

ATTACHMENT B
WATER AGREEMENT

THIS AGREEMENT is made and entered into this 3 day of Nov, 2003, by and between Public Utility District No. 1 of Clallam County, Washington (the "DISTRICT") and Iliad, Inc. d/b/a Lower Water System ("ILIAD").

WHEREAS ILIAD wishes to purchase water from the DISTRICT for resale by ILIAD to its Lower Water System customers and the DISTRICT is willing to sell water to ILIAD; for resale, under the terms of this Agreement;

WHEREAS ILIAD, at its own expense, will cause a distribution water main to be installed to connect the DISTRICT'S Evergreen water system to ILIAD'S Lower Water System, in accordance with the DISTRICT'S November 15, 2001 letter, attached hereto as Exhibit A and incorporated by this reference.

WHEREAS, it is the desire of ILIAD and the DISTRICT to have ILIAD own and operate the Lower Water system independent of the District. Iliad, Inc. can keep the water system or turn over the ownership to the DISTRICT after ILIAD recovers its capital costs from the lot owners.

WHEREAS, the DISTRICT is entitled to recover general facilities charges for each residence lot within the Lower Water System Service Area.

WHEREAS, it is the desire of the DISTRICT to provide for a method by which the connection fees due to it are actually paid prior to the Lower Water Company allowing any lot owner to physically connect to the water system.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Section 1 - Definitions

As used in this Agreement, the following words and phrases shall have the meanings indicated below unless the context shall clearly indicate that another meaning is intended.

- a) Cubic Foot shall mean a unit of measurement of water equal to 7.48 gallons.

b) Equivalent Residential Unit ("ERU") shall mean the volume of water demand and use deemed by the District to be characteristic of a single family residential unit, which shall equal an average water consumption of 1,000 cubic feet (one cubic foot is equal to 7.48 gallons) per month and 33.0 cubic feet per day.

c) General Facilities Charge ("GFC") shall represent the proportionate share of the DISTRICT's cost of source, storage and transmission facilities necessary to supply an ERU. The GFC shall be the sum of the DISTRICT's standard hook-up charge (currently \$2,500) and the DISTRICT's standard capital facilities charge (currently \$300*) for its Evergreen Water system. The General Facilities Charge shall be the same as that established for the DISTRICT's Evergreen Water System, except as otherwise provided herein.

d) LIAD/Lower Water System Service Area shall mean that area consisting of the property described as follows:

LOTS 1 AND 2 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 654140 IN VOLUME 22, PAGE 2 OF SHORT PLAT PREVIOUSLY TRACT 1 OF SURVEY AS RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49;
LOTS 1 AND 2 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 654139 IN VOLUME 22, PAGE 1 OF SHORT PLAT PREVIOUSLY TRACT 2 OF SURVEY RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49;
LOTS 1 AND 2 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 646969 IN VOLUME 21, PAGE 31 PREVIOUSLY TRACT 4 OF SURVEY AS RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49;
LOTS 1 AND 2 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 646262 IN VOLUME 21, PAGE 21 OF SHORT PLAT PREVIOUSLY TRACT 6 OF SURVEY RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49;
LOTS 1 AND 2 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 646260 IN VOLUME 21, PAGE 20 OF SHORT PLAT PREVIOUSLY TRACT 7 OF SURVEY AS RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49;
LOTS 1 AND 2 OF PARLOW SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 2001 1060291 IN VOLUME 29, PAGE 81 OF SHORT PLATS.
LOTS 1, 2, 3, AND 4 OF SHORT PLAT RECORDED UNDER AUDITOR'S FILE NO. 708522 IN VOLUME 26, PAGE 50 OF SHORT PLAT PREVIOUSLY TRACTS 8 AND 9 OF SURVEYS AS RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49.

TRACTS 3, 5 AND 10 AS RECORDED IN VOLUME 16 OF SURVEYS, PAGE 49, ALL LOCATED IN NORTHWEST QUARTER OF SECTION 33, TOWNSHIP 30 NORTH, RANGE 3 WEST W.M. RECORDS OF CLALLAM COUNTY.

ALL LOTS 3, 4, 5 AND 6 OF SANTA BARBARA DEL NORTE #1 SURVEY, RECORDED MARCH 6, 2000 IN VOLUME 44 OF SURVEYS, PAGE 9 UNDER CLALLAM COUNTY RECORDING NUMBER 2001043833. ALL LOCATED IN NORTHWEST QUARTER OF SECTION 33, TOWNSHIP 30 NORTH, RANGE 3 WEST W.M., CLALLAM COUNTY, WASHINGTON.

(THE LEGAL DESCRIPTION FOR EACH INDIVIDUAL LOT LOCATED WITHIN THE ABOVE LEGAL DESCRIPTION IS MORE SPECIFICALLY IDENTIFIED BY THE BELOW DESCRIBED CLALLAM COUNTY ASSESSOR NUMBERS THE LEGAL DESCRIPTIONS ASSOCIATED THEREWITH BEING INCORPORATED HEREIN AS THOUGH FULLY SET FORTH.)

| | | |
|---------------|---------------|---------------|
| 033033-210030 | 033033-219040 | 033033-240130 |
| 033033-210050 | 033033-219050 | 033033-240150 |
| 033033-210060 | 033033-219060 | 033033-249010 |
| 033033-219000 | 033033-219070 | 033033-249020 |
| 033033-219010 | 033033-220200 | 033033-249030 |
| 033033-219020 | 033033-229000 | 033033-249040 |
| 033033-219030 | 033033-229010 | 033033-249050 |

e) May shall mean permissive.

f) Master Meter shall mean the water volume measuring device and appurtenances placed in the DISTRICT's water main at the point of connection with the Lower Water System. The Master Meter shall be located on Elk Pass Road. The Master Meter site marks the location of delivery between the DISTRICT's water system and the Lower Water System.

g) Shall shall mean mandatory.

Section 2 - Delivery and Use of Water

- a) The DISTRICT shall commence delivery of water supply to the Lower Water System through the Master meter when the following conditions have been met:
- i) completion by ILIAD of the required water system extension in accordance with Exhibit A and payment of any amounts due thereunder;
 - ii) ILIAD's payment to the DISTRICT of the General Facilities Charge ("GFC") for residential service connections as provided in Section 4 below; and
 - iii) installation of a Washington State approved double check backflow assembly to DISTRICT standards. ILIAD shall be responsible for initial and annual testing of such backflow assembly.
- b) Water supply delivered to the Lower Water System under this Agreement is intended for single-family residential domestic supply only, to serve an anticipated twenty-two (22) total number of residential connections. GFCs

have been established by the DISTRICT based upon an assumption that each connection shall equal one ERU.

Section 3 - Water Rate and Billing

- a) The water rate to be paid by ILIAD to the DISTRICT shall be per 100' cubic feet ("CCF") of water, delivered to the Lower Water System at the Master Meter.
- b) The water rate to be paid by ILIAD to the DISTRICT per CCF shall be as provided in the DISTRICT's Water Rate Schedule WE-24, as it may be amended from time-to-time.
- c) The period of billing for water supplied under this Agreement shall be monthly, beginning with the month during which the Lower Water System first uses water via the Master Meter. The Master Meter shall be read by the DISTRICT and the results recorded in accordance with the DISTRICT's applicable reading cycle. Payment to the DISTRICT shall become due within ten (10) days of issuance of the billing invoice. Collection of delinquent amounts shall be in accordance with DISTRICT policy. DISTRICT remedies for delinquency include but are not limited to disconnection of service.

Section 4 - General Facilities Charge: Payment of Total GFC

- a) The GFC for ILIAD shall be Two Thousand Eight Hundred and No/100 Dollars (\$2,800.00) per ERU in 2003, and shall be subject to adjustment as provided in Section 1.
- b) ILIAD shall pay to the DISTRICT an initial payment of Eleven Thousand Two Hundred and No/100 Dollars (\$11,200.00), which represents payment for four (4) ERUs at the 2003 GFC of Two Thousand Eight Hundred and No/100 Dollars (\$2,800.00) per ERU. ILIAD shall make the initial payment to the DISTRICT prior to water service being made available to the Lower Water System. The GFCs due the DISTRICT hereunder for each of the remaining eighteen (18) residential service connections shall be paid to the DISTRICT by ILIAD as each additional service connection to the Lower Water System is made. Each GFC payment shall be delivered to the DISTRICT not later than ten (10) days following hook-up by ILIAD of a new service connection. In making any of the above required payments to the DISTRICT, each payment shall be identified to the particular lot for which payment is being made by Clallam county Assessor tax account number.

1 *Item subject to change

- c) ILIAD shall supply the DISTRICT an annual report by January 15th of each year detailing the current customer list including name, address, assessor's parcel number, and date attached to the Lower Water System. If ILIAD fails to submit the required report, a thirty percent (30%) surcharge shall be added to its monthly billing beginning with the first billing after the January 15 deadline and continuing until the completed report has been submitted.
- d) In the event that a connection is made to the system without the required GFC payment as detailed in section d) above, ILIAD shall be directly obligated to pay the sum due plus interest at the rate of twelve percent (12%) per annum from and after the date that the new, unpaid connection was made. The DISTRICT shall use the annual report supplied by ILIAD and the DISTRICT's electrical customer database to assist in determining whether an unpaid connection was made to the system.
- e) Should ILIAD fail to produce the required annual report upon more than one occasion; or should ILIAD fail to pay when due each required GFC payment, then the DISTRICT may declare ILIAD in default and all remaining GFC payment amounts shall become due and payable upon declaration of default.
- f) All payments due under this Agreement shall be deemed delinquent if more than ten (10) days past due. Delinquent GFC payment amounts and unpaid service billings shall accrue interest on the unpaid balance, from the date of delinquency until paid, at the rate of 1% per month, or 12% per year.
- g) The GFC is non-refundable under any and all circumstances.

Section 5 - Master Meter

- a) All water supply delivered by the DISTRICT to the Lower Water System shall be delivered and measured through the Master Meter to be installed by ILIAD in accordance with DISTRICT specifications in conjunction with the line extension installation. The water meter will be installed in the cul-de-sac on Chelsamish Drive. The water meter installation and water main extension to the water meter location shall be transferred to the DISTRICT by Bill of Sale attached as Exhibit B together with an easement as shown on Exhibit C. The line of demarcation and "point of delivery" between the DISTRICT and the Lower Water System shall be immediately downstream of the master meter and immediately upstream of the double check valve backflow assembly and as described in Section 1(f). The obligation for installation, ownership, annual testing and operation of the Washington State approved backflow assembly shall be solely that of ILIAD.

- b) Access to the Master Meter and appurtenances shall be made available to ILIAD at all reasonable times. The Master meter shall be checked for accuracy by the DISTRICT as part of normal maintenance, and Master Meter test data shall be available to ILIAD at all reasonable times, upon request.

Section 6 - Water Quality

The water supplied by the DISTRICT to ILIAD under this Agreement shall be of the same standard and quality as that normally delivered by the DISTRICT to all its customers. ILIAD, to the extent allowed by law, shall be responsible for maintaining water quality beyond the point of delivery; and ILIAD shall hold the DISTRICT harmless from and against any claims, losses, or damages arising from or relating to the introduction into its System of water or other substances beyond the point of delivery.

Flushing of Lower Water System and Customer water systems is recommended upon water system changeover from the current groundwater source of supply to the DISTRICT's water supply. ILIAD shall be solely responsible for all necessary water system flushing and all customer notices, if provided. Customer notice is recommended.

ILIAD will administer a cross-connection program as strict or stricter than that administered by the DISTRICT.

Section 7 - Quantity, pressure and Reliability

- a) The DISTRICT shall use best reasonable efforts to provide water to the Lower Water System. The DISTRICT's system will have sufficient storage and hydraulic capacity to supply water at the rate that meets or exceeds the water carrying capacity of Lower Water System, subject to conditions beyond the reasonable control of the DISTRICT.
- b) It shall be the sole obligation of ILIAD to install and maintain pressure reducing and pressure relief valves and appurtenances as may be needed to regulate the pressure to protect and to conform to the needs of the Lower Water System distribution system and its water service customers. Multiple installation of both types of pressure control valves may be required at various locations in the Lower Water System. Failure to install and maintain proper pressure control valves may result in damage to the Lower Water System or customer water systems. The DISTRICT shall not be responsible for any loss or damage related to failure of ILIAD to install and maintain all pressure control valves required for system and customer protection. ILIAD shall defend and indemnify the DISTRICT from and against any and all claims arising from or related to ILIAD's failure to install and properly maintain any and all necessary pressure reducing and pressure relief valves.

- c) The DISTRICT's system will be designed, maintained and operated by the DISTRICT in a manner consistent with municipal water system standards, prudent utility practices, and applicable rules and regulations in order to provide maximum reliability of service to the Lower Water System. However, it is understood and agreed that the DISTRICT can make no guarantee as to pressure, quantity or continuity of service because of the possibility of accidents or unforeseen failures to the DISTRICT's water systems. Therefore, the DISTRICT shall not be held liable for losses or damage from a deficiency or failure to supply water due to accidents, acts of God, and any conditions beyond the reasonable control of the DISTRICT. In the event of an emergency or other necessity that may disrupt service to the Lower Water System, the DISTRICT shall notify ILIAD through verbal or telephone contact, and shall restore service and make water available as soon as it can reasonably do so.
- In the event of scheduled maintenance, alterations, extensions or connections, the District shall provide notification to ILIAD, and schedule such work to minimize the potential impacts of disruption of service to the Lower Water System.
- d) ILIAD will disconnect the existing well from the existing water main after the connection is made to the DISTRICT.
- e) In the event of water supply or capacity problem, ILIAD agrees to implement a water shortage response plan as strict or stricter than that administered by the DISTRICT.

Section 8 - Resolution of Disputes

Any dispute that arises out of the interpretation, performance, enforcement, or any other aspect of this Agreement, shall be resolved by submitting the same to binding arbitration which shall proceed according to the Superior Court Mandatory Arbitration Rules (MAR) for a case assigned for arbitration in Clallam County; provided that each party shall select a nominating person within ten (10) days of notice of the dispute from any party to the others. The two nominating persons shall then meet and promptly select the arbitrator. If the nominating persons do not select a person who agrees to serve as arbitrator within thirty (30) days of the first notice, the arbitrator shall be selected by a superior Court Judge of Clallam County. Attorneys fees and the arbitrator's fees shall be paid by the party that the arbitrator determines was the unsuccessful party.

Section 9 - Term

This Agreement shall be effective from the date of execution by authorized representatives of both parties hereto and shall continue in effect through 2008 and

thereafter upon a year to year basis unless terminated by mutual agreement or upon default by either party.

Section 10 - Further Agreement

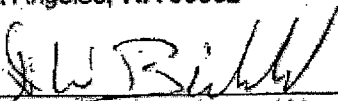
It is understood that before the end of twenty (20) years from the date of entry into this Agreement ILIAD agrees to offer the Lower Water system to the DISTRICT at no cost.

The DISTRICT agrees to consider that transaction at the time, any offer will be without cost to the DISTRICT of a fully maintained and operational system.


This Agreement may be amended at any time upon mutual written agreement of the parties. Notice shall be given by certified mail to the official mailing address of each party.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed this 3 day of November, 2003.

Public Utility District No. 1
of Clallam County
PO Box 1090
Port Angeles, WA 98362

By: 
Dennis Bickford, General Manager
Date: 11/3/03

ILIAD Inc. d/b/a Lower Water System
PO Box 20098
Seattle, WA 98102

By: 
President
Date: 10/20/03