

**Comments on Olympic Sewer and Water INC.
(OWSI)
Request for a Water Rate Increase
Presented by
Port Ludlow Village Council
December 16, 2010**

**Presented by
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&
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PLVC Utility Committee
Port Ludlow, WA**

PLVC 12/16/2010 WUTC Comments

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1. Port Ludlow Village Council (PLVC)

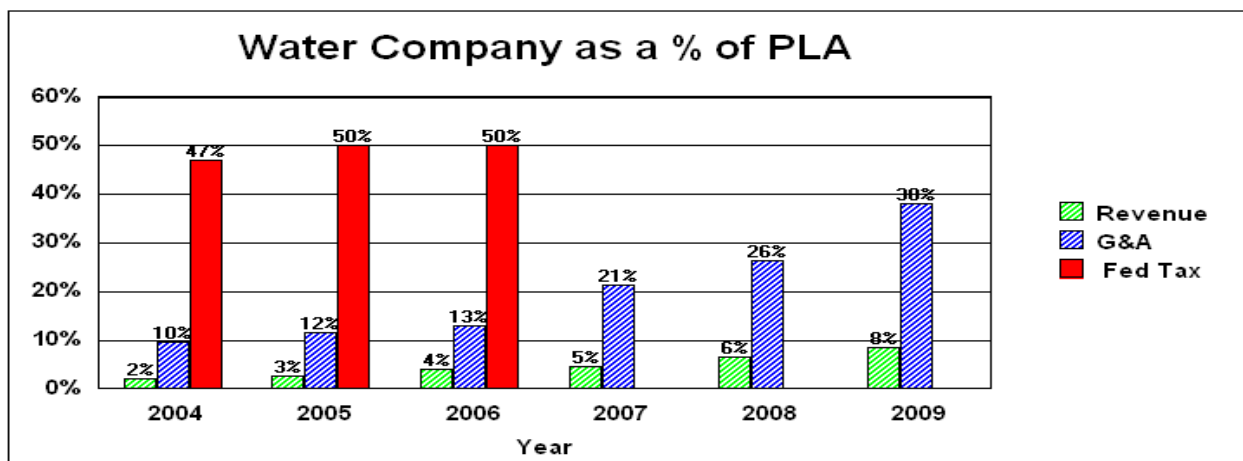
- a. Represents the interest of the Port Ludlow Community
- b. Consist of over 1600 homes and 3000 residents

2. PLVC Utility Committee

- a. Represents the community on all utility related matters
- b. Has conducted a detail review of the OWSI water rate request
- c. Results have been presented to the WUTC in two letters dated - October 1, 2010 & November 15, 2010

3. Organizational Structure of OWSI

- a. PLA is a consolidated corporation consisting of several profit centers; Golf Course, Marina, Commercial Inn, Business Park, Commercial Real Estate Office, RV Park, and a Residential Development & Construction Company, and a water & sewer Company (OWSI).
- b. OWSI provides water & sewer service to the Port Ludlow Community and contributes approximately 8% of the consolidated PLA revenue.

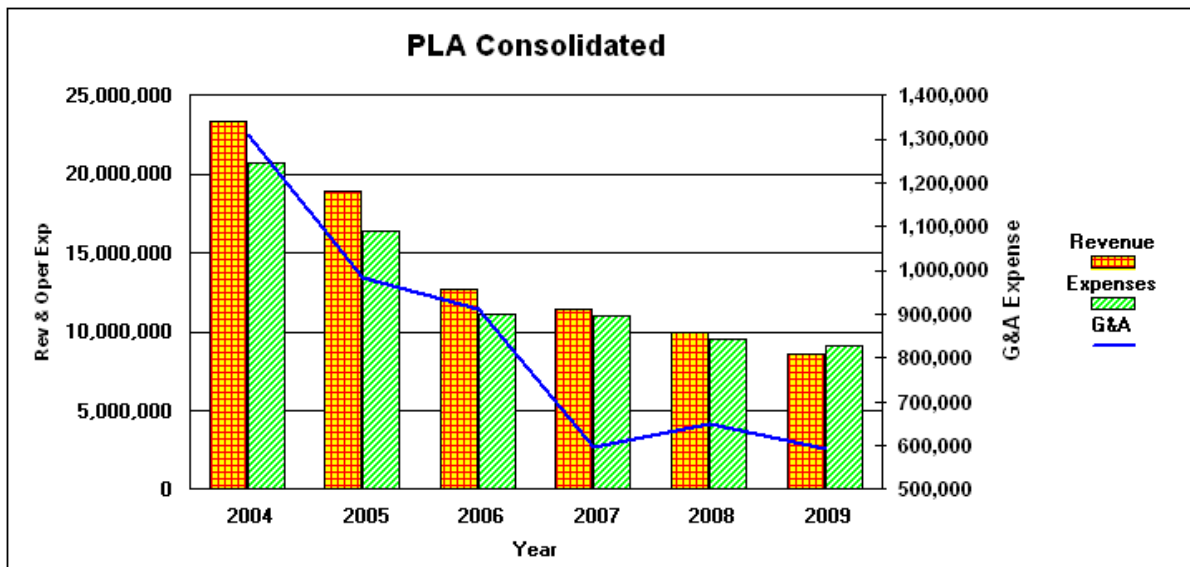


4. General Operations

a. PLA

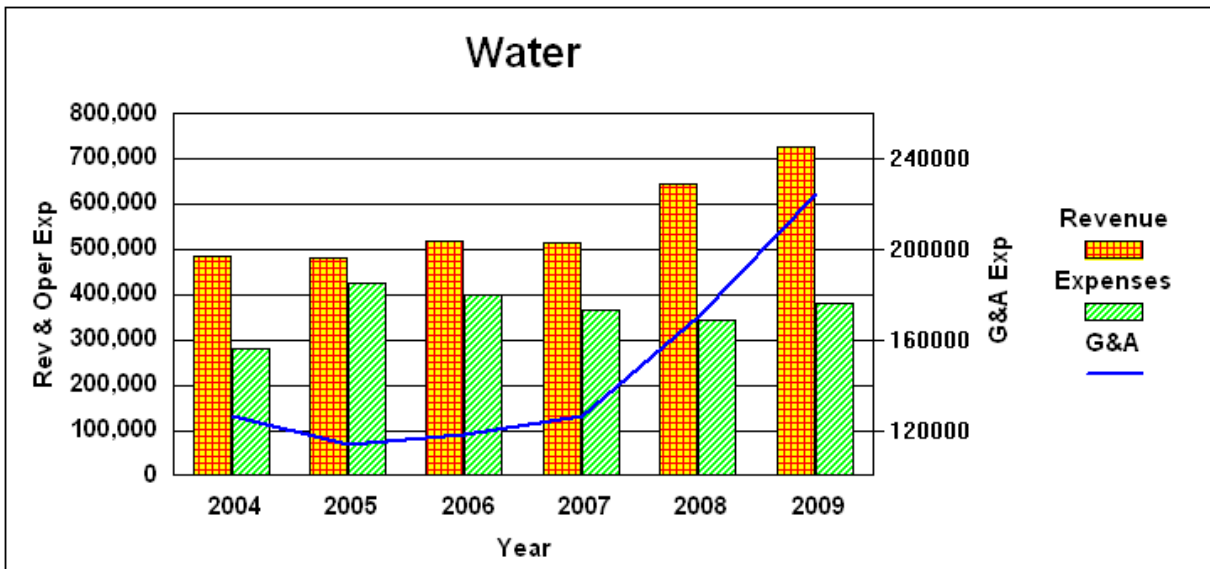
i. Since 2004, the consolidated PLA Revenue, G&A, and other operating expenses have dropped substantially.

ii. Decrease in G&A is consistent with revenue decrease



b. OWSI Water Company

- i. Revenue increased due to rate increase in 2008**
- ii. Operating expenses relatively flat for past 6 years**
- iii. G&A expenses have increased by 100% in the last two years**



5. Major Concerns

a. Does the WUTC allow for expenses other than actual incurred by the Water Company?

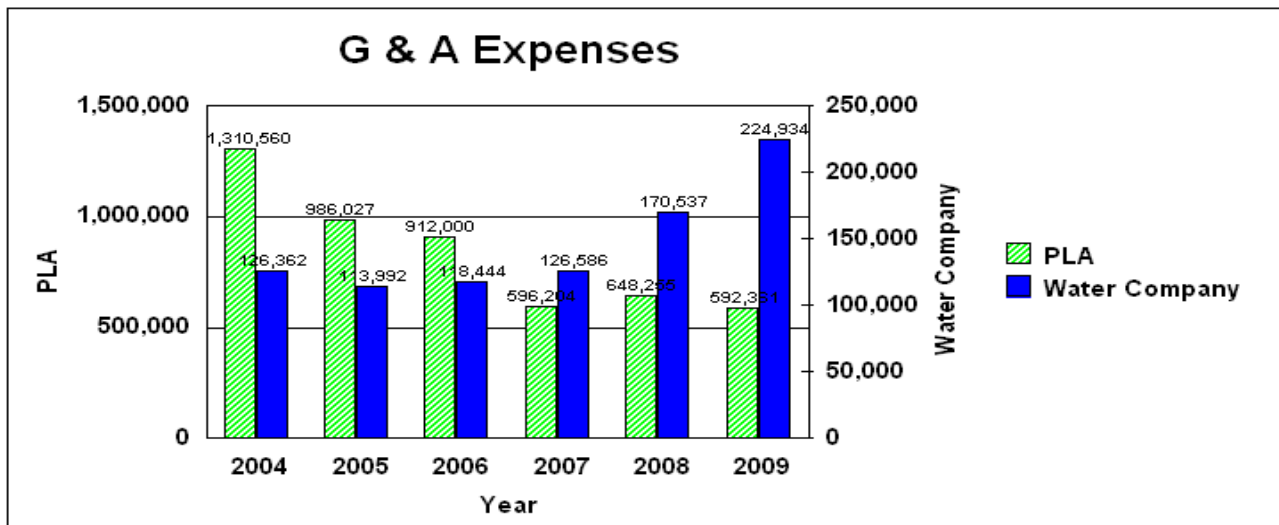
b. General & Administrative Expenses

i. Disproportionate amount of PLA G&A expenses allocated to the OWSI Water Company

ii. OWSI Water Company 8.4% of the consolidated revenue but 38% of the consolidated G&A expenses

iii. PLA Consolidated G&A expenses halved since 2004

iv. OWSI Water Company G&A Expenses have doubled since 2007.

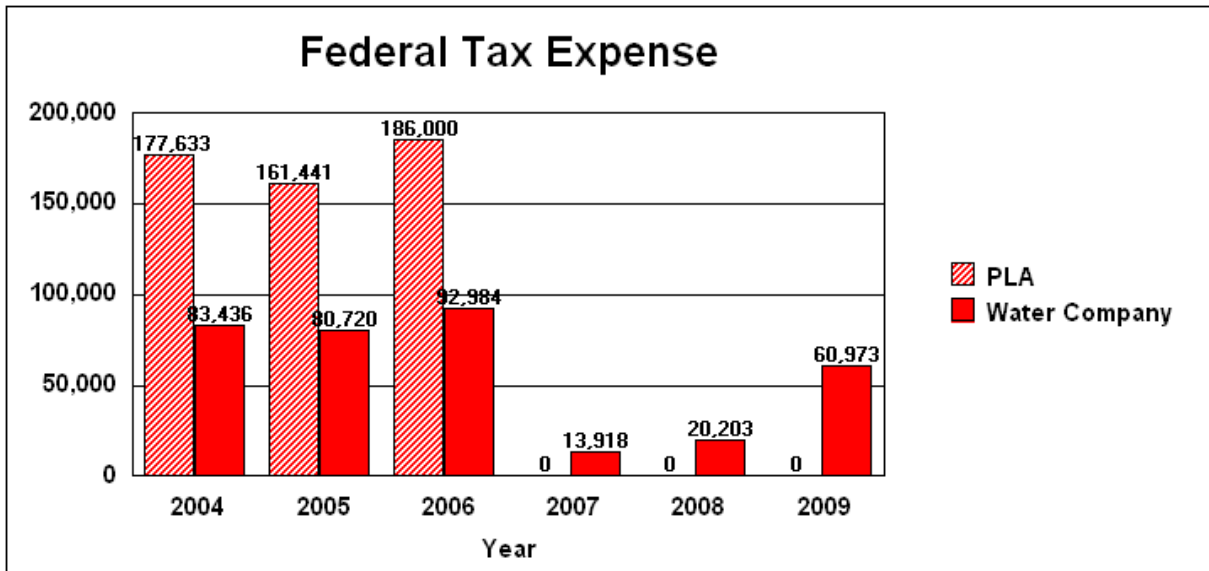


c. Federal Income Tax

- i. Water Company reports a disproportionate amount of consolidated federal taxes in years 2004 through 2006**

(Water Company represents 2 to 4% of consolidated revenue and 47 to 50% of consolidated federal taxes paid.)

- ii. In the years 2007 through 2009 the parent company, PLA, paid no Federal Tax, but the Water Company reported a Federal Tax expense of \$13,978 to \$60,973.**



d. Interest expense

- i. OWSI Water Company shows an interest expense of \$24,905.**
- ii. OWSI Water Company has reported to the WUTC that they have no loans. How can they declare an interest expense that does not exist?**
- iii. If OWSI Water Company is declaring a hypothetical interest expense then PLA must declare interest income in that amount in Federal Income Tax Filings.**

6. Summary

- a. The Water Company is only 8% of the consolidated revenue, but is paying 38% of the consolidated overhead.**
- b. As PLA revenues have declined in its other business units, it appears to have shifted significant parent company costs into the Water Company and onto the rate payers.**
- c. OWSI Water Company appears to be reporting significant costs for interest and Federal Taxes that are hypothetical at best.**
- d. Our analysis indicates that OWSI Water Company current rates generate a return on capital exceeding that allowable by WUTC.**
- e. We respectfully request that the current OWSI water rate increase be denied.**
- f. We thank the WUTC for the opportunity to testify and for considering our concerns.**