

APPLICATION FOR APPROVAL OF AN AFFILIATED INTEREST CONTRACT

Instructions: All applications submitted to the Commission must be filed electronically with the Commission's Filing Center. Documents may be electronically filed by sending the filing as an attachment to an electronic mail message addressed to the Commission's Filing Center at puc.filingcenter@state.or.us. An original document must be personally delivered or mailed on the date the electronic copy of the document is filed.

Date: August 26, 2016

COMPANY NAME: Sunriver Water LLC

ADDRESS: PO Box 3699

CITY, STATE, ZIP: Sunriver, OR 97707

Oregon Public Utility Commission
Filing Center
PO Box 1088
Salem, OR 97308-1088

RE: Sunriver Water LLC (Name of Company) Affiliated Interest Application with Sunriver Resort Limited Partnership pursuant to ORS 757.495 and OAR 860-036-0730

This affiliated interest application is submitted in the manner and form indicated by OAR 860-036-0730.

INFORMATION REQUIREMENTS

(a) The applicant's exact name and the address of its principal business office;

Sunriver Water LLC
PO Box 3699
Sunriver, Oregon 97707

(b) The name and address of the person authorized on the water utility's behalf, to receive notices, inquiries, and communications regarding the information;

Thomas Samwel
Director of Finance Sunriver Resort
17600 Center Drive, Sunriver, OR 97707

(c) A statement describing the relationship between the water utility and the contracting entity as defined by ORS 757.015 and 757.490;

Sunriver Water is an Oregon limited liability corporation whose shares are owned by Sunriver Resort Limited Partnership. An affiliated interest relationship exists between Sunriver Water and Sunriver Resort Limited Partnership under ORS 757.015.

(d) The amount, kind, and ratio to total voting securities held, if applicable;

N/A

(e) A list of all officers and directors of the affiliated interest who are also officers or directors of the applicant;

Lowe Sunriver, Inc. is the general partner of Sunriver Resort Limited Partnership which, in turn, is the only member of Sunriver Water.

(f) The pecuniary interest, directly or indirectly, of any officer or director who is a party to the contract;

N/A

(g) A description of the goods or services to be provided, the cost incurred in providing each of the goods or services, the market value of the goods or services if different from the costs, and the method or methods proposed for pricing those goods or services;

Attached as Exhibit A is a copy of the draft Management Agreement between Sunriver Water and Sunriver Resort Limited Partnership. This contract establishes the terms and conditions under which services are provided by Sunriver Resort Limited Partnership to Sunriver Water. Sunriver Resort Limited Partnership will, among other things:

- (a) Provide all financial and accounting related duties
- (b) Provide all employment management related duties
- (c) Provide all information technology and telecommunication service and support duties
- (d) Execute all contracts on behalf of the company
- (e) Provide all insurance and risk management related duties
- (f) Provide all executive related oversight of the company

The initial term of the contract is from August 1, 2016 to December 31, 2025 and shall automatically renew for successive five-year periods after December 31, 2025, unless either party elects not to renew the contract.

The pricing is based on expenses on behalf of Sunriver Water Company and the actual wages paid to employees of Sunriver Resort Limited Partnership, together with an allocation of hours.

(h) An estimate of the amount the water utility will pay annually for the goods or services and the accounts in which it will record the charges;

The proposed fees assessed Sunriver Water by Sunriver Resort Limited Partnership are set forth in Subsection G (3) of the Management Agreement. The Management Fee under the contract for the period August 1, 2016 through December 31, 2016 will be \$292,229 annualized or 5 monthly installments of \$24,352.42. The annualized Management Fee for the calendar year beginning January 1, 2016 is allocated as follows:

Accounting Department Costs	\$83,947
Allocated HR Costs	\$15,671
Allocated IT Costs	\$52,528
Executive Management Costs	\$67,844
Senior Management Costs	\$34,739
Affiliate management Fee	\$37,500
Total Annualized Management Fee	\$292,229

Please see Exhibit B for the calculations of the above amounts. All amounts will be prorated based on the date of PUC approval of this agreement.

The Management Fee will increase under the contract on each January 1 during the term of the contract. The Management Fee shall increase on each January 1 for the subsequent calendar year during the duration of the contract by an amount that is equal to the relative change in the Consumer Price Index (All Urban Consumers CPI-U) from January 1 of the previous year through December 31 of the previous year.

(i) The reasons, in detail, relied upon by the water utility for procuring the proposed goods or services from the affiliate and benefits, if any, utility customers and the general public will derive from the provision of goods or services,

Sunriver Resort Limited Partnership, and its predecessor in interest, Sunriver Properties, have operated under PUC-approved affiliated interest contracts with Sunriver Water since 1970, pursuant to Commission Order No. 70-317. Over the span of 45 years Sunriver Water (and its predecessor, Sunriver Utilities) has been able to more efficiently operate by being able to utilize the management functions of its parent company. Absent the affiliated interest, the utility would be required to hire additional staff to perform these functions, eliminating the efficiencies inherent with joint management. The services provided to the utility by Sunriver Resort Limited Partnership are provided at market rate. The wages paid to Sunriver Resort Limited Partnership employees who will perform under the management agreement are market rate wages.

(j) A description of the procurement process and the reasons, in pertinent detail appropriate to the complexity of the procurement, relied upon by the water utility for procuring the proposed goods or services without a competitive procurement process, if such a process is not used.

As discussed above, in the absence of a management agreement, the utility would be required to hire additional staff to independently provide the services. The utility would be required to

obtain such employees at market rates; however, all efficiencies would be lost. For example, rather than utilizing Sunriver Resort Limited Partnership's IT personnel on an as-needed basis, the utility would be required to add staff to handle IT matters.

An internal study examined the hours and wages needed to fulfill each of the responsibilities outlined in the management contract (Exhibit A). Market wages were used provided by the OR Employment department and the result of that study showed that the cost of hiring the personnel needed to perform the management functions would cost the Sunriver Water Company and ultimately the water consumers nearly \$385,000 per year compared to the Resort provided services in the management contract of \$292,229. (See Exhibits C. & D.)

A second internal study looked at two comparable Water companies in Central Oregon. Costs for similar services provided in the management contract (Exhibit A) were pulled from these two companies annual water reports filed on the PUC website. These costs were divided by the number of water company customers (users) to determine an annual cost of water management per water customer. The result of this exercise is that the proposed management fee for Sunriver Water represented an annual cost of \$61.37 per user well within the comparable range of the other two companies whose costs were \$150.08 and \$48.30 respectively. In this study it was also noted that the overall annual average water costs per user for Sunriver Water for the 2015 calendar yearly was \$361.17 per user compared to \$574.71 and \$614.05 for the two comparable local water companies further indicating the fiscal conservancy of Sunriver Water LLC. (See Exhibit E.)

(k) Transfer prices in contracts or agreements for the procurement of goods or services under competitive procurement shall be presumed to be the market value, subject to evaluation of the procurement process;

The wages associated with all resort employees operating under the management agreement are the actual wage rates paid to the employees by the resort without any markup. These rates are market rates.

In determining the Accounting costs from item (h) above, each member of the accounting team was interviewed to determine the number of hours per week each individual spends on Water Company related activities. The result of that exercise determined that 9% of all accounting staff hours are spent performing duties related to and inclusive of the Water Company. 9% was applied to all accounting, audit and financial related expenses to determine the allocated cost of accounting. (See Exhibit B.)

In determining the HR costs from item (h) above, combined Sunriver Water Company and Sunriver Environmental company (together known as Sunriver Utilities) FTE's as a percentage of all employees working for Sunriver Resort Limited partnership represents 4.4%. The HR allocation of expenses for Sunriver Water Company solely is estimated at 50% of Sunriver Utilities because of shared staffing. Therefore, the management contract assumes 2.2% of all HR related functions and expenses. (See Exhibit B.)

In determining the IT costs from item (h) above, combined Sunriver Water Company and Sunriver Environmental company computer and related machines supported by the IT department represent 10% of all devices. For purposes of the management contract it is assumed that 50% of Sunriver Utilities IT support is attributable to Sunriver Water as most of the

machines and devices are shared by both companies. Therefore, IT costs in the management contract are 5% of all IT and related expenses. (See Exhibit B.)

In determining Executive related costs from item (h) above, the managing director was interviewed and it was determined that 7.5% of the managing directors time was spent on matters that either specifically related to the water company or were inclusive of the water company interests. Therefore 7.5% of the Executive labor and associated costs were allocated as Executive management costs. (See Exhibit B.)

In determining Senior Management costs from item (h) above, the VP of development who has direct supervisory oversight of Sunriver Water Company was interviewed and it was determined that roughly 13.8% of time spent was directly related to or inclusive of matters related to the Water Company. There 13.8% of fully burdened labor costs were applied to the management contract. (See Exhibit B.)

The affiliate management fee cost included in the Management fee calculation is a contracted actual fee between Destination Hotels and Resorts and Sunriver Resort Limited partnership specifically related to the Water company including but not limited to the oversight and maintenance of systems, data warehousing, regional support, legal support, company policy making, internal audits, strategic planning assistance, global insurance and risk management etc. (See Exhibit B.)

ATTACHMENTS

(l) A copy of the proposed contract or agreement between the water utility and the contracting entity; and

A copy of the draft management agreement is attached as Exhibit A.

A copy of the supporting schedule that details the affiliate Interest fees is attached as Exhibit B.

A copy of market data comparing costs of hiring personnel needed to fulfill the responsibilities of the Manager under the AI agreement is attached as Exhibit C.

A copy of data received from the OR employment department that is used in Exhibit C. is attached as Exhibit D.

A copy of local company's comparable costs is attached as Exhibit E.

(m) Copies of all resolutions of directors authorizing the proposed transactions and, if stockholders' approval has been obtained, copies of the resolutions approved by the stockholders.

N/A

For the reasons set forth above, Sunriver Water LLC respectfully requests that the Commission issue an order approving the affiliated interest contract between, Sunriver Water LLC and Sunriver Resort Limited Partnership, pursuant to the provisions of ORS 757.495 and OAR 860-0386-730.

DATE: 8/26/16

NAME OF COMPANY: Sunriver Water LLC



(SIGNATURE OF AUTHORIZED PERSON)

Thomas N. Samuel

(PLEASE PRINT NAME)

Director of Finance

(TITLE)

Exhibit A

Sunriver Resort Limited Partnership Designated Managing Agent for the Company

SUNRIVER WATER LLC MANAGEMENT AGREEMENT

This Management Agreement (Agreement) is made by and between Sunriver Resort Limited Partnership, a Delaware limited partnership (Manager), and Sunriver Water LLC, an Oregon limited liability company (Company), and shall upon the execution hereof by the parties constitute the sole agreement between the parties with respect to management of the Company located in Sunriver, in Deschutes County, Oregon.

AGREEMENTS

Sunriver Resort Limited Partnership Designated Managing Agent for the Company. The Manager is hereby designated as "Managing Agent" for the Company and shall exercise such authority and assume such responsibility as is required under this Agreement. The specific duties of the Manager, in addition to those required by law are as set forth in this Agreement.

A. Financial Duties of the Manager:

1. Manager shall provide financial management and control of all funds of the Company, shall take custody of all monies and shall accurately account therefore to the Company.
2. The Manager shall maintain all bank accounts for the Company.
3. The Manager shall prepare interim financial statements for each month of the year for the Company and annual financial statements and annual audits in the normal course of the Manager's business.
4. Manager will prepare and reconcile monthly city ledgers and balance sheet reconciliations.
5. Manager is responsible for daily bank account monitoring and transfers, including handling weekly deposits and cashiering needs. Manager processes their daily payment batches in the Cash Management system and processes the appropriate monthly revenues.
6. On a yearly basis the Manager will compile all necessary documents needed for an external audit and through an outside contractor will have an annual audit performed in conjunction with income tax return preparation.
7. Manager tracks all fixed assets for the company and will maintain asset books for tax, and PUC reporting.
8. Manager reviews/approves all capital requests and monitors the actual project expenses vs. budget on a monthly basis.

9. Manager is responsible for processing the weekly Accounts Payable check run. This includes verifying invoices are appropriately coded and approved, keying into the system, cutting checks, obtaining signatures, activating checks in bank account, and sending remittance to vendors. Upon completion, all paperwork is filed away and stored.
10. Manager works with staff to ensure all Water associates are paid correctly. This includes updating hours, incentives and codes in the time system, monthly insurance/worker's comp/PTO reconciliations, processing and distributing payroll documents.
11. Manager is responsible for processing all DMV paperwork and renewals.
12. The Manager shall prepare budgets for the Company which will be presented for approval to the owners of the Company.
13. The Manager, through outside contracting will prepare annual federal and state income tax returns, annual property tax returns.
14. The Manager will prepare all quarterly and annual payroll tax reports, W-2's, 1099's and any other tax reports as required
15. The Manager will prepare all rate cases with the assistance of company staff.
16. The Manager will prepare and file all annual and quarterly PUC reporting as required.

B. Employment Management Duties of the Manager:

1. The Manager will advise the Company with regard to hiring and personnel matters and procedures for compliance with legal requirements regarding personnel, and shall perform such duties in connection with personnel matters as shall be requested from time to time by the Company.
2. The Manager will maintain employee records
3. The Manager will administer annual employee engagement surveys and will promote and foster a positive work environment through department and company-wide motivation events and programs.
4. The Manager will administer all standard benefit programs including Medical/Dental/Life/AD&D, 401K and paid/unpaid leave.
5. The Manager will administer all fringe benefit programs such as Work Perks, Room Discounts and Service anniversary awards.
6. The Manager will provide basic company training programs such as new hire orientation and other training programs as needed.

7. The Manager will facilitate a safety program and will manage all workers compensation claims and workplace injuries for the company.

8. The Manager will provide a framework for the company for annual performance and compensation reviews for all of the employees of the company.

9. The Company agrees to reimburse the Manager for all the actual costs of the wages and benefits (including holiday pay, sick pay, vacation pay, insurance costs, workers' compensation insurance and other employee benefits) provided by the Manager to its employees, necessary to perform the duties required to operate the Company.

C. Information Technology and Communication Services:

1. Manager shall provide IT support services to the company.

Support includes:

- a. 24/7/365 emergency service.
- b. Software support.
- c. Application support.
- d. Network support.

2. Manager will provide computer and server support to the company.

Support includes:

- a. Providing anti-virus program to all computers and servers.
- b. Regularly updating Windows Server Update Services.
- c. Regularly updating patches and security updates for software and applications.
- d. Routine server and computer maintenance.
- e. Backup for file shares and utilities systems.

3. Manager will provide and maintain phones and phone service for the company. This includes voicemail, fax, copy, and scan features.

4. Manager will provide cellular and tablet support. Providing access to approved internal systems such as email and GIS mapping programs.

5. Manager will provide network access to the company.

Network access includes:

- a. Firewall protection and configuration.
- b. Communications to wells and lift stations.
- c. Communications for Scada Alarm system.
- d. Communications for GIS mapping system.
- e. Providing internet service for the company.
- f. Remote access to utilities systems from external sources.

6. Manager will provide email to the company.
Email Includes:
 - a. User mailboxes for associates.
 - b. Generic mailboxes for the company.
 - c. Managed distribution groups for the company.
 - d. ProofPoint spam protection.
 - e. Email virus protection services PureMessage (Sophos).

7. IT support will include building and maintaining a secure network and systems. The manager will protect card holder data. The manager will provide and maintain a vulnerability management program. The manager will implement strong access control measures. The manager will regularly monitor and test networks. The manager will maintain an information security policy.

D. Contracting Issues

1. The Manager shall be authorized to sign contracts on behalf of the Company to the extent authorized by the owner.
2. Manager will be specifically named as an additional insured on the Company's insurance policies. In the event of cancellation or termination or modification or non-renewal of the aforementioned insurance, notification of such cancellation will be provided to the Manager and the Company at least thirty (30) days prior to its cancellation. The Company shall obtain, at Company's expense, a fidelity bond covering Manager's employees responsible for handling the Company's funds.

E. Indemnification

1. Where the Manager has acted in its capacity as consultant or agent of the Company in any of the Company's business, and has thereby become subjected to claims or liabilities related to the conduct of the Company's business, the Company shall hold the Manager harmless and defend and indemnify the Manager against any and all such claims including reasonable attorneys' fees so incurred by the Manager, provided, however, that no such saving harmless or indemnity shall extend to any such claim for which it has been determined by a court of competent jurisdiction that the claim has arisen from a reckless or willful breach of this agreement by the Manager (or any officer, employee or agent of the Manager) or from reckless or willful failure by the Manager (or any officer, employee or agent of Manager) to carry out the business of the Company in a prudent, faithful and diligent.
2. Manager will secure all insurance policies on behalf of the company including but not limited to Commercial General Liability, Automobile liability, Workers Compensation and Employers Liability.
3. Manager will file all insurance claims on behalf of the company and manage all related correspondence and necessary follow up through the closure of all claims.

F. Other Duties

1. The Manager shall provide executive level supervision of those persons engaged in the day-to-day operations of the Company to include the following:
 - a. Conduct regular meetings with on-site managers to review day to day operation challenges and issues.
 - b. Consult with managers to budget and review capital expenditures.
 - c. Consult with managers to budget and review annual operating budgets.
2. Provide strategic thinking and approaches in the long term planning of the operations of the business.
3. Attend quarterly meetings with the company owners to report on and review ongoing and future operating and capital issues and funding.
4. Determine the need for any personnel changes.
5. Oversee and coordinate annual rate cases with PUC.

G. Term of Agreement; Fees

1. The initial term of this agreement shall be from August 1, 2016 to December 31, 2025 and shall automatically renew for successive five-year periods after December 31, 2025 unless either party elects not to renew this Agreement for the subsequent period by providing written notice of non-renewal of this agreement no earlier than August 1 nor later than October 1 of that calendar year preceding the termination of the term of the Agreement. In the event a party timely provides written notice of non-renewal of this Agreement to the other party, then this Agreement shall terminate on December 31 of the calendar year in which the notice was timely provided.
2. The Company shall pay the Manager fees for the Manager's Work as set forth in this Agreement (Management Fee).
3. The Management Fee shall be on account of those management activities performed by the Manager as set forth in this agreement. Management Fees are for the twelve-month period ended December 31 each year. The management fee for the period January 1, 2016 through December 31, 2016 will be \$292,229 or \$24,352.42 each month. However, with an effective date of August 1st 2016, January through July of 2016 will follow the prior approved fee schedule with the remaining 5 months of 2016 at the new rate of \$24,352.42 monthly.