

PETE'S MOUNTAIN WATER COMPANY, INC.

P.O. Box 418
Canby OR 97013-0418

September 24, 2006

Oregon Public Utility Commission
P.O. Box 2148
Salem OR 97308

Attention: Vikie Bailey-Goggins

RE: **AFFILIATED INTEREST APPLICATION** of **PETE'S MOUNTAIN WATER COMPANY, INC.** (herein called "the Company") with **TERRY L. WEBBER** and **SUZANNE WEBBER** (herein called the "affiliated parties") pursuant to ORS 757.495 and OAR 860-036-0730

Dear Ms. Bailey-Goggins:

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:

PETE'S MOUNTAIN WATER COMPANY, INC., P.O. Box 418, Canby OR 97013-0418.

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

SUZANNE WEBBER, P.O. Box 418, Canby OR 97013-0418.

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

The affiliated parties (the contracting entity) jointly own two-thirds (2/3) of the outstanding stock of the Company. The business office of the Company is located in a separate portion of the home owned by the affiliated parties at 24464 Mulino Road, Canby, Oregon, 97013.

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

The affiliated parties jointly own two-thirds (2/3) of the outstanding stock of the Company.

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

None. The affiliated parties are individuals, not a corporation.

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

The affiliated parties are officers, directors and shareholders of the Company. They are also the owners of the property that is rented to the Company.

(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:

The office rented is a room within the house, approximately 131 square feet. The rental price is the estimated market value of the rental. It is difficult to obtain comparable rental amounts for a home office because, by the very nature of such an arrangement, a homeowner would not ordinarily rent a room in his or her home to a stranger—and rental of office space within a home to an “outside” business would generally violate applicable zoning regulations. It is indisputable that the fair market rental price for a similarly sized office in an office building would far exceed the rental price being paid in the present situation. Inquiries for available rental offices in Canby, the nearest city, revealed that small office spaces in office buildings rent for approximately \$3.00 per square foot for month. The rental for the home office calculates to \$1.21 per square foot per month. One old house that had been converted to offices was reported to rent for \$1.00 per square foot per month, but the smallest available space would have been so large that the total monthly rent would have exceeded the monthly amount paid for the existing home office.

(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 rental agreement is for \$158.50 per month, or \$1,902.00 per year. In addition the Company will pay \$4.33 per month (\$51.98 per year) for estimated electricity use by the Company.

(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:

The reasons for procuring the office space from the affiliated parties are convenience and substantial cost saving. The customers will benefit from the reduced expense because the Company's cost of doing business, which would be passed along to customers in determining water rates, is thereby reduced. No benefit to members of the general public other than customers is perceived.

(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,

Because of the unique situation with a home office, a competitive procurement process is not feasible.

(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:

No known home office is available from any other source. There is no other source of office space except in a commercial office, which would be far more expensive. The cost of constructing a separate office would be prohibitive and unjustified. Constructing a separate office on the affiliated parties' home property would be prohibited by Clackamas County land use and zoning ordinances.

ATTACHMENTS

(l) A copy of the proposed contract or agreement between the water utility and the contracting entity is included herewith.

(m) A Copy of the resolution of the Company's directors authorizing the proposed transactions is included herewith. Stockholders' approval is not required.

For the reasons set forth above, PETE'S MOUNTAIN WATER COMPANY, INC. respectfully requests that the Commission issue an order approving the affiliated interest contract between PETE'S MOUNTAIN WATER COMPANY, INC and TERRY L. WEBBER and SUZANNE WEBBER pursuant to the provisions of ORS 757.495 and OAR 860-0386-730.

DATED: September 24, 2006.

PETE'S MOUNTAIN WATER COMPANY, INC.

By _____
Terry L. Webber, President

By _____
Suzanne Webber, Secretary

RENTAL AGREEMENT

This agreement is entered into between TERRY L. WEBBER and SUZANNE WEBBER, Landlords, and PETE'S MOUNTAIN WATER COMPANY, INC., Tenant.

The Tenant has been renting office space in the Landlords' home under a verbal, month-to-month rental agreement. The parties desire to reduce the verbal agreement to a written agreement.

THEREFORE, it is understood and agreed, that the Tenant agrees to rent from the Landlords, and the Landlords agree to rent to the Tenant, the Tenant's existing office room in the Landlords' home at 24464 S. Mulino Road, Canby, Clackamas County, Oregon, consisting of 131 square, feet more or less, for a monthly rental of \$158.50 per month, payable in advance on the first day of each month. In addition the Tenant agrees to pay to the Landlord, in advance at the same time as the payment of the basic rental amount, the sum of \$4.33 per month for electricity estimated to be used by the Tenant. The total monthly payment, rent and electricity, is \$162.83 per month. Other services (water, heat, toilet facilities, waste disposal, and basic cleaning) are included in the monthly rental amount.

This is a month-to-month tenancy, and the rental agreement may be terminated at any time by mutual agreement, or by either party on 30 days' written notice.

This agreement is effective as of September 1, 2006. The tenancy shall be deemed to be a continuation of the prior tenancy under the verbal agreement. The verbal agreement is terminated and superseded by this agreement as of September 1, 2006.

Dated: September 24, 2006.

Terry L. Webber

Suzanne Webber

Pete's Mountain Water Company, Inc.

By _____
Terry L. Webber, President

MEETING OF DIRECTORS
OF PETE'S MOUNTAIN WATER CO., INC.,
AN OREGON CORPORATION

A special meeting of the directors was convened on September 24, 2006. All directors were present and waived notice of the meeting.

It was discussed that the Oregon Public Utility Commission has insisted that the corporation enter into a written rental agreement, which has heretofore been a verbal arrangement, with Terry L. Webber and Suzanne Webber for the corporation's use of its separate office space in the Webbers' home.

The conflict of interest between Terry L. Webber and Suzanne Webber on the one hand, and the Corporation on the other hand, was recognized and acknowledged. However since they are the only directors of the corporation, and since the approval of the rental agreement was determined to be in the corporation's best interests and not detrimental to the interests of the other stockholder, they proceeded upon the advice of counsel to consider and vote on the issue.

A motion for adoption of the following resolution was moved, seconded and unanimously passed:

"RESOLVED:The Corporation shall enter into a month-to-month rental agreement with Terry L. Webber and Suzanne Webber to rent from the Webbers the Corporation's office space in the Webbers' home at 24464 S. Mulino Road, Canby, Clackamas County, Oregon, for a monthly rental of \$158.50 (\$1,902.00 annually), and in addition to pay to the Webbers \$4.33 per month for electricity used in the office operation. The President and the Secretary, or either of them, are authorized to execute the rental agreement in behalf of the Corporation. A copy of the rental agreement shall be filed in the corporate records."

There being no further business to come before the directors, the meeting was adjourned.

Suzanne Webber, Secretary

Approved:

Terry L. Webber, Director