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, 2024 through June 30, 2027.	Application No. ________________ Filed: ________________

EXHIBIT D

Testimony of John Roeder Regarding Capital Structure, Cost of Debt, and Business Risk

Q.1. Please state your name, qualifications, role in these proceedings, and purpose of your testimony.

A.1. My name is John Roeder. I am Chief Executive Officer of Great Oaks Water Company (Company/Great Oaks) and a member of the Company's Board of Directors. I also own 100% of the outstanding and issued stock of the Company either directly or indirectly through the John W.S. Roeder Continuing Trust.[1]

I have been involved in operations, management, ownership of, and investment in Great Oaks for nearly my entire life. I am also the creditor holding the Company's $4 million of long-term debt.[2] I am knowledgeable about all aspects

[1] *See*, D.21-01-008 (Commission Decision authorizing transfer of ownership of Great Oaks to John Roeder and John W.S. Roeder Continuing Trust).
[2] *See*, D.14-09-006 (Commission Decision authorizing Great Oaks to issue up to $4 million in debt securities).

of Company operations and financing, as well as the business risks Great Oaks faces as a Class A water company regulated by the California Public Utilities Commission (Commission). I make all investment decisions for the Company based upon my knowledge and experience with Great Oaks and with other business investments I've made that are unrelated to the Company.

My role in this proceeding is to apply my expertise and experience to provide testimony on three issues: (1) the projected capital structure of the Company for the period of time beginning July 1, 2024; (2) the Company's projected cost of long-term debt for the period of time beginning July 1, 2024; and (3) business, finance, and regulatory risks faced by Great Oaks that should be considered when setting cost of capital in this proceeding.

Q.2. What is meant by "capital structure" in the context of this proceeding?

A.2. Capital structure, also sometimes referred to as capitalization, in the context of this proceeding means the combined mixture of common equity and long-term debt of the Company. The Company's capitalization is reported annually to the Commission. The tables below provide a summary of Great Oaks' capitalization over the period from 2017 through 2022.

Table 1 – Capitalization 2017[3]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$5,267,832	$7,654,585	$6,461,209
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$9,267,832	$11,654,585	$10,461,209

[3] *See,* 2017 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7.

Table 2 – Capitalization 2018[4]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$7,654,467	$8,865,592	$8,260,030
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$11,654,467	$12,865,592	$12,260,030

Table 3 – Capitalization 2019[5]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$8,865,592	$9,867,247	$9,366,420
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$12,865,592	$13,867,247	$13,366,420

Table 4 – Capitalization 2020[6]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$9,867,247	$12,392,611	$11,129,929
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$13,867,247	$16,392,611	$15,129,929

Table 5 – Capitalization 2021[7]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$12,392,611	$15,720,793	$14,056,702
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$16,392,611	$19,720,793	$18,056,702

[4] *See,* 2018 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7.
[5] *See,* 2019 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7
[6] *See*, 2020 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7.
[7] *See*, 2021 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7.

Table 6 – Capitalization 2022[8]

	Beginning of Year	End of Year	Average
Common Stock and Equity	$15,720,793	$19,548,663	$17,634,728
Long-Term Debt	$4,000,000	$4,000,000	$4,000,000
Total Debt and Equity	$18,056,702	$23,548,663	$21,634,728

Q.3. Please explain the differences in the Company's capitalization from 2017 to 2022.

A.3. Table 7, below, shows the differences in the Company's capital structure from 2017 through 2022, together with the average annual increase in equity during that period. The amount of long-term debt has remained the same during this period.

Table 7 – Great Oaks Water Company Capital Structure 2017 – 2022[9]

Great Oaks Water Company
Capital Structure CY2017 - 2022

CY	Average Equity	% Equity	Long-Term Debt	% LTD
2017	$6,461,209	61.8%	$4,000,000	38.2%
2018	$8,260,030	67.4%	$4,000,000	32.6%
2019	$9,366,420	70.1%	$4,000,000	29.9%
2020	$11,129,929	73.6%	$4,000,000	26.4%
2021	$14,056,702	77.8%	$4,000,000	22.2%
2022	$17,634,728	81.5%	$4,000,000	18.5%
	Average Increase			
	$2,234,704			

Q.4. Based upon your knowledge and experience, what do you believe the capital structure of the Company will be for the three-year period beginning July 1, 2024?

A.4. The capital structure of the Company will be approximately 84.7% equity and 15.3% long-term debt, assuming that equity increases by the average increase in

[8] *See*, 2022 Annual Report of Great Oaks Water Company, Utility Plant and Capitalization Data, p. 7.
[9] The data in Table 7 comes from the data in Tables 1 through 6, all of which are sourced from Great Oaks' Annual Reports to the Commission.

equity over the 2017 to 2022 period in both 2023 and 2024. Table 10, below, shows the calculations for the projected average capital structure in 2024.

Table 8 – Projected Capital Structure in 2024

Projected Capital Structure CY2023 - 2024				
2023	$19,869,432	83.2%	$4,000,000	16.8%
2024	$22,104,136	84.7%	$4,000,000	15.3%

Q.5. Please explain the long-term debt obligations of the Company.

A.5. The Company has a single long-term debt instrument for the principal amount of $4,000,000, at an interest rate of 6.5% per annum and a maturity date of December 12, 2028.

Q.6. What is the expected interest rate on the Company's existing long-term debt obligation for the time period beginning July 1, 2024?

A.6. The interest rate on the Company's long-term debt obligation is fixed at six and one-half percent (6.5%) per annum for the term of the debt instrument. This interest rate was approved by the Commission in D.14-09-006. The authorized and expected interest rate on the Company's long-term debt obligation for the time period beginning July 1, 2024 is 6.5%.

Q.7. Do you expect the Commission to authorize a capital structure of 84.7% equity and 15.3% debt in this proceeding?

A.7. No. For reasons stated in prior decisions pertaining to Great Oaks' cost of capital, I believe the Commission will adopt a capital structure with 70% equity for Great Oaks.

Q.8. Has the Commission adopted an imputed capital structure with imputed long-term debt for Great Oaks in prior cost of capital Decisions?

A.8. Yes. In D.13-05-027, the Decision on Great Oaks' 2012 Cost of Capital Application, the Commission adopted a settlement agreement with a capital structure with 30% imputed debt at a 7.5% interest rate. Previously, in D.10-12-057, the Decision on Great Oaks' 2009 Cost of Capital Application, the Commission adopted the same 30% imputed debt at 7.5%.[10] Based upon these prior Commission Decisions, I believe the Commission will adopt a 70% equity and 30% long-term debt capital structure. To achieve this, the Commission will have to add imputed debt of $5,473,201 to the existing $4,000,000 in long-term debt to achieve debt of $9,473,201, which would be 30% of the total capital structure, as shown in Table 9, below.

Table 9 – Total Debt Required for 2024 70%/30% Capital Structure

Equity	% Equity	Debt	% Debt
$22,104,136	70%	$9,473,201	30%

Q.9. What "risk-reducing" accounts and/or mechanisms has the Commission authorized for the Company?

A.9. The Company has the following "risk-reducing" accounts and/or mechanisms authorized by the Commission at this time:

- Purchased Power Balancing Account - Tracks increasing recorded power costs using a calculated composite rate based on four different electric rate schedules with various seasonal, times of day, and surcharge rates;
- Groundwater Charges, Other Than Agricultural Irrigation Balancing Account - Tracks costs related to groundwater charges other than agricultural irrigation in comparison to adopted groundwater charge rates;
- Groundwater Charges, Agricultural Irrigation Balancing Account - Tracks costs related to agricultural irrigation groundwater charges in comparison to adopted agricultural irrigation groundwater charge rates;

[10] *See*, D.10-12-057, at pp. 3, 17 – 23.

- Customer Assistance Program (CAP) Surcharge Balancing Account – Tracks differences between recorded CAP surcharge revenues and recorded CAP costs and expenses;
- Pension Expense Balancing Account – Tracks the differences between authorized plan expenses and SFAS 87 pension expenses;
- Conservation Lost Revenue and Expense Memorandum Account – Tracks lost revenues associated with reduced sales when Schedule No. 14.1 is activated;
- Excess Usage Surcharge and Conservation Expense Memorandum Account – Tracks excess usage surcharges collected and conservation-related expenses not otherwise accounted for in rates while Schedule No. 14.1 mandatory conservation measures are activated;
- Credit Card Pilot Program Memorandum Account – Tracks costs incurred by the Company as compared to adopted costs for the credit card pilot program authorized in D.19-09-010;
- Catastrophic Event Memorandum Account – Records for recovery costs associated with the restoration of service and utility facilities affected by a catastrophic event declared to be a disaster or state of emergency by competent federal or state officials;
- Monterey-style Water Revenue Adjustment Mechanism – Tracks and records the difference between revenues collected under conservation rates and rates that would have been collected under uniform quantity rates for later collection;
- School Lead Testing Memorandum Account – Tracks and records incremental expenses not already in rates that are associated with complying with the School Lead Testing Program;
- Drinking Water Fees Memorandum Account – Tracks and records the difference between actual drinking water fees and authorized drinking water fees for later collection;

- Water Cost of Capital Adjustment Mechanism – Adjusts the Company's return on equity based upon the annual average of Moody's Baa bond ratings, as compared to an established benchmark;
- Supplier Diversity Program Expense Memorandum Account – Tracks expenses incurred by the Company to comply with the Commission's Supplier Diversity Program reporting and compliance requirements; and
- Lead and Copper Rule Revisions Expense Memorandum Account – Tracks expenses incurred by the Company to comply with the Lead and Copper Rule Revisions.

Q.10. Do other Class A regulated water companies in California have "risk-reducing" accounts and/or mechanisms that the Company does not have?

A.10. Yes. Some Class A water companies have Water Revenue Adjustment Mechanisms and/or Modified Cost Balancing Accounts that track and record the difference between recorded and authorized revenues. Great Oaks has no such accounts.

Q.11. Do the "risk-reducing" mechanisms listed above remove regulatory risk?

A.11. No. Regulatory risk is not eliminated. In some instances, such as with the Conservation Lost Revenue Memorandum Account and certain aspects of recovery under Catastrophic Event Memorandum Accounts, the "risk-reducing" mechanism includes a specific reduction in the allowed recovery, thereby institutionalizing a reduced return of lost revenues and/or increased expenses. In all other instances, the recovery of balances is not guaranteed, but is instead subject to a regulatory process that has become less certain in recent years as amortization of memorandum and balancing accounts has become a specific target of the Public Advocates Office. As a direct result, the risk of reduced or even non-recovery of balances in the memorandum and balancing accounts is greater now than before for reasons not attributable to Great Oaks.

Q.12. Does the Company face any other risks that other Class A water utilities do not?

A.12. Yes. The Company has only one source of water supply – groundwater from local groundwater basin. Other companies typically have more than one source of supply. Having only one source of supply increases risk in that climate and water conditions have a greater effect on water supply conditions for Great Oaks than for most other Class A water companies. The investment capital that would be necessary to add an additional and different source of supply, such as treated water, would be very significant and would certainly require additional long-term debt issuance.

Because of its smaller size, the Company has less access to investment capital than other, larger, publicly-traded Class A water companies. In addition, because the Company has not incurred debt other than its present loan, combined with the relatively small size of the Company, its ratebase, and its customer base, it would be more difficult to secure additional long-term debt at favorable interest rates (interest rates have increased dramatically during the past two years).

Current rate design permits recovery of seventy five percent (75%) of fixed costs through service charges. When water sales are down, as they have been in recent years, high water sales forecasts, combined with rate design, typically result in less than full recovery of fixed costs, thus creating increased financial risk for Great Oaks.

The Company also faces significant additional regulation as State agencies are taking more and sometimes redundant actions to address or require reporting on the same issues. Increased regulatory requirements cause increased costs to address and comply with those requirements, without the opportunity to have those current costs recovered through current rates.

As a significantly smaller company than other Class A water companies, Great Oaks has less of an ability to absorb additional costs and revenue losses. This increases the Company's business and financial risks, as compared to the other Class A water companies. *See*, Exhibit C, Testimony of Michael R. Tolleth, on this topic.

Q.13. Does that conclude your direct testimony?

A.13. Yes.