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.26-05-001 (Filed May 1, 2026)

REBUTTAL TESTIMONY OF JOHN ROEDER

ON BEHALF OF GREAT OAKS WATER COMPANY (U 162 W)

RESPONDING TO THE TESTIMONY OF JAWAD BAKI

ON BEHALF OF THE PUBLIC ADVOCATES OFFICE (EXHIBIT CALADV-01)

September 4, 2026

I. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY

My name is John Roeder. I submit this rebuttal testimony on behalf of Great Oaks Water Company ("Great Oaks" or the "Company") in response to the direct testimony of Jawad Baki, filed on behalf of the Public Advocates Office ("Cal Advocates").[1] I previously submitted direct testimony in support of Great Oaks' application, and I incorporate that testimony here by reference.[2]

Cal Advocates recommends that the Commission adopt a 50 percent debt / 50 percent equity ratemaking capital structure (achieved through significant imputed debt), an 8.05 percent cost of equity, and the same 6.50 percent cost of long-term debt Great Oaks proposes, producing an overall recommended weighted average cost of capital of 7.28 percent—below both Great Oaks' request of 9.35 percent and the Company's currently authorized 8.10 percent overall return.[3] Cal Advocates also agrees with Great Oaks that the Water Cost of Capital Adjustment Mechanism ("WCCM") should be discontinued for the 2027–2030 period.[4]

This rebuttal testimony explains why Cal Advocates' recommended capital structure and cost of equity should not be adopted, and why the record continues to support the return Great Oaks has requested, or, at a minimum, a return materially above Cal Advocates' recommendation. In summary:

- Cal Advocates' 50/50 capital structure recommendation rests on a comparison to large, publicly traded, multi-state water and energy holding companies that have access to public capital markets and credit ratings that Great Oaks does not have and cannot obtain.[5] It does

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[1] A.26-05-001, *Report on the Weighted Average Cost of Capital and the Water Cost of Capital Adjustment Mechanism* (August 14, 2026) (Exh. CalAdv-01).

[2] A.26-05-001, Exhibit F, *Direct Testimony of John Roeder on Behalf of Great Oaks Water Company (U162 W)* (May 1, 2026).

[3] Exh. CalAdv-01, p. 2, Table 1-1.

[4] *Id.* at p. 32 (lines 4–7).

[5] *See id.* at pp. 10 (line 8)–12 (line 12).

not reflect Great Oaks' actual financing capacity as a single-owner, non-traded, single-district utility.

- Cal Advocates' own witness acknowledges that his recommended capital structure is a ratemaking construct achieved through imputed debt that the Company will not actually carry.[6] Combining an increased imputed-debt layer with a reduced cost of equity risks under-compensating the real equity capital Great Oaks has committed to this business.
- The Commission's own recent decisions—not just Great Oaks' testimony—already recognize that smaller, less-diversified Class A water utilities warrant higher authorized returns than the large multi-district utilities Cal Advocates uses for comparison. Cal Advocates' recommendation would reverse that pattern rather than continue it.
- Cal Advocates' reliance on Great Oaks' historical achieved earnings to argue for a lower prospective cost of equity conflates a backward-looking, single-year financial result with the forward-looking judgment a cost of capital proceeding is supposed to make, and does not account for the unique circumstances that led to that achieved income.[7]
- Properly understood, the peer return-on-equity data Cal Advocates presents supports rather than undermines Great Oaks' request, particularly because Great Oaks (like Cal Advocates) is asking the Commission to discontinue the WCCM mechanism that produced the peer utilities' higher current returns.

II. CAL ADVOCATES' PROPOSED CAPITAL STRUCTURE RESTS ON A COMPARISON GROUP THAT IS NOT COMPARABLE TO GREAT OAKS

Mr. Baki recommends an "optimal" capital structure of 50 percent debt and 50 percent equity, based principally on his observation that the five largest publicly traded water holding companies—American Water Works, Essential Utilities, American States Water, California Water Service Group, and H2O America—carry an average of roughly 51 percent debt, and that five large energy holding companies carry an average of roughly 60 percent debt.[8] No actual evidence is presented

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[6] *Id.* at p. 11 (lines 21–25).

[7] See *id.* at p. 19 (lines 8–16).

[8] Exh. CalAdv-01, pp. 9 (line 14)–10 (line 10).

that a 50/50 ratio is optimal, beyond the conclusory inference that equal percentages are inherently optimal. Furthermore, Cal-Advocates did not provide additional studies or research when asked in Great Oaks data request number 2.[9]

I do not dispute Mr. Baki's arithmetic regarding his large "proxy" entities. I dispute that these companies tell the Commission anything useful about what capital structure is available to, or appropriate for, Great Oaks. Every company in Mr. Baki's comparison group is a publicly traded holding company with an independent corporate credit rating, access to the public bond market, and multiple regulated utility subsidiaries spread across several states.[10] Their ability to carry 50 percent or more debt at investment-grade rates reflects that scale and diversification—it is not simply a policy choice available to any regulated water company regardless of size.

Great Oaks is the smallest Class A water utility the Commission regulates. It has no publicly traded stock, no independent bond rating, and no history of accessing the public debt markets. Its entire long-term debt consists of a single $4,000,000 note that I personally extended to the Company in 2014. Great Oaks cannot simply decide to "optimize" its capital structure toward 50 percent debt the way a national holding company with access to commercial paper and public bond issuances can. To do so, it would first have to find a lender willing to extend several million additional dollars of debt to a small, privately held water utility with a single, geographically concentrated, groundwater-only service territory, on terms that do not themselves increase the Company's risk or cost of service. Mr. Baki's own comparison group actually illustrates this problem: he had to reach for the parent holding companies of Class A utilities—not the regulated utility subsidiaries themselves—because no genuinely comparable single-utility company of Great Oaks' size and structure is publicly traded at all.

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[9] Attachment A, *Cal Advocates' Response to Great Oaks Data Request No. 2*, Question 3 ("Response to DR2").

[10] *See* Attachment A, Response to DR2, Question 2.

The same is true, more acutely, of Mr. Baki's energy-company comparison.[11] NextEra Energy, Southern Company, Duke Energy, Dominion Energy, and Entergy are among the largest utility holding companies in the country, operating electric generation, transmission, and distribution assets across many states (much of which is not regulated as retail utility service). Most of their operations are outside of California. Their average 60 percent debt ratio has no logical bearing on the financing capacity of a 21,000-connection groundwater utility in San Jose.

Using a peer group like this to set a target capital structure, and then imputing debt to bring Great Oaks into line with that target, does not correct Cal Advocates' perceived distortion in Great Oaks' actual structure—it substitutes a different company's financing profile for Great Oaks' own.

III. CAL ADVOCATES ASKS THE COMMISSION TO SET RATES AROUND A FINANCING STRUCTURE GREAT OAKS DOES NOT HAVE AND CANNOT READILY OBTAIN

Mr. Baki acknowledges that his 50/50 recommendation is a ratemaking construct, not an actual financing plan: "My recommended capital structure of a 50/50 debt-to-equity ratio is for ratemaking purposes and can be achieved through imputed debt . . . ."[12] (He confirms that Great Oaks' actual capital structure will remain approximately 25 percent debt and 75 percent equity regardless of what the Commission adopts for ratemaking purposes.[13]

That concession is important. It means Cal Advocates is asking the Commission to calculate Great Oaks' revenue requirement as though half of the Company's permanent capital were low-cost debt, when in reality roughly three-quarters of that capital is equity. *Bluefield* and *Hope* require that authorized returns permit a utility "to attract capital upon favorable terms" and "maintain its financial integrity" based on the utility's actual capital costs and circumstances—not a hypothetical financing structure borrowed from unrelated public companies.[14] Imputing a materially larger debt layer than Great Oaks actually carries, at the same time Cal Advocates also recommends cutting the

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[11] Exh. CalAdv-01, p. 10, Figure 2-3.

[12] *Id.* at p. 11 (lines 21–23).

[13] *See id.* at p. 11 (lines 17–21).

[14] *Federal Power Com. v. Hope Natural Gas Co*., 320 U.S. 591, 605 (1944); see also *Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n*, 262 U.S. 679, 692–693 (1923).

cost of equity from 8.78 percent to 8.05 percent,[15] compounds rather than offsets the risk that the equity capital genuinely invested in this Company goes under-compensated.

It is also worth noting how large a shift Cal Advocates proposes. Great Oaks' currently authorized ratemaking capital structure, adopted in D.24-12-007, already includes an imputed-debt component for a total of 30 percent debt and 70 percent equity.[16] Cal Advocates does not explain why that structure—itself already more debt-heavy than Great Oaks' actual balance sheet—is insufficient, or why the appropriate correction is to nearly double the imputed-debt component to reach 50 percent. The decision Mr. Baki cites for the Commission's authority to impute a different equity ratio, D.89-04-051, involved a large energy utility with public capital-market access, and the imputation there corrected a specific, identified distortion—the treatment of non-nuclear lease obligations in the capital structure.[17] Mr. Baki also fails to explain why a nearly 40-year-old decision setting SDG&E's capital structure is a more appropriate metric than the longstanding series of decisions adopting a 70 percent equity / 30 percent debt imputed capital structure for Great Oaks.[18] Cal Advocates has identified no distortion in Great Oaks' actual capital structure that would justify a comparable, or larger, adjustment here.

IV. THE COMMISSION'S OWN RECENT DECISIONS ALREADY RECOGNIZE THAT SMALLER, LESS-DIVERSIFIED CLASS A UTILITIES WARRANT HIGHER RETURNS THAN THE UTILITIES CAL ADVOCATES RELIES ON

Mr. Baki states that Great Oaks' "claim related to small size, or a concentration premium is not supported by any record evidence," relying on the theoretical proposition that only non-diversifiable, systematic risk is properly compensated through an authorized return.[19] I disagree that the record is silent on this point. The Commission's own recent decisions are themselves evidence, and they point the other way.

[15] Exh. CalAdv-01, p. 23, Table 4-2.

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

[17] Exh. CalAdv-01, p. 12 (lines 1–8).

[18] See D.18-12-002, Appendix A, p. 5; D.13-05-027, p. 2, Table 1; D.10-12-057, p. 21.

[19] Exh. CalAdv-01, p. 31 (lines 6–21), and Attachment L.

In the same recent decisions Mr. Baki relies on for his peer comparisons, the Commission authorized a return on equity of 8.98 percent for California American Water, 9.05 percent for California Water Service, 8.85 percent for Golden State Water, and 8.80 percent for San Jose Water—all large, multi-district utilities—in D.23-06-025.[20] In the very next cost of capital cycle, in D.24-12-007, the Commission authorized materially higher returns for the smaller, single- or limited-district Class A utilities: 9.34 percent for San Gabriel Valley Water Company, 9.46 percent for Suburban Water Systems, and 9.57 percent for Liberty Utilities—each above every one of the large multi-district utilities' base authorized returns.[21]

If firm size, diversification, and market concentration truly had no bearing on the Commission's determination of a fair return—as Cal Advocates' theoretical argument would suggest—there would be no reason to expect the Commission's authorized returns to track utility size and diversification as consistently as they do. But they do: the Commission has authorized higher returns for the smaller, less diversified Class A utilities than for the four large multi-district utilities.[22] Great Oaks is smaller than San Gabriel Valley, Suburban, and Liberty; it serves a single, geographically concentrated territory; and it relies exclusively on groundwater wells as its sole source of supply, without the geographic or source-water diversification than even those "smaller" Class A peers may have. Cal Advocates' recommended 8.05 percent cost of equity would place Great Oaks not merely below the large multi-district utilities, but below every other Class A water utility the Commission currently regulates—reversing, rather than continuing, the pattern the Commission's own decisions demonstrate. With Great Oaks' current 8.78% ROE, an investor would choose to invest in any other Class A water utility in California.

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[20] D.23-06-025, p. 3, Table 1.

[21] D.24-12-007, p. 3, Table 1.

[22] *Ibid*.

V. CAL ADVOCATES' "BURDEN OF PROOF" ARGUMENT OVERSTATES WHAT *BLUEFIELD* AND *HOPE* REQUIRE

Mr. Baki argues that because Great Oaks did not present a Discounted Cash Flow ("DCF") or Capital Asset Pricing Model ("CAPM") analysis, the Company has failed to meet its burden to make "a substantial affirmative showing … with percipient witnesses in support of all elements of its application."[23] I respectfully disagree that the absence of a particular pair of finance models is fatal to the Company's showing.

The standard Mr. Baki quotes requires percipient evidence supporting the elements of the application—it does not require that the evidence take the form of a DCF or CAPM study to the exclusion of all other proof. My direct testimony presented actual, verified evidence: Great Oaks' real capital structure and its history since 2014; the actual terms of its $4,000,000 long-term debt; its rate base growth from approximately $11.45 million in 2010 to approximately $18.5 million in 2025; its annual capital additions over that period; and its position relative to every other Class A water utility the Commission currently regulates.[24] Those facts are within my own personal, percipient knowledge as Great Oaks' owner, director, and Chief Executive Officer for nearly my entire life—precisely the kind of first-hand showing *Bluefield* and *Hope* contemplate, even though it is not built around a public-market valuation model.

I would also note that Cal Advocates' own DCF results illustrate why I was reluctant to anchor Great Oaks' request to that methodology. Applying the constant-growth DCF model to the same four proxy companies, using two different reasonable growth-rate proxies, produces a cost of equity range of 6.67 percent using sustainable growth and 9.28 percent to 9.55 percent using three-year historical dividend growth—a spread of nearly 300 basis points depending solely on which growth input is selected.[25] A methodology that produces such a wide range from the same four companies,

[23] Exh. CalAdv-01, p. 15 (lines 4–6) (quoting In re Energy Cost Adjustment Clauses (1980) 4 CPUC 2d 693, 701).

[24] Exhibit F, pp. 4 (line 7)–5 (line 22).

[25] Exh. CalAdv-01, pp. 22 (line 16)–23 (line 2), and Attachment C.

depending on an input choice, is not obviously a more reliable or objective guide to Great Oaks' cost of equity than the actual, verifiable evidence of Great Oaks' own circumstances that my direct testimony presented.

Similarly, Mr. Baki presents a Capital Asset Pricing Model (CAPM) using formula K = Rf + β (Rm - Rf). Only three values, Market Return (Rm), Risk-Free Interest rate (Rf), and Beta (β) are inserted to calculate Cost of Equity (K). Inappropriate values have been used in all three places

First, Mr. Baki's CAPM analysis relies on a five-year average beta of 0.61 for his four proxy companies.[26] That beta is, by construction, a measure of how those particular large, diversified, publicly traded companies' stock prices move relative to the broader market. It says nothing about, and cannot capture, the risk of a small, single-source, single-territory, non-traded water utility whose equity is not bought and sold in any market at all. Using it as a stand-in for Great Oaks' risk does not make the resulting number more objective—it simply relocates the judgment involved from Great Oaks' actual circumstances to the stock trading behavior of those unrelated companies. The risk-free interest rate (Rf) used has been calculated as an average of the 90-day Treasury bill (T-Bill) and 30-year Treasury bond rates on a single day and three months weighted average.[27] It is wrong to suggest that a 90-day interest rate should be used as a component to determine the return on equity to purchase capital assets that have useful lives of many decades. Over the past few years, the 90-day T-Bill rate has varied from 0% to 5.32% while the expectation of return on investment in capital assets purchased years ago should be relatively constant.[28] Moreover, the market return is shown to be an average of S&P 500 returns over the past 25 years.[29] This time frame includes the years 2001 and 2002, which had huge negative returns. Had a 23- or 30-year average been used,

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[26] *Id.* at pp. 28 (line 2)–29 (line 21), and Attachment D-1.

[27] *Id.* at p. 28 (lines 7–28).

[28] https://www.macrotrends.net/3089/3-month-treasury-yield.

[29] Exh. CalAdv-01, Attachment D-3.

the average return would be much higher. A faulty methodology compounded with inappropriately derived numbers should not be relied upon to establish the cost of equity.

VI. CAL ADVOCATES' RELIANCE ON GREAT OAKS' HISTORICAL ACHIEVED EARNINGS DOES NOT SUPPORT A LOWER PROSPECTIVE COST OF EQUITY

Mr. Baki presents data showing that Great Oaks' actual return on common equity, adjusted to remove certain one-time items, averaged 18.99 percent over 2021–2025, compared with an average authorized return on equity of approximately 8.82 percent over the same period, and argues this shows Great Oaks' request would let it "pay beyond the amount needed for safe and reliable service."[30] I want to address this data directly rather than set it aside, because it is a fair question to raise even though I do not believe it supports the conclusion Cal Advocates draws from it.

First, an authorized return on equity is, by design, a prospective figure: it reflects the Commission's judgment, at the time of a cost of capital proceeding, about the return necessary to compensate investors for risk and keep capital available going forward. An achieved return, by contrast, is a backward-looking accounting result for a single completed year, shaped by that year's actual revenues, actual expenses, customer growth, and other items—all of which can and do move independently of the authorized rate of return between rate proceedings. Cal Advocates' own footnotes to this data acknowledge that the 2022 figure reflects forgiveness of a COVID-19 PPP loan and that the 2025 figure reflects a one-time gain on the sale of land—both non-recurring items unrelated to Great Oaks' cost of serving water customers or its cost of capital.[31] Even after Cal Advocates' own adjustments remove those two specific items, the underlying revenue and expense trends behind the remaining years still reflect a single company's year-to-year experience with customer growth, rate-case timing, and expense management—not a market-based estimate of the return investors require to commit capital to Great Oaks prospectively for 2027 through 2030.

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[30] Exh. CalAdv-01, pp. 19 (line 8)–20 (line 10), and Attachment F.

[31] *Id.* at Attachment F-1.

Second, the return figures in Attachment F and in the Company's own Exhibit C are computed by dividing total net income—which, per the Company's 2025 income statement, includes approximately $1.25 million in "other income" items such as interest revenue, dividend revenue, and miscellaneous nonoperating revenue, in addition to income from utility operations—by either common equity or total rate base.[32] That is a reasonable presentation for the purpose Exhibit C serves, but it is not the same thing as the return the cost-of-capital determination itself governs, which is compensation for capital deployed in utility plant and operations. A precise reconciliation of how much of the reported return is properly attributable to utility operations, as opposed to other income and timing effects, would require further analysis beyond the scope of this proceeding.

Third, and most importantly, if Cal Advocates or the Commission believe that Great Oaks' current rates are producing earnings beyond what is needed for safe and reliable service, the Rate Case Plan adopted for Class A water utilities in D.07-05-062 provides the proper vehicle to examine that question directly, through a general rate case that resets the revenue requirement, test-year costs, and rate base together. A cost of capital proceeding, by design, addresses only the capital structure and rate of return components of the revenue requirement; it is not the mechanism for correcting a perceived mismatch between current rates and current costs. Using one year's, or even five years', achieved earnings to argue down the prospective cost of equity in this proceeding does not substitute for that separate review, and I do not believe it should be treated as if it does.

VII. THE PEER RETURN-ON-EQUITY COMPARISON CAL ADVOCATES RAISES ACTUALLY SUPPORTS GREAT OAKS' REQUEST ONCE THE WCCM IS PROPERLY ACCOUNTED FOR

Mr. Baki correctly points out that the higher current authorized returns for California American Water (10.20 percent), California Water Service (10.27 percent), Golden State Water (10.06 percent), and San Jose Water (10.01 percent) resulted from automatic WCCM adjustments tied to bond yields, not from newly litigated cost of capital proceedings, and that those utilities' base

[32] Exh. CalAdv-01, Attachment F; A.26-05-001, Exhibit C.

authorized returns from their last cost of capital decisions were lower—in the 8.80 percent to 9.05 percent range.[33] I do not dispute that description of how the WCCM operates.

But that description cuts in favor of Great Oaks' request, not against it, once the Commission considers what both parties are proposing to do with the WCCM going forward. Great Oaks and Cal Advocates agree that the WCCM should be discontinued for Great Oaks for the period from July 1, 2027 through June 30, 2030.[34] That means whichever return the Commission adopts in this proceeding will remain fixed for a full three years, with no mechanism to adjust it if interest rates or capital costs rise during that period—unlike the protection that produced the "Big Four" utilities' current 10.01 to 10.27 percent returns. Mr. Baki's own CAPM analysis uses current Treasury yields of 3.87 to 4.96 percent[35] and the Company's application reflects Baa corporate bond yields in the 5.83 to 5.96 percent range—an elevated interest-rate environment compared to when Great Oaks' current 8.78 percent return, and the Big Four utilities' 8.80 to 9.05 percent base returns, were originally set.[36] Setting Great Oaks' return below its own current authorization, with no adjustment mechanism, at a point when capital costs are elevated and with no public capital market to fall back on if conditions tighten further during the three-year period this decision will govern, does not fit within *Hope* and *Bluefield's* requirement that the authorized return allow the Company to maintain its financial integrity and attract capital throughout the period the decision covers.

VIII. THE CAPITAL-DEFERRAL DISCUSSION IN MY DIRECT TESTIMONY WAS ABOUT A GENERAL ECONOMIC EFFECT, NOT A CLAIM OF A SPECIFIC DEFERRED PROJECT

Mr. Baki notes, correctly, that when asked in discovery to identify a specific capital project that was deferred, delayed, or downsized because of Great Oaks' authorized return, the Company did not point to a documented case involving major water-system infrastructure, and instead identified more modest examples—extending the service life of vehicles, purchasing used rather than new vehicles,

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[33] Exh. CalAdv-01, p. 18 (lines 4–9).

[34] A.26-05-001, p. 5; Exh. CalAdv-01, p. 32 (lines 4–7).

[35] Exh. CalAdv-01, p. 28 (lines 16–18).

[36] A.26-05-001, p. 6.

and delaying replacement of office equipment.[37] I want to be direct about what my testimony was, and was not, saying on this point.

My direct testimony stated plainly that Great Oaks' current circumstances do not raise the risk of asset failure and that the Company does not face an immediate inability to finance plant.[38] The point I was making is a general one about capital budgeting economics: when the authorized return available on a capital project is lower, the threshold a project must clear to be undertaken proactively, rather than deferred, rises across the whole portfolio of capital decisions—not that any single, identifiable major project has already been shelved as a result. That kind of marginal shift in capital-budgeting economics does not, by its nature, generate the sort of discrete, project-specific paper trail that would show up in response to a document request, because it is expressed through many individually small decisions rather than one formally documented one. Great Oaks' discovery response illustrates exactly this dynamic: it describes an ongoing practice of extending asset lives and deferring categories of discretionary capital spending as a matter of "incremental management decisions," which is consistent with the general effect my testimony described, even though it is not the single dramatic example Cal Advocates' data request sought.

I continue to believe the underlying economic relationship between authorized returns and capital-investment timing is real and important to Great Oaks' situation, but I present it here as the informed judgment of the person who makes the Company's capital-investment decisions, not as a claim supported by a specific deferred-project record.

IX. COST OF DEBT AND DISCONTINUATION OF THE WCCM

Great Oaks and Cal Advocates agree that the appropriate cost of long-term debt is 6.50 percent, reflecting the actual, existing rate on Great Oaks' $4,000,000 note.[39] We also agree that the WCCM should be discontinued for the 2027–2030 period. Great Oaks does not dispute either point. I would

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[37] Exh. CalAdv-01, pp. 20 (line 14)–21 (line 4), and Attachment I.

[38] Exhibit F, p. 6 (lines 8–10).

[39] Exh. CalAdv-01, p. 13 (lines 2–10).

only add, consistent with Section VII above, that if the Commission were to adopt Cal Advocates' 50 percent imputed-debt structure while also discontinuing the WCCM, Great Oaks would bear the full downside risk of any increase in market interest rates on a hypothetical debt layer nearly twice the size of what the Company actually carries, with no offsetting adjustment mechanism available to any other Class A water utility currently benefits from. That combination is a further reason the Commission should not adopt Cal Advocates' capital structure recommendation.

X. CONCLUSION AND RESTATED REQUEST

For the reasons set forth in my direct testimony and in this rebuttal testimony, I respectfully request that the Commission adopt Great Oaks' proposed capital structure of 25 percent debt and 75 percent equity, its proposed 6.50 percent cost of long-term debt, and its proposed 10.30 percent return on equity, producing an overall authorized return on rate base of 9.35 percent, effective July 1, 2027, through June 30, 2030. I further request that the Commission authorize discontinuation of the Water Cost of Capital Adjustment Mechanism for that same period, as both Great Oaks and Cal Advocates recommend.

Cal Advocates' recommended capital structure imports a financing profile from large, publicly traded, multi-state companies that do not resemble Great Oaks in size, diversification, or capital-market access; its cost of equity recommendation would place Great Oaks below every other Class A water utility the Commission regulates, reversing the pattern the Commission's own recent decisions have established for smaller, less diversified utilities; and its reliance on Great Oaks' achieved earnings does not substitute for the forward-looking judgment this proceeding requires. For these reasons, I respectfully ask the Commission to adopt Great Oaks' requested cost of capital rather than Cal Advocates' recommendation.

This concludes my rebuttal testimony.

ATTACHMENT A

Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-1584
www.publicadvocates.cpuc.ca.gov

Public Advocates Office's Response to DATA REQUEST
A.26-05-001: Great Oaks Water Company
July 2027- June 2030 Cost of Capital

Origination Date: August 21, 2026
Due Date: September 2, 2026
Response Date: September 2, 2026

To:

Juan Liem
CFO, Great Oaks Water Company
Phone: 408) 227-9540
Email: jliem@greatoakswater.com

Megan J. Somogyi
Attorney for Great Oaks Water Company
Phone: (510) 955-1083
Email: megan@brblawgroup.com

From: **Jawad Baki**
Project Lead, Public Advocates Office
Phone: 415-703-3191
Email: jawad.baki@cpuc.ca.gov

Crystal Yu
Attorney for Public Advocates Office
Phone: 415-703-1592
Email: Crystal.Yu@cpuc.ca.gov

Mukunda Dawadi
Oversight Supervisor, Public Advocates Office
Phone: 415-703-2741
Email: Mukunda.Dawadi@cpuc.ca.gov

Re: A.26-05-001: Response to Great Oaks Water Company DR 2 (Capital Structure and Proxy Group)

INTRODUCTION

Public Advocates Office at California Public Utilities Commission (Cal Advocates) hereby submits the following Responses and Objections to the August 21, 2026, Data Request No. 2 from Great Oaks Water Company ("GOWC"). For clarity, each question of the data request is re-stated prior to Cal Advocates' response.

RESERVATION OF RIGHTS

1. These responses and objections are made without waiving or intending to waive, but to the contrary intending to preserve and preserving: (a) any objection as to the competency, relevancy, materiality, privilege, or admissibility as evidence, for any purpose, or any documents or information produced in response to the Data Requests; (b) the right to object on any ground to the use of documents or information produced in response to the Data Requests at any hearing, trial or other point during this action; (c) the right to object on any ground at any time to a demand for further responses to Data Requests; and (d) the right at any time to revise, correct, add to, supplement, or clarify any of the responses to objections contained herein.
2. Cal Advocates reserves the right to present further information and produce additional documents as a result of its ongoing efforts to respond to the Data Requests. Cal Advocates expressly reserves the right to rely, at any time, on subsequently discovered documents.

GENERAL OBJECTIONS

1. The documents, information, and responses supplied herein are for use in A.26-05-001 and for no other purpose.
2. No response or objection made herein, or lack thereof, is an admission by Cal Advocates as to the existence or non-existence of any documents or information.
3. Cal Advocates objects to the Data Requests to the extent they seek to impose duties and obligations on Cal Advocates greater than Cal Advocates' duties and obligations under the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC).
4. Cal Advocates objects to the Data Requests as unduly burdensome to the extent that the requestor purports to require Cal Advocates to create, compile, analyze, compute, and/or summarize voluminous data or information that the requestor has the ability to create, compile, analyze, compute, and/or summarize by reviewing the documents, information, or data that Cal Advocates has produced or will produce.
5. Cal Advocates objects to the Data Requests to the extent that they call for disclosure of material which is subject to the attorney-client privilege or attorney work-product doctrine.

RESPONSES

Capital Structure and Proxy Group:

1. Refer to Figure 2-2 and Figure 2-3 on page 10, which present the capital structures of five regulated water utilities and five regulated energy utilities in the US. For each utility identified, state whether, at any time during the past 20 years, the Commission, or the relevant state regulatory agency, has adopted for ratemaking purposes a capital structure containing an imputed debt component that differed from the utility's actual capital structure.
   If yes, identify:
   (a) the utility;
   (b) the actual debt ratio at the time;
   (c) the debt ratio adopted by the Commission for ratemaking purposes; and
   (d) the Commission decision in which the imputed debt was adopted.

   Response: Cal Advocates objects to this request to the extent that it seeks information that is not within the scope of the witness' testimony, broad, and unduly burdensome. Without waiving the objection, Cal Advocates responds as follows:
   Figures 2-2 and 2-3 are based on the most recent data on December 31, 2025. As Figures 2-2 and 2-3 show, on average, regulated water and energy IOUs across the United States are optimizing less expensive debt by maintaining a debt ratio of above 50%, which is closer to Cal Advocates' recommended optimal capital structure.

2. Refer to Figure 2-3 on page 10. For each of the five energy companies, please provide the following information:
   (a) Whether the energy company is an investor-owned utility that provides retail electric service.
   (b) The state(s) in which the energy company provides retail electric service.
   (c) Whether the energy company is subject to cost-of-service rates set by the state utility commission(s) in the state(s) the energy company provides retail electric service.

   Response:
   (a) Yes.
   (b) NextEra Energy (NEE) provides regulated retail electric service in Florida. Southern Company (SO) provides regulated retail electric service in Alabama, Georgia, and Mississippi. Duke Energy (DUK) provides regulated retail electric service in North Carolina, South Carolina, Florida, Indiana, Ohio, and Kentucky. Dominion Energy (D) provides regulated retail electric service in Virginia, North Carolina, and South Carolina. Entergy (ETR) provides regulated retail electric service in Arkansas, Louisiana, Mississippi, and Texas.
   (c) The energy companies are subject to cost-of-service rates set by the respective state utility commissions.

3. Refer to Cal Advocates' response to Question 14 on page 9, recommending a capital structure of 50% debt and 50% equity for GOWC. Identify and provide all studies, research reports, Commission decisions, or other authoritative sources upon which Cal Advocates relies to support its conclusion that a capital structure of 50% debt and 50% equity is optimal for GOWC. If Cal Advocates performed no analysis specifically determining that 50% debt and 50% equity is optimal for GOWC, so state.

   Response: The analysis provided between Q&A 9 and Q&A 17 in my testimony includes the studies, research articles, Commission decisions, and other authoritative sources to support the 50% Equity ratio.

4. On page 8, Cal Advocates cites and quotes from an article entitled "Rate-of-Return Regulation and Utility Capital Structure Decision," by Robert A. Taggart, Jr. Specifically, Cal Advocates quotes the following statement: "The price-influence effect, which is unique to regulated firms, also has a significant impact on the capital structure mix." Please provide a complete electronic copy of the article, including all pages, in PDF or WORD format, as relied upon by Cal Advocates in preparing its testimony.

   Response: The article referenced at page 8, lines 21-22 of the prepared testimony of Jawad Baki is: Robert A. Taggart, Jr., Rate-of-Return Regulation and Utility Capital Structure Decisions, 36 J. Fin. 383 (May 1981) (Vol. 36, No. 2, pp. 383–393), available at https://www.jstor.org/stable/2327020.
   The article is copyrighted material published by the American Finance Association/Wiley and is not a public document. Cal Advocates' witness obtained its copy through JSTOR (https://www.jstor.org), where access is subject to the JSTOR Terms and Conditions of Use (https://about.jstor.org/terms).
   The article is available to Great Oaks directly from JSTOR or from the publisher, through standard document download or delivery services. Please contact Cal Advocates if Great Oaks encounters any difficulty obtaining a copy of the article.

5. Regarding Cal Advocates' testimony at page 29-30, Q/A 42, which states: "GOWC, as a Commission-regulated utility, is exposed to the market in the same way as any other Class-A water company, which is well represented in my water proxy group".

   Explain how GOWC, a privately held company with no publicly traded equity, is exposed to the equity market in the same way as the publicly traded companies in Cal Advocates' Water Proxy Group as presented in Table 4-3 (AWK, CWT, AWR, HTO). In your response, provide and identify all analysis performed to determine whether GOWC's financial risk, access to capital and investor risks are comparable to those of AWK, CWT, AWR, and HTO.

   Response: As a Commission-regulated Class-A natural monopoly, GOWC is comarapble to any other Class-A natural monopolies in regard to attracting investment and return expectations tied to the cost of equity.

The risks mentioned in the Q&A 42 are firm-specific risks, which are also known as unsystematic risk or unrewarded risk. GOWC’s financial risk, access to capital, and investor risks may or may not be the same as AWK, CWT, AWR, and HTO, but giving that consideration is irrelevant. Cal Advocates ' testimony includes several prominent academic references to underscore the fact that it is a fundamental understanding of finance not to reward firm-specific unsystematic risks. Privately held GOWC’s concentrated structure doesn’t change the fundamental facts of finance, or what kind of risks is related to return.

End Responses