014, and the Company remains heavily supported by private equity capital.

In those circumstances, a 10.30 percent return on equity, a 6.50 percent cost of long-term debt, and a 25 percent debt / 75 percent equity capital structure are reasonable and necessary to support capital sufficiency, financial integrity, and continued rational long-term investment.