

Wyse, Lisa (UTC)

From: Holman, Donna (UTC) on behalf of Jones, Philip (UTC)
Sent: Friday, September 28, 2007 8:20 AM
To: UTC DL Records Center
Subject: FW: Rosario rate request and transfer of assets request
Attachments: OHA last letter.doc

FYI

Donna

From: Bea vonTobel [mailto:bvt99@rockisland.com]
Sent: Thursday, September 27, 2007 5:27 PM
To: Sidran, Mark (UTC); Oshie, Patrick (UTC); Jones, Philip (UTC)
Cc: Eckhardt, Gene (UTC)
Subject: Rosario rate request and transfer of assets request

Gentlemen:

We concur with RPOA's position, Vusario's position, and attach this letter as evidence of our concern.

Thank you.

Bea vonTobel, President
Orcas Highlands Association

9/28/2007

Chairman Mark Sidrin
Commissioner Phillip Jones
Commissioner Patrick Oshie
September 27, 2007

Re: Rosario Utilities Rate Request and Transfer of Assets Request

Dear Chairman and Commissioners,

We, the Orcas Highlands Association, are writing to you in regards to the above-referenced proposals by Rosario Utilities. We represent a substantial percentage of the customers of this regulated company. We have provided comments the Commission and worked with Commission Staff including performing research and providing the findings of our research in support of making a decision in the two proposals that meet the mission of the WUTC: fair, just, reasonable and sufficient and in the public interest.

As we have asserted all along, we are not contesting the proposed revenue requirement of Rosario Utilities. Our concerns hinge around two areas of interest:

- 1) Rate Design
- 2) Transfer of Assets application

RATE DESIGN

Since the last open meeting/public comment period, we have been working with the WUTC staff to develop a rate design that generates the appropriate revenue from the appropriate customer groups and also achieves the proposed revenue requirement. Last week we proposed the following rate structure:

Base Rate	\$36
Ready to Serve	\$22
Consumption Block 1	0-8,000 gallons
Consumption Block 2	8,001-15,000 gallons
Consumption Block 3	>15,000 gallons

We proposed this through our consultant, Herta Fairbanks of HDR, Inc. She worked with Jim Ward of your staff and your staff developed the block usage rates to match the proposed block consumption amounts that would generate the revenue in the appropriate places. Our consultant brought the consumption numbers back to us and we are pleased with the rate design. On September 26th, we were notified by WUTC Staff that they would only go forward with the proposed rate design if they had a letter by the close of business that day from the three homeowners' associations stating that they were in support of the rate design. Further, Staff demanded that the Highlands commit to transfer their distribution system to Rosario Utilities/Washington Water.

Each customer group provided the requested letters in support of the rate design. The Orcas Highlands Association was not able to provide a letter stating that they will transfer their distribution system to the utility yesterday as an agreement was not struck. OHA is still working on this issue but cannot obviously commit to transferring their distribution system until mutually agreeable terms are developed.

Due to the inability for the OHA to provide a blanket statement by close of business yesterday that they will transfer their system to the utility, WUTC Staff informed us that they intend to go forward with their August 29th rate design even though they are in receipt of letters from the homeowners' groups in support of the mutually developed rates.

As stated in the letters dated September 26th, the homeowners still endorse the homeowners' proposed rate design and encourage you to allow the homeowner-endorsed rates to go into effect for the following reasons:

- 1) the homeowners' proposed rate design generates the Company-proposed revenue
- 2) WUTC Staff calculated the revenue generation based upon these rates and stated that the revenue is generated in the appropriate places, from the appropriate groups
- 3) Staff's August 29th rate design represents a rate design no customers endorse
- 4) We believe that the fact that the OHA was not able to successfully conclude negotiations on the transfer of their water system assets to the utility in a matter of less than four hours is not sufficient reason to disregard customer input and propose a rate design that we believe does not represent a fair rate structure

Staff has stated that they were willing to work with the customers, but in every instance including this current proposal, has ultimately disregarded customer input. We have worked very hard to provide Staff with relevant information in support of our concerns, ask pertinent questions, and educate ourselves on the current situation and the regulatory process throughout the last several months. We feel that if Staff's proposal is ultimately accepted, we can only conclude that the regulatory process does not work. We believe it is better to place rates into effect that accomplish the goals of the utility (revenue generation), the goals of the staff (revenue generation equal to water consumption) and the goals of the customers (rate equity) than to place rates into effect that appear to only satisfy two of the three groups' goals.

It appears that WUTC Staff does not fully understand the customers' concerns with the current Staff proposal, as correspondence received from WUTC Staff as recent as today states that "there is no change in customers and there's no need to change rate designs" because the OHA have not transferred their system. The issue of the status of the OHA customers is only *one* of the issues, but not the only issue. There are two other fundamental and significant issues:

- 1) Base rate revenue generation
- 2) Ready to serve charge

Base Rate Revenue Generation

As customers of this water system, we are concerned at Staff's proposed rate design that places most of the revenue generation on the consumption portion of the rates. We feel that this places the utility into a position of revenue risk if consumption does not equal what Staff has calculated as predicted consumption. This may trigger another rate filing in the very near future if, for instance, next year is a wet summer. We, therefore, requested a higher base rate to provide the utility with more predictable and levelized revenue generation throughout the year.

Ready to Serve Charge

We requested a ready to serve charge that was lower than the base rate to an active customer. Staff's recommendation places the two equal to each other. Obviously, our proposal is not motivated by a desire to shift revenue generation from us to another customer group as our proposal actually assesses active customers MORE than ready to serve customers. Our motivation with this request is to reflect the fact that the utility has overcommitted itself and does not currently have the capacity capability to serve all the future connections that currently sit in ready to serve status. We don't feel it is fair or equitable to charge a customer a rate equivalent to that of an active customer if they have no guarantee of actually becoming an active customer at the time they request the service connection they have already paid for.

TRANSFER OF ASSETS

We, as customers of this utility, request that the Commission does not act on the proposed transfer of assets application. During the public comment period of the last open meeting, we expressed our concerns related to the transfer of assets including concerns related to water rights and the prudence of the treatment plant. We presented evidence to the Commission, some of which had previously been provided to Commission Staff, in the form of reports prepared by industry experts and correspondence that cast doubt onto assertions by both Rosario Utilities and Washington Water, the two parties to the transfer of assets.

Since the time of that open meeting, we have continued our research and have discovered even more issues that add to the uncertainty related to the water rights. We have cc'd the Commission on our most recent correspondence in an attempt to provide you with the most up to date information on this issue. Recent developments include the following:

- 1) whether the water right transferred back from Orcas Water Holdings to Rosario Utilities are certificated water rights or permitted water rights – therefore subject to not being granted and placing the utility into a position of non-compliance by virtue of the transfer

- 2) the type of water rights that are owned by either Orcas Water Holdings or Rosario Utilities and whether they can legitimately be used for domestic purposes (several of the rights were granted for hydropower production, not municipal domestic use)

We believe that to deem the transfer of assets from Rosario Utilities to Washington Water to be in the public interest is premature given the uncertainty surrounding just exactly which assets are being transferred and whether Rosario Utilities has the legal right to transfer them. We realize that the WUTC is not required to determine the rate base of the proposed assets to be transferred, but we do believe that a complete accounting of what is to be transferred should occur as well as a provision of the historical basis of these assets, the year placed in service, and some proof of ownership by Rosario Utilities that they have the legal authority to transfer the assets. After all, these very same issues have been outstanding since at least the 2001 rate case and each time the issue comes up, more uncertainty is added to the situation. It should not be Washington Water's burden of proof to produce historical documents later that should easily be produce-able by Rosario Utilities now. If Washington Water carries that burden of proof later, it will likely drive an increase in rate case costs to try and justify the requested rate base which will ultimately impact us, the customers. These same issues that are present today have been present in previous rate cases filed by the utility and each time requires more and more effort to sort out. Eleven years and three rate cases later, these issues do not get simpler. Therefore, we respectfully request that the WUTC take no action on the transfer of assets application until such time as a complete determination of being in the public interest can be made. Staff's justification that "Rosario wants out and Washington Water wants in" does not seem sufficient to make this determination.

Thank you,

Orcas Highlands Association