

**Supplement to staff memo previously circulated September 26, 2007.**

Agenda Date: September 28, 2007  
Item Number: D1

**Docket:** UW-070944  
Company Name: Rosario Utilities, LLC

**Staff:** Jim Ward, Regulatory Analyst  
John Cupp, Regulatory Analyst  
Lynda Johnson, Consumer Program Specialist  
Chris Mickelson, Regulatory Analyst

**Recommendation**

Take no action thereby allowing the revised rates filed by Rosario Utilities, LLC, on August 22, 2007, to become effective October 1, 2007, by operation of law.

**Background**

This memo supplements staff's memo dated September 28, 2007, in Docket UW-070944, which was previously circulated. The purpose of this memo is to address new rate design proposals, and update and clarify staff's revenue requirements analysis.

**Revenue Requirement**

Staff presented its revenue requirements analysis in Attachment C to staff's September 28, 2007, memo. Staff wishes to clarify that the rate base in Attachment C does not contain the \$100,000 purchase price for 10 acre feet per year of water, an amount that has been subject to contention.

Revised Attachment C (all revisions are "shaded") to this memo is staff's updated results of operations statement. It is the same as the previous version of Attachment C, except that it shows an interest synchronization adjustment that:

- Adjusts the interest expense to reflect the company's pro forma capital structure.
- Adjusts federal income taxes to reflect this adjusted interest expense.

Neither of these adjustments changes staff's conclusion that Rosario Utilities, LLC (Rosario Utilities or company) has justified its proposed revenue requirement. The company's revenue requirement has not changed from its original filing.

**Rate Design**

On September 20, 2007, the commission received a letter from Mr. Roland Sauer, a board member of the Orcas Highlands Homeowners Association (OHHA), proposing a new rate design, contingent upon OHHA selling its water distribution system to the water company for \$1.00. That letter purports to be on behalf of or supported by three customer groups (OHHA, Vusario Homeowners Association and the Rosario Property Owners Association), and it has been represented as such by Ms. Herta Fairbanks, consultant. Staff has relied on these representations, and has now received a copy of the letter supporting the new rate signed by representatives of OHHA and Rosario Property

Owners Association. Staff expects to receive a copy of that letter signed by a representative of the Vusario Homeowners Association prior to the open meeting scheduled for October 28, 2007.

If the company purchases OHHA's water distribution system, the company will need to immediately file a different rate design. Currently, OHHA is a single water customer using a two-inch meter. OHHA provides water to each of its 105 members using the OHHA water distribution system. If the company purchases the OHHA water distribution system, OHHA will cease to be a water customer and each of the 105 OHHA members will become individual water customers using ¾-inch meters. Staff has analyzed the effect of transferring the OHHA water distribution system to the company at a cost of \$1.00 and the need to revise rate design to reflect the resulting change in customers.

On September 26, 2007, the company and Washington Water Service Company (Washington Water) met with OHHA to discuss the sale and transfer of the OHHA water distribution system. Staff understands that OHHA proposed to sell its water distribution system for approximately \$60,000, not \$1.00 as previously represented by Mr. Sauer. Staff also understands that Washington Water (pending application to purchase Rosario Utilities in Docket UW- 071357) committed to evaluate the distribution system to determine an appropriate costs basis, but cannot complete that analysis prior to the September 28, 2007, open meeting. Discussions are ongoing between OHHA and the company.

#### **Discussion**

At this time, there is no agreement to transfer the OHHA water distribution system. If and when the water company and OHHA reach an agreement to transfer OHHA's water distribution system, the water company should immediately file a revised rate design that reflects 105 additional ¾-inch meter customers and one less two-inch meter customer. There is no new information that would cause staff to change its recommendation.

#### **Recommendation**

Take no action thereby allowing the revised rates filed by Rosario Utilities, LLC, on August 22, 2007, to become effective October 1, 2007, by operation of law.

**UW-070944**  
**Revised**  
**Attachment C**  
**9/27/07**

**Revised Results of Operations**  
**Prepared by Staff**

**REVISED ATTACHMENT - C - 9/27/07**  
**REVISED CELLS SHOWN AS SHADED**  
**STAFF (COMPANY)**  
**REVISED NO. 1**

For the period ending  
 12/31/2006

Rosario Utilities, LLC  
 UW-070944  
 Results of Operations

	P&L 31-Dec-06	RESTATE Adjustment	PER BOOK End of Year	PROFORMA Adjustment	ROSARIO PROPOSED	RATE Adjustment	ROSARIO REVISED
<b>REVENUES</b>							
Unmetered Sales	488		488		488	(488)	0
Metered Sales, Residential	183	91,926	91,926	53,627	145,553	(3,671)	141,882
Metered Sales, Comm/Resort	14	71,035	71,035	43,816	114,851	22,129	136,980
Metered Sales, Bulk/OH/HA	1	60,389	60,389	37,241	97,630	(15,333)	82,297
Ready - To - Serve	88	12,902	12,902	12,902	25,804	(2,656)	23,148
<b>OPERATING REVENUE</b>	<b>\$236,740</b>	<b>\$0</b>	<b>\$236,740</b>	<b>\$147,586</b>	<b>\$384,326</b>	<b>(\$19)</b>	<b>\$384,307</b>
				62.34%	9.53%	62.33%	8.77%
<b>EXPENSES</b>							
Salary Employees	93,859	C1	107,064	P2	118,382	\$147,567	118,382
Salary Officers	0		0		0		0
Employee Pension/Benefit	29,358	C2	21,426	P2	27,045		27,045
Purchased Power	16,066		16,066		16,066		16,066
Chemicals	7,057		7,057		7,057		7,057
Material & Supplies	5,126		5,126		5,126		5,126
Contractual Engineer	0		0		0		0
Contractual Accounting	0		0		0		0
Contractual Legal	0		0		0		0
Contractual Ops	655		655		655		655
Testing	2,355		2,355		2,355		2,355
Rents / Building, Property	2,511		2,511		2,511		2,511
Transportation	4,221		4,221		4,221		4,221
Insurance	11,391		11,391	P3	20,881		20,881
Regulatory, Fees / Rate Case	0		0		0		0
SEWER	21,590		21,590		21,590		21,590
Travel/ Education/ Bank/ CCR	934		934		934		934
Office/ Postage / Phone	7,586		7,586		7,586		7,586
Repairs	12,607		12,607		12,607		12,607
Net Depreciation/Amortization	31,418	R1	27,916		27,916		27,916
Utility Excise Tax	18,106	R2	11,905	P1	19,328		19,328
Property Tax	4,183		4,183	P4	5,231		5,231
Payroll Tax	7,932	C1	9,635	P2	10,654		10,654
Other License DOJ/H/J/C	1,128		1,128		1,128		1,128
<b>OPERATING EXPENSES</b>	<b>\$278,083</b>		<b>\$275,356</b>		<b>\$311,273</b>		<b>\$311,273</b>
<b>OPERATING INCOME</b>	<b>(41,343)</b>		<b>(38,616)</b>		<b>73,053</b>		<b>73,034</b>
Interest Expense	8,491	R4	(7,836)		655	P5	33,624
Fed Income Tax - 15%					0	P7	5,816
<b>TOTAL EXPENSE</b>	<b>286,574</b>		<b>276,011</b>		<b>311,927</b>		<b>351,367</b>
<b>INCOME (LOSS)</b>	<b>(\$49,834)</b>		<b>(\$39,271)</b>		<b>\$72,399</b>		<b>\$32,940</b>
<b>NET OPERATING INCOME</b>	<b>(\$41,343)</b>		<b>(\$38,616)</b>		<b>73,053</b>		<b>\$67,218</b>
<b>UTIL PLANT IN SERV</b>	<b>1,920,143</b>	R3	<b>1,884,018</b>	P6	<b>1,913,443</b>		<b>1,913,443</b>
<b>ACCUM DEPRECIATION</b>	<b>(1,076,014)</b>		<b>(1,076,014)</b>		<b>(1,005,583)</b>		<b>(1,005,583)</b>
<b>CIAC PLANT IN SERV</b>	<b>(903,383)</b>		<b>(903,383)</b>		<b>(903,023)</b>		<b>(903,023)</b>
<b>ACCUM AMORTIZATION</b>	<b>816,085</b>		<b>816,085</b>		<b>761,576</b>		<b>761,576</b>
<b>NET RATE BASE</b>	<b>\$756,831</b>		<b>\$720,706</b>		<b>\$766,413</b>		<b>\$766,413</b>
<b>RATE OF RETURN %</b>	<b>-5.46%</b>		<b>-5.36%</b>		<b>9.53%</b>		<b>8.77%</b>
Customer Count	508		508		508	(222)	286