UW-070944
Attachment H
Additional Customer Comments and Questions Received Through September 17, 2007 – Staff Response

Comments received from Bea vonTobel, President, Orcas Highlands Association (OHA): (Geri and David Turnoy of OHA forwarded Ms. vonTobel's comments in a separate email agreeing with all of her comments). Staff summarizes Ms. vonTobel's comments as follows:

a) Rates charged for treated water should be equal in cost per gallon for all customers. Usage blocks should be universal for all customers (4,000, 5,000, and 6,000 gallons per month) and based on a single residential connection and not a 3/4-inch, 1-inch, 1.5-inch, and 2-inch meter (Ms. vonTobel's use of the word "customer" also applies to OHA's 105 residential connections behind Rosario Utilities LLC's 2-inch meter). Ms. vonTobel submits that, because these are all residences within the water service area, it would be fair to adopt universal usage blocks, and it would also decrease bookkeeping effort on the part of Rosario Utilities, LLC (RU)/Washington Water Service (WWS).

b) The base rate to all residential customers should be increased and applied equally to each customer.

c) OHA should continue to receive a bulk discount because of the additional costs that are borne by OHA because it owns its distribution system.

d) Instead of a rate design based on Equivalent Residential Units (ERU) or metered usage, Ms. vonTobel recommends the creation of a new definition, "residential-end-user," to equalize all customers regardless of meter size. In her opinion, this would result in a more simplified rate structure.

Staff response:

a) In Table 1 below, staff illustrates that under the proposed rate design, and based on the amount of water they use, all customers share equitably in their allocation of RU's revenue requirement. This rate design does not recognize OHA as 105 individual users, because in fact, RU serves OHA as one customer using a 2-inch meter. As staff has noted previously, RU's responsibility (and the commission's jurisdiction) stops at the utility's 2-inch meter. The meter records the usage. What happens on the customer side of the meter is not at issue in this design or more generally, in this rate case. In other words, for the purposes of rate design, the OHA is considered a single 2-inch customer because that is precisely how the OHA load presents itself to the utility.

b) Increasing the base rate would unfairly transfer cost responsibility to ready to serve and seasonal customers.

c) Staff understands OHA owns its own water system, but because this is not RU's plant, the OHA water system should not be treated as if RU owns it. Under current rates, OHA receives a "bulk-discount." However, staff cannot determine how that discount was calculated because it was in place at the time the commission began regulating the utility in 1996.

   Company records do not distinguish between transmission and distribution costs. The NARUC system of accounts which the commission has prescribed for water utilities (WAC 480-110-275) includes distribution and transmission costs in a single account (Account 331). On page 1-9 of RU's 2003 Water System Plan, all of RU's pipe is characterized as "distribution." It is staff's experience that this lack of distinction between transmission and distribution pipe is characteristic of how water systems are designed, built and operated.

   Therefore, OHA's argument that it should receive a discount because RU does not serve it with a distribution system lacks meaning, because of the way RU records its costs and constructs and operates its system. Moreover, even if staff could determine how much plant is purely distribution-related, the amount is likely to be very small, because the other pipe is likely to be much more extensive and much higher cost (because, among other things, the other pipe would typically be more expensive, larger diameter pipe), and thus the other pipe would account for a very large portion of the total.

In the end, staff cannot confirm the accuracy of the volume discount in current rates, and company records are insufficient to determine what a discount should be, even assuming one could be justified in theory.

NOTE: In the utility's letter to the commission dated September 18, 2007, WWS states it will take over the OHA distribution system, if OHA agrees to transfer it. If and when that occurs, all OHA customers would become RU residential customers served by individual RU meters, and staff will recommend that the same rate design for RU residential customers should then apply to those customers in the Highlands.

d) In the past, RU's rate design used ERU's to allocate revenue requirements to each customer category. That method was controversial because, as some customers argued, it did not equitably distribute the revenue requirement based on actual water used. In the proposed rate design, staff was able to use meter data to arrive at a rate design that addressed this issue. Staff analyzed the actual meter data, and made an adjustment for a major leak in OHA's system that was found and repaired by OHA. This adjustment reduced OHA's test period water usage. It also reduced the revenues corresponding to the higher usage level.

Ms. vonTobel's recommendation proposes to create a new basis for allocating revenue requirements, using a new definition of residential-end-user. Staff understands Ms. vonTobel's proposal is to include OHA's 105 households in the same customer category as all residential customers that RU serves with a ¾-inch meter, rather than treat OHA as a single, 2-inch metered customer. This is the same point to which staff has responded previously.

Revised Rate Design Total Revenue Requirement versus Usage		
Customer	**Usage Percent**	**Revenue Requirement Allocated Percent**
OHA	22.25 percent	22.79 percent
Resort	34.63 percent	34.31 percent
CH Inn	3.76 percent	3.62 percent
Residential	39.36 percent	39.28 percent
Total	**100.00 percent**	**100.00 percent**

Table 1, Revised Rate Design Total Revenue Requirement versus Usage

2) **Comments received from Kristen Wilson, OHA resident**: Staff summarizes Ms. Wilson's comments as follows:

a) The 6,000 gallons per month usage block is unfairly biased against working families who live on Orcas Island year-round. According to Ms. Wilson, the 6,000 gallons per month is based on a population of mostly 1 to 2 person households, many of whom maintain a second residence in another state and are not on the island during the winter months

b) Based on her family's usage Ms. Wilson expects her bill to go up 174% instead of the 75% increase borne by residential customers. She believes this to be unfair.

Staff response:

a) The usage blocks for a 2-inch meter are:

0 to 60,000 gallons	$ .83
60,001 to 180,000 gallons	$1.56
Greater than 180,001 gallons	$1.87

We assume that Ms. Wilson's reference is to the ¾-inch usage blocks for residential customers which begin at 0 to 6,000 gallons. Ms. Wilson is not a residential customer but is part of OHA and we do not know how OHA will calculate individual bills to their members connected to their system. The purpose of usage blocks is to encourage conservation. Staff calculated usage blocks across all customer categories based on historical water consumption. Staff did not distinguish between year round or seasonal residents, only the amount of water used. The first break point of 6,000 gallons for residential customers is slightly above the average usage in winter and slightly below the average use in the summer. To take into account the larger 2-inch meter, staff used a factor of ten to arrive at the blocks above. A factor of ten is used to reflect the larger capacity of water than can pass through a 2-inch meter versus a ¾-inch meter.

b) Staff could not confirm Ms. Wilson's calculation of a 174 percent increase to her bill. OHA's annual revenue requirement of $82,297, in staff's revised rate proposal, is just 37% higher than the revenue requirement of $59,981 based on ERU's. Because RU's responsibility (and UTC jurisdiction) stops at the utility's 2-inch meter, the costs associated with maintaining and operating the OHA water distribution system and how OHA recovers these costs from its 105 members were not considered in the rate design.

	ERU 2006		Meter 2006		Meter 2007	
	Yearly	Monthly	Yearly	Monthly	Yearly	Monthly
Highlands @ 2" Meter Major Leak						
Usage	9,363,200	780,267	4,893,649	407,804	4,893,649	407,804
ERU Count/Meter Count (C)	102	102	1	1	1	1
Average Use/C	91,796	7,650	4,893,649	407,804	4,893,649	407,804
Base	$ 30,600	$ 2,550	$ 1,903	$ 159	$ 2,630	$ 219
Bill	**$ 59,981**	$ 4,998	**$ 24,049**	$ 2,004	**$ 82,297**	$ 6,858
Average Bill/C		**$ 49.00**		**$ 2,004.09**		**$ 6,858.09**

Table 2, Rosario Meters, Customer Cover Sheet

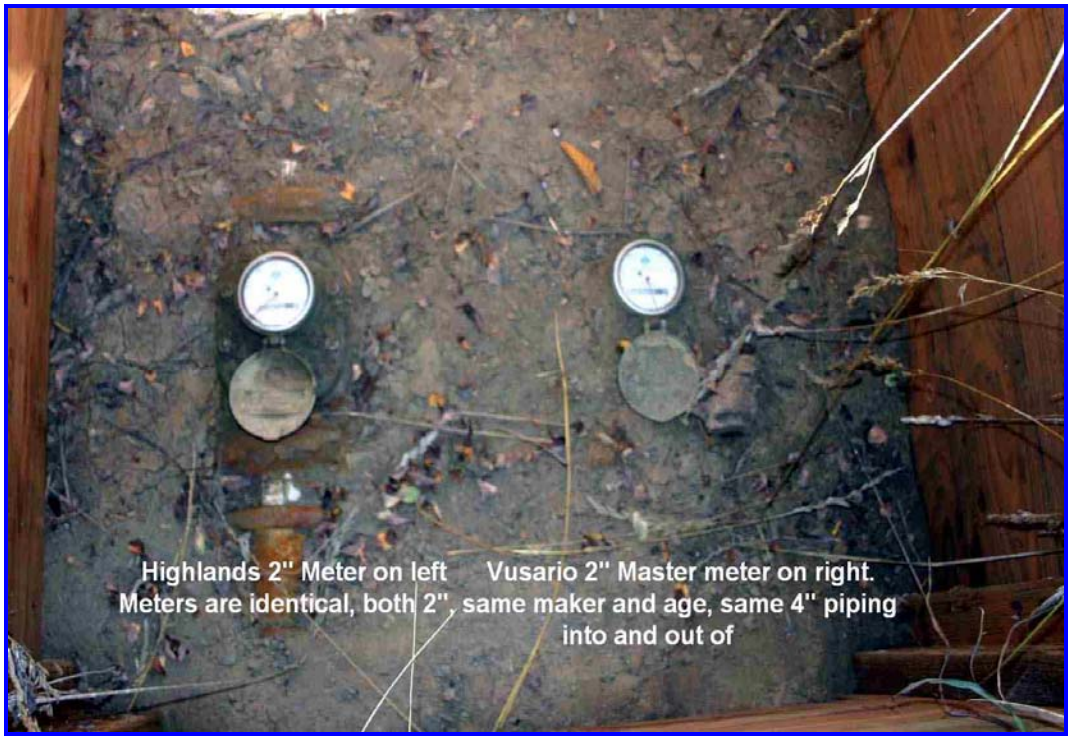
Comments from Mr. Lee Goodwin, OHA Board of Directors: Staff summarizes Mr. Goodwin's comments as follows:

a) Mr. Goodwin believes that the proposed rate design does not take into account the costs borne by OHA to operate and maintain its distribution system beyond the 2-inch meter (on average $27.00 for each of OHA's 105 members).

b) Mr. Goodwin believes staff used "leak-inflated numbers," and the past year was an anomaly because of a large leak OHA repaired on its distribution system.

c) Mr. Goodwin notes that both OHA and Vusario have identical 2-inch meters which lie side by side (see Picture 1 which was provided to commissioners at the September 12, 2007, Open Meeting). Vusario's residents are ¾-inch residential customers. Mr. Goodwin believes that because Vusario and OHA feed off identical (but separate) meters, all residential users served behind those meters should all be considered residential customers with ¾ -inch meters.

d) Mr. Goodwin provided staff with a document entitled; "*9/10/07 Ward's New Proposed Rates today*," which contained a number of usage scenarios comparing OHA and RU's other residential customers. In each case, he showed OHA paying more than RU's other residential customers based on 105 separate ¾-inch OHA meters. He agrees with staff's revised revenue requirement and the principle behind staff's rate design to match revenue allocation by amount of water used.



Picture 1, OHA and Vusario 2-inch Meters (photo provided by Mr. Lee Goodwin)

Staff response:

a) The two meters in the picture look the same, but in fact, the customers using the water that passes through these meters are very different. As staff noted previously, RU's responsibility (and the UTC's jurisdiction) stops at the utility's 2-inch meter that serves OHA. Consequently, OHA's costs associated with maintaining and operating its water distribution system, and how OHA recovers these costs from its 105 members were not considered. By contrast, RU's 2-inch meter serving the Vusario area is part of RU's distribution system. Beyond that meter, RU provides and maintains a distribution system to serve each Vusario residential customers in that area. Vusario's 2-inch meter is in its current location because at one time RU did not own Vusario's distribution system and the meter was used for billing purposes. Today this meter is used by RU primarily for leak detection.

b) Staff did not use leak-inflated numbers. Staff recognized the existence and correction of a large leak on OHA's system. The leak created an abnormal usage figure for OHA in the test period. Staff reduced OHA usage accordingly, as well as the revenues generated by the abnormal amount.

c) As staff noted in a), because RU does not own the distribution system beyond the 2-inch OHA meter, the design of rates for OHA are based on how OHA presents itself to RU: one customer served by a 2-inch meter.

d) The document provided by Mr. Goodwin does not represent any proposal developed by staff. Staff believes this proposal may have come from Ms. Fairbanks, a consultant for the Rosario Property Owners Association (RPOA). Staff recommends that Mr. Goodwin consult with her if he has questions about this proposal. As staff has responded previously, because OHA is a 2-inch meter customer, comparing rates for such a customer with a ¾-inch residential customer is an "apples-to-

oranges" comparison. OHA's rate and corresponding usage blocks are calculated as one single user with an average consumption of 407,804 gallons per month. Extrapolating individual residential rates from the total is not an appropriate comparison.

3) **Questions and comments from Jobin Suthergreen, President, RPOA Board:** Staff summarizes Ms. Suthergreen's questions comments as follows:

   a) Ms. Suthergreen asked:

      i) The water treatment plant loan balance was changed from debt to equity and added to RU's rate base. Return on equity is higher than the interest charged on the debt. Why was the balance of the loan for the water treatment plant converted to equity, and what will WWS earn on it?

      ii) What happened to the costs for the water treatment plant that were paid by the company and not included in the loan?

   b) Ms. Suthergreen asserts RU's decision to select and build the hydroxyl water treatment plant was not prudent. She points to the following to support her assertion:

      i) Two emails from Stephen Deem, Regional Engineer for Northwest Drinking Water Operations; and

      ii) A letter from RPOA resident Gunther Eschenbrenner stating that the construction of the treatment plant did not achieve its specified capacity, which resulted in an unpaid balance in the loan being carried forward after the surcharge period ended in early 2007.

   c) Ms. Suthergreen has provided staff with a memorandum from WestWater Research, LLC (WestWater) addressed to RPOA. This memorandum was a summary of WestWater's valuation of RU's water rights completed for Eastsound Water Users Association (EWUA) in 2006. The purpose of the valuation in 2006 was to help guide EWUA's water resource planning efforts and assist with the potential purchase water rights in the future. Ms. Suthergreen believes that the memorandum supports her assertion that RU's defense of the $100,000 purchase price for ten acre feet per year (AFY) of water (found in *UW-070944, Attachment F, Additional Customer Comments and Questions Received Through September 6, 2007 – Staff Response, Question Number 2)* is not correct. Ms. Suthergreen also stated that RU did not provide staff with the WestWater report, and the report RU did provide to staff expressly stated it was not an appraisal. Finally, she observed that the report RU provided staff was based on an alternative of raising the level of a lake several feet, which is a highly unlikely scenario. Therefore, she concludes that $100,000 is not a fair market price for the 10 AFY of water. Ms. Suthergreen asks that the commission delay the sale and transfer of the utility to WWS until the matter of the value of this 10 AFY of water is resolved.

   d) Ms. Suthergreen asks if the 10 AFY purchased by RU for $100,000 is water held for contingencies and thus is not being used, then it should not be included in rate base.

Staff response:

a)

   i) $243,427 of the ($279,552) loan balance was converted to RU equity because no new note was issued by Olympus Partners (Olympus) to RU. Upon sale, WWS will carry this amount as debt with an annual interest rate of 9.76 percent.

   ii) These costs are included in rate base.

b) As stated by staff in *UW-070944, Attachment A, Customer Comments – Staff Response, Issue 2.1.0,* staff prepared a memorandum in Docket UW-020307 (dated June 26, 2002) that carefully analyzed the issue of the prudence of the water treatment plant. Staff concluded that the company's decision to build the water treatment plant using a hydroxyl treatment system instead of another type (such as a

slow sand filter) was prudent because it was based on sound data that weighed the economic and technical merits of one treatment method over another. An independent consultant's study reached this conclusion (please see Gray and Osborne, Inc, study contained at the following link: http://www.wutc.wa.gov/webdocs.nsf/0/04E7809E4FF074A088257341006B2694, and in the document titled, *Treatment Plant, 1 of 17*). DOH approved the hydroxyl treatment system design on November 20, 1997.

The emails from Mr. Deem refer to alleged assertions by RU that DOH "forced' RU into using a hydroxyl treatment system. Staff does not believe RU was "forced' to select that technology. Staff also believes the parties overstate the significance of the term "forced" in this context. For example:

i) Records provided by RU and the Department of Health (DOH) show that RU's decision to use a hydroxyl treatment system was not driven by haste to meet a deadline imposed by DOH's Order on Docket 99-013. Section I, FINDINGS, Paragraph 1.8 of DOH's order provides a chronology showing that RU decided on the hydroxyl treatment technology in June 1997. This was 22 months prior to the date when the DOH order was issued, and 29 months prior to the deadline imposed by DOH for RU to complete the treatment facility. In addition, records provided by RU show considerable collaboration between the company and DOH to achieve compliance consistent with Section IV, SUPPLEMENTAL AND MODIFICATION, Paragraphs 4.1 and 4.2 of DOH's order.

ii) RU made a filing with the commission in late 1999, effective January 15, 2000, to recover the company's $1,000,000 of initial capital costs for the new treatment plant, which was in service at that time. That filing resulted in a facilities charge of $3,100 to new customers and a surcharge of $22 per month for all residential customers and all ERU's for bulk and commercial customers. DOH's decision of May 11, 2001 to reduce the number of connections came after the surcharge was already in place. DOH's decision was based on:

(1) System water use;

(2) Existing system capacity information; and

(3) The April 2001 water treatment facility pilot report.

These 3 factors were not a result of omission or oversight on the part of RU.

Although staff's analysis in 2002 showed that RU's decision to build the treatment plant was prudent, and the commission allowed the proposed rates to become effective, the commission did not formally decide the prudence issue. The commission would normally decide this issue in an adjudication. The commission could set this, and other issues, for formal hearing in this docket. Parties would present expert testimony and legal arguments to support their positions and the commission would issue an order resolving the issue.

However, a formal hearing would be expensive, in both time and money, and the cost of such a proceeding to the company would materially affect water rates. Because staff has already conducted a detailed evaluation of this issue, staff does not recommend the commission conduct a rate case hearing to address it.

c) Staff had not seen the WestWater memorandum prior to it being provided to the commission by Ms. Suthergreen at the September 12, 2007, Open Meeting. If staff had that memo, staff would not have included the 10 AFY in rate base. In reviewing that memorandum and comparing it to RU's response to Question 2 in *UW-070944 Attachment F, Additional Customer Comments and Questions Received Through September 6, 2007 – Staff Response*, staff concludes that at present, there exists enough controversy on the value of the 10 AFY that if it is necessary for the commission to value that asset, a hearing would be required. In such a hearing, all aspects of this issue would be analyzed, including the affiliated interest nature of this transaction. However, it is staff's position, that the rate case and

the sale and transfer case do not need to be delayed prior to the determination of the value of the 10 AFY, because staff's cost of service analysis (see *Attachment C 070944 – Results of Operations*) shows that whether the amount paid for that 10 AFY is in rate base or not in rate base, RU has justified the additional revenues it has requested. In other words, it is not necessary for the commission to value the 10 AFY in this case. If the commission allows the proposed tariffs to go into effect, that does not establish precedent one way or another on the issue of the appropriate regulatory treatment of the 10 AFY.[1]

d) Under RCW 80.04.250, property may be included in rate base if is it "used and useful" for service. It is common for utilities to have reserve margins to enable the utility to provide service during various conditions such as scheduled outages (*e.g.*, for repairs), or unanticipated events such as storm damage or unanticipated usage. In this case, RU acquired 10 AFY in addition to water rights contained in its water rights permit. Staff believes this 10 AFY is "used and useful" because it provides the utility a reasonable "cushion" to address contingencies. The 10 AFY is classified as an intangible asset. If and when this asset is included in rate base for ratemaking purposes, the utility would earn a return "on" this asset, but it would not receive a return "of" this asset because it is non-depreciable.

4) **Questions and comments received from Mr. Duane Franklet:** Staff summarizes Mr. Franklet's questions and comments as follows:

Note: The following comments and questions refer to a document posted on UTC's website titled, *070944 Staff recalculation water usage* (see http://www.wutc.wa.gov/webdocs.nsf/0/04e7809e4ff074a088257341006b2694/$FILE/070944%20Staff%20recalculation%20water%20usage.pdf).

a) Why is consumption for December, 2006 changed from 265,000 gallons to 650,000 gallons?

b) Why does the customer count for 2006 remain at 102?

c) The 2007 actual data (to be used to revise the 2006 consumption data) is increased by the ratio 105/102 to adjust the 2007 data for a change in customer count. There was no change of customer count from 102 to 105 in 2007, so what is the purpose of this adjustment?

d) The 2007 consumption data, January through July, shows lower consumption than for the years 2005 or 2006. Is it possible that OHA, through an aggressive program to repair leaks to its old distribution system, have corrected all those leaks?

e) Why was it necessary to use a three year average, when neither 2005 nor 2006 were free from significant leaks?

f) The adjusted 2006 consumption data is too high. Alternatives would be to use the same consumption as the Rosario residences or to use the actual OHA meter readings. OHA has meters on all residences. All of the OHA residential meter usage data has been sent to UTC.

g) Staff used 7 million gallons for OHA usage, when OHA has used only 3 million gallons since the start of 2007.

h) The 183 AFY of water rights transferred to RU from Orcas Water Holdings (OWH) is not sufficient to meet existing and ready to serve customers. RU's water treatment plant's actual capacity is not 183 AFY but is instead 149 AFY, because 34 AFY are required to backwash the filters or are lost to leaks and that is water that cannot be used by customers. RU requires 223 AFY to serve 508 ERU's (198 active and 88 ready to serve customers). Mr. Franklet also says the utility should be receiving an additional 110 AFY from its affiliate free of charge to support the future full build out of RU's service area.

[1] *Utilities & Transp. Comm'n v. Olympic Pipeline Co.*, Docket TO-011472, 20th Supplemental Order at ¶¶ 70-71 (September 27, 2002).

Staff response:

a) The 265,000 gallons is OHA actual usage for December 2006, as recorded by RU through the 2-inch meter serving OHA. The 650,000 gallons represents WWS's estimate of OHA's usage, after an adjustment by WWS designed to address the impact of the leak that was later fixed by OHA. However, staff did not use 650,000 gallons in any of its calculations. Staff used 265,000 gallons actual usage and made adjustments to compensate for the leak and added customers.

b) Mr. Franklet corrected himself in a subsequent email to staff. He thought that the customer count at the end of 2006 was 105, when if fact it was 102.

c) See staff response "b" above.

d) As the condition of OHA's distribution system was not examined as part of this rate case, staff does not know whether OHA has detected and corrected all of the leaks on its system. The purpose of staff's adjustments to OHA's usage (from the 2-inch meter) was to adjust for a large leak OHA repaired, plus the addition of 3 members of OHA who are now using water. The staff's adjustment reduced the water usage by OHA for the test period, and it reduced the revenue corresponding to the higher water usage amount.

e) Staff did not use the three-year average on the spreadsheet to calculate rates. Staff simply used that average as a rough check on the figures contained in staff's working papers.

f) Staff asked Mr. Franklet to provide OHA's actual meter readings, but OHA refused him that data. Therefore, staff cannot evaluate Mr. Franklet's proposal to use OHA's actual ¾-inch meter readings. If the average consumption of all RU residential customers is multiplied by OHA's 102 members, the resulting rate for OHA members would be higher. Staff believes this would result in rates that are not just, fair, reasonable, sufficient or in the public interest.

g) See staff response "e" above.

h) Based on the following information, staff concludes that under existing conditions (including existing DOH policies), RU has enough water to serve its existing 198 customers, and its existing 88 ready to serve commitments. RU's existing and ready to serve customers equal 508 Equivalent Residential Units (ERU's). Average historical usage by RU customers equals 273 gallons per day per ERU. Staff confirmed with RU that the 273 gallons per day per ERU takes into account production requirements (*e.g.* back flushing the filters). Therefore, based on historical usage, the requirement in AFY for 508 ERU's is 155 AFY.

508 ERU's X 273 gallons per day X 365 days = 50,619,660 gallons

50,619,660 gallons ÷326,700 gallons per AFY = 155 AFY

This leaves a reserve of 38 AFY, or 12.4 million gallons of water. Whether this "reserve" is sufficient to serve additional growth, and if so, how much growth, will depend on actions by DOH, changes in current customer usage patterns, repair of leaks and changes in the system.

Staff understands that new development (*i.e.*, beyond RU's existing customers and existing ready to serve commitments) will be performed by developers. Developers will need to acquire water rights in order to develop the property. The likely source of such rights will be OWH. In this scenario, the developer would purchase the water rights from OWH and provide them to RU, to enable the company to provide service. It is possible for the developer itself to form a water company, but staff considers that scenario unlikely.

5)

Comments received from Gunther Eschenbrenner: Staff summarizes Mr. Eschenbrenner's comments as follows:

The 1999 loan for the construction of the water treatment plant was scheduled to be repaid by 2007 through a facilities charge of $3,100 to new customers and a surcharge of $22 per month for all residential customers and all ERU's for bulk and commercial customers. In 2001, DOH reduced the number of approved connections to the water system because actual water treatment plant capacity did not result in the expansion of the full number of new customer connections originally anticipated. This resulted in an unpaid balance of $279,552 being carried forward. Staff has allowed 87 percent of the water treatment plant loan balance (or $243,427) to be capitalized under the proposed sale and transfer and rate case, and therefore is subject to repayment by the customers of RU. Since the cause of this current loan balance is solely the responsibility of RU, RU should be paying the loan balance from the profit of the sale to WWS.

Staff response: RU's original basis for allocating the cost of the plant was based on the best information available at the time. DOH's decision to reduce the number of approved connections was not a result of omission or oversight on the part of RU. For example, had RU known that DOH would approve fewer connections, RU likely would have increased the facility charge and surcharges accordingly. Staff believes that, by moving a portion of the loan balance to equity, RU has selected a reasonable method for the company to recover the costs of the treatment plant that were not recovered by the original surcharge and facilities charge. RU is in the process of resolving the original capacity issue that led to DOH reducing the number of connections allowed through a State Revolving Fund loan.

6) **Comments received by Mr. James Hennessey, OHA Board Member:** Staff summarizes Mr. Hennessey's comments as follows:

   a) The meter-based rates in staff's revised rate proposal compared to the ERU methodology impose higher rates on OHA residents when compared to RU residential customers. It is just not fair. In Mr. Hennessey's view, "who owns the meter is not important."

   b) Mr. Hennessey wants RU to read OHA's individual ¾-inch meters to calculate rates. If that is not practical, then Mr. Hennessey wants RU to divide the usage on the 2-inch meter by its 105 residents, with usage blocks changed to reflect individual OHA customers.

   Staff response:

   a) Staff has responded to Mr. Hennessey and others on this issue. Please refer to these responses and Table 1 above.

   b) Staff submits that who owns the meters (and the distribution system) is indeed important. RU does not own the meters or the distribution system that serve OHA members. It is not appropriate for a utility to be made responsible to read such meters, to be made responsible for the accuracy of such meters, or to bill based on such meters.

7) **Comments received from Mr. Rollie Sauer:** Staff summarizes Mr. Sauer's oral comments as follows:

   a) Mr. Sauer criticized a statement by staff in a prior response where staff: 1) used the term "flow;" and 2) referred to gallons of water used. Mr. Sauer believes these two concepts are identical.

   b) Mr. Sauer states that all households, whether they are served by RU's distribution system, or by OHA's distribution system, should be treated the same.

   c) The commission should reserve a decision on the transfer of assets from RU to WWS, because that might impede annexation efforts. Mr. Sauer provided a document indicating annexation efforts had begun.

Staff response:

a) The concepts of "flow" and "gallons used" are different concepts. "Flow measures the maximum amount of water than can flow through one meter size versus another over the same period of time (expressed in gallons per minute). "Gallons used" measures the actual quantity of water used in a given period, which may be less than the maximum flow. For example, the maximum flow through a 1-inch meter is 50 gallons per minute; for a 2-inch meter it is 160 gallons per minute. The flow through the 1-inch meter may not be at capacity and instead be flowing at 30 gallons per minute (60 percent capacity). In 30 minutes, 900 gallons would have been "used". For the 2-inch meter, if actual rate of flow would be at 38 percent of the meter's capacity (60 gallons per minute), then it would take 15 minutes for the same 900 gallons to be "used". Staff used these differences in maximum meter flow to derive the usage blocks for customers with different size meters. Staff used data for gallons used to calculate actual consumption during the test period.

b) All households that use RU-supplied water are not the same. Some are served through RU's distribution system, and are separately metered by RU. Others are OHA members, and they are not served by RU's distribution system. Instead, they are served by a single RU 2-inch meter. It is appropriate for a rate design to recognize the legal and factual differences that distinguish these households.

c) Staff understands an annexation would place the utility under public ownership. Whatever the merits of annexation (staff has no position on that issue), commission statutes do not empower the commission to consider that issue.

8) **Comments received from Herta Fairbanks, consultant to the RPOA:** Staff summarizes Ms. Fairbanks's oral comments as follows:

a) New information from DOH (Stephen Deem) shows RU was not compelled by haste to use hydroxyl technology;

b) The capacity of 508 ERU's was not achieved by the water plant resulting in fewer new connections and less revenue through facility charges resulting in an unpaid balance being carried forward;

c) Company did not expand the capacity of the treatment plant in time to prevent an unpaid balance to be carried forward;

d) Conversion by RU of the balance of the water plant debt to equity is an issue;

e) Water rights value of $100,000 is excessive; use WestWater Research study value of $1,500 to $2,000 per AFY instead; and

f) Staff and consultant are working on a new rate design proposal.

Staff response:

a) through e) Staff has responded to all of these comments in prior responses above.

d) Staff has not been working on a new rate design proposal.

9) **Comments received from Sandy Taylor:** Staff summarizes Mr. Taylor's oral comments as follows:

a) Because RU got 183 AFY for "free" and paid $100,000 for 10 AFY, RU really paid $100,000 for 193 AFY, not 10 AFY.

b) There is nothing left of the hydroxyl system today due to changes made to make the system work to DOH specifications.

c) The company has made high cost/low value choices customers are now paying for

Staff response:

a) If Mr. Taylor's analysis is correct, then the value of all the water rights RU has is $100,000. That amount would normally be included in rate base, assuming the value is appropriate. As staff has discussed, it is not necessary for the commission to decide this issue because staff's analysis shows that whether that amount is in rate base or not, RU has justified its proposed revenue requirement.

b) It is correct that the hydroxyl technology did not work out as planned, and changes were made to make the system work. However, cost overruns were not included as part of the surcharge. Some of these cost overruns were absorbed by RU's vendor, such as the costs for engineers, consultants, etc., for work required during construction and startup of the plant. These costs were not passed on to RU ratepayers. Consequently, staff believes customers were fairly treated under the surcharge.

c) Staff has analyzed the decisions the company has made, and has adjusted the results of operations where an adjustment is appropriate, in staff's opinion.

10) **Comments received from Mr. Tom Berg:** Staff summarizes Mr. Taylor's oral comments as follows:

Mr. Berg stated that he has heard the same issues discussed for many years, and he believes it is time to have a hearing to resolve these issues.

Staff response:

For the reasons stated in staff's responses to other questions, staff does not believe a hearing is justified for either the rate case or the sale and transfer case.