May 31, 2007

Mr. Jim Ward
Washington Utilities and Transportation Commission
WUTC
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket # UW-070944 Rosario Utilities, LLC

Dear Mr. Ward:

I am writing this letter to record my comments regarding the proposed rate increase by Rosario Utilities. As a relative newcomer and full-time resident of Orcas Island but having been away on the East Coast attending my son's graduation from college when this issue first surfaced a week or so ago, I offer only what I consider to be the salient features of some of the previous communications sent to WUTC on this matter.

1. It seems to me to be inappropriate to give Rosario Utility (RU) a rate increase when they are in active negotiation for the sale of the utility. The new owner(s) will undoubtedly implement their own system. To base a rate increase on the records of a company actively for sale is unfair to the consumer as this is not the system going forward.

    - There is little point in tearing apart how the company has been managed in the past when a new company will take over in the immediate future (as soon as July) resulting in many changes to the structure and therefore to the costs incurred.

    - Rosario Utility is on record as of April 2nd that they and Washington Water Service Company (WWS) have a confidentiality agreement preventing the disclosure of the sale price agreed, water system assets, water rights, and transfer, if any, of prior debt and other obligations being sold. These are questions that have bearing on this rate case. There is no way that we, the consumers, can investigate this issue and arrive at conclusions or questions having relevance to what is current and soon to be the structure of the 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 WWS will manage the system more efficiently as they themselves proposed at the April 2nd meeting. The resulting rate 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.

2. When RU set up a separate holding company for the water rights, were regulated assets transferred to an un-regulated affiliate? I am informed that such an action requires a WUTC hearing that did not occur. Could this affect the balance sheet and therefore the calculation for the rate increase?

3. The loan to build the plant was at 9.25% interest on $1M. During this period--starting in '03-'04, interest rates dropped significantly. Why was this interest rate not renegotiated? I understand that it was because the owners would not allow it to be renegotiated. The parent company, Olympus Partners, who held the note most certainly profited 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 when the appropriately reduced interest rate recalculated would have significant savings in regard to the loan payoff balance and timetable thereof? What would the loan balance be today and how would this, most certainly reduced balance, affect the consumers who were told the loan would be paid in full as of this date?

   - Additionally, WUTC was told 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. As a result the loan balance was not completely paid off as the consumers were assured it would be by the end of the surcharge in January of this year. This breach of good faith is still not known by many Rosario Utilities customers but in fact the residual balance of $279,000 on the loan is greater than 25% of the original loan balance. Many ratepayers think the balance is zero because the surcharge has ended.

   - Others have been unable to obtain any information as to how the balance of this loan is being treated in the new rate structure or in the proposed purchase agreement. Because this is a regulated utility, it seems the ratepayers should know how it is being accounted for.

   - The utilities surcharge for the 1st loan ended in January. There is a $279K balance on that loan (9.25% interest). We are told that no interest is accruing on that balance due to the completion of the surcharge scheduled payments. How will this affect the residents?

   - How are the three currently held loans being treated in the rate proposal and the sale?

4. To my knowledge the residential and the resort costs have not been broken out with regard to the burden for each location on the water system. We want to be certain that residential users are not paying for usage or infrastructure that the Resort should be paying for.

   - The residential customer is a predictable user that the utility can plan on and for plant upgrades, etc. because their water usage because is consistent. The resort has high demand in the summer, low in winter, but requires the capacity for their summer needs to be there all year. They have a larger impact on the system for things like fire flow, etc., and they should have to pay more for the fixed costs to compensate for that, yet they appear to pay the same fixed costs as a residential user.

   - Since the same employees work for the water plant and the sewer plant, how are payroll costs allocated? Is the allocation reliable? What about common materials and tools, etc.

   - A $200,000 loan has funded piping upgrading - how much of this loan is being used to prepare for the increased water deliveries the future resort is expected to need? If piping is dual use (the Resort and the Residents), is the relative cost share determined by the volumes of water provided? Is there sufficient audit documentation to support charges to residents for the costs of the piping and the loan payoff share that is the responsibility of the residents? Are the accounting procedures in place to allocate the costs of pipe replacement between the resort and residential users?

- We question whether the way the ERU has been defined is accurate...whether the ERU usage by the resort is equivalent to residential. Now that the Resort has been metered for a few years, we request that this be redefined/confirmed. Whether or not the ERU definition is correct determines whether what the Resort is paying for their base rate is fair or not.

- Rosario Utilities & Washington Water should not place all improvements into a single pool since effectively the water treatment plant must 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.

- The piping system needs to be rebuilt to provide increased capacity for the Resort and for building out some residential areas. The costs related to the Resort will be greater and need to be accounted for and recovered separately or the residents will in effect subsidize the water infrastructure for the Resort. Some piping serves both the Resort and residents (as some piping serves a house and is on residential property but is also the water main for the Resort) and will have to be replaced to provide greater capacity. So what percentage of the replacement is a residential capital cost and what percentage is a Resort construction expense? This situation will require a different method of rate-basing than is normally used in a small water system and which will perhaps not fit Washington Water's computer billing system.

5. Conservation of water is a state mandate. But this is not a conservation-based rate schedule. The new rate schedule not only doesn't make increased water usage significantly more expensive, it encourages it because the proposed schedule will charge less of a differential between the top 2 tiers of usage than the old schedule did (old was 0.13 cents / 100 gal diff. between 7500 gal. used and over 7500 gal. used; new is .11 cents/100 gal.) The differences between usage tiers are so small as to not be meaningful. It's like having a flat rate schedule; where regardless of how much water is used everyone pays essentially the same. In addition, the resort pays on a commercial level, how does this impact the residential users in regards to determination of rates? Generally it appears that the proposed rates penalize the people who conserve and use less, meanwhile commercial consumers and large consumers of water are not as impacted! This should be reviewed now in terms of revenue stream allocation in order to prevent an increase in the tiers next time a rate increase is requested on the back of this proposed base increase.

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 plant fixed and variable costs? If the base rate is to guarantee revenue from inactive or very low volume accounts, does the base rate fully cover plant and distribution costs related to water delivery to the account?

- The Commission ordered Rosario at the last hearing to install meters to measure and account for their actual water usage. We have been told that 7-8 meters were installed for measuring Rosario water usage. Rosario 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. The determinant for the base rate to be paid should reflect all Resort water usages. These usages include the restaurants, the Spa and its showers, the indoor and outdoor pools, hot tub, sauna, the marina, fire flow, and other water uses. Given this, shouldn't the resort be paying a higher base rate than the residential customer?

- According to our calculations, the consumption data for 2006 as presented to the Rosario water users on 2 April 2007 shows that Rosario Resort used 63,688 gals/ERU-yr and Residences in the Rosario area used 48,289 gals/Connection-yr. The difference between the connection and the ERU is 32%.

- We would like to see the approved budget for Rosario Utilities, the 2006 income tax filing and an outside accountant do a review for us. How can we get copies of these?

- There is a belief by some residents that both the monthly Base Rate and the "Ready to Serve" rates are inequitable to residential water users by failing to recover fixed costs related to inactive account and unconnected permit holder claims on plant production. Each permit represents a claim on guaranteed plant water delivery capabilities and storage capacities. The insufficiency of proposed rates for "ready to serve" permit holders means that plant costs must be covered by water users. Under then principals of standard cost accounting, all permit holders should be required to pay the full costs of "standby" service. For water users and "Ready to Serve" permit holders alike, which means a prorated apportionment of plant annualized fixed costs. Under IRS recognized standard cost account procedures, only truly variable costs would not be charged to permit holders who do not use water in a particular period.

7. As I now understand it, the depreciated value of the plant is part of the rate increase calculation and the utility is entitled to make part of its profit based on the depreciated value of the plant. Ratepayers paid for the plant. Are we now being asked to give an 11% return on that money in a new rate increase?

8. Will the water rights acquired by Washington Water Services be sufficient for any and all new growth that may occur? Or will they have to be obtained at any cost?

Respectfully yours,

Sheridan C. Johnston, Ph.D.
[redacted]
Eastsound, WA 98245