



Rosario Utilities customers protest hikes

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By MARGIE DOYLE, Editor

Faced with a proposed rate increase that will raise Rosario Utilities' annual revenue by 62 percent, property owners from the Rosario/Highlands areas and others filled the Discovery Room to near capacity as they met with representatives from the utility and its owners, Olympus Real Estate Partners, the Washington Utilities and Transportation Commission (UTC) which is reviewing the hike, and the Washington Water Services Company, which is in negotiation to purchase the utility.

After meeting earlier with representatives from area homeowners, Laurie Cameron of Olympus opened the meeting on June 14 by responding to the concerns addressed to the utility and to the UTC, in an effort to "clear the air on a number of issues and drill down to the rate case."

Cameron gave a brief history of Rosario Utilities since Olympus acquired ownership in Oct. 1999. In the spring of 2000, Olympus was served with an order from the state Department of Health to replace the water plant in seven months, Cameron said.

The replacement cost was originally estimated to be one million dollars. A complex filter design failed and the plant had to be re-engineered twice which added to the project's cost and timeline. Other unanticipated costs included trenching (which involved blasting), replacing a transfer switch and repairing a failed telemetry line. In addition, worker housing for two years was a cost that was not part of the charges to utility customers, according to Cameron.

Cameron explained that Olympus extended a loan at nine percent interest to the utility so that they could get a loan more speedily. Cameron acknowledged that "a component of the loan that hasn't been repaid is passed on." As of Feb. 2007, \$276,000 remains on the fully-depreciated seven year loan.

She also stated that Rosario Utilities' customers are "enjoying benefits of some of our debt efforts," noting that the utility spent 18 months obtaining a 1.5 percent state revolving loan to decrease the debt.

She also clarified that the 2002 rate increase was strictly for operations. She stated that when the Department of Health cut 40 to 50 Equivalent Residential Units (ERUs), which are a method of measuring water use within a water utility, they effectively "cut the revenue source," and that, with costs escalating, the utility has lost money the last two years.

Later in the meeting, Leonard Wood called it "a travesty" that the residual loan balance was being passed on to the utility's customers in a rate increase. He attributed the remaining balance to the 50 ERU's cut from the system: if there'd been hookup and surcharge fees collected for those connections, there would be no balance on the loan, Wood maintained.

Cameron addressed the issue of water rights, saying that Olympus "separated the water from the real estate and put it in safe harbor until it could be put to beneficial use. Your position and water rights are probably better protected than they were before."

The water rights, beyond those used to service Rosario Utilities' customers (including Rosario Resort and Cascade Harbor Inn) are now in Orcas Water Holding Company.

Chris Vierthaler, manager of Rosario Utilities listed some of the costs that have kept the utility from making a profit: General insurance, health insurance, staffing, hiring and maintaining a qualified staff, operator education, electricity, chemicals, business and property taxes, transportation, compliance with environmental and health regulations, and testing.

The "rate case" or process by which a utility rate increase is monitored by the UTC includes a staff audit, review by the UTC commission of records and data requests, which normally takes 30 days. In looking at a rate increase, the UTC looks at the previous year as a test period for costs.

If the commission doesn't approve, or "suspends" the rate increase, it goes before an administrative law judge for a formal hearing.

Mike Ireland, for Washington Water Services (WWS), prospective purchaser of Rosario Utilities, stated that since 1975 he has "never seen a rate case by a water utility just go into effect. They're either approved through agreement or suspended for a future hearing."

WWS operates 252 water systems in seven counties. Since 1999, it has been a subsidiary of California Water Services (CWS), which operates in New Mexico and Hawaii as well as in California and Washington. Ireland stated that the engineers and quality control of CWS provides technical support, and that economies of scale are possible with the larger company.

Ireland took some thorny questions on the sale from the hearing participants, stating that "When WWS purchases a water system, they make sure it's not too much and that it will recover its costs and obtain a reasonable rate of return on their investment."

The value of Rosario Utilities will be based on what the UTC approves as a rate base, Ireland said. If the UTC says the utility is not worth the rate base, then WWS would make a lower offer, according to Ireland.

None of the presenters was able to give a definitive answer as to what an average rate increase for individual homeowners might be if the rate increase proposed by Rosario Utilities goes into effect. Jim Ward, of the UTC, explained that all rate increases are based on the previous year's operating expenses. He also stated that capital improvements don't automatically increase rates, that a lot of improvements bring growth to the system, so there is no need for rate increase.

The meeting became testy as participants challenged Olympus' decision to install a Hydroxl plant rather than using the "slow sand filter" method. Cameron responded that Olympus was forced, from a timing standpoint, to go with the Hydroxl system, having been told by the Department of Health that "a militant user base" had campaigned to replace the system. Olympus was aware that the system needed replacement upon purchasing the plant in 1999, Cameron said, but not that the need was immediate. "If there was an option for a less expensive system, we would have taken it," Cameron said.

Hugh Hendrick proposed that the rate structure be suspended until one is proposed that meets standard billing practices.

Rollie Sauer, of the Orcas Highlands Homeowners Association, presented the resolution of the Association's board to request annexation of the Rosario Utilities service area by the Eastsound Sewer and Water District. He stated that area property owners don't want water "owned by a California corporation beholden to stakeholders," and asked WWS, "Do you really want to be a short-time owner?" referring to the possible takeover of the utility by ESWD if the annexation process goes through.

Ward responded to several questions from the audience that the UTC is analyzing their concerns and information as they prepare to make their recommendations on June 27.