

AFFILIATED INTEREST CONTRACT APPLICATION

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.

DATE: June 5, 2018

COMPANY NAME: Government Camp Water Company
ADDRESS: PO Box 86
CITY, STATE, ZIP: Government Camp, Oregon 97028-0067

RE: Government Camp Water Company Affiliated Interest Application with
Maryanne Hill pursuant to ORS 757.495 and OAR 860-036-2210

This affiliated interest application is submitted in the manner and form indicated by OAR 860-036-2210.

INFORMATION REQUIREMENTS

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

Government Camp Water Company
30294 E Blossom Trail
PO Box 86
Government Camp, Oregon 97028-0067

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

Lesli Ann Bekins, Secretary
PO Box 86
Government Camp, Oregon 97028-0067

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

Maryanne Hill is the President of Government Camp Water Company, is in the immediate chain of title for at least 5% of the voting securities of the Company and has an affiliate interest with the Company pursuant to ORS 757.015(1) and (4).

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

Ms. Hill does not currently have an ownership interest in the Company.

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

Not applicable, as Ms. Hill is an individual.

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

Ms. Hill will receive lease payments under the Lease Agreement with Government Camp Water Company. She is the owner of record of 30294 E Blossom Trail, Government Camp, Oregon, which has served as the Company's office and records retention location for a number of decades pursuant to a tenancy that pre-dates the Public Utility Commission's regulation of 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;

Government Camp Water Company leases approximately 900 square feet historically used as an office and for storage of records from Ms. Hill. The attached Lease Agreement for the office space provides for annual lease payments of \$10,000, with a two percent annual increase beginning January 1, 2019.

Request for Waiver of OAR 860-036-2230(2)(e). The office lease in this matter was previously the subject of docket number UI 398 filed on March 30, 2018. Following conversations with Public Utility Commission ("PUC") Staff and its counsel, the Company elected to withdraw the application within UI 398 to address Ms. Hill's cost in providing her residence for the Company's use as an office.

Ms. Hill's cost to provide office premises to the Company is difficult to calculate. The Company's business occupies approximately 900 square feet of Ms. Hill's home. However, the office's work and storage areas lack definitive spatial segregation from other areas of Ms. Hill's residence. In addition, the Company avails itself to numerous amenities by virtue of being a home office. Among these are garbage and cleaning service, landscape maintenance, snow removal, and kitchen facilities. Ms. Hill would still be responsible for such expenses if the Company did not occupy space in her residence. The same holds true with all utilities, real property taxes, and homeowners insurance.

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In addition to real property taxes, in 2016 and 2017 Ms. Hill's expenses to maintain the office/residence collectively included:

- \$3851.22 for Oil
- \$959.40 - Sewer
- \$545.60 - Garbage
- \$10,353.00 Insurance
- \$2316.87 for PGE Power
- \$2969.00 for Snow Removal and Misc. Expenses for property maintenance

For many years, the Company and its customers benefitted from Ms. Hill's determination to not collect rent for office space or a salary. If Ms. Hill were required to charge only her cost in providing the leased space, the amount would be near zero if considering costs attributable only to the Company's presence in the home. Calculable costs are simultaneously usual and ordinary to ownership of a residential home.

A cost of zero is well below market price for commercial office space. The Company accordingly seeks waiver of OAR 860-036-2230(2)(e) with respect to the office space provided by Ms. Hill. The best interests of Company customers are served by allowing Ms. Hill to collect reasonable rent for the Company's use of her residence. She is under no obligation to make her home available for the Company's use. The Company would be compelled to move its office operations out of Ms. Hill's home and likely outside of Government Camp given there is no available commercial space in the village. This would increase response times, travel expenses, lease expenses, and result in moving costs to re-locate the office.

The Commission has approved waivers in the past under similar circumstances encountered by Roats Water System, INC. and Sunriver Water, LLC. See PUC Docket Nos. UI 326 (Or. No. 13-066) and UI 355 (Or. No. 15-245), respectively. In both the *Roats* and *Sunriver* cases, the Commission recognized disincentive that may arise through enforcement of the "lower of cost or market rule" as described in the predecessor rule to OAR 860-036-2230(2)(e).¹ The same analysis can be used here. Approval of the lease at cost would provide a major disincentive for Ms. Hill to provide her residence for the Company's use. A rental rate based on Ms. Hill's cost to provide office space would constitute an improper windfall for customers of the utility.

Market Study. The Company recently performed a market study as part of its research into the possibility of renting office space elsewhere. Below is the information from that study on what office space costs and what availability there is in the Government Camp area where the water system is located.

¹ OAR 860-036-0739 was renumbered, effective January 24, 2017.

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These were obtained from the LoopNet Commercial Real Estate website. At the time of this study, there was nothing available in Government Camp.

The rate per square foot ("SF") ranges between \$12.00 and \$28.00 per year. The lowest rate is \$12.00. For a 900- SF office space, this equates to \$12.00 X 900 SF, resulting in rent of approximately \$10,800 per year.

- 10135 SE Sunnyside Road
Clackamas, OR 97015
1,675 SF Office Space for Lease
\$27 - \$28 /SF/Year

- 15635 - 15850 SE 114th Avenue
Clackamas, OR 97015
5,622 SF Office Space for Lease
\$1.08 /SF/Month (\$12.96/SF/Year)
480 – 930 SF spaces available

- 10121 SE Sunnyside Road
Clackamas, OR 97015
3,096 SF Office Space for Lease
\$27 - \$28 /SF/Year
1251 – 1845 SF spaces available

- 9132 SE St Helen's Road
Clackamas, OR 97015
1,070 SF Office Space for Lease
\$1 /SF/Month (\$12/SF/Year)

(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;

Government Camp Water Company will pay \$10,000 in 2018 under the Lease Agreement. The Lease Agreement provides that the lease price shall increase by two percent annually, beginning January 1, 2019. The monthly lease charges will be recorded under account 641, and the annual real property tax payment will be recorded under account 408.11.

(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,

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Using the current office space, as documented above, is the only option available in Government Camp and offers the lowest-cost alternative. Therefore, customers benefit the most from the Company's lease of this office space as opposed to farther away, higher cost alternatives. Customers also benefit from a local office presence that allows staff to respond quickly to any issues or requests. Leasing office space outside the Government Camp area would involve higher lease rates, and additional time and costs for travel between the office and the water system for both customers and utility personnel, especially during the winter with hazardous road conditions.

- (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 explained above, Government Camp Water Company recently performed a market study as part of its research into the possibility of leasing office space elsewhere. Upon completion of the market study, the Company selected the current office space for the reasons stated above.

- (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;

Sub-item (k) is not applicable.

ATTACHMENTS

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

A copy of the proposed Lease is attached to this Application.

- (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.

There are no responsive documents to Sub-item (m). The managing officers of Government Camp Water Company have authority to enter the transaction without Board or Shareholder approval.

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For the reasons set forth above, Government Camp Water Company respectfully requests that the Commission issue an order approving the affiliated interest contract between, Government Camp Water Company and Maryanne Hill, pursuant to the provisions of ORS 757.495 and OAR 860-036-2210.

DATE: June 5, 2018

NAME OF COMPANY: Government Camp Water Company

DocuSigned by:
Lesli Ann Bekins
(SIGNATURE OF AUTHORIZED PERSON)

Lesli Ann Bekins
(PLEASE PRINT NAME)

Secretary
(TITLE)

Lease Agreement

This lease agreement (Agreement) is made by and between Maryanne Hill (Landlord) and Government Camp Water Company Inc. (Company) to be effective January 1, 2018.

I. Recital

Whereas, through market research, the Company has determined that it cannot obtain the same quality of office space in a reasonably local vicinity to the Company's service area and on a comparable economic basis elsewhere;

Now, therefore, in consideration of the mutual covenants herein contain, the Landlord and the Company agree as follows:

II. Lease

The Landlord shall lease 900 square feet of office space, located at 30294 East Blossom Trail, Government Camp Oregon, 97028, to the Company.

III. Lease Payment

In consideration of the lease of said property as herein provided, the Company agrees to pay the Landlord the annual sum of \$10,000.00. The annual lease amount the Company pays the Landlord shall increase by two percent (2%) annually effective January 1st each year starting 2019.

IV. Force Majeure

The Landlord will not be responsible for the failure or delay in the provision of said lease if caused by an act of God, act of public enemy, war, government acts or regulation, fire, flood, hurricane, earthquake, embargo, quarantine, epidemic, labor stoppages beyond its reasonable control, accident, explosion, unusually severe weather or cause similar or dissimilar to the foregoing beyond its reasonable control. If the Landlord is rendered wholly or partially unable to carry out its obligations under this agreement as a result of an event of Force Majeure, then the Landlord's obligations pursuant to this Agreement will be suspended only during the continuance of such Force Majeure event, and for no longer period. Upon the commencement of such Force Majeure event, the Landlord will resume provisions of said lease as soon as practicable.

V. Confidentiality

The Landlord and Company acknowledge and agree that certain non-public information supplied by each to the other during the term of this Agreement may be proprietary or confidential. All such non-public information shall be received in confidence and kept confidential (unless otherwise required by applicable law and consistent with the Oregon Public Utility Commission's mandate to ensure safe, reliable and high-quality service at just and reasonable rates).

VI. Term of the Agreement

This Agreement shall be effective as of January 1, 2018.

This Agreement shall be the sole agreement between the Landlord and the Company concerning the subject matter hereof and shall supersede all such prior agreements written or oral.

This Agreement shall continue in force and effect until terminated by either of the parties hereto giving the other party ninety (90) days' notice in writing.

VII. Amendments

This Agreement may be amended in writing signed by both the Landlord and the Company.

In witness thereof, the Landlord and Company have caused this Agreement to be signed by the Landlord and the Company's duly authorize officer, as of the date first above written:

Landlord

By Maryanne Hill

Date 1-1-18

Name Maryanne Hill

Title Property Owner

Company

By Lesti Ann Bekins

Date 1-1-2018

Name COIT CAMP WATER CO INC / Lesti Ann Bekins

Title Owner / Corp Sec