

To the Washington Utilities and Transportation Commission
Re: Docket #UW-070944, Rosario Utilities Application for Rate Increase
June 2, 2007

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WASH. UT. & TP. COMM

Dear Commissioners,

This is a unified letter of concern from the Board of the **Orcas Highlands Association (OHA)** on behalf of our 105 households who are current Rosario Utilities (RU) customers. The recent proposal from RU to increase our water rates by 62% is seriously flawed and indefensible. We all wish to express our very serious opposition to this proposal for many reasons, including the following issues:

RU is on the verge of being sold to another party---Washington Water Service Company (WWSC). The proposal to increase rates prior to the sale is a conspiracy between the two entities for the purpose of increasing the value of the utility and improving the sale. This is being done without consideration of the ratepayers, and is unfair.

It is clear that RU staff has worked hand in hand with WWSC with the intent of separating the rate increase proposal from the sale of the utility. Statements like "these are separate issues and the WUTC should treat them individually" have been made. We absolutely disagree with this conclusion. In its document of March 12th., 2007 (Appendix A), Rosario Utilities states, "Rosario Utilities and Washington Water will be working closely together to complete an initial audit of the operating expenses for the utility to determine how much of a rate increase will be needed to allow the utility to continue to provide excellent service to its customers while providing a fair and reasonable rate of return to its owners". This statement makes it clear that the rate increase is conspired by these two utilities. The filing, which we have now been able to study, was prepared largely by WWSC – all of the supporting spreadsheets were clearly created by them instead of by RU.

In their rate increase notice of May 10, 2007 (Appendix B), Rosario Utilities even refers the reader to the WWSC website for further information: "Visit Washington Water Service Company's website at www.wawater.com for status updates regarding the rate increase and upcoming sale". Considering that the sale has not even been filed*, much less finalized, we are led to the conclusion that these parties are already in collusion about rates. Further, the details of the sale itself are secret and we, as ratepayers, have no way of knowing what hidden benefits have been arranged between them. We ask the commission to consider the fairness of this.

We agree wholeheartedly with the points made by the Rosario Property Owners Association (RPOA) in its recent letter to the WUTC. The many points in that letter are not necessary to repeat here except to say that we are totally in agreement with RPOA and share their concerns.

In the WUTC filing data we received several days after the May 23rd hearing, we have found numerous cost representations that make no sense, are completely unexplained, and defy logic. The proposed \$44.55/user Operating Cost number used by WWSC appears to OHA Board members to have been

* (From the Washington Water Service Company website "At this time, no filing has been made for the sale and transfer of the Rosario water system to Washington Water Service Company." posted May 15, 2007.)

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back-calculated and is a seemingly contrived/engineered figure used to attempt to support the \$148,000 Additional Revenue RU has requested. The basis of that figure, WWSC's "Maintenance Cost per Customer" sheet makes no sense, since the columns labeled "WWSC Rate Case Expenses", "Rosario Shared costs" and "2006 Expenses limited to Rosario only" are totally unexplained. It is unclear what they are intended to mean. We believe that the theoretical \$44.55 WWSC cost for 2006 requires the careful review of the WUTC. If this were truly a separate before-sale filing, it wouldn't even be there. WWSC obviously considers this to be a combined (before and after sale) rate case.

We also question the reasonableness of WWSC trying to amortize (pay off) its \$984,132 debt in only ten years (i.e. striving to increase the rate base enough to accomplish such rapid payoff) when its depreciation schedule is over 25 years. We assume the commission has rules or guidelines regarding the speed with which utilities can try to pay off debt from operating cash flow.

We are not water experts, nor are we accountants or financial wizards like Olympus. However, it does not take either to recognize that these calculations are incorrect. They do not, in any way, provide full disclosure with proper explanatory footnotes to show the facts behind the figures. The OHA Board does not have confidence that any of RU's costs are accurate, nor that they illustrate a fair division between what Rosario Resort should be paying and what the homeowner customers are being charged.

OHA has an additional concern specific to OHA and Otters Lair homeowners. Unlike the other associations serviced by RU, OHA owns and maintains its own water system. This includes the entire pump, piping and water tank network that commences from a meter in the Tomihi section, runs through Otters Lair (whose piping and network OHA also services and maintains) to the Orcas Highlands. We buy water at a bulk rate from RU; its service ends at the meter in Tomihi. OHA has found that the \$4.75/month per homeowner bulk rate homeowner discount in no way compensates the community for the maintenance and upkeep of our system. In fact, we are contributing much more to RU's maintenance than our fair share.

Each OHA homeowner currently pays RU the Base Flat Rate of \$25.00/month (proposed increase to \$38.45), whereas RPOA and the resort units currently pay \$29.75/mo (proposed increase to: \$43.20). For RPOA and resort users, this amount is the total (in addition to per/gallon usage) that they pay for water. OHA members pay approximately \$22.25/month additionally for distribution and maintenance costs. The figure is based on our current year costs of:

System repairs	\$20,600
Labor, one man part-time	4,400
Electricity for our pumps	2,500
Meter Reading	650
Total OHA Water Maintenance Costs	\$28,150/year for this year
Divided by 105 water users =	\$22.34/month, or rounded to \$22.25

RPOA and resort users do not pay any of the above-listed costs. Their system maintenance, electricity, meter reading, etc. is done entirely by RU. The inequity occurs because their costs are included in the rates being charged to everyone. The Orcas Highlands homeowners are subsidizing all the other user groups. That is not fair or equitable.

OHA members each pay:

\$25.00/mo Tariff "Base Rate"

22.25/mo Distribution costs

\$47.25/mo total (plus per/gallon usage)

RPOA and resort users pay:

\$29.75/mo Base Rate (plus gallons usage)

Difference: \$17.50/mo. per household

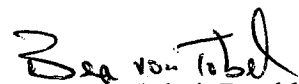
RU does incur a very minor cost in maintaining the short downhill line from its storage tanks to the hand-over meter (about one-half mile, but downhill and no pumps involved). For this reason, in order to be treated fairly, the Orcas Highlands Association Board proposes that our Bulk "Base Rate" differential (discount) compared to the other users be \$20.00/month instead of the current \$4.75/month differential.

If you are wondering why our system was deeded over to us by Rosario developers 25 years ago to maintain ourselves, the OHA Board assumes that Rosario Resort felt that transfer of this responsibility was a way to rid itself of system maintenance responsibilities. The Highlands' distribution system is not physically connected with the one servicing the resort housing units, whereas RPOA distribution is more intertwined with the resort units, including common pumps and common lines from storage tanks.

We ask the Commission to consider suspending this rate increase request until such time as RU's costs are better explained and they can prove their case without question. Many issues were not included in this letter, as they have been dealt with in other letters and e-mails. Primary to our argument, however, is the lack of clear and concise calculations.

Respectfully submitted,

Orcas Highlands Association Board of Directors


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