

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

ILIAD WATER SERVICE, INC.,

Respondent.

DOCKET UW-150311

SETTLEMENT AGREEMENT

I. INTRODUCTION

1 This Settlement Agreement (“Settlement”) is entered into by the parties in this case:
Iliad Water Service, Inc. (“Iliad Water Service” or the “Company”) and staff of the
Washington Utilities and Transportation Commission (“Staff”) (hereinafter collectively
referred to as “Parties” and individually as “Party”).

2 This Settlement is a “full settlement” as the term is defined in WAC 480-07-730(1)
because it is entered into by the Parties, and it resolves all issues raised in the above docket.

II. AGREED FACTS

3 Iliad Water Service is a water company and a public service company subject to the
jurisdiction of the Washington Utilities and Transportation Commission (“Commission”). At
the initiation of this docket, the Company provided water service to 56 customers on two
water systems located in Pierce and Snohomish Counties. On July 30, 2015, in Order 01 of
Docket UW-150688, the Commission approved the transfer of control, by acquisition of
stock and merger, of five water systems to Iliad Water Service, effective August 1, 2015.
Following the merger, Iliad Water Service provides water service to 326 customers on seven
water systems located in Clallam, Pierce, Kitsap, and Snohomish Counties.

4 Derek Dorland is owner and president of Iliad Water Service. Derek Dorland makes all final management decisions for Iliad Water Service; he is ultimately responsible for the operations of the Company. Derek Dorland is the Company's sole employee.

5 Iliad Water Service has contracted Iliad, Inc.—owned and operated by Dave Dorland, Sr., the father of Derek Dorland—to perform maintenance and operations services pursuant to the terms of a Management Contract. The Management Contract between Iliad Water Service and Iliad, Inc. is attached as Exhibit A.¹ Iliad Water Service also entered into a fixed price contract with Iliad, Inc. for \$152,826 to finance and construct a corrosion control treatment plant needed to meet state water quality standards on the Company's Alder Lake community water system—the subject of this docket is cost recovery for this corrosion control treatment plant. The contract between Iliad Water Service and Iliad, Inc. for the financing and construction of the corrosion control treatment plant is attached as Exhibit B. In addition to the formal relationships between Iliad Water Service and Iliad, Inc., David Dorland, Sr. also occasionally takes on voluntary roles for Iliad Water Service, and provides “fatherly” general business advice to Derek Dorland.

6 Iliad Water Service has contracted Water Services Company—owned and operated by Sondra LeBaron, the sister of Derek Dorland—to perform its billing and bookkeeping services. These services are provided pursuant to a Billing Service Agreement, which is attached as Exhibit C.²

¹ Since the initial execution of the Management Contract, Iliad Water Service and Iliad, Inc. have orally modified the rate for Attachment C, Item 1, from \$75 per hour to \$85 per hour, and that the rate for Attachment C, Item 5, from \$75 per hour to \$95 per hour. Also, Exhibit B of the Management Contract mistakenly references Marbello Water Company; the Parties agree the correct reference is to Iliad Water Service, Inc.

² The attached contract is not signed or dated; Iliad Water Service has confirmed, and the Parties agree, that the contract is otherwise a true and correct copy of the agreement in effect between the Company and Water Services Company.

7 On December 31, 2007, the Department of Health (“DOH”) notified Iliad Water Service that the Company’s Alder Lake community water system required corrosion control treatment to address copper levels that exceeded state and federal drinking water standards. On February 16, 2011, DOH approved the Company’s proposal to construct a corrosion control treatment plant (the “Plant”) to address the high copper levels. The Company submitted its Construction Completion Report to DOH on July 1, 2011, and DOH approved it on July, 6, 2011. The Plant was placed into service for the benefit of Alder Lake community water system customers in December 2011, after some additional water quality monitoring occurred to ensure that the Plant was operating properly.

8 On February 23, 2015, Iliad Water Service filed with the Commission a proposed tariff revision that would generate \$160,512 of additional revenue to recover costs for the Plant. The Company proposed to recover the Plant’s cost from the 35 customers of the Alder Lake community water system by providing each customer a choice between either: 1) a one-time \$4,586 surcharge, or 2) a ten-year financing, at 8.5% interest, via a monthly surcharge of \$57. The proposed effective date for the rate increase was April 1, 2015.

9 On March 26, 2015, the Commission issued a Complaint and Order Suspending the Tariff Revisions in which it found that Iliad Water Service’s initial filing did not adequately justify the proposed tariff revisions. The Commission determined that it should investigate and appraise the Company’s operations, accounts, practices, and activities to determine whether the proposed tariff revisions would result in rates that are fair, just, reasonable, and sufficient. The Commission further determined that Iliad Water Service bore the burden of proof to show that the proposed rate increase is fair, just, reasonable, and sufficient.

10 On June 8, 2015, the Commission convened a prehearing conference before Administrative Law Judge Rayne Pearson, and made the discovery rules available to the Parties. No other Party intervened in the proceeding.

11 After the Company filed its direct testimony and responded to numerous discovery requests from Staff, the Parties engaged in settlement discussions. On August 6, 2015, the Parties requested that the Commission suspend the procedural schedule to enable them to negotiate a settlement without the need to file additional testimony. The Commission granted the request on August 7, 2014. On August 19, 2015, Staff notified the Commission that the Parties had reached a settlement in principle, and requested that the Commission provide the Parties with time to memorialize their agreement. The Commission granted the request on August 28, 2015, and directed the Parties to file a settlement agreement and supporting documentation, or a status report on their progress by September 4, 2015.

12 The Parties' full settlement agreement is reflected in this Settlement document, which was entered into voluntarily to resolve all matters in dispute. The Parties now wish to present their Settlement for the Commission's consideration and approval. This Settlement is filed in the interest of expediting the orderly disposition of this proceeding. The Parties understand that this Settlement is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement in its entirety. The Parties will jointly file supporting documentation, as required by WAC 480-07-740(2).

III. AGREEMENT

13 **Corrosion Control Treatment Plant Costs.**

- a. Total Cost – The Parties agree that the total capital cost of the Plant is \$94,972, and that the total rate case costs associated with this docket is \$9,000. This cost

does not include B & O tax, which the Company shall collect as part of the final surcharge.

- b. Asset Life of the Plant – The Parties agree that, for ratemaking purposes, the Plant has a total asset life of fifteen (15) years, the Plant has been in service to customers for three-and-a-half (3.5) years, and therefore the Plant has eleven-and-a-half (11.5) years of its useful life remaining. The recovery period shall equal this remaining useful life.
- c. Recoverable Cost – The Parties agree that Iliad Water Service shall be allowed to recover the capital costs of \$94,972, plus the rate case cost of \$9,000. The capital cost shall be reduced by the three-and-a-half (3.5) years of in-service use (\$22,160) and, along with the rate case cost, recovered over the Plant's remaining useful life of eleven-and-a-half (11.5) years. This amounts to a total recovery cost of \$81,812. Based on the total recovery cost, an additional \$4,114.32 for B & O tax shall be included in the final surcharge.

14

Cost Recovery.

- a. Monthly Surcharge to All Customers – The Parties agree that Iliad Water Service shall recover the \$81,812 via a monthly surcharge to all of its 326 customers for a term of eleven-and-a-half (11.5) years. The monthly surcharge, which includes 8.5% interest and \$4,114.32 for B & O tax, shall total \$3.00 per customer.
- b. Tariff Revision and Customer Notice – The Parties agree that, within seven (7) days of an order approving this Settlement becoming final, the Company shall file revised tariff sheets to implement the monthly surcharge, and it shall issue to all of its customers the notice attached as Exhibit D. The revised tariff shall

become effective no sooner than thirty (30) days after the Company issues the customer notice.

15 **Accounting Transparency Improvements.**

- a. Affiliated Interest – The Parties acknowledge that an affiliated interest exists between Iliad Water Service and Iliad, Inc., and that all dealings between these two companies are subject to the state laws and Commission rules governing affiliated interests as codified in Chapter 80.16 RCW and Chapter 480-110 WAC. The Parties agree that Staff shall not seek penalties against the Company for any violations of Chapter 80.16 RCW and Chapter 480-110 WAC that occurred prior to Commission adoption of this Settlement.
- b. Enhanced Disclosure – The Parties agree that Iliad Water Service shall disclose to the Commission all dealings between Iliad Water Service and Water Services Company. Going forward, Iliad Water Service shall file with the Commission any new agreements for services, or modifications to previously executed agreements, between Iliad Water Service and Water Services Company. Such filing shall occur within 30 days of the effective date of the new or modified agreement.
- c. Cost Recovery – The Parties agree that the Company’s filings made pursuant to sections b and c of this paragraph do not guarantee cost recovery for the subjects of its filings. Pursuant to state law and Commission rules, Iliad Water Service shall bear the burden of proof to show that any future proposed rate increase is fair, just, reasonable, and sufficient.

IV. GENERAL PROVISIONS

16 The Parties agree that this Settlement reflects the settlement of all contested issues in
this proceeding. The Parties understand that this Settlement is not binding unless and until
accepted by the Commission.

17 The Parties agree that this Agreement promotes the public interest, and that it is
appropriate for unconditional Commission acceptance under WAC 480-07-750.

18 The Parties agree to advocate for acceptance of this Settlement before the
Commission. After the Commission accepts this Settlement, no party or its agents,
employees, consultants, or attorneys will engage in advocacy contrary to the Settlement. The
Parties shall take all actions necessary, as appropriate, to carry out this Settlement.

19 The Parties agree to provide each other the right to review, in advance of publication,
any announcement or news release that the party intends to make about this Agreement. The
right to review includes a reasonable opportunity to comment on and request changes to the
text of such announcements or news releases.

20 The Parties have negotiated this Settlement as an integrated document to be effective
upon execution and Commission approval. This Settlement supersedes all prior oral and
written agreements on issues addressed herein.

21 The Parties may execute this Settlement in counterparts, and as executed shall
constitute one agreement. Copies sent by facsimile or electronic mail are as effective as
original documents.

22 In the event that the Commission rejects or modifies any portion of this Settlement,
each Party reserves the right to withdraw from this Settlement by written notice to the other
Parties and the Commission. Written notice must be served within ten (10) business days of

the Order rejecting part or all of this Settlement. In such event, no Party will be bound or prejudiced by the terms of this Settlement, and any Party shall be entitled to seek reconsideration of the Order.

23 Each person signing this Settlement warrants that he or she has authority to bind the Party that he or she represents.

Respectfully submitted this 4 day of September, 2015.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

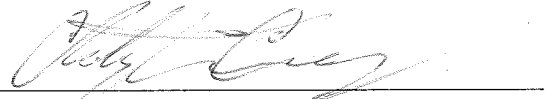
ILIAD WATER SERVICE, INC.

ROBERT W. FERGUSON
Attorney General



CHRISTOPHER M. CASEY
Assistant Attorney General
Counsel for the Utilities and
Transportation Commission Staff

Dated: Sept 4, 2015



RICHARD FINNIGAN
Counsel for Iliad Water Service, Inc.

*For
per email*

Dated: Sept 4, 2015

Exhibit A

MANAGEMENT CONTRACT
(FOR MAINTENANCE AND OPERATIONS)
FOR ILIAD WATER SERVICES, INC.

THIS AGREEMENT, made this day recited below by and between the undersigned "Management Agency" and the undersigned "Water System".

RECITALS

WHEREAS, the undersigned water company owns the water systems described here in and is desirous of having the undersigned Management Agency (MA) provide limited services concerning the maintenance of the water system. The undersigned MA is desirous of providing the services described herein on the terms and conditions hereinafter set forth.

NOW THEREFORE, it is mutually agreed:

1. The water systems are as follows: Alderlake water system in Pierce County, Cascade water system in Snohomish County and Western Stavis water system in Kitsap County. The legal descriptions are attached and shown on Exhibit "A".

The system is (inside) the MA's DOH approved service area and is identified in the MA Plan and on file with Pierce County, Snohomish County and Kitsap County.

2. SYSTEM ID The water systems DOH numbers are:
Alderlake Water System #26995H
Cascade Crest Water System #31203Y
Western Stavis Water System #01668H

3. MA SERVICES The MA will provide service as follows:

Protection of the public health by supervising and conducting all water system operations consistent with State and Federal law, and professional public water system operations standards.

The water system owner shall allow the MA to have total operational control of the water system.

The MA will provide 24-hour call out service for water outage or repairs. This service shall be billed on a time and material basis. All repairs shall be supervised by the MA and must meet public safety standards.

a) General Services The MA shall become acquainted with the Water System including physical facilities including transmission lines, valves, pumps, storage facilities, source(s), controls, treatment equipment and monitoring equipment, etc. and including the operations and maintenance requirements.

The "Operations and Maintenance" schedule for the system is set forth on Exhibit B which includes routine and follow up samples (unless collected by the Lab under separate contract), interpretation of sample results, meter readings if applicable.

Implement of preventative maintenance programs; inspect the water system components for malfunction and perform needed repairs; inspect backflow prevention devices and test the same where applicable.

Analyze laboratory tests; determine sites and causes of malfunctions together with consultants as may be required; adjust various treatment process or other water system components accordingly; keep proper records; and determine remedial action in emergencies.

The MA is authorized to work in conjunction with the project engineer, water testing lab, county or State engineer in the event a condition is located beyond the scope of the MA's expertise.

The water company will provide a complete set of "as built" drawings and specifications of the system which has "been approved by DOH".

b) Administration The following administrative services shall be performed by MA;

- Monthly Billings. (Others:
- Reports required by governmental bodies,
- Public Notification Requirements,
- Service connections / disconnections as set forth in tariff or Water Service Agreement,
- Order materials and parts for the operation and maintenance of the water system "as required".

c) Planning and Technical Assistance to the extent of the MA's ability and within the licensing authority the MA will provide Planning and Technical Assistance;

- Developing and implementing a cross-connection control program,
- Developing and implementing a coliform monitoring program,
- Designing annual maintenance strategies,
- Developing capital improvement programs,
- Responding to informational requests from water system customers,
- Responding to press,
- Keeping and maintaining "as built" of the system as required by new construction or other modification to the existing system,

- (x) Prepare water system's plan as required including coordination with engineer.
 - (x) Revise WFI as required and submit to DOH,
 - () Other Per Exhibit B
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-
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4. MA CHARGES

- a) Service Charges The undersigned Water Company shall pay the MA for the above repair and maintenance services on a time and materials and administrative overhead basis as set forth on the attached MA's rate schedule. ATTACHMENT "C".
- b) Connection Charges N/A

No customer shall be connected to the system without first executing a "Water Service Agreement" of the Water Company. The MA shall refer all prospective customers to the Water Company or obtain a signed Water Service Agreement before service is connected.

- c) Administrative Fees The administrative costs are as follows:

- i) emergency phone # \$N/A per month
- ii) secretarial, accounting, letters \$N/A per month
- iii) OTHER – SEE ATTACHED SCHEDULE

- d) Reserve Account The monthly maintenance charges shall include a reserve for replacements and emergencies. The reserve account shall be accumulated until it satisfies the financial viability requirements for the system in accordance with DOH policies.

In the event that the MA is performing billing services a reserve account shall be established which shall be property of the Water Company. A special reserve account shall be established in an interest bearing account.

If the Water Company is performing billing services a special reserve shall be established and maintained and provided for above.

5. TERMS AND CONDITIONS

The MA agrees to comply with the terms of this Agreement however subject to the terms hereinafter provided for.

- a) The MA is not the owner of the system;
- b) The MA is not responsible for the failure of the source or its water quality becomes contaminated.
- c) The water company grants the MA a license to enter the premises where the system is located to perform the duties listed above;
- d) The water company shall make payments on a timely basis to the MA for invoice describing the services. Any unpaid balance shall bear interest at 1-1/2%

per month plus all collection charges and fees including attorney fees which have been incurred.

e) The MA is not a guarantor and is not responsible for conditions beyond its reasonable control. The MA is not responsible for Acts of God or catastrophe losses. MA's responsibility is limited to reasonable maintenance procedures standard in the industry. Both parties understand and agree that conditions can arise or water quality will change without notice of either party and can be only corrected after testing and locating the cause and in such cases the MA is not responsible for the delays in curing the problem.

6. HOLD HARMLESS AND INDEMNIFICATION

The Water Company agrees to assume all of the risks and conditions associated with the system, its installation and design and to pay for all of the costs associated with keeping and maintaining the system in compliance with DOH regulations. The Water Company agrees to hold harmless if any and all costs, penalties whether or not imposed upon the water company and/or the MA or its agents, subcontractors and employees, claims, actions, damages, judgments or any other loss, cost or expenses including the attorney fees and costs incurred by the MA. The Water Company agrees to secure the performance of this hold harmless by providing a security agreement in favor of the MA, which shall be attached hereto as an addendum to this agreement.

Any disputes between the MA and Water Company shall be Arbitrated by () American Arbitration Association local office in Washington, () pursuant to RCW 7.04 Arbitration. The attorney fees and costs of the Arbitration shall be an expense of the Water Company.

7. AMENDMENTS This Agreement may be amended in writing signed by both parties.

8. DURATION This Agreement may be terminated by providing a 30-day written notice to either party. Notice of such termination shall be forwarded to DOH at the District Office.

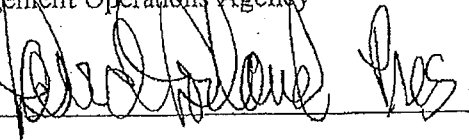
9. INTEGRATION This Agreement constitutes the entire agreement between the parties, there are no other oral or written agreements or representatives other than contained herein.

This contract is binding on the heirs, successors and assigns of the parties.

Dated this 14th day of January, 2009.

Iliad, Inc.
Management Operations Agency

By):



Iliad Water Services, Inc.

By):

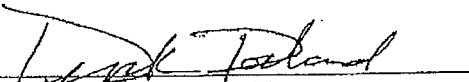

Derek Dorland, President

Exhibit A

LEGAL DESCRIPTION

ALDER LAKE WATER SYSTEM

The East 140 feet of the NE quarter of the SE quarter of the NW quarter Section 23, Township 15N, Range 4 E, of the Pierce County Recording No. 8502140314, and Large Lot Division being a portion of the NE quarter of Section 23, Township 15N, Range 4E, W.M.

CASCADE CREST WATER SYSTEM

The S $\frac{1}{2}$ of the S $\frac{1}{2}$ of the SW quarter of the NE quarter, and the W $\frac{1}{2}$ of the SE quarter, all in Section 36, Township 31N, Range 4E, W.M. EXCEPT the S 40 feet there of all situate in Snohomish County, Washington.

WESTERN STAVIS II/III WATER SYSTEM

Tracts 1 through 10 and 12 through 17 of survey recorded in Book 23 of Surveys at Pages 51 A and B under Auditors File No. 8507120086 and being a portion of the NE quarter of Section 36, Township 25N, Range 2E, W.M., Kitsap County, Washington.

Tracts 1 through 10 of Survey filed in Book 24 of Surveys at Page 15, under Auditors File No. 8601140090, and being the NE quarter of the SE quarter; the SE of the SW quarter; and the SW quarter of the SW quarter all in section 25, Township 15N, Range 2W W.M., Kitsap County, Washington.

Exhibit B

OPERATIONS / MAINTENANCE / REPAIR

The Operations and Maintenance Schedule will follow the guidelines of the Department of Health approved water plan and will include the following services:

OPERATIONS:

The typical routine operation and maintenance activities are performed at least **monthly**.

Each coliform monitoring sample is taken, per attached coliform monitoring and sampling plan.

All request for location will be performed within the 48-hour requirement.

The water system's well pump station, booster pump station and water storage tank are checked for proper operation and performed **monthly**.

The well pump station is checked **monthly** for operating pressure, read meter to check gallons per minute operation, and automatic / manual and off positions on well pump controls. Once per year well static water level is checked.

Booster pump station is checked **monthly** as to normal operating pressure, checking normal pressure switch setting, checking air recharge for pressure tanks, operation of flow valves, checking of automatic manual control for booster pump operation, checking booster pumps for bearing wear or leakage.

Water storage tank: Water tank storage level is recorded; control flows in tank are checked for operation, vents overflow and drain line checked as for damage to screens. Tank hatch is checked as to seal and access and tank is inspected as to leaks **monthly**.

Drain and clean storage tank once per year.

The water system is checked for any damages, leaks or other general problems concerning preventative maintenance **monthly**.

Each blow-off is opened and flushed each **month**. All isolation valves are checked for operation on a **yearly** basis.

The master water meter at the pump stations are read and recorded **monthly**. All customer service meters are read spring and summer, if applicable.

All mechanical equipment is checked for preventative maintenance **monthly**.

All routine operational data and activities are recorded on work orders by the serviceman **monthly**. All work orders are billed out to the water company and recorded in the water system service manual.

The attached table represents the duties and monthly check list by the water company for its maintenance men and operators.

Duties and Check List Required For Water System Operators

New construction, line extension, service connection and water line repairs.

1. Place barricades, signs, and traffic cones around work sites to protect operators and public.
2. Excavate trenches and install shoring.
3. Lay, connect, test and disinfect water mains.
4. Tap into water mains.
5. Read and update water distribution system maps and "as built" plans.
6. Keep records and prepare reports.
7. Requests for supplies and equipment.
8. Conduct safety inspections and follow safety rules for water works facilities.

Routine service and maintenance.

1. Flush and clean water mains.
2. Operate and maintain well pumps and hydropneumatic pressure tanks.
3. Observe pump motors to deduct unusual noises, vibrations, or excessive heat.
4. Adjust and clean pump seals and packing glands and also clean mechanical seals.
5. Repair and overhaul pumps, motors, chlorinators, and control valves.
6. Keep records and prepare reports.
7. Requests for supplies and equipment.
8. Start up or shut down pumps as necessary to regulate system flows and pressures.
9. Troubleshoot minor electrical and mechanical equipment problems and correct.
10. Detect hazardous atmospheres and correct before entry.
11. Conduct safety inspections, follow safety rules for waterworks facilities, and also develop and conduct tailgate safety meetings.

Routine, water testing and sampling.

1. Flush and clean water mains.
2. Collect and transport water samples.
3. Clean and disinfect storage tanks and reservoirs.
4. Protect water mains and storage facilities from corrosion effects.
5. Keep records and prepare reports.
6. Request for supplies and equipment.
7. Troubleshoot to locate the causes of water quality complaints.
8. Discuss with the public their concerns regarding the quality of the water they receive.

PREVENTATIVE MAINTENANCE

Preventative maintenance shall be carried out by the operator and purveyor to reduce disabling equipment failures. Major items of equipment shall be maintained as set out below.

MARBELLO WATER COMPANY, INC. PREVENTATIVE MAINTENANCE SCHEDULE

<u>Item</u>	<u>Frequency</u>	<u>Maintenance</u>
Valves and Check Valves	Each Year	Lubricate, open & close several times
Pump Bearings	Each Year	Lubricate per manufacturer's recommendation
Pump Impellers	Every Two Years	Open and inspect for damage or wear, replace as required
Pressure Tank Exterior	Periodically	Inspect exterior for rust or other deterioration. Lubricate pressure release valve with penetrating oil
Pressure Tank Interior	Every Five Years	Open and inspect pressure tank interior for rust or other deterioration
Pressure Switches	Every Six Months	Open, clean and lubricate
Valve Packing	Every Four	Provide new packing and lubricate per Manufacturer
Service Connection	Each Year	Open, inspect for leaks and condition. Repair as required.

Submersible Pump	Every Five Years	Remove and service pump per Manufacturer's recommendation. Check and replace electrical cables if wear is apparent.
Electrical	Every Year	Open, inspect and clean with an electrical contact cleaning solvent
Standby Generators	Every Year	Clean and lubricate per manufacturer's data

MAINTENANCE / REPAIR

The Service Company will perform all emergency repairs.

The water system's well pump station, booster pump station and water storage tank are checked as to operation and performance. The water system is checked for any damages, leaks or other general problems concerning preventative maintenance.

Each blow-off is opened and flushed each **month**.

The master water meter at the pump station is read and recorded **monthly**.

All mechanical equipment is checked for preventative maintenance.

The Service Company will keep all records.

If repairs are planned such as for a line extension or where service will be temporarily terminated the service company will give a 48 hour written notice to the customer with the date and time of the repair or interruption.

CROSS CONNECTION CONTROLS:

The operator shall insure that neither they nor the customers allow the water system to be cross connected to any source of contaminated water. The operator shall insure that customers do not attach suction pumps to water service connections and that no other sources of water are interconnected with the Marbello Water Company, Inc., except those which may be approved by the Department.

The Service Company will make a report to the company if any changes are made within the service area which might require a Cross Connection Control. If these are required the customer and regulatory agency is notified.

RECORD / REPORTS

The maintenance serviceman / operators, maintenance companies and suppliers will provide a work order or invoice for all activities and operational data performed on the water system.

These reports are recorded either at the office of the water company or maintenance company. The companies are responsible for the scheduling, reporting, billing and administrating the present and future work on the water system.

All reports are recorded and kept for future reference in three separate manuals.

1. Service manual covers all service, maintenance, repair, testing, complaints, line extension, and emergencies.
2. Water quality manual covers all water testing results and retest schedule.
3. Maintenance and operations manual covers all equipment specifications and replacements, also all asbuilts.

SAFETY:

Safety is a very important water company operator responsibility. The Service Company and their operators have the responsibility to be sure that the facilities are a safe place to work and that everyone follows safe procedures.

The Service Company and operators will follow the safety guidelines of W.I.S.A. and O.S.H.A.

Attachment "C"

Service Charges

All maintenance, operation and repair services will be charged on a time and material basis portal to portal.

The current rate charges are as follows:

1. Serviceman/Truck and Equipment \$ 75.00 per hour
2. Serviceman/Truck, Equipment and One (1) Laborer \$120.00 per hour
3. All material will be billed at cost with a 35% mark-up.
4. All laboratory charges will follow the guideline of Lauck's Testing Laboratories, Inc. with a 15% mark-up.
5. Administrative services and planning technical services will be charged at a hourly rate of \$75.00.
6. Major water system improvements will be bid to the owner.

The rates are subject to change with written approval from the water company.

Exhibit B



ILIAD, INC.

ILIAD INC. CONTRACT AGREEMENT

This agreement made and entered into by:

OWNER: ILIAD WATER SERVICE
P o Box 20429 P.O.
Seattle, WA 98102
Phone (206) 786-0645

CONTRACTOR: ILIAD, INC.
Box 20098
Seattle, WA 98102
Phone: (206) 282-4200
Fax: (206) 764-3848

OWNER for the full, complete and faithful performance of this **CONTRACT**, agrees to pay the **CONTRACTOR** the following **CONTRACT PRICE**:

A TOTAL LUMP SUM: \$152,826.00 (One Hundred Fifty Two Thousand, Eight Hundred Twenty Six and no/100), plus any applicable taxes.

In consideration thereof, the **CONTRACTOR** hereby agrees as follows: To perform work as outlined in **EXHIBIT A** hereto attached as scope of work.

To be bound by all laws, government regulations, and orders, and all provisions on any way applicable to this **CONTRACT**, and also by the **CONDITIONS** which are hereby referred to and made a part of this **CONTRACT**.

To provide **ALL SUPERVISION, LABOR AND EQUIPMENT** necessary for the **COMPLETE and TIMELY** installation of the Alderlake Water System Improvements, all per plan and specifications as prepared by Stallings Connolly, Engineers, dated 2/15/2011.

* Exception:
As defined here in **EXHIBIT A**

The below listed **CONTRACT DOCUMENTS** supersede and take precedence over all provisions of, and any inconsistencies in **CONTRACTOR'S** proposal:

EXHIBIT A

EXHIBIT B

SUBMITTALS: The contractor shall deliver submittals and shop drawing to the **OWNER** for approval before starting the project.

CHANGE ORDERS: For extra work above and beyond the scope of contract an extended work shall be filled out and signed by the **CONTRACTOR** and **OWNER** upon order of work. All extra work will be approved in writing prior to performing the work.

PAYMENTS AND PROGRESS PAYMENTS: The **OWNER** agrees to dispense funds for full payment as outlined in **EXHIBIT B** hereto attached..

WORKMANSHIP AND GUARANTY: Contractor agrees to perform the work in a "workmanship like manner". Contractor shall maintain and pay for State Industrial for all workmen on the job. Liability insurance shall be in place before commencement of work.

Iliaid, Inc. agrees to guarantee the work for one (1) year from the date of commencement.

CLAIMS AND DISPUTES: This agreement shall be deemed to be an integrated agreement superseding all prior oral or written agreements between the parties relative to the subject matter hereof. If any part of this Agreement shall be found or held to be invalid, such finding shall not affect the validity of any other hereof.

All demands, notices and notices of forfeiture, notices of default, notices to commence delivery service, and the like may be personally addressed to the respective parties at the following address:

CONTRACTOR: ILIAD, INC.
P.O. Box 20098
Seattle, WA 98102

In the event any party brings any action at law or equity with respect to any of the obligations, duties, or responsibilities under the Contract, through court action or otherwise, the prevailing party shall be entitled to recover, in addition to any other amounts or sums of money, such amounts as the court deems reasonable as attorney fees and costs of the suit.

Contract terms and agreements will be within Washington State Laws and Regulations.

In witness whereof the CONTRACTOR AND OWNER have executed this agreement, effective as dated.

OWNER: ILIAD WATER SERVICES, INC.

CONTRACTOR: ILIAD, INC.
LIC. NO. ILIAD1*219N2


7/18/2011

Date: 7/18/2011


Date:
David Dorland, President

**EXHIBIT A
SCOPE OF WORK**

Prepared for:

**ILIAD, INC.
ALDER LAKE WATER SYSTEM
CORROSION CONTROL TREATMENT
July 21, 2011**

Water quality tests taken recently by the Alder Lake Community Water System (Client) have revealed high levels of copper, which exceeded the action level for copper under the Lead-Copper rule. Corrosion control treatment is thus required under 40 CFR Part 141.83(b). The Client wishes the Consultant to conduct a preliminary (Phase 1) investigation of the options for treatment technique, and provide an engineering report.

The report will include a recommendation of preferred method of treatment, preliminary sizing calculations, a list of required permits, and a work plan for Phases 2 & 3. The actual work for all phases will be completed in conformance with approved Engineering standards applicable to similar work by similar professionals in the project area. Consultant makes no warranty, express or implied, for work performed.

Upon concurrence of the Client and the Department of Health, Office of Drinking Water, the Consultant will proceed with Phase 2, in which the final design of the appropriate treatment facility is completed.

The following tasks describe the required Phase 1 work elements:

Phase 1: Data Collection and Engineering Report

A. Review Water Quality Data.

The Consultant will review the results of the water quality chemical analysis provided by the Client for both source water and water from the tap. The level of corrosivity and tendency for precipitation of calcium carbonate will be assessed. If the data are not sufficient to proceed with the selection of a treatment method, the Consultant will recommend that additional water quality testing be performed. Any additional tests beyond those provided to Consultant for this task will be at Client's expense, and may require additional fee.

B. Determine Treatment Technique

Using the EPA Guidance Manual, the consultant will identify and recommend a preferred treatment technique, if multiple treatment technologies are identified by the

decision matrix in the guidance manual, the Consultant will meet with Department of Health (DOH) Regional Engineer to review the data and establish consensus. Upon concurrence of the Client, the Consultant will proceed with the preparation of an engineering report based upon the recommended treatment alternative (See Sub-Task 3 below).

Note: If the determination of corrosion control treatment technique is not made with concurrence of all, it may be necessary to conduct "pilot testing". All work associated with pilot testing will be considered additional work. If pilot testing is required, a scope of work and cost estimate for pilot testing will be developed as an amendment to this scope of work.

C. Engineering Report

The Consultant will prepare a letter report with an overview of the preferred treatment technique decision, the design criteria, and preliminary sizing calculations. The report will include dosage rates, concentrations, premixing and chemical storage quantities required for design criteria. Included in the engineering report will be a list of the required permits and a planning level estimate of the cost to construct, operate and maintain the treatment facility. This report will be reviewed, and with approval by the client, submitted as a project report to the DOH. Report revisions, if required, are considered additional work and will require an amendment to Phase 1 of this scope of work.

The Consultant will prepare, as part of the engineering report, a planning level estimate of the cost to construct, operate and maintain the treatment facility. The cost will be reviewed with the Client.

Deliverables:

- Engineering Report
- Planning level estimate of probable cost to construct
- List of required permits

Phase 1 Cost: \$18,176.00

End of Phase 1 Scope of Work

Phase 2: Plans, Specifications, and Estimate

The tasks identified in the Phase 2 scope of work are for information purposes only.

A: Preparation of Plans, Specifications and Estimate

The Consultant will prepare a set of detailed design plans and specifications for the selected treatment alternative. The Consultant will also prepare a detailed estimate (PS&E) of the probable cost to construct the facilities. The plans will include the treatment system, chemical storage, emergency spill storage facilities, and associated mechanical, electrical and other ancillary facilities identified in the Engineering Report.

It is anticipated that the following plan sheets will be provided to the construction contractor:

- Cover sheet, vicinity map
- Site plan
- Mechanical
- Electrical
- Building plan
- Building sections
- Detail sheets

Upon completing the construction documents, the Consultant will prepare a bid package. The Consultant may utilize the Client's preferred bid document "boiler plate," if one exists, for the preparation of the bid advertisement, contract, bond forms, etc. The Consultant will forward the completed design, specifications and estimate of probable construction cost to the Client and to the DOH for review. All DOH review fees will be paid by the Client. The Consultant will incorporate comments of the Client and DOH, and finalizing the PS&E will constitute completion of the design phase of the project.

B: Bid, Ad and Award

Upon satisfactory completion of the predecessor work, the Consultant will assist the Client as requested in the Bid, Advertisement, and Award phase of the project. It is understood the Client does not wish to publicly advertise the project but instead, bids will be solicited from the Client's own roster of prequalified contractors. The Consultant and Client will identify a list of prequalified contractors to be invited to prepare a firm fixed bid for the project according to explicit instructions given in the bid documents. The Consultant will evaluate the prospective bidders and make a recommendation to the Client on prequalified bidders list. Bid documents will be sent to the prequalified contractors. The Consultant will be available to respond to bidder's questions during the bidding process and to issue amendments, when necessary. The Consultant will attend the bid opening, evaluate bids, and make a recommendation to the Client on the most responsive bidder.

On an hourly basis, as additional work, the Consultant will assist the Client in negotiation of the construction contract, and consult with Client as to the demonstrated qualifications of subcontractors, suppliers, and other persons and entities proposed by the contractor for those portions of the work where such qualifications are required by the Bidding Documents.

The Bid, Ad and Award phase of the project will terminate, and all services anticipated to be performed or furnished under this phase will be considered complete upon commencement of the construction phase or upon cessation of negotiations with prospective contractors.

C. Permits

The Consultant will prepare permit applications and provide coordination between the agencies and the Client in Phase 2.

Phase 3: Construction Support

A. Construction Contract Administration

Upon successful completion of the Bidding Phase, and upon written authorization from the Client, the Consultant will provide construction contract administration throughout the construction element of the project. The administration involved will include: budget and schedule tracking, responses to Contractor's questions and requests for information (RFI), preparation of progress reports and change orders, review of equipment submittals, and record keeping and documentation to assure that the treatment facility is constructed according to the approved plans.

The Consultant will provide general administration of the construction contract, consult with Client, and act as Client's representative. All of Client's instructions to the Contractor will be issued through the Consultant, who shall have authority to act on behalf of the Client in dealings with Contractor to the extent provided in the Contract Documents except as otherwise provided in writing.

The Consultant will make visits to the site at intervals appropriate to the various stages of construction, in order to observe as an experienced and qualified design professional the progress and quality of the work. Such visits and observations by the Consultant are not intended to involve detailed inspections of the Contractor's work beyond the responsibilities specifically assigned to the Consultant. Rather they are to be limited to spot checking, selective sampling, and similar methods of general observation, together with exercise of professional judgment. Based on information obtained during such visits, the Consultant will keep the Client informed of the progress of the work.

The purpose of the Consultant's visits to the Site is to provide the Client with a greater degree of confidence that the completed Work will conform to the Contract Documents and that the standards set forth in the Contract Documents have been implemented and preserved by Contractor. The Consultant shall not have control over the Contractor's work, nor have responsibility for the means, methods, techniques, sequences, or procedures of construction selected by Contractor. The Consultant does not guarantee satisfactory performance by the Contractor nor assumes responsibility for any failure of the Contractor to perform its work in accordance with the Contract Documents or with applicable laws and regulations. It is entirely the responsibility of the Contractor to maintain a safe workplace, to establish safety policies, and to implement injury preventive programs incident to Contractor's work.

B. Payment

From time to time during the construction phase, the Contractor may submit a request for partial payment based on progress made and/or materials delivered to the site. Such requests shall in no case be made less than 30 days after a previous request or notice to proceed. The Consultant will estimate the progress made and that portion of the amount requested that the Consultant recommends the Contractor be paid.

Such recommendations of payment will be in writing and will, to the best of Consultant's knowledge, information, and belief, be a representation to the Client that the Contractor's work has progressed to the point indicated and that the quality of work is generally in accordance with the Contract Documents. However, the Consultant's estimate of progress made shall only be for the purpose of estimating a partial progress payment due to the Contractor, and a representation by the Consultant that the conditions precedent to Contractor's being entitled to such partial payment appear to have been fulfilled.

Progress estimates made by the Consultant are not to be used as direct evidence of performance or quantities. Consultant's recommendations of payment will include final determinations of quantities and classifications of Contractor's work (subject to any subsequent adjustments allowed by the Contract Documents).

C. Project Closeout

Promptly after notice from Contractor that Contractor considers the entire Work ready for its intended use, in company with Client and Contractor, shall conduct an inspection to determine if the Work is Substantially Complete. After resolving all objections of the Client, the Consultant shall designate the Work Substantially Complete and deliver a certificate of Substantial Completion to Client and Contractor.

The Consultant will conduct a final inspection to determine if the completed Work of the Contractor is acceptable so that the Consultant may recommend, in writing, final payment to the Contractor. Accompanying the recommendation for final payment, Consultant shall also provide a notice that the Work is acceptable to the best of

Consultant's knowledge, information, and belief and based on the extent of the services provided by Consultant under this Agreement.

The Consultant shall not be responsible for the acts or omissions of any Contractor, or of any subcontractor, supplier, or of any other individual or entity performing or furnishing any of the Work. Consultant shall not be responsible for failure of any Contractor or sub-contractor to perform or furnish the Work in accordance with the Contract Documents.

The Engineer will provide project close-out. This item of work will include the finalization of all documentation and records, preparation of record drawings and submittal of final reports to the Department of Health. The Consultant will receive bonds, certificates, or other evidence of insurance not previously submitted and required by the Contract Documents; certificates of inspection, tests and approvals, shop drawings, samples and other data approved and the annotated record documents which are to be assembled by Contractor in accordance with the Contract Documents to obtain final payment.

D. Commissioning / Operation and Maintenance Manual

Upon completion of construction of the treatment facility, the Consultant will assist the Client in the startup of the new facilities. This will include the coordination of specialized equipment suppliers and contractors and the Client's staff. During the Operational phase, the Consultant, when requested by the Client, will:

- o Receive and review maintenance and operating instructions, schedules, and guarantees.
- o Provide assistance in connection with the refining and adjusting of any equipment or system.
- o Witness any required pressure tests and disinfection. Complete and submit certification of construction completion to the Department of Health.
- o Assist the Client in training the Client's staff to operate and maintain the Project.
- o Assist the Client in developing systems and procedures for operation, maintenance and record keeping for the facility.
- o In company with Client, visit the Project to observe any apparent defects in the completed work; assist Client in consultations and discussions with Contractor concerning correction of such defects; and make recommendations as to replacement or correction of defective work.
- o Provide miscellaneous services as requested by Client in connection with Project close-out.

The operational phase may commence during the construction phase and will terminate three months after the date of Substantial Completion.

The Consultant will prepare an Operations and Maintenance Manual for the treatment facility. All generated text will be supplied on Compact Disk (soft copy) and hard copy. All equipment data sheets will be as supplied by the manufactures and will be hard-bound in three ring binders.

Proposed End of Scope of Work

Exhibit B

PAYMENT AND PROGRESS PAYMENTS

Both parties have reviewed and agreed on the approved WUTC customer payment schedule for the Alderlake Water System Improvements.

The parties have agreed that in consideration for financing for the improvements the owner will enter into a lump sum contract in the amount of \$152,826.00 with the contractor. The contractor will agree to provide the financing for the Alderlake Water System Improvements.

Upon completion of the improvements for the Alderlake Water System and final approved certification from the Engineer, the owner agrees to pay immediately to the contractor all cash assessment payments received from the Alderlake customers in the amount of \$4,586.00.

The unpaid balance of the contract will be paid to the contractor on a time basis per WUTC approved payment schedule, (monthly payments of approximately \$1,995.00 over 120 months at 8.5% interest) as collected from the water customers.

The contractor agrees to pay timely any and all unpaid claims which would provide the basis of a lien against the Alderlake project.

Exhibit C

Billing Service Agreement

THIS AGREEMENT, by and between the undersigned **BUSINESS** and **Water Services Company (Billing Company)**.

THEREAS, the **Billing Company** is a provider of a billing service and **ILIAD WATER SERVICES, INC.** is desirous of the billing service, all in accordance with this Agreement.

NOW THEREFORE, it is agreed that the billing service will be in accordance with the terms hereof:

NAME OF BILLING COMPANY Water Services
Address PO Box 20429
City/State/Zip Seattle, WA 98102
Phone Number (800) 928-3750 Fax Number (206) 764-3848
NAME OF BUSINESS Iliad Water Services, Inc.
Address PO Box 20429
City/State/Zip Seattle, WA 98102
Owner's Name Derek E. Dorland
Office Manager _____
Phone Number (206) 282-4200 Fax Number (206) 764-3848

The above names **BUSINESS** agrees to engage **BILLING COMPANY** to process the water system payments for monthly reporting. Upon payments received, records shall be provided to **Iliad Water Services, Inc.** on or before the tenth day of each month, or as follows: _____

ILIAD WATER SERVICES, INC. agrees to pay **BILLING COMPANY** monthly (by the 15th of each month) according to the following fee payment schedule:

- * All in accordance with (Attachment A)
- * Both parties reserve the right to cancel this agreement and return complete billing records upon 30 days written notice. Otherwise this agreement shall remain in effect for a period of one year, with automatic annual renewal subject to the company's rates and policies then in effect. The terms of this agreement may be subject to modification with at least 30 days prior to the annual renewal.
- * **ILIAD WATER SERVICES, INC.** agrees to hold **BILLING COMPANY** harmless and indemnify **BILLING COMPANY** from any and all claims including attorney's fees and costs.

Iliad Water Services, Inc. Date

Signature and Title

Water Services Company Date

Signature and Title

Attachment A

**CONTRACT FOR SERVICES
FOR WATER SYSTEMS**

1. BILLING SERVICES: Water Services Company will provide all necessary administrative services to include:

- A. Maintain billing rosters.
- B. Prepare and mailing of monthly billings.
- C. Maintain a toll-free telephone number and dealing with customers and requests to include providing information and normal forms.
- D. Paying of bills relating to the operation of the water system.
- E. Providing collection services for delinquent customers.
- F. Providing a monthly summary of billings and collections.
- G. Providing a quarterly income statement.

2. BOOKKEEPING SERVICES: Water Services Company will provide the following bookkeeping services:

- A. Maintaining a mailing address and collecting customer payments.
- B. Post and deposit customer payments.
- C. Prepare and transmit all necessary reports on a monthly basis.
- D. Transfer Funds to the appropriate accounts.
- E. Maintain Escrow for Utility Taxes owed.

3. BILLING SERVICE RATES: Water Services Company will charge the water company based on the following rates:

A. BILLING PACKAGE

- 1. Postcard billing to customers based on the system's billing cycle.
- 2. Collect payments and enter data.
- 3. Prepare accounting monthly or at end of cycle.
- 4. Cost is \$3.00 per customer/per cycle.

B. TELEPHONE PACKAGE

- 1. 24 Hour toll-free 800 number answered by an operator.
- 2. Immediate notification of designated personnel in case of emergency.

3. Non-emergency calls, limited to billing questions and address changes returned the next business day.
4. Cost is \$.50 per customer/per month.

C. ADMINISTRATION PACKAGE

1. Maintain customer list and files.
2. Assist escrow in property transfers.
3. Customer correspondence.
4. Interface with government agencies/represent owners when requested.
5. Cost is \$2.00 per customer/per month.

D. ACCOUNTING PACKAGE

1. Deposit payments.
2. Pay bills.
3. Provide monthly, quarterly & annual accounting reports.
4. Pay State Taxes.
5. Cost is \$1.00 per customer/per month.

E. OTHER SERVICES

All other services will be provided on an hourly basis as follows:

Administration, Clerical Services, Set-up and Computer Services
\$37.50 per hour

Exhibit D

ILIAD WATER SERVICES, INC.
PO BOX 20429
SEATTLE, WA 98102

[DATE]

IMPORTANT NOTICE

Iliad Water Service, Inc. ("Company") filed a revised tariff with the Washington Utilities and Transportation Commission ("Commission") to recover the costs of a corrosion control treatment plant ("Plant") constructed on its Alder Lake water system, located in Eatonville, WA. The revised tariff will become effective on [EFFECTIVE DATE].

The Company built the Plant to comply with water quality standards enforced by the Washington State Department of Health. The Plant is necessary to treat the water for Alder Lake customers and protect against possible lead and copper corrosion. The Commission determined that the Company shall recover the cost from its customers via a \$3 per month surcharge added to each customer's bill. The surcharge will expire after the Company collects the cost of the Plant plus taxes and interest, or after eleven-and-a-half (11.5) years, whichever occurs first. The Commission determined this surcharge is fair, just, reasonable, and sufficient.

The Commission found that the monthly surcharge should apply to all of the Company's customers, reducing the per-customer rate impact of single system improvements. This approach helps to minimize customer bills and provide rate stability to all customers—much like insurance pooling—by recovering unexpected costs associated with necessary system improvements that can impact any of the Company's water systems.

If you have any questions about how you will be affected, please call the Company at 206-282-4200 or 800-928-3750.

The Commission has the authority to set rates paid by customers to the Company. For more information please go to the Commission's website, at www.utc.wa.gov, or contact the Commission using the information below.

Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Post Office Box 47250
Olympia, WA 98504-7250
Telephone: 1-888-333-WUTC (9882)
Email: comments@utc.wa.gov

Sincerely,

Iliad Water Service, Inc.