

Rosario Utilities, L.L.C.

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August 21, 2007

UTC Commissioners Sidran, Oshie, Jones and Staff
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RE: Rosario Utilities Rate Application
UW-070944

Below is a response to the customer comments submitted to the UTC five business days before the last scheduled hearing date. All of the issues have been addressed several times in both written and oral presentation format. Once again, Rosario Utilities ownership and staff join together to provide the following responses:

RESPONDING THE COMMENTS BY DUANE FRANKLET AND LEE GOODWIN:

1. Design selection of the treatment plant

The Hydroxyl plant was selected for the following reasons:

- 1) It was recommended by two independent, highly respected Seattle based engineering firms.
- 2) It had a considerably shorter construction time frame.
- 3) The construction cost was projected by the engineers to be 27% less than slow sand.
- 4) DOH willingness to approve the Hydroxyl plant.

Oly Rose acquired Rosario Resort and RU in October of 1998 and promptly set to planning for the revitalization of these distressed assets. Judging from the condition of the property at the time of purchase, the resort was losing significant money and the utility needed significant capital. It appears in the years leading up to the sale, the prior owners lacked the ability to respond to the long standing needs of the property which created simmering acrimony from the utility users and growing concern by the DOH.

Within 6 months of acquiring these difficult and complex assets, Oly Rose committed to replace the water plant with the expert-recommended option. Regrettably years of user resentment had reached the boiling point and Oly Rose has since been blamed for the inaction of the prior owners.

The statement that DOH would have been willing to negotiate a longer timeframe for installation of a slow sand filter approach and/or waive the testing period based on their willingness to do so for Moran State Park bears little comparison to RU which serves a considerably larger, year-round public user base which, from all evidence, would not have been tolerant of the additional time and costs required to negotiate an alternative approach with the DOH.

2. *Extra costs of the treatment plant:*

Yes, there were costs in addition to the original scope of the project, which the company paid and is now incorporating this cost into the rate base. Invoices have been provided to the UTC. Regarding "maintenance" costs -- replacing equipment valued at several thousand dollars is normally capitalized, and that is what the company has done.

The cost of the plant also came up in the 2002 rate case, and the company validated the expense at that time. It seems logical that review of the issue at the time it occurred, which is what happened, was more appropriate than trying to second guess events five years later.

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

WWSC took 2006 figures from Rosario Utilities and demonstrated cost savings by showing what Rosario Utilities could have requested for an increase in rates without WWSC's "blended" rates for 2007 because of the upcoming sale. There is a cost savings to the customers, which have been pointed out several times. Two specific examples of economies of scale are centralized billing and the existing WWSC insurance including Rosario Utilities, saving thousands of dollars per year.

4. There was no question #4.

5. *Interest rate charged on the loan:*

Olympus normally secures debt for all acquisitions as it helps lower the overall cost of invested capital. Every effort was made by Oly Rose to put debt on both the resort and the utility. Even with the real estate and improvements available as collateral to secure debt on the resort side, Oly Rose was unable to find a willing lender at a competitive rate. In over a billion dollar portfolio, Rosario was the only acquisition unable to secure financing. It was not until 2002 when Oly Rose acquired the Round House as part of the resort that a local lender was willing to extend a loan. The interest rate was 10.5%. Prime at the time was 4.75%. We did the loan. If lenders were unwilling to provide debt to the resort except at near userous rates, it seems entirely clear that there would be no lenders interested in providing debt to a utility loosing money with a failing infra structure. In fact, at 325 bps over prime for the period of the RU loan, the interest rate was quite favorable and considerably below a reasonable return on equity. As pointed out before, where possible, RU has made every effort to take advantage of favorable loan opportunities as evidenced by the state loan for the plant expansion. That application period was over 18 months and there was no assurance that it would be forthcoming. Finally in issue # 2 above the users state "We believe WWSC's purchase price is grossly excessive..." That being the case, perhaps it is even more clear why a lender would not have been willing to provide debt to an entity worth considerably less than the loan amount.

6. *Water Usage:*

Metered usage by customer class has been provided to the UTC showing that the commercial usage totaled 32.2% of water in 2006 and paid 31.7% of the total revenue.

The resort water usage has been evaluated by consulting engineers with each water system plan. Water usage for all classes is subject to revision with an updated plan. Plant capacity is not the same as an Equivalent Residential Unit (ERU). ERUS are based on the average water use, and this has been used for billing purposes. A revision to the utility's ERU is a submittal to DOH made by the company with water use analysis completed by a professional engineer.

The Water System plan was approved in May 2004 and new rates went into effect that summer after providing appropriate notice to the commercial customers involved.

7. No question #7, 8, or 9.

10. *Proforma test year and history:*

An updated proforma has been submitted to the UTC. UTC staff is also completing their own proforma, based on the audit.

11. *Plant Capacity:*

This heading is confusing in the customer comments as the question is about water rights for future customers and distribution leakage. Water rights for plant expansion to serve residential customers are available. However, because the water company will have to buy the water rights, these costs will be passed on to new customers. That way growth will pay for growth and current customers will not unduly subsidize new customers.

Yes, the utility's leakage and unaccounted for water is about 20%, which similar to many other water systems, including the Eastsound Water Users Assn, one of the organizations which customers would like to see own the utility. Other water systems on Orcas Island, such as the Doe Bay system, have unaccounted for water at over 30%. The goal of the municipal water law is to reduce lost and unaccounted for water down to 10% in the next several years, which was what Steve Deem of DOH was getting at in his comments. Any costs associated with reducing this lost water will ultimately be put into the rate base.

12. *Future capital improvements:*

Current improvements are underway to improve plant capacity. The work has not stopped, however it has been a slow process. Part of the project will expand capacity and part of the project will benefit current customers. For example, the piping upgrade will benefit all customers.

13. No question 13, 14, 15, 16

17. ***Rate Case spreadsheet errors:***

The company apologizes for an error within the "Rosario Resort Metered Worksheet". Metered usage for the Orcas Highlands in 2006 was accurate. Yes, there was a leak in 2006, which took a long time to discover and fix. With a master meter situation, leaks are harder to detect. The company understands that UTC staff will take this abnormal leak into consideration when reviewing the rates and rate design so that the analysis will be normalized to avoid any inappropriate outcome that the leak might otherwise produce.

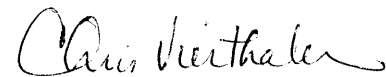
18. ***Olympus past efforts to sell RU:***

For over 3 years, Oly Rose engaged in negotiations with both the Eastsound Water Users Assn and the Eastsound Sewer District to find a way to convey RU and separate water rights interests. It is correct to say that even with the incentive of a water rights sale, neither East sound utility had even the most remote interest in RU. Since then, negotiations over the sale of the water rights have since been suspended pending the sale of RU.

It should be noted that during more than 3 years of negotiations with East Sound, Oly Rose at its sole expense retained the services of several consultants expert in their field to conduct studies for and on behalf of East Sound utilities demonstrating resources available and creative ways to take over the assets. To say Oly Rose lacked the will to make a deal is to lack knowledge about and appreciation for the time and resources devoted to that effort. When it became clear that no amount of 'creativity' on Oly Rose' part was likely to spur interest from an on-island entity, Oly Rose looked for an alternate buyer. WWSC seemed a perfect candidate with multiple comparable operations around the state of Washington thereby providing that experience level which the users claim is missing under current ownership. We frankly are confounded by the users apparent lack of enthusiasm.

Sincerely yours,

ROSARIO UTILITIES, LLC



Chris Vierthaler
General Manager

cc: Jobin Suthergreen, PROA President