

**Pete's Mountain Water Co., Inc.
Report to Current Customers**

September 2017

This report summarizes steps taken to purchase Pete's Mountain Water Co., Inc., (PMWC) after the announcement that its owner-operator is retiring.

In May 2016, close to three dozen customers attended an initial organizing meeting. David Pollack (Chair), Ken Roberts (Vice-chair), Jim Battan (Secretary), Bruce Tabor (Treasurer), and Matt Troy (Outreach) were elected officers of a volunteer steering committee that also included active members Chris Compton, Frank Hammond, Max LaBar, Kay Pollack, Jeff Schmitt, Cecie Carey, and Dana Yip. The committee formed PMWAC, Inc. to represent the community in discussions with the water company and other entities and to manage any financial transactions required for due diligence. The committee had no operating budget. Individual committee members loaned funds to the company to pay professionals for contract work required to complete the due diligence.

COMMUNICATION

The committee established a line of communication with all known customers who would be affected by any sale. Efforts were made to compile a comprehensive list of email addresses. Three updates on our process were sent on July 4, 2016, September 12, 2016, and January 31, 2017. *If recipients of this report know of any customer who has not received these emails, please send contact information to Jim Battan (jim@battan.com).* A website was created in order to post minutes of meetings and status reports (<https://pmwallc.wordpress.com>).

DUE DILIGENCE

The committee compiled essential information on the water system's condition and limitations, the upgrades and improvements critical for its future operations, and costs associated therewith:

- Two wells, pumps, and water supply
- Reservoir capacity and condition
- Water distribution system, pressure pumps and meters
- System reliability and redundancy
- Status and extent of the water right
- Legal structure for customers to own and operate the water system
- Cost of necessary repairs and improvements
- Financing the purchase, repairs and improvements
- Operating the system
- Rates and fees

The committee has met regularly. It conducted extended conversations with Suzanne Webber, regulators of State water rights and water systems, hydrogeologic and engineering consultants, well-drilling and pump installation companies, financing sources, already existing not-for-profit water companies, and water system operators.

The most critical professional advice came from the following:

- RH2 Engineering, a consulting firm specializing in water systems
- Schneider Water Services, a well-drilling and water system repair company.
- LiquiVision, an underwater reservoir inspection company.
- Merrill Water System Management

FINDINGS

RH2 Engineering determined that the water system has excellent potential to meet our needs, but currently has glaring deficiencies. Many crucial system maintenance tasks and essential improvements had been deferred for a number of years. Chief among them is the inoperability of well #1. In short, the system requires significant upgrades to ensure efficient operation and ongoing, reliable sustainability in providing users with enough water for domestic and permitted irrigation needs.

Two wells, pumps, and water supply

Two deep wells were drilled (#1 in 1967 and #2 in 1997) to supply the system, but the pump in well #1 failed over 10 years ago and was never repaired or replaced. The pumping capacity of well #2 alone is inadequate to meet current demand during dry summer months. In November 2016, Suzanne Webber and the committee agreed to have Schneider Water Services remove the inoperable pump and water pipe from well #1. The engineering analysis determined that well #1 is surprisingly robust and that restoring well #1 with a new pump, placed deeper in the well shaft, will reinstate and improve pumping capacity. New controls for both pumps will permit far more effective coordination of the wells and should supply enough water to meet demands.

Reservoir capacity and condition

The capacity of the existing reservoir is sufficient and, based on the professional inspection, should remain structurally sound with periodic cleaning. If both wells are operating, then the reservoir will be replenished more quickly, so there is no need for additional reservoir capacity.

Water distribution system, pressure pumps and meters

The current pumping system maintains water pressure inside distribution pipelines by running a pump continuously unless there is a power outage, in which case pressure in the distribution lines falls. Engineers recommended adding a pressure tank and pump control to improve operational and energy efficiency and a backup generator to maintain pressure during power outages.

Overall, the distribution lines are in good condition. Installation of electronic water meters that can be read remotely will reduce operating costs. They also will provide the company and individual users with real-time online usage data, which will be invaluable in quickly identifying leaks or other unintended or excessive water usage.

System reliability and redundancy

Back-up systems are inadequate or non-existent, creating risks of service interruptions if and when failures of critical components, such as pumps from the wells or to the distribution lines, or

power outages occur. The following planned upgrades will significantly reduce the risks and stress loads on the system:

- Installing a new pump in well # 1 and improved controls for both wells.
- Upgrading some and relocating all controls into the existing main building for better weather protection.
- Modifying the pump configuration used to maintain pressure in the distribution system by linking it to a pressure tank and a variable frequency drive control so the pump does not run continuously.
- Installing a backup generator.
- Adding automated water level monitoring and controls for well pumps, reservoir, and water pressure systems.
- Replacing existing meters for all customers with remote readable meters.

Status and extent of the water right

The well is permitted to pump up to 176 gallons per minute (gpm) with the original priority date of 1971 and is senior to most other wells in the service area. A more recent order permits 300 gpm with a priority date of 2007. Based on usage history, the volume permitted by the 1971 permit should be enough to serve all permitted needs of the existing customers without any summer curtailments, assuming there is water to pump. This will be confirmed once the new pump is installed and operating in well #1.

Legal structure for customers to own and operate the water system

Based on research of the options available for community ownership, the steering committee established a not-for-profit corporation for the benefit of its members, registered as PMWAC, Inc., which is purchasing the system and will continue doing business as Pete's Mountain Water Co. ***In order to receive water service from PMWAC, Inc., customers must become members of the company by paying a membership fee and agreeing to the rules and regulations of the system.*** This corporate structure qualifies the new company to be exempt from rate regulation by the Public Utility Commission (PUC).

To assure uninterrupted service during the transition to the new company, the current members of the company elected the first Board of Directors: David Pollack (President), Ken Roberts (Vice-President), Jim Battan (Secretary), Bruce Tabor (Treasurer), Max LaBar, Kay Pollack, and Dana Yip. The term of office for regularly elected Board members will be three (3) years. However, these Board members will have staggered terms of office for one to three years. Directors for vacant or expiring terms will be elected by the members at the annual meeting of members. Board members will serve without compensation.

COSTS AND FINANCING

Cost of the existing system

The Board has negotiated with the owner and her attorney and is purchasing PMWC for a cash price of \$350,000. The condition of the system and the need for extensive repairs and improvements persuaded the owner to accept a price substantially lower than she initially requested.

Necessary repairs and improvements

The Board will soon be soliciting bids to complete system repairs and improvements. After the system is purchased, final bids will be received and contracts signed. All of the proposed repairs and improvements are expected to be completed before June 2018. The engineering consultant and water system manager believe the following to be realistic estimates for the repairs and improvements

New service from PGE to the existing pump house	\$45,000
New pump and monitoring equipment for well #1	\$80,000
Variable frequency controls for wells #1 and #2 and jockey pump	\$50,000
Electrical conduits and wires, electric meter relocation	\$15,000
Jockey pump generator and controls	\$10,000
Pressure tank and piping revisions in pump house	\$10,000
Control system modifications and programming	\$20,000
Digital remote-read meters	\$25,000
Total Construction Cost	\$255,000
Engineering & Permits	\$35,000 - \$70,000
Total	\$290,000 – 325,000

Financing the purchase, repairs, and improvements

The best news is the funding the Board has secured. We have been awarded a low-interest loan from the Oregon Health Authority's Safe Drinking Water Revolving Loan Fund. The funds will finance the system purchase and most, if not all, essential improvements. The loan has been approved for \$680,000 at 2.15% annual interest for a term of 20 years. Because our loan is associated with providing more sustainable and safe drinking water, approximately 30% of the principal has been "forgiven", i.e. does not need to be repaid. Thus, we are receiving up to \$680,000 in loan funds but only are required to repay \$446,000. This significantly reduces the ultimate cost to members and permits us to pay for the system and improvements with a small monthly fee to cover the loan payments. We are confident that we have obtained the best possible financing for acquiring and improving this system.

Operating the system

The Board intends to hire Merrill Water System Management to operate the system and to be responsible for routine and ad hoc maintenance. The management company will also oversee and prioritize recommended upgrades relative to their importance to the system, availability of suitable contractors to accomplish the tasks, and available funds.

The Board also intends to implement an automated billing system run by the water system manager or a local accounting firm. The Board expects operating costs to be lower than those

now incurred by the private water company. The exact cost of running the system can only be determined after actual experience.

Our ownership will commence during the low-usage, low-revenue time of the year. Therefore, during the winter and spring the new company's routine monthly costs will likely exceed water usage fees (income), and it will have no reserve or contingency account to pay for unanticipated costs or repairs. In order to provide sufficient reserve funds for responsible operation of the business, there will be an initial fee assessment per each customer. As a mutual benefit non-profit membership corporation, if revenues accumulate beyond projected needs, excess funds may be rebated to members or applied to reduce monthly charges.

Rates and fees

A business model has been developed to assure a continuous and sufficient supply of clean and safe water, adequate revenues to cover operational costs, and a rate structure that is affordable to the customers. The Board will periodically review the rates and fees taking into consideration revenues needed, capacity and sustainability of the water system, and costs to the customers. Copies of the proposed Rules and Regulations, Assessments, Fees and Charges are attached. The Board has agreed to monitor water usage and revenues for at least six months before making any significant changes to the rate system.

COMMUNITY MEETING

A meeting will be held on October 10, 7:00 PM, at the home of Ken and Carol Roberts, 2700 SW Schaeffer Rd., at which time we will provide more information and answer customer questions and concerns.