

OHWA RESPONSE TO COSA RATE INCREASE

OHWA is a non-profit water cooperative with approximately 200 members of the Association and is currently comprised of 3 different sections of the water system that operate quite differently. We have met with various City of Salem officials to ask more detailed questions about the COSA rate structure and to try to better understand why it seems that OHWA's proposed rate is growing so dramatically over the next 1-4 years. We would like to express our appreciation to Peter Fernandez, Alicia Blalock, and Deb Galardi for spending the extra time to give a more detailed explanation of how all the numbers were arrived at. After arriving at a better understanding of how the formulas are applied, we would like to make the following points:

- 1) OHWA currently has three 3 inch meters that are factored into our base rates. These three meters are connected to 3 areas of our system as follows:

One meter provides only City of Salem water directly to 20 members who live on Landaggard Street. Landaggard has been annexed into the City of Salem, but the members of the OHWA have not yet been converted over to COS customers due to not having the necessary infrastructure yet available. Water flows through this meter year-round and accounts for roughly 30% of our water purchases in a year.

The second meter provides only City of Salem water directly to 14 members who live on Emerald Lane, a sidearm off of Doaks Ferry that is currently not part of the City of Salem because they are only bound on two sides, so have not been incorporated yet, but it is likely only a matter of time. Water flows through this meter year-round and accounts for 26% of water purchases in a year.

The third meter is related to our pump station and emergency water connection that was built and enacted with a joint water agreement with the COS in 2011. This connection primarily ensures that the remaining members of the OHWA have reliable access to water in the event of pump failure, issues with our wells or the need to have additional water in the hot summer months to ensure we can meet demand in

the system and maintain the health of our wells. Water flows through this meter on an intermittent basis as best determined by conditions in the system and controlled by our water operators, but is primarily used during 4 or 5 months of the year. This usage accounts for roughly 44% of our water purchases on average.

We have learned that one of the factors greatly impacting our wholesale water rate has to do with our location in the system. OHWA is impacted by all of the “functional categories” that determine our share of the “joint costs” with the exception that we are not subject to the ASR charge and do not benefit from the credit to city customers for the sale of water rights.

We also have a higher “peaking factor” due to the way we primarily only use the emergency connection during those peak summer months so our curve is sharper compared to other users who have a higher year-round average use, which blunts the peaking factor.

We are also subject to a 7.5% Surcharge that is a holdover charge from a previous City council policy that was enacted on customers outside the city limits and was supposed to account in general terms for the use of the system that is now more specifically accounted for by the COSA formulas we are all subject to. This is basically a double charge for the same purpose and is one area where we believe our rate should be adjusted. We would like to propose that a recommendation be made to drop the 7.5% Surcharge from the wholesale water rate for OHWA, if we are going to be bound by all of the other specific cost factors in the formula.

Finally, an argument could be made that members of OHWA living on Landaggard are actually City of Salem customers and should possibly benefit from the credit to city customers for the sale of water rights, but this is likely too complex and OHWA will be discussing converting those members over to the City of Salem and thereby reducing our increased costs associated with the 30% of water purchases at the higher wholesale rates for these members of our Association.