

NW-010744

Proposed tariff does not conform to most common water plant billing practices

The proposed Ready to Serve Charge of \$24.00 for permit customers who do not have a water meter installed and a higher charge of an undefined \$43.20 Service Base Rate for served customers does not conform to normal water plant billing practices throughout the United States and does not conform with the billing practices of Olympia, Pullman, Tacoma, and Wala Wala municipal water systems among others within Washington state. In fact, an internet search cannot find a single instance of the use of a "Base Rate" as proposed by Rosario Utilities in any water tariff, public or private. Nor can we find any instance of a lower "Ready-to-Serve" fee for inactive or unconnected customers.

The standard practice within the water services industry is to charge a single, common rate called a "Ready-to-Serve fee" which is applicable to all customers. The "Ready-to-Serve fee" is intended to, at minimum, cover all water plant and distribution system fixed costs including such items as meter reader reading and billing which do not change within a customer class such as residential, commercial, industrial plants, and special communities such as universities. For Rosario Utilities, there are three customer classes: Rosario residential, Highlands sub-system, and the Resort.

Seasonality complicates Rosario Utilities establishing the fixed cost for the water plant since only some water lines are shared. Most importantly, the Resort requires a much larger stand-by processing and processed water storage capacity for the summer season peaking in August than is needed for residents. Residential water usage can be limited by penalty rates, unlike resort guests who care little about water conservation. Water meter usage statistics do allow shared costs to be allocated. Furthermore, Resort water usages for the peak tourist month of August provide a reliable foundation for allocating plant processing capacity between resident and the Resort.

Water utilities recognize that a "Ready-to-Serve" customer represents a claim on plant operations and is no different from a water customer who spends months away with little or no water usage. Payments from all accounts which possess claims on the water plant are needed to cover the fixed costs of the plant built to provide the capacity their claims on water delivery make necessary. Therefore, the common practice in the industry is to assess every customer in the same customer class the same "Ready-Serve" fee to recover plant fixed costs. Adopting industry-standard "Ready-to-Serve" fees for Rosario residential and for Highlands residential user classes are vital to fair water plant billing by Rosario Utilities since somewhere in the neighborhood of one-third of the residences are unoccupied from two to seven months or more during the rainy season. Without a standard fee to recover fixed costs, those who use water for twelve months would subsidize those who use water for fewer months. (Residential part-timers need to understand that fixed costs are constant from month to month and are independent of water usage. That is why "ready-to-Serve" fees are constant from month to month)

We ask that the proposed rate structure be suspended until rates are revised to conform to the standard billing practice of subjecting all accounts to a single "Ready-to-Serve" fee for each customer class which recovers plant fixed costs which are similarly defined by every utility with a "Ready-to-Serve" fee.

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The use of an estimated ERU needs to be eliminated from the proposed Schedule No.3, Metered Rate Service - Commercial tariff

In 2002, the WUTC ordered Rosario Resort to install water meters and to pay for water used on the basis of meter measurements. Schedule No. 3 of the proposed tariff still includes rates based on an Equivalent Residential Unit. There is no reason whatsoever not to:


1) Require Rosario Resort to pay monthly their proportional share of plant fixed costs either based on conventional process plant cost accounting for the year 2006, or temporarily, until actual fixed costs can be segregated and totaled, based on the ratio of Resort water usage to for the month of August 2006 to the total Residentials water usages.

2) Change the proposed tariff water usage rates so that the Resort pays on the basis of metered total Resort water usage to recover variable and any other costs not included in the fixed cost recovery monthly rate. Since all water usage is based on actuals, there is no justification for continued use of an inexact ERU estimate which is not derived from physical measurement of water usage.

As the Resort goes into redevelopment in coming months, guest uses of water will temporarily decline for some months so some legitimate cost accounting basis is needed to bill the Resort for their standby plant fixed costs until the Resort is again fully operating. By charging separately for fixed costs and for variable costs, neither the Resort nor the residential users will be underwriting the other's costs. However, unless this proposal is adopted, and should proposed Schedule No. 3 stand, the Resort will not be paying fixed costs directly related to the business of the resort. This situation would leave the new owner of the utility short of revenue and make necessary an emergency rate filing to charge residents for fixed costs which were not paid for by the Resort under the proposed tariff.

Investigation into the use of ERU's within the water services industry found that they are sometimes used for convenience to allocate annual metered water measurements to keep costs and billings constant over the entire annual business cycle. No instance of their use by medium and larger water companies to allocate fixed costs to the "Ready-to-Serve" rate was uncovered. From a pure accounting principles perspective, using an estimated ERU which is not derived from physical measurements is not a legitimate accounting practice.

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