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December 15, 2015

FROM: Shadowwood Water Service, Wilderness Canyon,
Hillview Acres, Illahe Golf Club Estates, Westwood Village Water
Po Box 699
Newberg or 97132

TO: Public Utility Commission of Oregon
Filing Center
PO Box 2148
Salem, OR 97308-2148

RE: The filing of an Affiliate Interest Application with the Public Utility Commission of Oregon (Commission) for approval of a Master Service Affiliated Interest Contract between SHADOWWOOD WATER SERVICE, WILDERNESS CANYON, HILLVIEW ACRES, ILLAHE GOLF CLUB ESTATES, and WESTWOOD VILLAGE WATER, hereafter collectively referred to as the **Utilities**; and Hiland Water Corp., hereafter referred to as the **Affiliate**. The Utilities and the Affiliate are hereinafter collectively referred to as the **Parties**.

This affiliated interest application is submitted in the manner and form indicated by OAR 860-036-0730, pursuant to ORS 757.495.

The Utilities seeking approval of this master service affiliated interest contract are:

- (a) Shadowwood Water Service
- (b) Wilderness Canyon
- (c) Hillview Acres
- (d) Illahe Golf Club Estates
- (e) Westwood Village Water

The address of the Utilities' principal business office is:

PO Box 699
Newberg OR 97132
503-554-8333

The address of Affiliate's principal business office is:

Hiland Water Corp
PO Box 699
Newberg OR 97132
503-554-8333

The person authorized on behalf of the Utilities to receive notices/inquiries/communications is:

Silas Olson
General Manager
PO Box 699
Newberg OR 97132
503-554-8333
silas@hilandwater.com

THE REQUEST

The Parties seek Commission approval to enter into a Master Service Affiliated Interest Contract for the provision of goods and services provided by the Affiliate that are necessary for the administration, management, and operation of the Utilities.

AFFILIATED INTEREST RELATIONSHIP

The Affiliate is a unique company that specializes in operating small water systems and providing the full range of services required to provide customers with safe and adequate water and fulfill all compliance and regulatory requirements. The Affiliate either owns or contracts with water systems or joint water/wastewater systems (systems) throughout Oregon to provide services.

The Affiliate currently wholly-owns 20 systems, of which 5 are rate regulated. These five rate-regulated companies, which make up the Utilities, and are subject to the Commission's affiliated interest rules and regulations. Therefore, since the Affiliate provides services to the Utilities, an Affiliated Interest Contract must be approved by the Commission.

The Affiliate also contracts to provide services to 10 other systems, bringing the total number of systems currently receiving service from the Affiliate to 30. Twenty-seven of these systems (including the Utilities) receive full operation, management, and administrative services (full service) from the Affiliate. The goods and services provided to these 27 systems by the Affiliate include experienced and knowledgeable office staff, managers, certified operators, field operators, labor personnel, and meter readers. Services also include, but are not limited to, billing and collection, customer service, accounting and bookkeeping, computer services, tools and equipment, system repair and improvement, general liability and vehicle insurance, and compliance with all regulatory requirements and industry standards, etc.

The remaining three systems receive only field operations service. Field services include operations, repairs, maintenance, which are direct costs to the individual Purchaser. These systems use very little of the indirect services provided by the Affiliate.

BENEFITS TO THE CUSTOMERS

The Affiliate has been in the water industry for 24 years and holds historical and institutional knowledge that could not be easily replaced by others. The Affiliate possesses a staff with extensive knowledge and experience, a central office and warehouse, vehicles and equipment,

and maintains a substantial inventory in order to maintain 24/7 preparedness to respond to emergencies. The proposed agreement allows the Affiliate and the Utilities to provide the best possible water service to the customers, minimizing outages, and maximizing goods and services provided at a fraction of the cost required if each of the Utilities had to hire its own independent staff.

The Utilities' customers enjoy cost savings through two avenues. First, the Affiliate operations provide economies of scale because the cost of the services is spread among a larger customer base made up of numerous systems. All billing and administrative functions are performed in one central office. Additionally, since field technicians also serve numerous water systems, the Utilities enjoy the benefit of the Affiliate's entire crew and expertise without bearing the entire cost. Secondly, the Affiliate's expenses are charged to the Utilities at cost, with no mark up for profit, which would not be the case for outside contractors.

The primary alternatives to hiring the Affiliate would be for each Utility to hire its own "in-house" employees, or contract for services from another provider. Neither of these options would achieve the economies of scale, nor would be passed through at cost, as provided by the Affiliate. In addition, a minimal crew would be unable to maintain 24/7 emergency availability as provided by the Affiliate. Each Utility would have to be supplemented with other contracted labor when situations call for a full crew.

DISCLOSURE OF FINANCIAL INTEREST

The Affiliate owns 100% of the Utilities. Below is the list of the Affiliate's owners/directors:

MELVIN OLSON
4054 NE GARDEN DR
NEWBERG OR 97132
503-554-8333

MARILYN OLSON
4054 NE GARDEN DR
NEWBERG OR 97132
503-554-8333

MICAH OLSON
16375 CHEHALEM DR
NEWBERG OR 97132
503-554-8333

MATTHEW OLSON
PO BOX 1356
ST HELENS OR 97051
503-554-8333

ELIJAH OLSON
58401 LINDSAY LN
WARREN OR 97053
503-554-8333

SILAS OLSON
715 E NORTH ST
NEWBERG OR 97132
503-554-8333

SETH OLSON
PO BOX 907
NEWBERG OR 97132
503-554-8333

ZACHARY OLSON
1300 E 9TH ST
NEWBERG OR 97132
503-554-8333

AARON OLSON
23875 NE DILLON RD
NEWBERG OR 97132
503-554-8333

AFFILIATE COSTS

The Affiliate's costs are separated into two types of costs: 1) Direct costs that are system specific, which are billed directly to the appropriate system, and 2) indirect costs that benefit all systems and customers receiving service from the Affiliate. Indirect costs are allocated over all systems serviced by the Affiliate.

ALLOCATION METHOD

In addition to providing full service, the Affiliate provides minimal services (field operations only) to three systems. Because the Affiliate provides the three companies very limited office and administrative, management, and support services, these systems incur minimal indirect costs. Therefore, one and one half percent (1½ %) of the Affiliate's indirect costs are removed for each field operations only system ($1\frac{1}{2}\% \times 3 = 4\frac{1}{2}\%$) prior to allocating these costs over the full service systems. This captures the negligible share of indirect costs associated with the three companies (total of 4½ %) that receive only field operations services.

The expense allocation for each of the 27 full service systems is calculated by determining the cost per customer for each expense category (dividing the expense by the total number of customers of all systems), then multiplying that figure by the number of customers in each system.¹ Attached as Exhibit 1² is a table showing the costs, the accounts they are recorded in, the allocation method, and the estimated annual allocated costs to the Utilities. Since the Affiliate charges at cost, the expenses are self-adjusting, and there is no need to build in an escalation factor.

For clarity and convenience, all allocated indirect costs and the estimated annual expense for each of The Utilities are shown in Exhibit 1.

COSTS AND ACCOUNTS

WAGES

The following individuals are directors of both the Affiliate and the Utilities. Pursuant to OAR 860-036-0739, Allocation of Costs, the amount paid by a utility to an affiliated interest is required to be at the lower of cost or the market rate. However, due to the unique relationship between the Utilities and the Affiliate, as outlined in the proposed contract, the terms "market" and "cost" are the synonymous.³ The Affiliate's total wages (including non-affiliated employees) are divided into direct and indirect (allocated) wages. The allocation of all indirect employee wages are shown in Exhibit 1.

OFFICER WAGES

Each of the Affiliate's nine directors (listed above) receive an officer salary of \$50 per month ($9 \times 50 = \$450/\text{mo.}$) for a total annual expense of \$5,400 per year ($12 \times \$450 = \$5,400$). The expense allocation is shown in Exhibit 1.

Below is a listing of direct expenses to the Affiliate which are allocated to the Utilities at cost.

¹ Other allocation scenarios, such as percentage of revenue, were attempted. However, since the rate-regulated water companies have not been in for rate cases in a very long time and other systems have only recently contracted with the Affiliate, the cost allocations were skewed. The most equitable and fair allocation is based on the cost per customer.

² Exhibit 1 is a spreadsheet that shows total indirect costs, minus the field operations only indirect cost reduction, the adjusted indirect costs, the cost per customer, and the annual allocations per expense to the five Utilities.

³ See Docket No. UI 262, Pete's Mountain Water Company, for similar Commission decision.

BENEFITS

Five employees receive the health insurance benefits. This benefit is a direct cost to the Affiliate from the insurance provider and is allocated to the Utilities as shown in Exhibit 1.

TELEPHONE

The Affiliate's annual phone expense is divided into two categories: 1) the office phone expense which includes phone lines, fax and internet service, and 2) an allowance for eight employees to use their personal cell phones on the job. The allowance for personal cell phones is less expensive than the purchase of eight cell phones with the attendant monthly fees. These direct costs to the Affiliate are passed on to the Utilities through the allocations shown in Exhibit 1.

OFFICE & WAREHOUSE POWER

The Affiliate's office and warehouse storage area (both inside and outside) are at the same location. The power is purchased from PGE. This is a direct cost to the Affiliate and the allocations to the Utilities are shown in Exhibit 1.

OFFICE & WAREHOUSE UTILITIES

The Affiliate's office/warehouse utility expense is divided into two categories: 1) natural gas and 2) janitorial. These expenses are direct costs to the Affiliate and the allocations to the Utilities are shown in Exhibit 1.

OFFICE AND WAREHOUSE SUPPLIES

The Affiliate has categorized its office supply expenses and warehouse supply expenses as one account. This account also includes small tools. These are direct cost to the Affiliate and the allocations to the Utilities are shown in Exhibit 1.

POSTAGE

The Affiliate's P.O. Box and bulk mailing fees are direct cost to the Affiliate and the allocations are shown in Exhibit 1.

ACCOUNTING EXPENSE

The Affiliate's accounting expense for taxes is provided by Want & Emery CPAs. This is a direct cost to the Affiliate and is allocated as shown in Exhibit 1.

OTHER CONTRACTORS

The Affiliate at times hires other contractors and consultants. The expense is recorded in Contract – Other. They are direct costs to the Affiliate. They are passed on either as direct system-specific expenses to the appropriate system, or indirect costs that are allocated as shown in Exhibit 1.

OFFICE BUILDING AND WAREHOUSE STORAGE

The Affiliate rents its office building and warehouse storage (inside and outside), which is direct expense to the Affiliate. The rental expense is allocated as shown in Exhibit 1.

RENTAL EQUIPMENT

Rental equipment is made up of 1) direct cost that are system specific and 2) an allocated cost. The allocated cost reflects the Affiliate's lease of a service vehicle. The allocation of this service vehicle is shown in Exhibit 1.

The Affiliate rents equipment from vendors and passes on the cost directly to the individual systems. Below is an example of rental equipment and rates.

Service Trucks	\$12	hr.	
Small Dump Truck	\$12	hr.	
Large Dump Truck	\$200	day	
Equipment trailer (without equip)	\$75	day	
Vac Trailer	\$37.50	hour	Maximum \$300/day
Large Excavator	\$350.00	day	\$1,400 week
Tractor/small backhoe	\$200	day	
Core Driller	\$50	day	
Jack Hammer	\$75	day	
Freezing Unit	\$99	day	
Metal Detector	\$25	Day	

COMPUTER AND ELECTRONIC EXPENSE

The Affiliate's technology expense is made up of two categories: 1) Computer and Electronics, and 2) The Affiliate's Web Page and emergency notification service. The allocations of these two categories are shown in Exhibit 1.

TRANSPORTATION

The Affiliate's charges each Utility a vehicle mileage fee based the amount of miles traveled to service their system. The charge is based on the Federal Mileage rate. The mileage for each system is recorded, the charge calculated, and then billed directly to the system.

INSURANCES

The Affiliate provides general liability insurance and vehicle insurance. They are direct costs to The Affiliate and are passed on to the Utilities as allocated in Exhibit 1.

WORKERS' COMPENSATION

The Affiliates Workers' Compensation insurance cost for indirect wages is allocated to the Utilities as shown in Exhibit 1.

TRAINING

The Affiliate provides certified operators and experienced and knowledgeable staff. Certifications must be renewed and ongoing training is essential to maintain the quality of the Affiliate's staff. The Affiliate has a bi-annual training plan. The training expense reflects one-year's training needs. Training is a benefit to all customers. The annual cost has been allocated as shown in Exhibit 1.

ADVERTISING

The Affiliate business plan includes the acquisition of additional small water systems, particularly ones that are in poor condition that need expert help to bring them into compliance. To accomplish this goal, there is a public relations and advertising component. This is a benefit to all customers in that the more companies receiving service from the Affiliate, the greater the customer base is to spread the costs over; thus lowering the cost of service to all companies. The advertising expense is allocated as shown in Exhibit 1.

MISCELLANEOUS

The Affiliate's miscellaneous expenses include subscriptions, certain license fees and bank charges. Each expense is a direct cost to the Affiliate and is allocated across all companies as shown in Exhibit 1. When the miscellaneous cost is system specific, it is directly billed to that individual system.

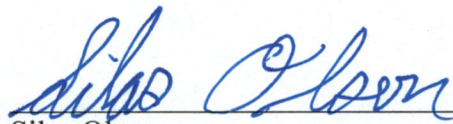
PAYROLL TAX

Payroll tax associated with employee wages to work on a specific system are billed directly to that system. Indirect payroll taxes are allocated across all Utilities as shown in Exhibit 1.

MATERIALS AND SUPPLIES INVENTORY

This is a component of rate base; not an expense. It is allocated to the Utilities to reflect the Utilities' proportional share of inventory to determine rate base. See Exhibit 1.

For the reasons set forth above, SHADOWWOOD WATER SERVICE, WILDERNESS CANYON, HILLVIEW ACRES, ILLAHE GOLF CLUB ESTATES, and WESTWOOD VILLAGE WATER respectfully requests that the Commission issue an order approving the Master Services Affiliated Interest Contract with Hiland Water Corp.



Silas Olson

General Manager

On behalf of:

SHADOWWOOD WATER SERVICE, WILDERNESS CANYON, HILLVIEW ACRES,
ILLAHE GOLF CLUB ESTATE, and WESTWOOD VILLAGE WATER

December 15, 2015

Date

MASTER SERVICES AFFILIATED INTEREST CONTRACT

This a Master Service Affiliated Interest Agreement (Contract) for the provision of goods and services from **Hiland Water Corp.**, hereinafter "Provider." to **Shadowwood Water Service, Wilderness Canyon, Hillview Acres, Illahe Golf Club Estates, and Westwood Village Water**, hereinafter "Purchasers". The Purchasers and the Provider are hereinafter collectively referred to as the Parties. The Parties agree to the following:

1.

The Provider wholly-owns the Purchasers, and as such is an affiliate of the Purchasers. The Purchasers are water and joint water/wastewater utilities regulated by the Public Utility Commission of Oregon, and as such are subject to the Commission's affiliated interest rules and regulations. Therefore, this contract must be approved by the Commission.

2.

The Provider is a unique company that specializes in providing small water systems the full range of services required to operate, manage and administrate the system. This allows the water system to provide safe and adequate water at minimal cost and fulfill all compliance and regulatory requirements. The Provider owns many water systems and contracts with other systems to provide these services.

3.

The Provider has the experience, skill, and knowledge necessary to provide all services, administrative, management, and operational, required by the Purchasers.

4.

The Provider's costs to provide the services are separated into two types: 1) direct costs that are system specific, and 2) indirect costs that benefit all systems receiving service from the Provider. Both direct and indirect costs are passed on to the Purchasers with no markup. These costs are reviewed during rate cases.

5.

Due to its unique nature, the Provider's costs and the customer base that those costs are spread over will vary from year to year. Therefore, the Parties agree to a methodology of indirect cost allocations.

6.

Indirect costs, with the exception of those associated with field operation only systems (discussed below), are allocated among all systems receiving full service from the Provider. These allocations are calculated by 1) dividing the expense by the total number of customers receiving services from the Provider to achieve a cost per customer. Then, 2) multiplying the cost per customer by the number of customers for each system the Provider services.

The exception is the Provider delivers minimal services (field operations only) to some systems. Because these systems require very limited indirect services, they have minimal indirect costs. Therefore, for each system receiving field operations only, one and one half percent (1½ %) of the indirect costs are removed prior to allocating the adjusted indirect costs over the systems receiving full services from the Provider. This captures the negligible share of indirect costs associated with these systems.

7.

The Provider agrees to deliver the following goods and service to the Purchasers:

Full operational, managerial, and administrative services.

A main office facility with customer service staff, communications, office supplies and equipment, computer and electronic services and web site.

Warehouse space (both inside and out) and equipment, vehicles, tools, and a materials and supplies inventory for 24/7 emergency repairs.

Knowledgeable, trained, and skilled staff.

8.

NO ASSIGNMENT: This Contract may not be assigned by either party without the written consent of the other.

9.

AUTHORITY TO SIGN: The person signing below on behalf of that party certifies that he or she is duly authorized to enter into this Contract on behalf of that party.

10.

INDEPENDENT CONTRACTOR: The Provider is an independent contractor and is an affiliate of the Purchasers. The manner in which the Provider's services are rendered shall be within Provider's sole control and discretion and in compliance with all and industry standards and best management practices. The Provider shall perform the agreed upon services in a professional manner.

11.

TERMINATION: This Contract terminates upon request of both parties and approval by the Commission.

12.

GOVERNING LAW: This Contract shall be governed by the Public Utility Commission of Oregon.

13.

ENTIRE CONTRACT: This Contract constitutes the complete, and sets forth the entire, understanding and agreement of the Parties as to the subject matter of the Contract and supersedes all prior discussions and understandings with respect to the subject of this Contract, whether written or oral.

14.

MODIFICATION: Any modification, termination, or attempted waiver of this Contract, or any provision thereof, shall be approved by the Public Utility Commission of Oregon.

15.

WAIVER: The waiver by a Party of a breach of any provision of this Contract, shall not operate or be construed as a waiver of any other or subsequent breach by the Party in breach.

IN WITNESS WHEREOF, this Contract is made this 15th day of December, 2015.



Silas Olson
General Manager
On behalf of the Purchasers:
Shadowwood Water Service,
Wilderness Canyon, Hillview
Acres, Illahe Golf Club
Estates, and Westwood
Village Water



Melvin Olson
President
Hiland Water Corp.

EXHIBIT 1

HILAND WATER CORP.

4.50%

AFFILIATED INTEREST ALLOCATIONS	Annual Cost	Less 1.5% for each Field Only Co	Adjusted Total
		0.045	
Salaries/Wages Direct Exp	Direct		
Salaries/Wages - Indirect/Busi/Warehouse	\$180,448.28	\$8,120.17	\$172,328.11
Salaries/Wages - Indirect Officer Wage	\$5,400.00	\$243.00	\$5,157.00
Employee Pension & Benefits Health Ins	\$17,046.00	\$767.07	\$16,278.93
Purchased Water	Direct		
Ofc Telephone/Communications	\$2,649.74	\$119.24	\$2,530.50
Employee Cell Phone Allowance	\$4,800.00	\$216.00	\$4,584.00
Ofc Warehouse Purchased Elec Power	\$1,650.17	\$74.26	\$1,575.91
Fuel for Power Production	n/a		
Ofc/Warehouse Natural Gas	\$792.84	\$35.68	\$757.16
Water, Sewer, Garbage	n/a		
Ofc Janitorial	\$546.00	\$24.57	\$521.43
Chemical / Treatment Expense	Direct		
Office / Warehouse Supplies	\$15,411.14	\$693.50	\$14,717.64
Postage - Direct and Allocated	\$366.00	\$16.47	\$349.53
O&M Materials/Supplies	Direct		
Repairs to Water Plant	Direct		
Contract Svcs - Engineering	Direct		
Contract Svcs - Accounting	\$1,665.00	\$74.93	\$1,590.08
Contract Svcs - Legal	Direct		
Contract Svcs - Management	Incl in wages		
Contract Svcs - Testing	Direct		
Contract Svcs - Labor	Direct		
Contract Svcs - Billing/Collection	Incl in wages		
Contract Svcs - Meter Reading	Incl in wages		
Contract Svcs - Other	\$24,000.00	\$1,080.00	\$22,920.00
Rental of Building/Real Property	\$26,040.00	\$1,171.80	\$24,868.20
Rental of Equipment-Serv Vehicle Lease only	\$12,000.00	\$540.00	\$11,460.00
Small Tools	in warehouse supplies		
Computer/Electronic Expenses	\$3,013.24	\$135.60	\$2,877.64
Web Page	\$1,690.93	\$76.09	\$1,614.84
Transportation	Direct		
Vehicle Insurance	\$4,705.00	\$211.73	\$4,493.28
General Liability Insurance	\$9,421.00	\$423.95	\$8,997.06
Workers' Comp Insurance Adjusted *	\$6,763.02	\$304.34	\$6,458.68
Insurance - Other	n/a		
Gross Revenue Fee (PUC)	Direct		
Bad Debt Expense	Direct		
Cross Connection Control Program	Direct		
Training and Certification	\$4,590.00	\$206.55	\$4,383.45

Consumer Confidence Report	Included in Wages		
Advertising/Public Relations	\$500.00	\$22.50	\$477.50
Miscellaneous Expense Direct	Direct		
Misc Indirect - License/Subscriptions/Fees	\$709.42	\$31.92	\$677.50
Misc Indirect - Checking Fees	\$1,692.25	\$76.15	\$1,616.10
Indirect Payroll Tax**	\$18,947.07	\$852.62	\$18,094.45
Inventory - Rate Base Component	\$70,438.82	\$3,169.75	\$67,269.07
TOTAL	\$415,285.92	\$18,687.87	\$396,598.05

*Removed 10.6% of cost related to site specific employee wages

**Only indirect payroll taxes are allocated over all companies. Direct wages and associated payroll t

***The total number of customers representates all customers receiving full operational, manageria

Total # Cust***	# of Cust for each rate-reg utility				
	63	21	14	473	83
Cost Per Cust	Shadow- wood	Wilderness Canyon	Hillview	Illaha (Wtr & Sewer)	Westwood Village
	ALLOCATION TO EACH RATE REGULATED WATER UTILITY				
\$69.26	\$4,363.61	\$1,454.54	\$969.69	\$32,761.73	\$5,748.89
\$2.07	\$130.58	\$43.53	\$29.02	\$980.41	\$172.04
\$6.54	\$412.21	\$137.40	\$91.60	\$3,094.83	\$543.07
\$1.02	\$64.08	\$21.36	\$14.24	\$481.08	\$84.42
\$1.84	\$116.07	\$38.69	\$25.79	\$871.48	\$152.92
\$0.63	\$39.90	\$13.30	\$8.87	\$299.60	\$52.57
\$0.30	\$19.17	\$6.39	\$4.26	\$143.95	\$25.26
\$0.21	\$13.20	\$4.40	\$2.93	\$99.13	\$17.39
\$0.00					
\$5.92	\$372.67	\$124.22	\$82.82	\$2,798.01	\$490.98
\$0.14	\$8.85	\$2.95	\$1.97	\$66.45	\$11.66
\$0.64	\$40.26	\$13.42	\$8.95	\$302.29	\$53.05
\$9.21	\$580.37	\$193.46	\$128.97	\$4,357.38	\$764.61
\$10.00	\$629.70	\$209.90	\$139.93	\$4,727.76	\$829.61
\$4.61	\$290.18	\$96.73	\$64.49	\$2,178.69	\$382.31
\$1.16	\$72.87	\$24.29	\$16.19	\$547.08	\$96.00
\$0.65	\$40.89	\$13.63	\$9.09	\$307.00	\$53.87
\$1.81	\$113.78	\$37.93	\$25.28	\$854.23	\$149.90
\$3.62	\$227.82	\$75.94	\$50.63	\$1,710.45	\$300.14
\$2.60	\$163.54	\$54.51	\$36.34	\$1,227.88	\$215.46
\$1.76	\$111.00	\$37.00	\$24.67	\$833.35	\$146.23

\$0.19	\$12.09	\$4.03	\$2.69	\$90.78	\$15.93
\$0.27	\$17.16	\$5.72	\$3.81	\$128.80	\$22.60
\$0.65	\$40.92	\$13.64	\$9.09	\$307.24	\$53.91
\$7.27	\$458.18	\$152.73	\$101.82	\$3,439.98	\$603.63
\$27.04	\$1,703.36	\$567.79	\$378.52	\$12,788.69	\$2,244.10
\$159.40	\$10,042.47	\$3,347.49	\$2,231.66	\$75,398.26	\$13,230.56

taxes are billed directly to the site specific companies.
al, and administrative service from Hiland.