



Aquarius Utilities, LLC

"At Your Service"

Diamond Point • Island Lake • Lynch Cove • Agate West

Memorandum

June 20, 2008

To: Our Diamond Point Customers

From: Gregory Roats

Re: Petition Opposing Rate Increase

I am writing to respond to the concerns raised in the petition you signed and submitted to the WUTC regarding our request for a rate increase. I certainly cannot fault you for not supporting our request; no one wants a rate increase, myself included. I have PUD water at my home in Kitsap County, and if someone came to my door asking me to sign a petition against increasing rates, I would probably sign it. The same would be true for gas prices, grocery prices or electric power costs. However, as our costs to provide water keep rising, we have no alternative but to request an increase in rates if we are to continue providing the level of customer service you deserve and to which we are committed. A vote against our rate filing is in effect a vote for reducing customer service because something would have to give; we don't want that, and I don't think you do either.

While it is your right to oppose the rate increase, there are some inaccuracies in the body of petition I want to address, and I want to clarify and elaborate on some of the points raised. I will refer to the numbered items on the petition.

1. Concerning your objection to the rate increase until our expenses are audited by the Concerned Citizens, the WUTC's assigned auditor Chris Mickelson is thoroughly auditing our books on your behalf. He is asking a long list of technical questions and has requested detailed documentation for a great many expense categories. He has inspected our office and the Diamond Point Water System. Mr. Mickelson is leaving no stone unturned. I am confident that he is looking after your best interests and that his review will result in rates which are fair and reasonable.

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2. Your proposed conditions for rate increase approval:
- (a) Regarding the Clallam County Franchise, the DWSRF loan applications submitted in April/May 2007 did not ask for information about road franchises, so we did not, as the petition asserts, mislead application reviewers about its status. In our September 2007 Water System Plan for Diamond Point, we stated that the franchise had expired and we were negotiating a new franchise with the County. We had received a draft franchise in 2004, had reviewed it and noted with concern the high on-going costs it proposed. We held infrequent, informal talks with County staff over the next several years, but we chose to go slowly as we were not anxious to sign up for their exorbitant fee structure. When the Dept. of Health reviewed the Water System Plan, they stated that franchise approval would be required for Plan approval. In December 2007 we sent a letter to the Clallam County Engineer indicating we were ready to start the renewal process, but we disagreed with the proposed fees and their impact on our finances and thus our customers; I asked the County to reduce their fee structure to a level more appropriate for a small water system with many customers on fixed incomes. Following this, the Dept. of Health determined that having the franchise under negotiation would be sufficient for Water System Plan approval. After 5 months, the County engineer finally replied to my letter and stated that the fees would not be reduced, and that was that. Having no other option, we submitted the signed franchise on May 30th, and it is now being processed.

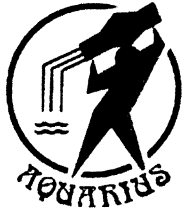
As you can see, the franchise, aside from the high associated costs, has been a routine business matter which the Concerned Citizens need not have been concerned about.

- (b) On March 4, 2008, the Public Works Board approved our four DWSRF loan applications, adding a condition that we obtain WUTC approval for a rate increase in 90 days. We had already been laying the groundwork for a rate filing and continued to work steadily on preparations; the request was filed on May 23rd. We were told that rate filings generally require 45 to 60 days for approval. On June 4th, the Public Works Board held a regular meeting, and our loan status was on the agenda. Realizing that the 90-day approval window was an arbitrary deadline and that we were making normal progress on the filing and approval process, the Board extended the deadline another 90 days.

Incidentally, once we receive rate filing approval, the DWSRF loan condition will be removed, and we will proceed with planning and engineering for the

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- (c) Diamond Point Storage Tank Upgrade Project, which includes badly needed improvements of great benefit to your water system and you.

Regarding the Concrete Tank drainage issue for residents of Eagles Rest Lane, Barbara Money e-mailed me on April 18, 2008 and asked me the status of our plan to re-route the tank overflow and drain away from Eagles Rest Lane. I replied in a detailed e-mail the same day and informed her that the drain re-route is included in the Diamond Point Storage Tank Upgrade Project, which has been approved for SRF funding. I also described the proposed drain routing and indicated that the installation is scheduled in the first portion of 2009.

Based on this information and my communication with Barbara Money, I was surprised to see this item listed as a condition for withholding approval of the rate increase.

- (d) Diamond Point Storage Tank Upgrade Project. As the As the Concerned Citizens organizers are aware, the scope of this 2003 SRF project was trimmed to the bare bones and funds were transferred to maximize the scope of the DP main replacement project. This was suggested by Hugh VanderHuel, and we thought it was a good idea at the time. Now, for our 2007 application for the Diamond Point Storage Tank Upgrade Project, 4 years have passed and we were able to re-assess and revise the work scope to conform to changed conditions. The following items were added to the old scope of work:

- (1) Replace inlet-outlet pipe at Concrete Tank to reduce suspected leakage in existing buried yard piping.
- (2) Replace and re-route Concrete Tank overflow and drain to discharge to roadside ditch at Diamond Point Road; this is to fulfill our agreement with the residents of Eagles Rest Lane.
- (3) Install transfer switch for portable generator at well site.
- (4) Increased new storage tank volume from 120,000 to 130,000 gallons.
- (5) If funds remain, decommission old well at Steel Tank site; this feature is in the way of proposed tank and pump station and should be removed for sanitary control reasons.

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As the above additions were mostly requested by the Concerned Citizens or Eagles Rest residents, it is curious that this item would appear on a list of reasons to not approve the rate increase.

- (e) Collaborative scope/design of the DP upgrade. After the Public Works Board cancelled our loans in August 2006, the Concerned Citizens stopped communicating with us altogether. When we re-applied for the Storage Tank Upgrade Project and it made the funding list, the Concerned Citizens principals could have requested project information directly from us. We never understood the decision to hire an attorney or why the Concerned Citizens felt it was necessary. We don't believe their decision to hire an attorney should be listed as a condition for objecting to our proposed rate increase.

Single Rate Tariff. The advantage of a single rate tariff is economies of scale: This was explained to the Concerned Citizens principals in a June 12th meeting with the WUTC. You can get a lot more done for less cost with more participants. If Diamond Point had to pay for their own improvements rather than sharing the cost with the customers in other water systems, implementing projects would be more difficult.

The \$1.6 million pipe replacement project for Diamond Point was a 2007 DWSRF loan application, which expanded the scope of the ill-fated 2003 pipe replacement project, which the Concerned Citizens and much of the Diamond Point community supported.

It is true that, in the near future, we will be proposing a \$5.00 per month surcharge dedicated to replacement of aging infrastructure in all 4 water systems. We and the Concerned Citizens principals alike have been informed that it is highly unlikely that any DWSRF applications for pipe replacement will be approved for funding in the future. Therefore, we believe a surcharge is the next best option. If the surcharge is approved, I am quite certain that the collected funds would be used to replace the worst piping in the Diamond Point System for the first several years, and we would be willing to commit to that.

I hope this information is helpful in clarifying the items listed in the petition, and that you will reconsider your position regarding the proposed rate increase. Thank you for your time and attention.

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