

***Answers to Issues and Questions from the Rosario Property Owners Association at the June 6<sup>th</sup> UTC Commission Hearing by Washington Water Service Co. and Rosario Utilities, LLC.***

1) Design selection of the treatment plant:

***Olympus knew at the time of purchase that the water plant needed to be replaced, and was investigating two types of treatment – the Hydroxyl plant and slow sand filters. Olympus and utility staff met with the presidents of RPOA, Vusario and the Highlands to discuss these options. Within six months of the purchase, the Health Dept. issued an order to build a new plant within seven months or be subject to heavy fines. Because of this deadline, Olympus had no choice but to proceed with the Hydroxyl plant, because slow sand filters require a one-year pilot test to monitor effectiveness. The Hydroxyl plant was closer to a conventional plant, so it could be built more quickly and the Hydroxyl Company assured the utility that seven months was ample time to install the plant at a lower capital cost. Confident of the design, DOH endorsed the Hydroxyl plant subject to water quality requirements.***

2) ) Extra costs of the treatment plant:

***Additional costs of the treatment plant did not arise through any actions of Rosario Utilities or Olympus.***

***Water treatment plants are site specific, requiring extensive engineering since the water to be treated varies widely. It is a common occurrence that plant modifications are required during commissioning in order to tailor operations to this site. As a specific example in our case, unforeseen electrochemical reactions triggered two successive redesigns, each requiring review and approval by DOH, and each successive review took three months or more.***

***Other incremental costs included:***

- The trenching to connect the plant to transmission and distribution lines required unexpected drilling and blasting.***
- The automatic transfer switch for one emergency generator failed and had to be replaced.***
- Safety upgrades to the electrical system were required by Labor and Industries.***
- After the plant was completed, the 1972 telemetry line from the lake pumps failed, and had to be replaced.***

- *Seed money (survey, permitting, engineering, transferring hydropower rights to domestic use, and consultants) related to the plant development has never been recovered and is being proposed as part of the rate base.*
- *One cost not charged to the customers was the housing of Hydroxyl technicians and employees at least five days a week during this two-year period.*

3) Washington Water Service Co. participation in the rate case:

*The customer comments assume incorrectly that Washington Water Service Co (WWSC) is proposing the rate case. In fact, the rate submission is requested by Rosario Utilities, LLC, because in recent years Rosario Utilities has not been recovering all its costs of operation from customers. The rate request is not retroactive, so customers have received a break from Rosario Utilities for the past two years. WWSC is assisting Rosario Utilities with this rate case request in anticipation of purchasing the water system assets and operating the water system after purchase. WWSC, or any other perspective buyer, will not purchase without a sufficient rate in place to recover its costs and obtain a reasonable rate of return on its investment. It should be pointed out that economies of scale with a large utility (WWSC) are benefiting the customer with a lower rate base than if Rosario Utilities was not being sold.*

4) Operating Costs/Water Quality:

*Although Rosario Utilities treatment plant is more expensive to operate than slow sand filters (which was not an option due to timing), the treated water is far superior. Staff is pleased to relate compliments from customers on water quality. Also note that when a huge potentially toxic blue-green algae bloom occurred in Cascade Lake two years ago, utility staff immediately conferred with DOH and made treatment adjustments and increased monitoring to protect their customers. The company was advised by DOH that the plant's treatment processes were superior in combating this type of problem. DOH has also referred other water systems looking to upgrade their treatment plants to come to Rosario and see the operation because of the high quality water product. The plant uses less chlorine than a conventional plant, which has been discovered to be safer for customers.*

5) The interest rate charged on the loan:

*The prime rate at the time of the loan in 1999 was 7.75% (refer to [www.moneycafe.com/library/prime.htm](http://www.moneycafe.com/library/prime.htm)), and market rates are normally 2% - 3% over prime. Commercial lenders also require a compensating balance kept as a form of additional security, such keeping a balance in equity reserve, or pledging a letter of credit.*

*Small utilities are viewed as higher risk and as a result have higher loan costs and interest rates. There was no collateral and insufficient financial substance to secure conventional*

*financing and for this reason, local banks, which were contacted, were not interested in lending.*

*The company does take advantage of opportunities to keep consumer costs down. The utility obtained a State Revolving Fund loan for the current upgrade with an interest rate is 1.5%. This loan took about 18 months from application to approval. It should e noted that not all applications were accepted. Even if Rosario Utilities' qualified for a loan at the time, though it is unlikely, since it was losing money in 1999 and lacked adequate collateral, the utility had no time to obtain a loan and build the plant under the DOH order. The loan and interest rate were approved by the UTC.*

6) Unrecovered loan balance:

*The surcharge and connection fees were expected to recover the cost of the loan and were all pertinent information at that time. Due to a subsequent DOH decision, not enough connections were approved to make this happen.*

*The surcharge and loan were authorized by the UTC in 1999 and not included in the 2002 rate case submission.*

*Yes, the company is proposing to roll the balance of the loan into the rate base, subject to UTC approval.*

7) Water usage:

*The resort pays for its share of water usage. We refer to the spreadsheets with actual customer water usage passed out to customers at the April 2<sup>nd</sup> meeting and/or the rate filing. The percentages of water usage to percentages of revenue are very close.*

*ERU's have been calculated by independent consulting engineers and approved by DOH, in the utility's 2004 Water System Plan.*

8) Water quality standards:

*The company's rate submission includes recovering operational costs associated with the increased regulatory environment. Although DOH required that the new water plant be in compliance with known pending regulations, the EPA and DOH are continually changing regulatory requirements. Every year there are improvements and additional monitoring requirements, which include compliance with the EPA's Surface Water Treatment Rule, Enhanced Surface Water Treatment Rule, Interim and Long-Term 2 Enhanced Surface Water Treatment Rule, Disinfection By-Products Rule, Stage 2 Disinfection By-Products Rule, the Municipal Water Law, and others. Having excellent source water quality only means that our compliance rates will be better than other systems, however, the monitoring and sampling requirements still must be met.*

9) Usage blocks:

*Although the utilities already addressed this issue in its responses to customers e-mailed to the RPOA on June 4<sup>th</sup>, for the convenience of customers we'll restate it.*

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

10) Pro-forma test year and history:

*2006 is the test year for the utility, with an adjustment for staffing changes. As an operator of multiple water systems, WWSC is uniquely positioned to pass on savings to Rosario customers with economies of scale. Incorporating WWSC proforma was done to demonstrate a reduction in costs to the customers. If Rosario Utilities submitted its rate request based on actual Rosario expenses, the rate request would be higher than it is now.*

11) Plant capacity:

*The current plant has no additional capacity. Current expansion plans anticipate residential development and resort development. Residents and the resort have a right to water, and for each ERU, a connection fee is charged – the same fee for each. The utility takes customers requesting connections on a first-come, first-serve basis. As the resort develops, it will be required to purchase connections, paying for their share of the treatment plant. At some point, the capacity of the treatment plant will have to be expanded one more time and the resort will have to pay for its portion of plant capacity. Future resort development will require an agreement with the utility for plant capital which only benefits the resort. That developer agreement is subject to UTC approval.*

12) Future capital improvements:

*When future capital improvements affect residential customers, notice will be given and rates and/or surcharges will be vetted by the UTC with open hearings.*

13) Rate recovery percentages:

*These are two different numbers that answer two different questions. One – the 60%, shows the portion of both Operating Expense and Return on Investment that is covered by both the base rate and ready to serve charge. The second – 88%, shows what portion of only the operating expense is covered in the base rate and ready to serve.*

14) History of the water plant installation:

***Olympus purchased Rosario Resort and the utility on October 13, 1998. A formal complaint was filed with the UTC against Rosario Utilities on January 20, 1999, and the DOH order to build the plant in seven months was filed on April 8, 1999.***

15) Filing documents:

***The utility submitted its filing in good faith and has and will continue to fulfill all data requests and requirements of the UTC.***

16) Customer questions to the utility:

***Both WWSC and Rosario Utilities have tried to be forthcoming and have made every effort to be responsive to customer requests. In fact, the companies made a point to advise customers of the pending rate application in an open meeting (with UTC staff present by phone) conducted to answer questions on April 2<sup>nd</sup>, six weeks prior to the May 11<sup>th</sup> filing. Much information was disclosed in this meeting, however most questions from the customers were not expressed until the UTC hearing on May 23<sup>rd</sup>. Rosario Utilities has always stood willing to answer questions.***