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Washington Utilities and Transportation Commission

Docket # 190160 Olympic Water and Sewer

Dear Commissioner Danner
Commissioner Rendahl
Commissioner Balasbas

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COMMISSION

My written testimony and charts and graphs are over 16 pages long and I thought it would be helpful if I summarized the high points.

First, I want to emphasize that the residents of Port Ludlow deserve arsenic free, manganese free and coliform free drinking water and I am 100% in support of this. The new filtration and chlorination system must be put in as soon as possible and there should be no delays. There is no dispute about this.

My testimony today is about who should pay for the new filtration and chlorination system.

Olympic Water and Sewer (OWSI) has rushed through a proposal for a \$5.00 a month surcharge to begin in May 2019 and has asked the Washington Utilities and Transportation Commission to waive most of the submission paperwork. (See attachment 1) The surcharge would be for defraying the expense of an approximate \$2,200,000 loan with the Department of Health and would last 20 years, with the residents paying 70% and OWSI paying 30%.

1. Why is Olympic Water and Sewer trying to rush this through with minimal paperwork? **The loan cannot be funded until July 1, 2019**, and the engineering and contracts will not be finished until the end of 2019. The Commission should delay a vote on this surcharge until more information about OWSI can be developed.
2. Why a 20-year surcharge? Why a surcharge that would increase the rates for the residents by more than **13.6%**?
3. Olympic Water and Sewer's **contract accounting and management costs** are three times higher than the amount they spend on repairs and maintenance over

the past 5 years. A significant reduction in these costs could pay for more than half of the proposed loan.

4. **Who works for Olympic Water and Sewer?** A review of WUTC submissions from 2003 shows a stable employee workforce of 4 or 5 Water/Sewer personnel but in 2006 a Treasurer, Controller, Human Resource Manager, Accounts Receivable and Accounts Payable positions were all added at more expense to the residents. Why?
5. Property taxes seem to have **significant fluxations**, almost doubling from one year to the next.
6. Olympic Water and Sewer's **Water** average profit over the last 5 years is \$127,000 (18% return on revenue) while the **Sewer** profit during the same period averaged **\$703,000 (74% return on revenue)**. These profits went to directly subsidize the parent company, Port Ludlow Associates, who appears to be in some financial difficulties.

I am asking the Commissioner to delay the surcharge until the WUTC staff has a chance to audit the full books and analyze third-party relationships of Olympic Water and Sewer. Olympic Water and Sewer appears to have been subsidizing its parent company for many years at the expense of providing clean and pure drinking water to the residents of Port Ludlow.

Thank you.

Allan Kiesler

Detailed Comments

I have several parts to my testimony, but I want to go on record that I am very much in favor of clean, manganese-free, arsenic-free and coliform-free water for all of Port Ludlow. This filtration and chlorination system is long overdue, and it is a problem that has been known about for over 15 years. We need this filtration and chlorination system put in as soon as possible, and I am not opposed to sharing in some of the expense.

I am asking the Commissioners to delay a vote on the surcharge until May or June of 2019. As I will show in my later testimony, OWSI has more than enough revenue to cover engineering and loan administration expenses. The earliest the loan can be funded is July or August 2019, so there is no need to rush approval of this proposed surcharge.

All of the financial information I will be presenting has been taken from the **Class A & B Water Companies Annual Reports** from 2003 through 2017.

Two additional notes: First, beginning in 2015 the Olympic Water and Sewer Annual Reports did not contain the "Consolidated Statements Of Cash Flows". This is a critical document that helps the public know where monies are being spent and adds to the transparency of the report.

Second, I wanted to commend your staff, for assisting me in understanding the regulations, and a special thanks goes to John Cupp for his patience and guidance.

Slow Down The Rate Increase Process For A Month Or Two

Olympic Water and Sewer (OWSI) has had problems with manganese since at least the year 2000 and on-and-off problems with coliform for the last two to three years. The arsenic has been a problem ever since the well was drilled and the water had to be blended. These problems are not new, and OWSI should have had a comprehensive remedy plan ready to address the coliform problem.

Instead, with little warning to the Port Ludlow residents, we got notice of a meeting on March 7, 2019, sponsored by the Village Council, about the proposed OWSI rate increase. A letter dated March 6, 2019, was sent out by OWSI explaining the increase and that they were asking the Washington Utilities and Transportation Commission to approve this on April 11, 2019. The cost of the project would be borne 70% by the users and 30% by OWSI. The cost for the users, in the form of a surcharge, would be \$5.00 per month for the next 20 years.

Why the rush?

At the March 7, 2019 meeting we were told that OWSI was getting a \$2,200,000 loan from the Washington Department of Health and it was in the final stages of the approval process. We were also told that the engineering for the project would not be completed until the end of 2019 and probably would not go out to bid until early 2020. The rate increase if approved would go into effect on May 1, 2019.

I would like to see the WUTC delay any rate increase until more concrete facts are known about the project. As I stated earlier, I am 100% in favor of the project and believe all of the residents of Port Ludlow deserve manganese, arsenic and coliform clean water. What happens if the engineering and bid for the projects comes in at \$2,800,000 or \$1,700,000? Will the surcharge be increased or decreased?

Many Port Ludlow residents are confused about when all this is going to happen, and we have not seen a timetable. If OWSI is going to chlorinate the water, why not start in North Bay where we already have green sand filters in place. Why would we start paying now when the project will not happen for almost two years? OWSI has not answered any of these questions.

Why a 20 Year Surcharge? Why not a rate increase?

Most of the residents of Port Ludlow will have passed away by the time the surcharge has ended, and most likely Port Ludlow Associates will not be around then either.

Is a surcharge being requested so a more comprehensive accounting review will not have to be completed?

Is a surcharge being requested so OWSI can ask for a general rate increase in the near future?

Is the surcharge being requested so OWSI can make a "fair return" off of the 30% they contribute?

In reading some of the underlying regulations, it appears that surcharges should not exceed 3% of the average water bill, and that a request for a revenue increase greater than 3% should be handed as a general rate case.

OWSI Revenue 2017	OWSI Water Clients	Average Yearly Cost Per Client	Average Monthly Cost Per Client	Proposed Surcharge	Percent Increase
\$733,254	1663	\$ 440.92	\$ 36.74	\$5.00	13.6%

A 13.6% increase appears to be excessive and should be handled as a regular rate increase.

Contractual Accounting and Management

Port Ludlow Associates took over Olympic Water and Sewer in 2002 or 2003, and contractual accounting and especially **contractual management** costs more than doubled by 2014. A look at contractual accounting and management costs versus repairs and maintenance shows that many more dollars going to parent company Port Ludlow Associates than are spent on repairs and maintenance. **

Year	Contractual Accounting & Management	Repairs & Maintenance
2002	\$ 70,130.00	\$ 1,879
2003	\$ 70,628.00	\$ 5,477
2004	\$ 115,792.00	\$ 40,129
2005	\$ 101,793.00	\$ 194,753
2006	\$ 107,114.00	\$ 87,234
2007	\$ 119,968.00	\$ 50,971
2008	\$ 149,200.00	\$ 11,245
2009	\$ 206,912.00	\$ 39,693
2010	\$ 193,250.00	\$ 83,398
2011	\$ 157,668.00	\$ 9,004
2012	\$ 149,242.00	\$ 18,977
2013	\$ 156,030.00	\$ 19,213
2014	\$ 167,455.00	\$ 13,797

In only one year, 2005, did repairs and maintenance exceed the contractual accounting and management cost.

** Source Class A & B Water Company Annual Reports

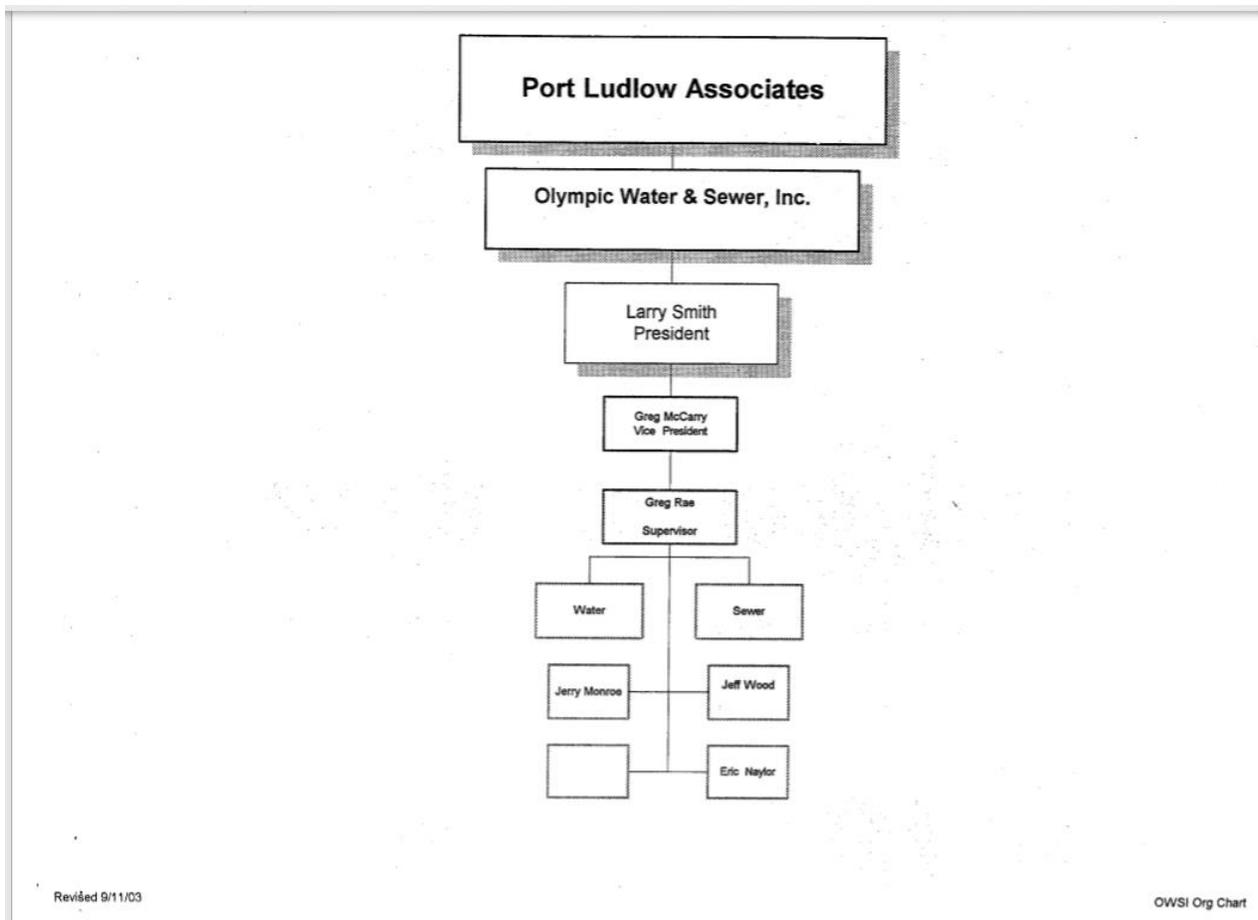
When the numbers are averaged out the disparity is even more apparent.

	Contractual Accounting & Management	Repairs & Maintenance
Average	\$ 135,783.23	\$ 44,290.00

I think it would be very helpful to delay the surcharge until the contractual accounting and management expenses are fully explained.

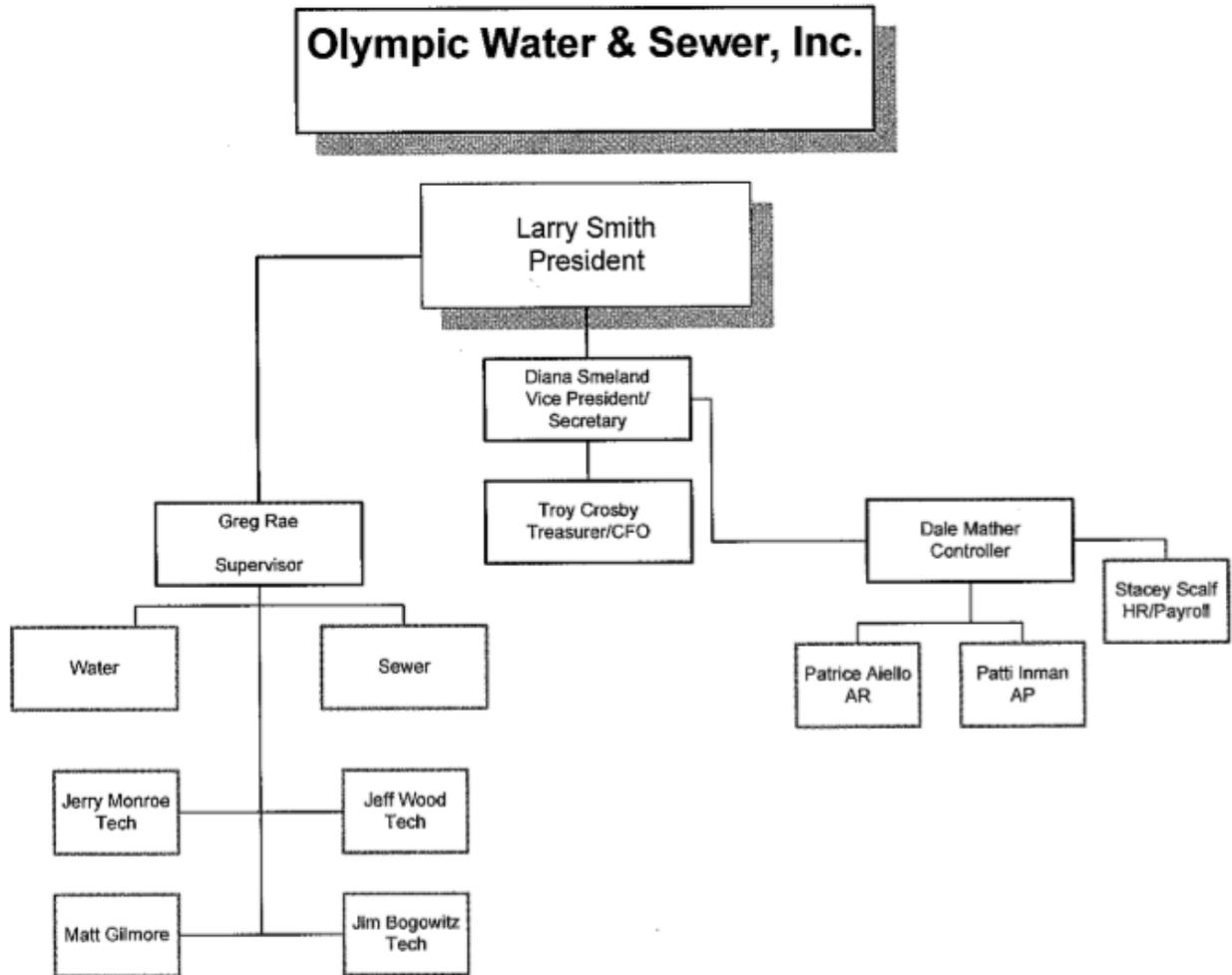
Who Works For OWSI “Water” and What Do They Do?

Each year from the earliest records that WUTC has on OWSI an organization chart is included. This is a 2003 organization chart.



In 2003 there were 4 employees who worked on **both the water and sewer sides** of OWSI. There is a President and Vice President.

From 2003 through 2005 the organization chart stayed the same but it changed considerably in 2006.



Shared/Gen/HR/Or

An additional shared water and sewer position has been added but on the management side the following have been added:

Treasurer/CFO

Controller

Human Resources/ Payroll

Accounts Receivable

Accounts Payable

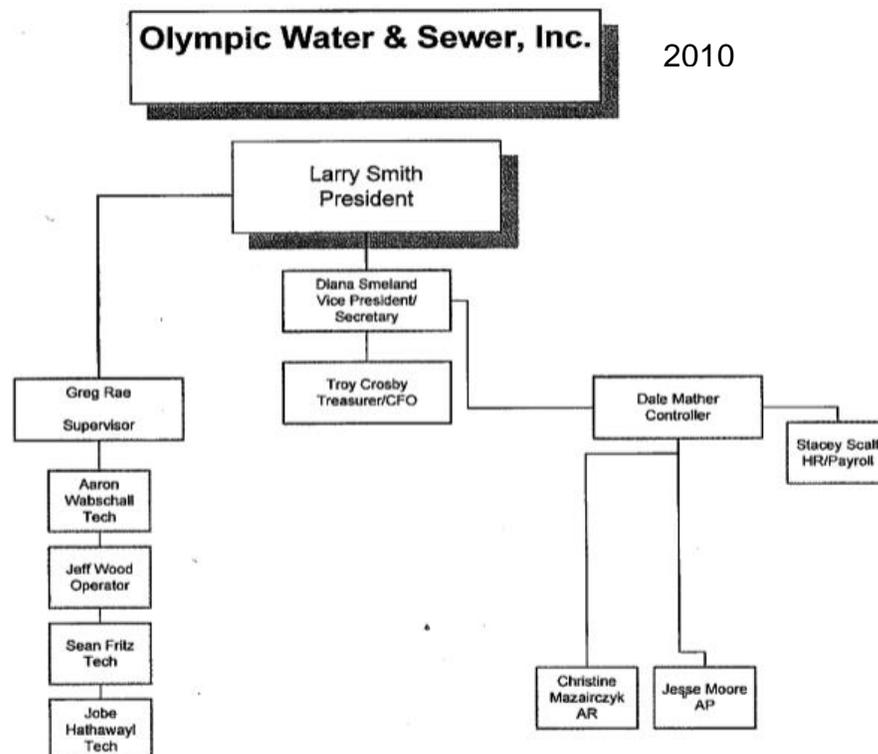
Checking payroll and payroll taxes from 2005 to 2006, it appears the only change was the addition of the one water-sewer position.

Why after several years of Port Ludlow Associates ownership does OWSI "Water" need a Treasurer-Chief Financial Officer? I have been told that Troy Crosby lives in San Francisco and heads a large investor group. I would be surprised if Mr. Crosby was involved with the day to day operations of OWSI – Water. **How much was this person paid? How much was split between OWSI sewer and water?**

Why is a Controller needed? Citizens of Port Ludlow pay their bills like clockwork and bad debts are less than .001% for 2006 (\$134) and in 2014 .14% (\$1,023). OWSI – Water has little money to invest and most costs are routine. How much was this person paid? How much was split between OWSI sewer and water?

The Human Resources-Payroll position is very interesting. Payroll for 5 employees should take no longer than 2 hours twice a month and 1 additional hour for quarterly taxes. The Human Resource part of the job should also be very easy since 3 out of the 5 employees have been with OWSI – Water for more than 3 years. **How much was this person paid? How much was split between OWSI sewer and water?**

In 2010 the split between water and sewer was eliminated and the employees were just shown on the water side. **The employees still worked both water and sewer.**



In 2012 Wendy Davis became the HR Manager and payroll was dropped.

Property Taxes

The following are the Jefferson County Property Tax paid by OWSI- Water from 2002 through 2014.

(Again the Consolidated Statement Of Cash Flows was only available through 2014 as part of the reporting process)

Year	Jefferson County Property Tax
2002	\$ 8,383.00
2003	\$ 17,302.00
2004	\$ 17,474.00
2005	\$ 19,560.00
2006	\$ 21,363.00
2007	\$ 22,043.00
2008	\$ 18,226.00
2009	\$ 16,737.00
2010	\$ 19,284.00
2011	\$ 17,517.00
2012	\$ 17,315.00
2013	\$ 16,201.00
2014	\$ 8,641.00

What happened between 2002 and 2003 where the property taxes jumped by almost \$9,000.00? What happened between 2013 and 2014 where the property tax expense decreased by almost \$8000.00.

In checking with the Jefferson County's Assessor's Office only 5 properties were listed for OWSI. OWSI also has other equipment and wells on property belonging to Port Ludlow Associates and other individuals and may be paying the property tax on these parcels. This may just be an anomaly or resetting of property values but should be looked at.

The Real Elephant In The Room

The Expense Split Between OWSI Water and OWSI Sewer

And The Enormous Profits Of OWSI Sewer

I have read the regulations, talked with the WUTC Staff and looked at your mission statement. From your web page:

*Washington State law requires that utility and transportation rates must be reasonable to customers, giving regulated companies a chance to cover legitimate costs and **earn a fair profit**, so they can stay in business. ...*

For most of our state's history, private utilities and carriers providing public services usually have been monopolies. If they had been left unregulated, without the restraints of the free-market system, they would have had unchecked power over the state's most essential services.

The following is a table of OWSI Water and Sewer Profits and percent of revenue.

OWSI Water and Sewer Profits				
	Water - Profit	Water Percent Of Revenue	Sewer - Profit	Sewer Percent Of Revenue
2005	\$ (193,495)	-40%	\$ 932,495	87%
2006	\$ (111,685)	-22%	\$ 761,685	80%
2007	\$ 27,018	5%	\$ 527,386	67%
2008	\$ 63,112	10%	\$ 501,013	68%
2009	\$ 24,288	3%	\$ 624,501	81%
2010	\$ (12,577)	-2%	\$ 583,002	74%
2011	\$ 127,393	20%	\$ 557,607	68%
2012	\$ 166,131	25%	\$ 591,869	68%
2013	\$ 121,231	18%	\$ 641,769	73%
2014	\$ 144,787	16%	\$ 641,040	74%
2015	\$ 144,787	20%	\$ 639,213	71%
2016	\$ 123,543	17%	\$ 768,457	75%
2017	\$ 101,456	14%	\$ 824,544	72%

These numbers are staggering! Since I am not an accountant, I showed how these numbers were derived to a CPA who confirmed that they had been calculated correctly.

The average for the last 5 years is as follows:

OWSI Water Revenue 5 Year Average	OWSI Water Profits 5 Year Average	Water Percent Profit	OWSI Sewer Revenue 5 Year Average	OWSI Sewer Profits 5 Year Average	Sewer Percent Profit
\$710,619	\$127,161	18%	\$ 954,446	\$703,005	74%

The 18% average profit for OWSI water probably falls within the WUTC guidelines but I am sure that the 74% average profit for OWSI Sewer is well out of the range.

On the water side if we were to add the un-funded depreciation \$67,161 (2017) to the profit of \$101,456 (2017) that would mean the parent company cash flow would be \$168,617 on revenues of \$733,254 or almost 23%.

In researching the information for this testimony, I took a look at the Statement Of Operations Summary for Port Ludlow Associates that was included as part of the Annual Report. (A larger copy of this table is at the end of this testimony)

Port Ludlow Associates Statement Of Operations Summary						
	2012	2013	2014	2015	2016	2017
Commercial Operations Income or (Loss)	\$ 663,000.00	\$ 345,000.00	\$ 484,000.00	\$ 309,000.00	\$ 327,000.00	\$ 388,000.00
Hospitality Services Income or (Loss)	\$ (161,000.00)	\$ (137,000.00)	\$ (332,000.00)	\$ (114,000.00)	\$ 21,000.00	\$ (88,000.00)
OWSI Utility Operations Income or (Loss)	\$ 758,000.00	\$ 763,000.00	\$ 758,000.00	\$ 784,000.00	\$ 892,000.00	\$ 926,000.00
Home and Land Sales Income or (Loss)	\$ (766,000.00)	\$ (562,000.00)	\$ (321,000.00)	\$ 99,000.00	\$ (305,000.00)	\$ 426,000.00
Real Estate Income or (Loss)	\$ (91,000.00)	\$ (96,000.00)	\$ (93,000.00)	\$ (85,000.00)	\$ (24,000.00)	\$ 14,000.00
Rental Property Income or (Loss)	\$ -	\$ 252,000.00	\$ 146,000.00	\$ 128,000.00	\$ 106,000.00	\$ 157,000.00
Sub Total	\$ 403,000.00	\$ 565,000.00	\$ 642,000.00	\$ 1,121,000.00	\$ 1,017,000.00	\$ 1,823,000.00
Marketing Expense				\$ (228,000.00)	\$ (238,000.00)	\$ (183,000.00)
General Admin and Other Expenses	\$ (582,000.00)	\$ (580,000.00)	\$ (606,000.00)	\$ (741,000.00)	\$ (838,000.00)	\$ (862,000.00)
Sub Total Before Depreciation, Income Tax	\$ (179,000.00)	\$ (15,000.00)	\$ 36,000.00	\$ 152,000.00	\$ (59,000.00)	\$ 778,000.00
Sub Total Without OWSI Utility Operations Income						
Before Depreciation, Income Tax	\$ (937,000.00)	\$ (778,000.00)	\$ (722,000.00)	\$ (632,000.00)	\$ (951,000.00)	\$ (148,000.00)

Note: Depreciation and Taxes are already included in the Utility Operations Expenses

Although the Commission usually does not look at the Statement Of Operations, I believe that it should be reviewed. Since 2012, for the six-year period, more than \$4,881,000 has been taken out of OWSI to keep the parent company, Port Ludlow Associates, afloat. A reasonable profit should be allowed but this is not reasonable.

As a Port Ludlow resident, I would have liked some of the monies put back into upgrading the physical plants of both the water and sewer sides. Per Greg Rae, from OWSI, the green sand used for filtration had not been changed since the “mid-nineties”. Mr. Rae estimated the cost of replacing the green sand might be \$20,000 and that would have been a drop in the bucket for OWSI. How much deferred maintenance is there?

I could not find any “reserves” in the OWSI submissions and every penny that could be taken out has been. Additionally, couple these excess profits with the very high contractual management and accounting costs and you get a water and sewer company that appears to focus on saving the parent company from possible bankruptcy.

OWSI should only be focused on getting clean water for all Port Ludlow resident.

Summary

I would like to ask the Utilities and Transportation Commissioners to delay approval of the requested surcharge until the UTC Staff can do a quick audit on the Olympic Water and Sewer books and a detailed review of third-party relationships. As a guideline WAC 480-110-575, that is normally used for a Class A water companies could be used. A quick look at time cards could determine how expenses are split between OWSI Water and Sewer. Officer’s salaries and expenses, contractual management and accounting should also show time records for water and sewer. Deferred maintenance should also be on the list to make sure all necessary repairs are being made.

I believe a quick audit could be completed by the end of May or June 2018 and that would still give enough time for the Commission to rule on a rate increase or surcharge.

Thank you,

Allan Kiesler

A quick PS. On April 4, 2019, OWSI just filed a request to submit even less paperwork to the Commission. What are they trying to hide? Please see Appendix ??

Attachment A	Olympic Water and Sewer Letter Dated April 4, 2019
Attachment B	OWSI Contract Accounting/Management Costs Verse Maintenance and Repairs
Attachment C	OWSI Revenue verse Profits 2013-2017
Attachment D	OWSI Revenue verse Profits 2005-2017
Attachment E	Port Ludlow Associates Statement Of Operations Summary