



H & R WATERWORKS, INC.

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(360) 357-3277 (360) 357-3758 FAX

December 20, 2010

TO: HMC Management Corporation Board of Directors

FROM: Stephen L Harrington, President

RE: Our Response to HMC RFI

Thank you for the opportunity to submit this RFI response to acquire ownership of the HMC water system. Our company is affiliated with Harrington Construction & Development, Inc who is proposing to construct all improvements while H&R Waterworks, Inc is proposing ownership.

WHO WE ARE..... H&R is a locally owned, private water company which began business in 1983. H&R is a regulated water utility through the state Utilities and Transportation Commission which means that customer rates cannot be changed without state approval. The company presently serves 13,000 customers at 3,781 connections in 94 systems located in Pierce, Thurston, Mason and Lewis counties. H&R, as a public water supply company, has an outstanding reputation with the state Department of Health and local county health departments. It also operates with an approved water system plan which is valid through 2014.

OUR EXPERIENCE AS A WATER UTILITY..... H&R and HCD have worked together on 53 separate water utility projects since 1998. These projects include constructing new water storage reservoirs; installing treatment equipment for iron, manganese removal, pH adjustment; distribution main, pump house construction; designing and installing SCADA systems, and electrical and system control projects.

CUSTOMER SERVICE..... H&R has an outstanding web based customer service program including online billing, free online customer bill payment, email notification of projects, repairs and emergency's, neighborhood project information and new customer service application capacity. (www.thewaterco.net). Additionally, H&R staffs and provides 24/7/365 on-call service for its customers. Together, the staff and management offer: exceptional professional experience, commitment to legendary customer service and attention to providing water quality which exceeds state and federal standards.

Although the company proposals are submitted individually, H&R with HMC will negotiate the best construction contract on behalf of the customers of Herron Island.

H&R will provide up to \$50,000, in lieu of a purchase payment, for any extra expenses associated with unexpected construction costs.

Submittal Package Cover Sheet

Herron Island Management

1. Contractor Company: H & R Waterworks, Inc.
Phone: 360-357-3277 FAX: 360-357-3758
Contact: Stephen L Harrington, President
E-mail: Steveh@thewaterco.net
Address: 3242 Capitol Blvd SE, Suite B
Tumwater, WA 98501
2. Submittal Scope
 Construction
 Ownership
3. Submittal Checklist
 Cover Sheet
 Submittal Sheets
 Statement of Qualifications
 List of Authorized Agents
 Questionnaire(s)
4. Schedule
 - a. Anticipated Start Date: June 2011
 - b. Anticipated Completion Date: Immediately following completion of construction.
5. I have read the entire Submittal Package, Scope of Work, and Project Report and have adequately researched the site and scope of work. I hereby certify:
 - a) I am authorized to submit this submittal
 - b) I have investigated the project and its requirements with diligence. This submittal is accurate and true to the best of my knowledge.
 - c) This submittal is made in good faith without collusion or fraud.

Signature

Date

STEPHEN L. HARRINGTON
Name, Printed or Typed

List of Authorized Agents

The following persons have authority to convey official information and make decisions on behalf of their respective entities. The decisions, instructions, or information conveyed by any other persons shall not be considered binding or authoritative and do not modify, confirm, or affect the project described in this project.

System Owner: HMC Management

Authorized Persons: Claudia Ellsworth

Project Engineer: Northwest Water Systems

Authorized Persons: Todd Krause, P.E.
Jester Purtteman, E.I.T.

Contractor: H & R Waterworks, Inc.

Authorized Persons: Stephen L Harrington, WDM 3
James Campbell WDM 2

Any additions or deletions to this list must be provided in writing by an authorized agent of the respective entity and copies provided to all other parties.

Ownership Submittal Form

Assumptions

H&R Waterworks, Inc has physical water assets in place valued at more than \$5.66 million. Our staff level is one General Manager, one Field Service Manager, four office and customer service staff and six field technicians. Staff possess state licensing for system management, repairs, pump and motor installation, electrical and plumbing repairs/improvements; backflow assembly install and testing, water treatment equipment maintenance and installation.

Capital Recovery Method. *Customer surcharge during historic period of low interest rates. H&R is regulated by the Washington State Utilities and Transportation Commission, which sets rates including surcharge tariff rates based on project cost.*

Capital Recovery Period. *Usually 10 to 15 years. The surcharge proposal is reviewed and established by the UTC and it allows for recovery of all costs associated with the repayment of the surcharge by customers.*

Interest rate. *We anticipate an interest rate between 6% and 7.25% Financing provided by Columbia Bank, Craig Chance Sr. VP 360-705-9843 Email: cchance@columbiabank.com*

Assessable Units (Billed Connection / Customers) *396 services and 12 HMC*

Number of Assessable Units Subject to change with changing ownership characteristics. *405 plus HMC connections*

Can user pay their proportional share of capital improvements or replacements as a single lump payment? *YES and it is encouraged.*

Anticipated Rate Structure for:

The following information is based on H&R's current monthly rate structure which would need to be adopted by HMC prior to H&R control.

Empty Lots \$17.00 *Ready To Serve*

Recreational Lots \$20.33 *metered, plus consumption*

Part Time Lots \$20.33 *metered, plus consumption*

Full Time or Vacation Homes \$20.33 *metered, plus consumption*

Connection Fee \$665.00 *for a 3/4" x 5/8" domestic service. H&R has **NO** facilities charge.*

Flat Rate \$36.85

Surcharge (Estimated, not in current H&R tariff) *The surcharge amount based on RFI submittal is \$7,000 one time charge or amount between \$60.25 and \$75.00 per month per connection. The surcharge is applied to every lot.*

Describe your water bill debt collection procedures (terms for payment, collection procedures, etc) : *We allow 15 days from the billing date for payment. If the bill remains unpaid after the due date a Penalty Notice with a late payment fee assessed of \$3.50 is mailed to the customer allowing another eight business days for payment or establishing a payment plan. If there is no response by customer to the Penalty Notice a Disconnection Notice is delivered to the customer which allows three business days for payment to be in our offices. If payment is not received, the water service is disconnected and locked off until paid; minimum monthly charge still applied while locked off.*

Ownership Questionnaire

1. Is the organization UTC regulated? (Y / N) Yes, since 1985
2. Does your company perform major construction work by contract or in-house.
Usually in-house, however we are affiliated with Harrington Construction and Development, Inc. Depending on availability of water company staff, a decision is made whether to contract with HCD for a construction project.
3. Please provide a list of 5 references with contact information for other water systems that you own and/or manage including the 2 most recently acquired Group A Community Systems.
 - a. *Paul Knight of Butler Cove Water System (Management) 360-866-4751 or 360-236-1760; email: peknight@comcast.net*
 - b. *Duke Jackson of Jackson Development (Acquisition) Countrywood, Summerwood, and Riverwood. 360-250-9000, Email: ddjwash@aol.com*
 - c. *John Mance, Mance and Sons;(Acquisition) We acquired three of their Group A water systems, Deerfield Park 1 & 2, Hawley Hills 360-789-9791 email: msrdinc@hotmail.com*
 - d. *KPN 141 Water System (Acquisition) Kathryn Walker 801-231-8076 email: kly@comcast.net*
 - e. *Roy Water System- (Acquisition) Erma Bonewitz 12 Ponce de Leon Court SW, Tacoma WA 98499*
4. Can you manage the system during the construction phase?
Yes we can manage the system during construction. H&R Waterworks, Inc is a licensed satellite management company (#123). Our monthly charge per connection would be \$5.00 per connection including monthly billing and maintenance, water quality testing would be paid at a rate schedule which has been attached.
5. Would the 12 Herron Island community owned connections (ferry dock, club house, parks etc) be billed on a per connection or a single rate for the entire organization?
Each connection would be billed on a per connection basis as it stands presently.
6. How would you charge for water used at fire hydrants for construction or dust control?
We have a hydrant meter which measures consumption and subsequent usage is billed according to our tariffed rates. If HMC were to retain ownership during construction in the alternative, the decision would be yours.
7. How would you establish rates?
We currently have approved tariffed rates, however, we would initially file to use your existing rates, with an update to the rates at the time a surcharge filing is

made to pay for the improvements currently under consideration by HMC. We anticipate that due to the unique nature of this water system that we would file for a tariff rate that is separate or distinct from our present tariff.

8. What is your process for establishing rates to recapture capital investment costs?

We have at least two options available. First we can file for a surcharge tariff which would allow recovery of the actual cost of the construction improvements along with any fees, permits, and the interest costs for the term of the funding loan. This recapture of costs through tariff rates to cover the expense of the surcharge results in contributed plan or CIAC (Contributions in Aid of Construction). Second, H&R could obtain a full or partial loan to pay construction costs and then factor this investment into a rate case in order to recover investment.

9. Would you integrate this system with your other system(s) for operation and/or rate setting purposes?

As stated above, it depends. However, we point out that for the past 27 years we have incorporated each acquisition into the next rate case. Due to the extremely low rates currently, incorporating this system into our rate case would require that HMC adopt our current rates prior to final acquisition.

10. Where would the system management personnel reside?

System management staff live in Tumwater and Olympia. Our offices are near the old Olympia Brewery. Operations staff live in Lacey, Olympia, Tumwater, Mason County and Thurston County. We have a 24/7/365 customer emergency line which is staffed during all non-office hours by a licensed water system operator.

11. Who would provide system engineering?

At present we use CH2M Hill (Lee Odell) and RB Engineering, Inc (Bob Balmelli).

12. Are there any advantages that you can potentially provide to ratepayers?

*In our last three rate cases our basic monthly rate has decreased as a result of the ratemaking process and cost saving efficiencies we have incorporated over the past ten years. We offer FREE on line bill payment by credit card or check, 24/7/365 online access to usage data and past bills, our bills can be sent by email to each customer a part of our **GO GREEN, GO PAPERLESS** Initiative. Our service connection fee is only \$665.00. We do not have a facilities charge which can range between \$1000 and \$4000 in addition to the connection fee. We offer customers the opportunity to change from flat rate to metered at a current cost of \$156.25 which amount is reimbursed to the customer over a ten month timeframe as a credit on their monthly bill.*

13. What other costs might be associated with system acquisition, such as preparation of water system planning documents, infrastructure improvements not defined in the proposed project etc?

We see that a Water System Plan (WSP) was submitted in 2009 and assume it has been approved. Future updates would be an expense that would be included in our future rates. In regard to future infrastructure improvements, the expense would be the responsibility of H&R to pay. Such investments would be included in our next rate case. What is your policy regarding compensation for these costs? If there are outstanding planning requirements we would expect to be told about them during any follow up to this proposal. We expect that customers understand that the company is entitled to recovery and a return on investment as part of any rate case it may file.

14. What is your method of capital financing?

We have access to capital funds through Columbia Bank when there is need. We have worked for more than 20 years with the same banker, Mr. Craig Chance, for our water system financing. Mr. Chance has financed at least three prior surcharge requests on behalf of the company. In addition, this is a privately held, Washington State based company, whose ownership has significant financial resources available.

15. Describe your access to capital for improvements and maintenance.

The ownership has significant financial resources available for any maintenance need and construction valued under \$350,000. The company has no outstanding maintenance issues on any of its systems and has never been required or "forced" by a regulatory agency to make a repair to any of its systems. The company enjoys a very respected position within the state Department of Health because of its commitment to customers and quality drinking water services. All of our field staff and the managers are well trained and have significant maintenance experience.

16. What assurances can you give concerning the timing of the distribution system replacement?

We propose to provide the actual replacement construction through our affiliated company HCD, because it has "bid" on the project. We anticipate beginning construction within 30 days of the approval of the surcharge by the UTC for the distribution and pumping system improvements. H&R will not purchase the system from HMC unless HCD is selected as the contractor for the replacement project.

17. Do you anticipate immediate replacement of the distribution system?

See the answer to question 16 above.

18. If you do not anticipate the immediate replacement of the distribution to the level the community desires, what criteria would you use in determining the appropriate time to replace the system.

We anticipate the immediate replacement of the distribution system and complete community support for the proposed surcharge to pay for the improvements.

19. What guarantee will you provide against excessive future rate increases (not to exceed ___% per year).

Please see our response to question 12 above wherein we relate that we have reduced monthly basic charges over the past three rate case filings. However please note, it is not possible for a regulated company to guarantee in writing that future rate increases will not exceed a certain percentage. There are many operational costs which are out of H&R's control i.e. electrical power, fuel, health care and insurance and ultimately decided by the UTC.

20. Would you prefer / insist on taking ownership of the system before or after the completion of the project?

In order that we could expedite construction and simultaneously control all operations, thereby reducing the overall cost of the project, we believe that H&R would better serve the community by taking ownership as soon as possible after HMC rates have been increased to the current H&R rate level as described in the Ownership submittal above . H&R would interface with HCD on schedule, costs, payment approval and the like rather than the HMC management. At the point of transfer of ownership and responsibility for construction, the companies will have worked closely with the HMC board and management team. H&R ownership must guarantee payment of the surcharge loan obtained to finance the improvements. If H&R has ownership of the system before initiation/completion of the project, the administrative responsibilities will fall to the company, thus alleviating significant administrative burden of this project for HMC.