

*W. Ward*

May 23rd, 2007

To the WUTC Commissioners and Staff:

Greetings! We are here to represent Rosario homeowners, who are greatly troubled about the proposed water rate increase by the soon to be sold Rosario Utilities. Contrary to some perceptions that we are a community of the wealthy & retired where rate increases do not matter, we want you to know that while there are some for whom money is not an issue (as there are in most communities), we have many homeowners who are retired on fixed income with small income increases, others who are retired but still have to work part-time to make ends meet; others who still work full-time, and still others who have to work 2 or 3 jobs to pay the bills.

The average water fee on the Rosario side the island for 4000 gallons a month usage (the amount illustrated in the new rate proposal) is about \$35. The new rate proposal would jump our current rate of just under \$40 to just over \$65/month. This represents a 63% increase in the base rate—which includes no water-- and a 136% increase in the first tier of water usage. The ready to serve increase is 100%.

The Board of the Rosario Property Owners Association (RPOA) would like to thank Jim Ward, Lynda Johnson, and John Cupp for their time and interest in our arguments for some mitigation of the proposed rate increase by Rosario Utilities.

We as the Rosario Property Owners Association Board (RPOA) have a lot of questions we are trying to resolve, and have appreciated the opportunity to discuss some of them on the phone over the last few days with John, Jim and Lynda. Other questions and thoughts that follow are those presented by members of the community to this Board. As we were told that you will have some oversight of the sale of Rosario Utilities to Washington Water Service, some of the comments are forward-looking and pertain to the sale, because we believe they are issues of fairness. We do not question the fact that every business, including utilities, need to make a profit. We are just looking for it to be based on solid assumptions and numbers, and for the amount of the increase to be fair.

The relationship between Rosario Utilities and the community has not been an untroubled one, and there is quite a lot of residual distrust in the community that could be resolved with clear answers to the questions we are asking. This would be a great benefit to all, including the proposed new owner, but may require more time for resolution than is currently allotted.

*deb*  
We need to say upfront that it is our conviction that it is inappropriate for a regulated utility to be asking for a rate increase when they are under contract to be sold as soon as the rate increase takes effect, and will, in many ways ~~will~~ become a new company. It makes complete sense and would result in a trusting relationship between owner and consumer if the new company would purchase the utility at an appropriate price in relation to what RU is valued today, then implement their changes and request an increase based upon their own performance. This statement is being made based upon the belief that Washington Water Service (WWS) will be able to manage the system more efficiently than is currently done, as they themselves proposed at the April 2<sup>nd</sup> meeting. The resulting basis for a rate increase could truly be verified and could very well be lower than the proposed increase of a company who clearly has had problems in this area.

If the rate increase does go forward, our goal is to feel confident that each % of increase that is granted to the various areas on the schedule is justified by solid numbers, and that the amount being charged to residential customers is fair in comparison with what the Resort pays, and is based upon the impact each has on the system. We are confident that your audit will be thorough and your decision impartial and fair.

The following are our questions/concerns:

*John*

1. When RU separated their water rights from the land last year, and transferred them to their affiliate called Orcas Water Holdings, was this a transfer of regulated assets to an un-regulated affiliate? Also, will these rights to water now be sold to the highest bidders, to whom the Utility will have to go whenever additional water is needed? Is there any regulatory oversight of sales of water rights like this, where they are no longer tied to the land in the community they supply? Is there any oversight on the price consumers have to be when water is turned into a speculative commodity?

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2. The 1mm, 7 year loan to build the plant in 2000 was at 9.25% interest. Beginning in 2001, interest rates dropped significantly. Why was this interest rate not renegotiated? We were told it was because the owners would not allow it to be renegotiated. The parent company, Olympus Partners, who held the note, most certainly profited (while they appeared to be losing money by other measures) by receiving the 9.25% as well as reducing their taxable profits for RU by charging this rate. While this is certainly legal, how can it be described as ethical or fair-minded to the consumer of this monopoly when the appropriately reduced interest rate recalculated would have resulted in significant consumer benefits in regard to the loan payoff balance & timetable & interest paid?

- The UTC was told during the 2002 rate request that RU would fall short on the loan due to the Health Department capping the maximum number of connections at 127 rather than 184 as originally calculated. But the UTC's decision was to deal with the issue later. The result of that decision was that this January, when the surcharge instituted to pay off the loan ended, the loan was not completely paid off as the consumers were assured it would be. Many ratepayers think the loan balance is zero because the surcharge has ended, and no mention has been made otherwise. Those who know are irate that the issue wasn't dealt with when it was discovered. And we ratepayers are left with a balance in excess of \$275,000—which is more than 25% of the original loan balance.

- We have been unable to obtain any information as to how the balance of this loan is being treated. Is it in this new rate structure or in the sale? Is it in both? How can we find out?

- We are told that no interest is accruing on that balance due? Is this true?

- There are two lines of credit—each in excess of \$200K—that now have draws on them. How much is owed, and how are they being treated in the rate proposal and the sale?

*John  
Duane*

3. Historically, because the Resort and the Utility have been under the same ownership, we have been told that there has been commingling of costs between the two, and between

residential and commercial water and sewer customers. How can we be assured that these costs are now separated and allocated to the correct party? We want to be certain that residential users are not paying for usage or infrastructure that the Resort should be paying for.

For example, the same employees work for the water plant and the sewer plant. How are payroll costs allocated so water customers aren't paying for sewer employee expenses? Is there a system in place to determine this? What about for common materials, tools, etc.?

*Drane*

One of the \$200,000 lines of credit is funding installation of a larger <sup>sized pipe</sup> that was intended to be done when the plant was built, but there wasn't enough money. Since the current piping is serving existing needs well, why is the larger piping being installed? Is it to prepare for the new demand that will come with the Resort build-out? If it is partially to replace old pipe and partially to prepare for the anticipated new demand from the Resort, how are the charges for this loan being allocated between residential and commercial users? Are there accounting systems in place to do this? We look to you for determining if there is sufficient audit documentation?

- Looking forward, we ask Rosario Utilities & Washington Water not to place all improvements into a single pooled account. The water treatment plant will have to be greatly expanded to service the new Resort, and the water distribution system for the Resort must be rebuilt. Unless separate records and billings are setup for a Resort capital account and for a Residential Capital account, we residents will subsidize the construction of the water system for the resort, which is inappropriate & unfair.

*Drane*

4. We question whether the way the ERU (equivalent residential unit) has been defined is accurate--whether its unit of measure provides a true equivalency for the residential usage it is measuring. Now that the Resort has been metered for a few years, we request that ERU definition be reconfirmed. Whether or not the ERU definition is correct determines how many base rates the Resort is paying for. Fairness in this matter is extremely important to our homeowners. We understand that a few years ago, the Resort realized it was using more water than previously thought, and they added more ERU's to their billing. We appreciate this voluntary act of goodwill, but greater clarity on this subject would be welcomed and seems necessary.

*Deb*

5. Regarding the rate schedule. Promoting conservation of water is a state mandate. But this new rate schedule does not promote conservation- if it did, it would have significantly higher per gallon charges for uses of water above the lowest tier. The new rate schedule not only doesn't make increased water usage significantly more expensive, it actually reduces the differential between the top 2 tiers of usage. Can this be revisited?

*Deb Drane*

6. What is the base rate intended to accomplish? How was the proposed base rate determined? What is the relationship of the base rate to fixed and variable plant costs? If the base rate is spread facility costs evenly, it must guarantee revenue from inactive or very low volume accounts, Does the base rate fully cover plant and distribution costs?

*Drane*

7. Why does the Resort, which requires the system to have greater capacity than would otherwise be needed for residential customers (because of its peak summer demand & for

fire flow) pay the same base rate as a residential customer? Rosario Resort base rates should be based on the peak guest count month of August since the water plant and its fixed costs are sized for servicing the peak guest period.

*Jobin*  
~~Bob~~ 8. If and when the Resort temporarily shuts down partially or fully for demolition and construction next year, is the mechanism in place so that they continue to pay their share of fixed costs?

*Jobin*  
~~Bob~~ 9. We have been told that the water rights that will be or have been (have they been?) transferred to RU will only cover existing customers—both residential & commercial, and ready-to-serve customers. Will there be any extras? Or will any additional connections have to be obtained from whomever owns them at the time, at whatever cost the owner sets?

*Bob* 10. Rosario Resort recently sold excess water "memberships" for \$8500. What exactly does that buy? Why does the resort sell the memberships at a different price than the utility company? Please explain the membership fee buys, and how it is calculated

*Donna* 11. Are the books of Rosario Utilities audited? Can customers obtain the results of audits?

*Donna* 12. There were apparently significant cost over-runs from the building of the plant. How much did they total? Why did they occur, and where and how are they being accounted for in the new rate proposal and in the sale?

*Jobin*  
Thank you for listening to our concerns. We will continue to search for answers to our questions, and look forward to your audit process and any answers to our questions that it might bring forth.

We thank you for your attention in reviewing these matters and trust in your mission to protect the consumer through "fair rates, and compliance with service quality and equitable business practice standards".

Respectfully,

For: The Rosario Property Owners Association

By: The RPOA Board

- Jobin Suthergreen, President
- Deborah Carruth
- Carol Marcin
- Eileen Pyka
- Carl Yurdin