



PORT LUDLOW VILLAGE COUNCIL
P.O. BOX 65012
PORT LUDLOW, WA 98365

Jeffrey D. Goltz, Chairman
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

October 1, 2010
Subject: WUTC Docket Number 101543

Dear Commissioner Goltz,

The Port Ludlow Village Council, Inc approved this letter at a Special Meeting of the Board of Directors on September 30, 2010. As their representative body, the Council is responsible to the 1,665 property-owners and 2,500 residents who obtain water and sewer service from Olympic Water and Sewer, Inc. (OWSI). OWSI has proposed a large increase in water rates under the subject WUTC docket number.

We are upset and concerned at the level of the 2010 proposed increase in water rates by OWSI, especially after the large increase in 2008 granted by the WUTC. The 2008 increase alarmed the community with increases of 46 percent and 33 percent for the average summer and winter user respectively. Cumulative, with this 2010 proposed request, the increases would become 92 percent and 40 percent for the average summer and winter user. Port Ludlow is mostly a retirement community where fixed incomes are the norm and where the individual savings have substantially diminished these past several years.

The total docket package just became available to the Port Ludlow community on September 28, 2010. In that package of documentation is a letter from J. Ward, WUTC Regulatory Analyst, to Larry Smith, President of OWSI. It requests additional information on the filing and stating that WUTC intends to finish negotiation with OWSI on October 5, 2010 so that they can prepare to present their recommendations to the WUTC Commissioners on October 14, 2010 when WUTC will hold a public hearing in Olympia.

A process that hinders the ratepayers of Port Ludlow from providing input until the negotiation process is over and prevents our access to the filing data until only five business days before negotiations will be complete confuses and disturbs us. The filing data is only now accessible at WUTC's new and improved website on the webimage.nsf server following data transport during September from WUTC's previous rem2.nsf server, which no longer contains current information but which remains linked into WUTC's docket search system.

Therefore, we request that the WUTC do its utmost to give us the opportunity to provide input bearing on this filing negotiation. We have concerns about the costs disclosed in the OWSI filing and the manner in which OWSI allocate those costs. We believe that these are technical concerns that should be a part of the negotiations and not given to the Commissioners in the public hearing after the negotiations are complete. We were under the impression that WUTC permitted ratepayers to provide input that can realistically affect the rates set by WUTC. However, given the technicalities of the issues involved, this will be difficult to resolve once negotiations are complete.

As dictated by the timing of information availability, this letter has been prepared in great haste. We will appreciate an opportunity to deliberate and expand upon the issues based on the detail filing documents.

OWSI has indicated in their filing that in the process of drilling a new well, they encountered fuel contamination at the site that has migrated deep below the surface. Consequently, they must now drill a second well and exploratory holes to determine the extent of contamination.

We understand the contamination is on land probably owned by OWSI, which is a wholly owned subsidiary of Port Ludlow Associates (PLA). PLA purchased OWSI from Pope Resources, which had acquired OWSI during merger of Pope and Talbot Development into Pope Resources. We understand that the contaminated site is a vehicle and storage depot and for a lengthy period contained fuel tanks until they were decommissioned. We suspect that the contamination is most likely and primarily the responsibility of Pope Resources.

Why are not the companies that contaminated this domestic water source responsible for the costs associated with remedial action and cleanup? OWSI and/or PLA have the power to pursue recovery of remediation costs under RCW 70.105D.080 and RCW 70.105D.040. These statutes provide a fair process for proper determination of cleanup costs and re-drilling costs, and for allocation of costs between multiple corporate entities. Has WUTC pursued this question?

It appears to us from a quick review of the filing that OWSI is expensing the costs of drilling a new well as they incur the costs. They use an accrual not a cash basis of accounting and governments seldom permit mixing them—though we recognize that the WUTC has discretion on this issue. On the other hand, we recognize that OWSI will benefit greatly from the cash method of accounting as it results in giving a rapid increase in water rates, which in turn gives rise to an attractive increase in profits. We believe this denies fair water rates to the ratepayers far into the future. Why should PLA apply all these costs into the "sample" year used to set rates for many years into the future?

Moreover, why does OWSI not depreciate the costs of one new well over the projected life of the well, or at least over a multi-year period under standard accounting practices? PLA is a for-profit company. If they are short of cash, they should find other means of acquiring the necessary operating capital commonly used by for profit corporations to meet their cash requirements, not assess the ratepayers. To our knowledge, WUTC has not questioned this significant and unreasonable increase in costs by PLA.

The OWSI filing itemizes the company expenses for 2009 and includes an item titled "Contractual Ops." Our understanding is that this item contains management services provided by PLA the company that owns OWSI. For 2009, those costs total \$196,787. In 2006, those costs totaled \$97,491. Why has PLA management costs almost doubled in three years increasing by almost \$100,000 when the amount of services provided to the Port Ludlow community during this period has essentially been flat?

We presume that WUTC's analysis will include the allocation of labor hours and costs between all three operating organizations—PLA, OWSI water, and OWSI sewer—to determine their correctness. Would you please advise whether this presumption is correct?

PLA is the prime contractor for the development of Port Ludlow. This significant OWSI management expense increase has occurred at a time when the housing market became very depressed and we are concerned that the PLA management and staff and the OWSI sewer personnel may be unduly charging time to OWSI in this depressed economy. Why should the Port Ludlow ratepayers be required to pay these extra management service expenses when

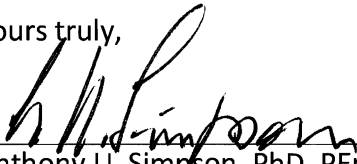
nothing has changed over the last three years to require additional management oversight of OWSI?

Rather than see the ratepayers pay for inappropriate expenses to help PLA's income statement, we feel that OWSI should appropriately allocate any increases in our rates to perfecting the water rights that the community will need, fixing the 15-percent leakage rates in older parts of the system, and consider other deferred maintenance issues. Thurston County Superior Court Cause No 08-2-00023-8 raised some of these issues in 2008 but did not proceed to conclusion. However, these are long-term issues separate from the immediate issue of the proposed excessive rate increases. We mention them here only to alert the WUTC that they are critical and that they will involve substantial future rate increases for a viable water supply system in Port Ludlow.

We will have additional comments to provide to WUTC upon the completion of our review. However, if one just considers the identified items with dollar costs above, they are almost enough to negate the requested rate increase by OWSI projected to be \$182,097.

Due to the significance of these items and the effect they may have on the OWSI requested rate increase, we ask your indulgence to allow us time to provide more deliberative ratepayer input before negotiations are final. We also respectfully request a prompt reply to this letter so we may properly schedule our next actions on this matter.

Yours truly,



Anthony U. Simpson, PhD, PEng (Mech.)
President, Port Ludlow Village Council
360-437-8220
ausimpson@msn.com



Phillip C. Otness, former Utility CEO
Chairman, Port Ludlow Utilities Committee
Consultant to Jefferson County PUD
360-437-4000
otness@cablespeed.com



Laurason T. Hunt, Lawyer
Director, Port Ludlow Village Council
360-437-2903
lthunt999@gmail.com

cc: Patrick J. Oshie, WUTC Commissioner
Philip B. Jones, WUTC Commissioner
Jim Ward, WUTC Regulatory Analyst
Dennis Shutler, WUTC Consumer Complaints
Diana Smeland, PLA President and CEO, and OWSI Vice President
Larry Smith, OWSI President
Troy Crosby, OWSI Treasurer