

Option 2: Transfer of Water System Ownership/ Financing by Transferee

Because this option transfers ownership to a third party who would then be responsible for planning, designing and constructing the system upgrade, less detail is available. Much depends on the company's management, financial condition, and ability to meet the needs of Herron Island. The two principal companies which have previously been approached are 1) Peninsula Light, a member-owned cooperative, and 2) Washington Water, an investor-owned utility. Each of these is responsible to its members/investors and its Board of Directors. However, we can paint a scenario based on previous information from Peninsula Light Company (2007).

The transfer process requires a vote of the membership to transfer ownership of the water system, an asset which belongs to all. Following such an action, the transferee might demand transfer of HMC water rights, well properties and well heads, reservoir, and easements along HMC roads for water distribution lines. Decisions regarding total expenditure, water quality testing and system maintenance, water rates, and recovery of capital investment would be made by the owner/transferee. Presumably, this transfer, after approval, would be conditioned on agreement by the transferee with HMC Management to construct the new water system according to a plan, meeting certain requirements, and within a specified period of time.

Other issues to be determined would include water service to HMC owned properties (Community Building, North Beach) and lots; and fire hydrant water use costs.

Peninsula Light, in discussions occurring in 2007, indicated that cost recovery would be made by Pen Light's taking a lien on each property served in the amount of \$5,000-6,000. Generally, a lien must be fully satisfied at time of sale, unless the seller/buyer agree to other terms. At that same time, the interest rate, which included Pen Light's administrative costs, was an estimated 7.65%.

Future Maintenance and Operation

Various statements have been made about how one option or the other would affect future system operation and maintenance. The Herron Island Water System has abundant water of good quality. The system's operations and maintenance are in compliance with State law, and resources for quick response to problems are generally available on the Island, under our current service arrangement.

Hopefully, a water system upgrade will result in fewer leaks and reduce the large amount of water lost back into the system as a result of undetected leaks. Future maintenance and operation of the system is a business decision that can be made by the Board at any time, and is not dependent on transfer of the system. Peninsula Light has, for example, indicated that it would be interested in taking on M&O, regardless of where ownership resides. The decision about future ownership or transfer need not rest on the issue of maintenance and operation.