1. The water rights that were transferred to Orcas Water Holdings (an affiliate of Oly Rose, LLC) were never owned by Rosario Utilities and the transfer had no impact on existing customers of Rosario Utilities. The water rights in question were originally acquired by Robert Moran, thus they have always belonged to the owner of the Resort property, currently Oly Rose. A portion of those rights has been devoted to domestic purposes to supply the customers of the Rosario water system, including the RPOA and Rosario Resort. All of the water rights used or committed to existing customers of Rosario Water System, including those with "ready to serve" connections, were transferred by Orcas Water Holdings to Rosario Utilities without charge. Oly Rose and its affiliate company Orcas Water Holdings have decided to market the balance of these water rights to benefit others with domestic water needs of municipal purpose on Orcas Island. This process has involved substantial investments by Oly Rose. Because these excess water rights are not the property of the Rosario Water System, they can be transferred without Commission approval. Orcas Water Holdings is reserving sufficient water rights for future residential connections to Rosario Water System. Connection charges to the water system are subject to Commission approval.

2. Financial institutions consider Rosario Utilities to be a small utility. Small utilities have difficulty in securing bank financing at lower rates. Most financial institutions do not understand water utilities and the rate making process so they are not eager to loan money to them. Therefore, due to this and higher loan fees they have a higher cost to secure funding.

    - The connection fee and surcharge was calculated and approved by the WUTC more than a year before the plant was completed and based on the best knowledge available at that time. Subsequent decisions by the DOH reduced the number of connections from 184 to 127, thus reducing the revenue to recover the cost of the plant. The surcharge was not included in the 2002 rate case. Normally 100% of capital improvement costs are NOT recovered through surcharges and facility charges. Investor owned utilities are encouraged to invest into their water systems, thus having an investment of 27% of a capital improvement is not out of the normal

    - The balance is being treated as capital and recovered as part of the rate of return and depreciation.

    - An interest expense is calculated as part of the cost of money, which is used in calculating the rate of return. Interest will be calculated, but at a lower rate. The surcharge has expired, but the debt hasn't.

    - Approximately $48,000 has been drawn on the two state revolving fund loans. The draws will be treated as an investment of Washington Water for the water system purchase. The plant was included and capitalized.

3. Ever since the utility was formed as a separate company in 1996, the only cost involved is that of Rosario Utilities, which will be verified through the UTC audit. The labor costs are split 65% water and 35% waste water and based on historical data.

    - The upgraded water treatment plant will not completely satisfy the resort build out. The resort will be responsible for additional improvements to treatment, production and distribution upgrades. The loan to upgrade piping is to bring the water plant up to its design capacity and correct pressure problems. It is considered a continuation of the original upgrade which affects all existing customers. Charges will be based per ERU.

    - The larger lines will allow for some growth, but will primarily allow for the connection of those customers currently charged a stand-by charge. The cost of these improvements will be capitalized. However, the rate impact should be minimal as they will allow for additional customers to share in the total revenue requirement. It may be beneficial to all customers to allocate some portion of the resort's distribution upgrades to all users, say, rather than to install two separate parallel lines, one for the resort and one for residential customers. This must be approved by the WUTC and the resort will pay for the upgrades considered developer's costs.

4. In the 2004 Water System Plan, engineers analyzed resort and residential water use, and the plan was approved by DOH. Using the calculations provided in the plan and approved by DOH, the utility proceeded to charge the resort based on the ERU count in the plan. The resort is currently paying for 118 bases, with water usage in addition. Once completed, the imminent redevelopment of the resort will trigger a new calculation of the resort ERU's.

5. We are trying to encourage water conservation, not punish customers or trying to over earn if usage is higher than expected. Rate structure is a very delicate balance. You need rates that return the authorized rate of return, not more or less. Placing too much into the upper tiers, can disrupt the whole process with wet or dry summers. With a resort, which has very high seasonal usage, having a high commodity charge provides too much of the revenue stream during the summer months, thus making the water system too weak financially during the winter months and susceptible to poor attendance at the resort during down summers.

6. The base rate and ready to serve are intended to recover approximately 60% of the total required revenue to cover operating costs and return on investment.

    The base rate was determined first then the commodity charges utilized to calculate the balance of the needed revenue.

The tiered charges were designed to cover approximately 12-15% of the total revenue and were split in order to achieve a balance and reduce the chances of over or under earning due to seasonal weather conditions.

No, the base rate plus ready to serve cover approximately 88% of the fixed operating costs.

7. The Resort provides its own fire flow system, which is completely separate from Rosario Water System and does not affect the water system's capacity. Based on an equivalent residential user (ERU) the resort pays the same base rate as residential customers. ERU's are based on average yearly consumption. The engineer's analysis of water usage in the water plan shows that peak usage occurs for both the resort and residences. Because retail customers usage is different from wholesale customer usage, and both are different from resort usage, the peaking is blended to come up with system wide capacity requirements.

8. If and when the resort shuts down they would either continue to pay the base metered rate or more depending on what if any water usage is needed during construction.

9. The domestic/municipal use water rights needed to serve existing residential customers of Rosario Utilities (including ready to serve customers) have been transferred to Rosario Utilities without charge by Orcas Water Holdings. The remaining water rights will be held by Orcas Water Holdings and available for sale. Either future customers of Rosario Water System will purchase water rights individually, to be transferred to the water system as Contributed Aid, or Washington Water Service may purchase some of the water rights and recover its investment through facility charges from new customers. Neither option will have a negative impact on current customer rates.

10. Water connections purchased by Rosario Resort in 2001 were planned to be used for the beginning stage of the Master Planned Resort (which was expected to be approved years ago). Recently, with the master plan yet to be approved, the resort was approached by members of the RPOA and asked to sell some of its connections to residents as a gesture of good will, and the resort agreed. Rosario Resort did not sell "memberships" nor are memberships in the water system available. Rosario Resort sold these connections for $8500 in private transactions not regulated by the WUTC. The price is less than the $10,000 connection fees of several local water systems, and the resort also paid the surcharges for each connection.

11. Yes, as part of the rate case, UTC will audit the books of Rosario Utilities. The results of the audit will be part of the UTC recommendations. However, staff work papers are not available until after the rate case resolution.

12. Cost over runs on the water treatment plant totaled $216,818 and are now considered part of the total plant value. By court order, the company was given very little time by the WA State Dept. of Health to build the new plant. The Health Dept. also waived normal testing of the treatment processes prior to construction, with these

tests and monitoring done at completion instead. Unfortunately, the original treatment process proved to be cost prohibitive, so many modifications occurred during construction.

Note; an error was found in the Rosario Resort Tab of the 04-17-07 ROSARIO Metered Rate Worksheet Old vs. New rates. The total of Column D in cell D44 had a bad formula. It totaled column E and not column D. The new total for Cell D44 should be 63,688 gallons per ERU.