APPENDIX 3-3

Wholesale Water Supply Agreements

Water Supply Agreement with Oak Harbor
Water Supply Agreement with Skagit PUD
Water Supply Agreement with La Conner
Water Supply Agreement with Swinomish
Water Supply Agreement with Del Mar
WATER SUPPLY AGREEMENT

This agreement entered into the 1st day of January 2008, between the City of Anacortes, hereinafter referred to as “the City,” and City of Oak Harbor is for the purposes of the City supplying water to La Conner, hereinafter referred to as “the Customer”. It replaces and supersedes any previous agreements or understandings between the parties.

The Customer is entering into this agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customers, and is willing to supply water according to the terms and conditions of this agreement.

The City’s Water Supply System is defined for purposes of this agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit River; 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner; and 3) the 10-inch water supply pipeline along SR20 from Sharpe’s Corner to the Oak Harbor metering point just north of the Deception Pass Bridge.

In accordance with this agreement, the City agrees to supply the Customer water in accordance with the following terms and conditions:

1. Quantity

The City agrees to supply quantities and pressures of water at location(s) and in amounts as stated in this agreement (Exhibits A & B), and any subsequent amendments to this agreement (Exhibit C).

2. Delivery Points

2.1 Approved Delivery Points The City shall deliver water to the Customer at the approved delivery points listed in Exhibit A.

2.2 New Delivery Points The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the Water Supply System is not a distribution system but the Customer has responsibility for constructing and maintaining a distribution system adequate for its service area.

The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate. If required by the City, the meter shall be of a type capable of transmitting continuous readings to the City’s Water Treatment Plant. The Customer shall prepare the design for the proposed service connection, submit it to, and receive the approval of the City prior to its
installation. The City shall own the meter and be responsible for maintaining it in good repair.

3 Quality of Water

The City shall operate and maintain its Water Supply System in order to supply water for municipal and industrial purposes that meets the water quality standards of the Washington State Department of Health and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall hold the City harmless from any water quality related claim for damages by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

4 Rates and Charges

The City has established the following rates and charges and billing procedures for customers of its Water Supply System, which apply to this agreement.

4.1 Rate Structure The City has defined the following costs associated with the facilities, operation and maintenance of its water supply system:

Capital Cost Those costs incurred for the betterment and rehabilitation of the Water Supply System. Includes amounts paid from revenues, water system funds, and debt service on bonds issued for the betterment or rehabilitation of the system.

Fixed Operating Cost The cost of labor, supervision, supplies, utilities, services, taxes, insurance, and all other expenses required to operate and maintain the Water Supply System other than those items included under Variable Operating Cost.

Variable Operating Cost The cost of chemicals and electric power required to deliver water from the Water Supply System.

4.2 Cost Allocation The Customer shall pay its proportionate share of the Capital Cost, Fixed Operating Cost, and Variable Operating Cost. These costs shall be allocated as follows:

Capital Cost Allocated to all Water Supply System customers based on the Committed Volume of water to each customer in proportion to the total water supply requirements.
Fixed Operating Cost  Allocated to all Water Supply System customers based on the metered water volume of each customer as a percentage of the total metered volume of all customers, with the following exceptions:

1) Administrative support services and all employee benefits shall be allocated to customers in the same proportions that the total cost of all other Personnel Services is divided among them.
2) The State Excise Tax shall be allocated based on actual (or projected) billings to each of the customers. In accordance with Washington State Law, no Excise Tax will be assessed to wholesale customers purchasing water for resale.

Variable Operating Cost  Allocated to all Water Supply System customers in accordance with the metered water volume of each customer as a percentage of the total metered volume of all customers.

4.3 Billing Basis
1) The Capital Cost Allocation to customers is determined each time a water rate analysis is prepared by the City and is set for the ensuing rate period (usually 3 to 5 years). Each customer’s “committed” volume used to calculate the Capital Cost for the rate period shall be agreed upon between the City and the Customer based upon current usage and estimated increased water requirements during the rate period. The current Capital Cost is shown in Exhibit B.
2) The Fixed and Variable Operating Costs shall be determined each year as part of the City’s budgeting process. Rates current as of the date of this agreement are shown on Exhibit B and are used as the basis for the customer billings according to the volume of water used. The City will calculate the unit Fixed and Variable Operating Costs for the period based upon projected operating costs and projected water use and will notify the customers of these rates (Exhibit C). These revised costs will be used as the basis for billing customers over the billing period. Periodically, but not to exceed two years, the City will calculate and report actual costs and retroactively adjust each customer’s charges (i.e., increase or decrease) to actual costs.

4.4 Billing  The City shall read the Customer meters each month, calculate, and issue a bill to the Customer. The bill shall identify the Capital Cost, the Fixed Operating Cost, the volume of metered water delivered to the Customer during the month, and the corresponding Variable Operating Cost. The Capital Cost and Fixed Operating Cost are payable regardless of the volume of water consumed while the Variable Operating Costs shall be paid according to the volume of metered water delivered to the Customer. Payment by the Customer is due within 15 days of the receipt of the bill.
4.5 **Late Payment**  If a bill remains unpaid after 30 days, the City will assess interest on the delinquent amount at the rate of 12% per annum. If a bill still is not paid after 90 days, the City may use other remedies legally available to it, including shutting off service to enforce payment.

4.6 **Additional Charge**  During the rate period, the Customer is entitled to the quantity of water fixed as the basis for the capital charge (Committed Volume). Should the Customer use an annual volume greater than the Committed Volume shown on Exhibit B or as amended on Exhibit C, it shall pay the current Commercial rate (Outside of City water sales) for the quantity in excess of the Committed Volume.

5. **Metering**

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with Article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer and the Customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder for one-half the time from the date of the preceding test shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. **Continuity of Service**

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer’s approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes, power failure or other catastrophes, strikes, or failure or breakdown of the Water Supply System. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

7. **Conflicts**

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.
8. **Future Supply**

8.1 **Service Area** This agreement between the City and the Customer is to supply water to the Customer’s existing industrial operations and/or water service area. In this regard, the Customer agrees not to increase its industrial operations, to add new customers, or to expand its service area in a manner that would increase its water requirements by more than 10 percent without the prior approval of the City.

8.2 **Water Supply Requirements** The City operates its Water Supply System for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 **Future Improvements** The City will plan and develop water supply facilities that may become necessary in the future to replace existing facilities or to expand the capacity of its Water Supply System to meet growing demands. The City may require appropriate commitments from its customers prior to proceeding with system improvements.

9. **Termination**

Either the City or the Customer shall have the right to terminate this agreement by giving at least one year written notice of its desire to do so.

10. **Term**

Subject to the provisions of paragraph 9 of this Agreement, this agreement shall take effect on January 1, 2008, and remain in full force and effect until December 31, 2027. Either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

11. **Records Inspection**

The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.
12. Addresses

All notices and billing required hereunder shall be sent to the following addresses:

CITY OF ANACORTES
Mailing: PO Box 547
Anacortes, WA 98221
Physical: 904 6th Street
Anacortes, WA 98221

CUSTOMER
Notices and Billing:
Shell Oil Products US
PO Box 622
Anacortes, WA 98221

13. Applicable Law

This Agreement and all disputes arising thereunder shall be governed by Washington State Law.

IN WITNESS WHEREOF, the parties hereto have executed this Contract as of the day and year first above written.

CITY OF ANACORTES

By: ________________________________
    H. Dean Maxwell, Mayor

ATTEST:

______________________________
Steve Hoglund, City Clerk

Town of La Conner

By: ________________________________
    Patricia Cohen, Mayor

ATTEST:

______________________________
Doug Merriman, City Clerk

Water Supply Agreement – City of Anacortes/Oak Harbor - Page 6 of 8
EXHIBIT A

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and City of Oak Harbor.

Approved Metered Service Connections:

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EXHIBIT B

Dated: 1st of Month of Signature, 2008

Water Supply Agreement between the City of Anacortes and City of Oak Harbor

1. Water Charges:
   - Capital Cost: $48,340 / Month
   - Fixed Operating: $22,780 / Month
   - Variable Operating: $152.42 / Million Gallons

2. Committed Water Volume:
   - Annual: 1,000 Million Gallons

3. Water Pressure: 120 psi
February 8, 2008

Mr. David Johnson, General Manager
Skagit County PUD #1
1415 Freeway Drive
Mount Vernon WA 98273

Dear Mr. Johnson,

SUBJECT: Amendment to Water Supply Agreement

Enclosed are two original copies of an Amendment, effective January 1, 2008, that replaces and supersedes Exhibit B and prior amendments to the Water Supply Agreement entered into July 1, 2007, between the City of Anacortes and Skagit PUD #1. The document outlines water charges for the period of January 1, 2008 to January 31, 2010.

We request that you review this amendment and return two signed originals. The City will keep one original for our records and return one original for your records after the agreement has been fully executed.

If you have any questions concerning these new rates, please feel free to contact Fred Buckenmeyer at 293-1919 or at fredb@cityofanacortes.org.

Sincerely,

CITY OF ANACORTES

H. Dean Maxwell
Mayor

HDM:sak

Enclosures:
Amendment No. 1 to Twenty-Year Water Supply Agreement – 2 originals
EXHIBIT C

AMENDMENT NO. 1

This Amendment, effective January 1, 2008, replaces and supersedes Exhibit B and prior amendments to the Water Supply Agreement entered into July 1, 2007 between the City of Anacortes and SKAGIT PUD #1.

1. Water Charges for the period of 1/1/2008 to 12/31/2010:
   - Capital Cost $19,186 / month
   - Fixed Operating Cost (estimate) $10,670 / month
   - Variable Operating Cost (estimate) $152.42 / million gallons

2. Committed Water Volume for the period 1/1/2008 to 12/31/2010:
   - Annual: 485 million gallons

3. Water Pressure:
   - Dependent on service location

IN WITNESS WHEREOF, the parties hereto executed this Contract Amendment as of the day and year above written.

SKAGIT PUD#1

By:

David Johnson
General Manager

ATTEST:

Mark E. Fredlund
Treasurer

CITY OF ANACORTES

By:

H. Dean Maxwell
Mayor

ATTEST:

Steve Hoglund
City Clerk/Treasurer
WATER SUPPLY AGREEMENT

This agreement entered into this 1\textsuperscript{st} day of January 2008, between the City of Anacortes, hereinafter referred to as the “City”, and Skagit Public Utilities District #1, hereinafter referred to as the “Customer”. It replaces and supersedes any previous agreements or understandings between the parties.

The Customer is entering into this agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customer, and is willing to supply water according to the terms and conditions of this agreement.

The City’s Water Supply System is defined for purposes of this agreement to include: 1) the water intake and treatment facilities near Avon Allen Rd. on the Skagit River; and 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner.

In accordance with this agreement, the City agrees to supply the Customer water in accordance with the following terms and conditions:

1. **Quantity**

   The City agrees to supply quantities and pressures of water at location(s) and in amounts as stated in this agreement (Exhibits A & B), and any subsequent amendments to this agreement (Exhibit C).

2. **Delivery Points**

   2.1 **Approved Delivery Points** The City shall deliver water to the Customer at the approved delivery points listed in Exhibit A.

   2.2 **New Delivery Points** The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the Water Supply System is not a distribution system but the Customer has responsibility for constructing and maintaining a distribution system adequate for its service area.

   The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate. If required by the City, the meter shall be of a type capable of transmitting continuous readings to the City’s Water Treatment Plant. The Customer shall prepare the design for the proposed service connection, submit it to, and receive the approval of the City prior to its installation. The City shall own the meter and be responsible for maintaining it in good repair.
3 **Quality of Water**

The City shall operate and maintain its Water Supply System in order to supply water for municipal and industrial purposes that meets the water quality standards of the Washington State Department of Health and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall hold the City harmless from any water quality related claim for damages by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

4 **Rates and Charges**

The City has established the following rates and charges and billing procedures for customers of its Water Supply System, which apply to this agreement.

4.1 **Rate Structure** The City has defined the following costs associated with the facilities, operation and maintenance of its water supply system:

- **Capital Cost** Those costs incurred for the betterment and rehabilitation of the Water Supply System. Includes amounts paid from revenues, water system funds, and debt service on bonds issued for the betterment or rehabilitation of the system.

- **Fixed Operating Cost** The cost of labor, supervision, supplies, utilities, services, taxes, insurance, and all other expenses required to operate and maintain the Water Supply System other than those items included under Variable Operating Cost.

- **Variable Operating Cost** The cost of chemicals and electric power required to deliver water from the Water Supply System.

4.2 **Cost Allocation** The Customer shall pay its proportionate share of the Capital Cost, Fixed Operating Cost, and Variable Operating Cost. These costs shall be allocated as follows:

- **Capital Cost** Allocated to all Water Supply System customers based on the Committed Volume of water to each customer in proportion to the total water supply requirements.
Fixed Operating Cost  Allocated to all Water Supply System customers based on the metered water volume of each customer as a percentage of the total metered volume of all customers, with the following exceptions:

1) Administrative support services and all employee benefits shall be allocated to customers in the same proportions that the total cost of all other Personnel Services is divided among them.
2) The State Excise Tax shall be allocated based on actual (or projected) billings to each of the customers. In accordance with Washington State Law, no Excise Tax will be assessed to wholesale customers purchasing water for resale.

Variable Operating Cost  Allocated to all Water Supply System customers in accordance with the metered water volume of each customer as a percentage of the total metered volume of all customers.

4.3 Billing Basis
1) The Capital Cost Allocation to customers is determined each time a water rate analysis is prepared by the City and is set for the ensuing rate period (usually 3 to 5 years). Each customer’s “committed” volume used to calculate the Capital Cost for the rate period shall be agreed upon between the City and the Customer based upon current usage and estimated increased water requirements during the rate period. The current Capital Cost is shown in Exhibit B.
2) Rates current as of the date of this agreement are shown on Exhibit B and are used as the basis for the customer billings according to the volume of water used. Periodically, but not to exceed two years, the City will calculate and report actual costs and retroactively adjust each customer’s charges (i.e., increase or decrease) to actual costs.

4.4 Billing  The City shall read the Customer meters each month, calculate, and issue a bill to the Customer. The bill shall identify the Capital Cost, the Fixed Operating Cost, the volume of metered water delivered to the Customer during the month, and the corresponding Variable Operating Cost. The Capital Cost and Fixed Operating Cost are payable regardless of the volume of water consumed while the Variable Operating Costs shall be paid according to the volume of metered water delivered to the Customer. Payment by the Customer is due within 15 days of the receipt of the bill.

4.5 Late Payment  If a bill remains unpaid after 30 days, the City will assess interest on the delinquent amount at the rate of 12% per annum. If a bill still is not paid after 90 days, the City may use other remedies legally available to us, including shutting off service to enforce payment.

4.6 Additional Charge  During the rate period, the Customer is entitled to the quantity of water fixed as the basis for the capital charge (Committed Volume).
Should the Customer use an annual volume greater than the Committed Volume shown on Exhibit B or as amended on Exhibit C, it shall pay the current In-City Commercial rate for the quantity in excess of the Committed Volume.

5. **Metering**

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with Article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer and the Customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder for one-half the time from the date of the preceding test shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. **Continuity of Service**

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer’s approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes, power failure or other catastrophes, strikes, or failure or breakdown of the Water Supply System. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

7. **Conflicts**

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.

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water requirements by more than 10 percent without the prior approval of the City.

8.2 **Water Supply Requirements**  The City operates its Water Supply System for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 **Future Improvements**  The City will plan and develop water supply facilities that may become necessary in the future to replace existing facilities or to expand the capacity of its Water Supply System to meet growing demands. The City may require appropriate commitments from its customers prior to proceeding with system improvements.

9. **Termination**

Either the City or the Customer shall have the right to terminate this agreement by giving at least one year written notice of its desire to do so.

10. **Term**

Subject to the provisions of paragraph 9 of this Agreement, this agreement shall take effect on January 1, 2008 and remain in full force and effect until December 31, 2027. Either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

11. **Records Inspection**

The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.
12. Addresses

All notices and billing required hereunder shall be sent to the following addresses:

CITY OF ANACORTES                     CUSTOMER
Mailing:    PO Box 547                  Notices and Billing:
            Anacortes, WA  98221          PO Box 1436
Physical:   904 6th Street             Mount Vernon, WA  98273
            Anacortes, WA  98221

13. Applicable Law

This Agreement and all disputes arising thereunder shall be governed by Washington State Law.

IN WITNESS WHEREOF, the parties hereto have executed this Contract as of the day and year first above written.

CITY OF ANACORTES

By:       ________________________________
          H. Dean Maxwell, Mayor

ATTEST:

______________________________
Steve Hoglund, City Clerk

SKAGIT PUD #1

By:       ________________________________
          John Petrich
          General Manager

ATTEST:

______________________________
Mark E. Fredlund
Treasurer
EXHIBIT A

Dated:   January 1, 2008

Water Supply Agreement between the City of Anacortes and Skagit PUD #1.

Approved Metered Service Connections:

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EXHIBIT B

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and Skagit PUD #1.

1. Water Charges:
   - Capital Cost (Estimate) $16,190 / Month
   - Fixed Operating Cost $10,670 / Month
   - Variable Operating Cost $152.42 / Million Gallons

2. Committed Water Volume:
   - Annual: 405 Million Gallons

3. Water Pressure: Dependent on service connection location
WATER SUPPLY AGREEMENT

This agreement entered into the 1st day of January 2008, between the City of Anacortes, hereinafter referred to as “the City,” and Town of La Conner is for the purposes of the City supplying water to La Conner, hereinafter referred to as “the Customer”. It replaces and supersedes any previous agreements or understandings between the parties.

The Customer is entering into this agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customers, and is willing to supply water according to the terms and conditions of this agreement.

The City’s Water Supply System is defined for purposes of this agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit River; 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner.

In accordance with this agreement, the City agrees to supply the Customer water in accordance with the following terms and conditions:

1. **Quantity**

   The City agrees to supply quantities and pressures of water at location(s) and in amounts as stated in this agreement (Exhibits A & B), and any subsequent amendments to this agreement (Exhibit C).

2. **Delivery Points**

   2.1 **Approved Delivery Points**  The City shall deliver water to the Customer at the approved delivery points listed in Exhibit A.

   2.2 **New Delivery Points**  The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the Water Supply System is not a distribution system but the Customer has responsibility for constructing and maintaining a distribution system adequate for its service area.

   The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate. If required by the City, the meter shall be of a type capable of transmitting continuous readings to the City’s Water Treatment Plant. The Customer shall prepare the design for the proposed service connection, submit it to, and receive the approval of the City prior to its installation. The City shall own the meter and be responsible for maintaining it in good repair.
3 Quality of Water

The City shall operate and maintain its Water Supply System in order to supply water for municipal and industrial purposes that meets the water quality standards of the Washington State Department of Health and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall hold the City harmless from any water quality related claim for damages by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

4 Rates and Charges

The City has established the following rates and charges and billing procedures for customers of its Water Supply System, which apply to this agreement.

4.1 Rate Structure  The City has defined the following costs associated with the facilities, operation and maintenance of its water supply system:

**Capital Cost**  Those costs incurred for the betterment and rehabilitation of the Water Supply System. Includes amounts paid from revenues, water system funds, and debt service on bonds issued for the betterment or rehabilitation of the system.

**Fixed Operating Cost**  The cost of labor, supervision, supplies, utilities, services, taxes, insurance, and all other expenses required to operate and maintain the Water Supply System other than those items included under Variable Operating Cost.

**Variable Operating Cost**  The cost of chemicals and electric power required to deliver water from the Water Supply System.

4.2 Cost Allocation  The Customer shall pay its proportionate share of the Capital Cost, Fixed Operating Cost, and Variable Operating Cost. These costs shall be allocated as follows:

**Capital Cost**  Allocated to all Water Supply System customers based on the Committed Volume of water to each customer in proportion to the total water supply requirements.
Fixed Operating Cost  Allocated to all Water Supply System customers based on the metered water volume of each customer as a percentage of the total metered volume of all customers, with the following exceptions:

1) Administrative support services and all employee benefits shall be allocated to customers in the same proportions that the total cost of all other Personnel Services is divided among them.

2) The State Excise Tax shall be allocated based on actual (or projected) billings to each of the customers. In accordance with Washington State Law, no Excise Tax will be assessed to wholesale customers purchasing water for resale.

Variable Operating Cost  Allocated to all Water Supply System customers in accordance with the metered water volume of each customer as a percentage of the total metered volume of all customers.

4.3 Billing Basis

1) The Capital Cost Allocation to customers is determined each time a water rate analysis is prepared by the City and is set for the ensuing rate period (usually 3 to 5 years). Each customer’s “committed” volume used to calculate the Capital Cost for the rate period shall be agreed upon between the City and the Customer based upon current usage and estimated increased water requirements during the rate period. The current Capital Cost is shown in Exhibit B.

2) The Fixed and Variable Operating Costs shall be determined each year as part of the City’s budgeting process. Rates current as of the date of this agreement are shown on Exhibit B and are used as the basis for the customer billings according to the volume of water used. The City will calculate the unit Fixed and Variable Operating Costs for the period based upon projected operating costs and projected water use and will notify the customers of these rates (Exhibit C). These revised costs will be used as the basis for billing customers over the billing period. Periodically, but not to exceed two years, the City will calculate and report actual costs and retroactively adjust each customer’s charges (i.e., increase or decrease) to actual costs.

4.4 Billing  The City shall read the Customer meters each month, calculate, and issue a bill to the Customer. The bill shall identify the Capital Cost, the Fixed Operating Cost, the volume of metered water delivered to the Customer during the month, and the corresponding Variable Operating Cost. The Capital Cost and Fixed Operating Cost are payable regardless of the volume of water consumed while the Variable Operating Costs shall be paid according to the volume of metered water delivered to the Customer. Payment by the Customer is due within 15 days of the receipt of the bill.

4.5 Late Payment  If a bill remains unpaid after 30 days, the City will assess interest on the delinquent amount at the rate of 12% per annum. If a bill is not paid
after 90 days, the City may use other remedies legally available to it, including shutting off service to enforce payment.

4.6 **Additional Charge** During the rate period, the Customer is entitled to the quantity of water fixed as the basis for the capital charge (Committed Volume). Should the Customer use an annual volume greater than the Committed Volume shown on Exhibit B or as amended on Exhibit C, it shall pay the current Commercial rate (Outside of City water sales) for the quantity in excess of the Committed Volume.

5. **Metering**

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with Article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer and the Customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder for one-half the time from the date of the preceding test shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. **Continuity of Service**

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer’s approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes, power failure or other catastrophes, strikes, or failure or breakdown of the Water Supply System. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

7. **Conflicts**

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.
8. **Future Supply**

8.1 **Service Area**  This agreement between the City and the Customer is to supply water to the Customer’s existing industrial operations and/or water service area. In this regard, the Customer agrees not to increase its industrial operations, to add new customers, or to expand its service area in a manner that would increase its water requirements by more than 10 percent without the prior approval of the City.

8.2 **Water Supply Requirements**  The City operates its Water Supply System for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 **Future Improvements**  The City will plan and develop water supply facilities that may become necessary in the future to replace existing facilities or to expand the capacity of its Water Supply System to meet growing demands. The City may require appropriate commitments from its customers prior to proceeding with system improvements.

9. **Termination**

Either the City or the Customer shall have the right to terminate this agreement by giving at least one year written notice of its desire to do so.

10. **Term**

Subject to the provisions of paragraph 9 of this Agreement, this agreement shall take effect on January 1, 2008, and remain in full force and effect until December 31, 2027. Either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

11. **Records Inspection**

The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.
12. Addresses

All notices and billing required hereunder shall be sent to the following addresses:

**CITY OF ANACORTES**
- Mailing: PO Box 547
  - Anacortes, WA 98221
- Physical: 904 6th Street
  - Anacortes, WA 98221

**CUSTOMER**
- Notices and Billing: Shell Oil Products US
- PO Box 622
  - Anacortes, WA 98221

13. Applicable Law

This Agreement and all disputes arising hereunder shall be governed by Washington State Law.

IN WITNESS WHEREOF, the parties hereto have executed this Contract as of the day and year first above written.

**CITY OF ANACORTES**

By: ____________________________
  H. Dean Maxwell, Mayor

ATTEST:

______________________________
Steve Hoglund, City Clerk

**Town of La Conner**

By: ____________________________
  Wayne Everett, Mayor

ATTEST:

______________________________
Lorraine Taylor, City Clerk
EXHIBIT A

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and Shell Oil Products US.

Approved Metered Service Connections:

<table>
<thead>
<tr>
<th>No.</th>
<th>Size</th>
<th>Brand</th>
<th>Type</th>
<th>Location</th>
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<td>La Conner Whitney Rd &amp; SR20</td>
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</table>
EXHIBIT B

Dated: 1st of Month of Signature, 2008

Water Supply Agreement between the City of Anacortes and Town of La Conner.

1. Water Charges:
   - Capital Cost $6,480 / Month
   - Fixed Operating $3,790 / Month
   - Variable Operating $152.42 / Million Gallons

2. Committed Water Volume:
   - Annual: 162 Million Gallons

3. Water Pressure: 120 psi
WATER SUPPLY AGREEMENT

This agreement entered into the 1st day of January 2008, between the City of Anacortes, hereinafter referred to as “the City,” and the Swinomish Utility Authority (a government agency) is for the purposes of the City supplying water to La Conner, hereinafter referred to as “the Customer”. It replaces and supersedes any previous agreements or understandings between the parties.

The Customer is entering into this agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customers, and is willing to supply water according to the terms and conditions of this agreement.

The City’s Water Supply System is defined for purposes of this agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit River; 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner.

In accordance with this agreement, the City agrees to supply the Customer water in accordance with the following terms and conditions:

1. **Quantity**

   The City agrees to supply quantities and pressures of water at location(s) and in amounts as stated in this agreement (Exhibits A & B), and any subsequent amendments to this agreement (Exhibit C).

2. **Delivery Points**

   2.1 **Approved Delivery Points**  The City shall deliver water to the Customer at the approved delivery points listed in Exhibit A.

   2.2 **New Delivery Points**  The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the Water Supply System is not a distribution system but the Customer has responsibility for constructing and maintaining a distribution system adequate for its service area.

   The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate. If required by the City, the meter shall be of a type capable of transmitting continuous readings to the City’s Water Treatment Plant. The Customer shall prepare the design for the proposed service connection, submit it to, and receive the approval of the City prior to its
installation. The City shall own the meter and be responsible for maintaining it in good repair.

3 Quality of Water

The City shall operate and maintain its Water Supply System in order to supply water for municipal and industrial purposes that meets the water quality standards of the Washington State Department of Health and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall hold the City harmless from any water quality related claim for damages by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

4 Rates and Charges

The City has established the following rates and charges and billing procedures for customers of its Water Supply System, which apply to this agreement.

4.1 Rate Structure The City has defined the following costs associated with the facilities, operation and maintenance of its water supply system:

Capital Cost Those costs incurred for the betterment and rehabilitation of the Water Supply System. Includes amounts paid from revenues, water system funds, and debt service on bonds issued for the betterment or rehabilitation of the system.

Fixed Operating Cost The cost of labor, supervision, supplies, utilities, services, taxes, insurance, and all other expenses required to operate and maintain the Water Supply System other than those items included under Variable Operating Cost.

Variable Operating Cost The cost of chemicals and electric power required to deliver water from the Water Supply System.

4.2 Cost Allocation The Customer shall pay its proportionate share of the Capital Cost, Fixed Operating Cost, and Variable Operating Cost. These costs shall be allocated as follows:

Capital Cost Allocated to all Water Supply System customers based on the Committed Volume of water to each customer in proportion to the total water supply requirements.
Fixed Operating Cost  Allocated to all Water Supply System customers based on the metered water volume of each customer as a percentage of the total metered volume of all customers, with the following exceptions:

1) Administrative support services and all employee benefits shall be allocated to customers in the same proportions that the total cost of all other Personnel Services is divided among them.
2) The State Excise Tax shall be allocated based on actual (or projected) billings to each of the customers. In accordance with Washington State Law, no Excise Tax will be assessed to wholesale customers purchasing water for resale.

Variable Operating Cost  Allocated to all Water Supply System customers in accordance with the metered water volume of each customer as a percentage of the total metered volume of all customers.

4.3 Billing Basis
1) The Capital Cost Allocation to customers is determined each time a water rate analysis is prepared by the City and is set for the ensuing rate period (usually 3 to 5 years). Each customer’s “committed” volume used to calculate the Capital Cost for the rate period shall be agreed upon between the City and the Customer based upon current usage and estimated increased water requirements during the rate period. The current Capital Cost is shown in Exhibit B.
2) The Fixed and Variable Operating Costs shall be determined each year as part of the City’s budgeting process. Rates current as of the date of this agreement are shown on Exhibit B and are used as the basis for the customer billings according to the volume of water used. The City will calculate the unit Fixed and Variable Operating Costs for the period based upon projected operating costs and projected water use and will notify the customers of these rates (Exhibit C). These revised costs will be used as the basis for billing customers over the billing period. Periodically, but not to exceed two years, the City will calculate and report actual costs and retroactively adjust each customer’s charges (i.e., increase or decrease) to actual costs.

4.4 Billing  The City shall read the Customer meters each month, calculate, and issue a bill to the Customer. The bill shall identify the Capital Cost, the Fixed Operating Cost, the volume of metered water delivered to the Customer during the month, and the corresponding Variable Operating Cost. The Capital Cost and Fixed Operating Cost are payable regardless of the volume of water consumed while the Variable Operating Costs shall be paid according to the volume of metered water delivered to the Customer. Payment by the Customer is due within 15 days of the receipt of the bill.
4.5 **Late Payment**  If a bill remains unpaid after 30 days, the City will assess interest on the delinquent amount at the rate of 12% per annum. If a bill still is not paid after 90 days, the City may use other remedies legally available to it, including shutting off service to enforce payment.

4.6 **Additional Charge**  During the rate period, the Customer is entitled to the quantity of water fixed as the basis for the capital charge (Committed Volume). Should the Customer use an annual volume greater than the Committed Volume shown on Exhibit B or as amended on Exhibit C, it shall pay the current Commercial rate (Outside of City water sales) for the quantity in excess of the Committed Volume.

5. **Metering**

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with Article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer and the Customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder for one-half the time from the date of the preceding test shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. **Continuity of Service**

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer’s approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes, power failure or other catastrophes, strikes, or failure or breakdown of the Water Supply System. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

7. **Conflicts**

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.
8. **Future Supply**

8.1 **Service Area**  This agreement between the City and the Customer is to supply water to the Customer’s existing industrial operations and/or water service area. In this regard, the Customer agrees not to increase its industrial operations, to add new customers, or to expand its service area in a manner that would increase its water requirements by more than 10 percent without the prior approval of the City.

8.2 **Water Supply Requirements**  The City operates its Water Supply System for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 **Future Improvements**  The City will plan and develop water supply facilities that may become necessary in the future to replace existing facilities or to expand the capacity of its Water Supply System to meet growing demands. The City may require appropriate commitments from its customers prior to proceeding with system improvements.

9. **Termination**

Either the City or the Customer shall have the right to terminate this agreement by giving at least one year written notice of its desire to do so.

10. **Term**

Subject to the provisions of paragraph 9 of this Agreement, this agreement shall take effect on January 1, 2008, and remain in full force and effect until December 31, 2027. Either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

11. **Records Inspection**

The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.
12. **Addresses**

All notices and billing required hereunder shall be sent to the following addresses:

**CITY OF ANACORTES**
Mailing: PO Box 547
Anacortes, WA 98221
Physical: 904 6th Street
Anacortes, WA 98221

**CUSTOMER**
Notices and Billing:
Shell Oil Products US
PO Box 622
Anacortes, WA 98221

13. **Applicable Law**

This Agreement and all disputes arising thereunder shall be governed by Washington State Law.

IN WITNESS WHEREOF, the parties hereto have executed this Contract as of the day and year first above written.

**CITY OF ANACORTES**

By: ____________________
H. Dean Maxwell, Mayor

**ATTEST:**

________________________
Steve Hoglund, City Clerk

**Town of La Conner**

By: ____________________
John Petrich, Utility Manager

**ATTEST:**

________________________
Rosemary S. Cayou, Bookkeeper
EXHIBIT A

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and Shell Oil Products US.

Approved Metered Service Connections:

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</table>
EXHIBIT B

Dated: 1st of Month of Signature, 2008

Water Supply Agreement between the City of Anacortes and Swinomish Utility Authority.

1. Water Charges:
   - Capital Cost (Estimate) $1,690 / Month
   - Fixed Operating $670 / Month
   - Variable Operating $152.42 / Million Gallons

2. Committed Water Volume:
   - Annual: 42 Million Gallons

3. Water Pressure: 120 psi
RESOLUTION NO. 1779

A RESOLUTION AUTHORIZING THE MAYOR AND CITY CLERK OF THE CITY OF ANACORTES TO APPROVE A WATER SUPPLY AGREEMENT BETWEEN THE CITY OF ANACORTES AND DEL MAR COMMUNITY SERVICE, INC.

WHEREAS, Del Mar Community Service, Inc. is in need a supply of water for its residential water supply requirements.

WHEREAS, The City owns and operates a water supply system and has water supply available to serve Del Mar Community Service, Inc., and is willing to supply water.

WHEREAS, There is an existing Agreement between Del Mar Community Service, Inc. setting forth quantity, delivery points, quality of water, rates and charges, metering continuity of service, future supply, termination, term, and records inspection.

WHEREAS, Del Mar wishes to modify the terms of the existing agreement to make the City their primary source of supply and increase the committed water volumes.

WHEREAS, these modifications will be accomplished with this new agreement, which replaces and supersedes the existing agreement, and sets forth quantity, delivery points, quality of water, rates and charges, metering continuity of service, future supply, termination, term, and records inspection, all of which are addressed in said Agreement and by this reference made a part hereof.

IT IS HEREBY RESOLVED that the Mayor and City Clerk of the City of Anacortes, Washington, be directed and authorized to execute said Agreement on behalf of the City of Anacortes.

Passed and approved this 6th day of April, 2009.

CITY OF ANACORTES:

By: H. Dean Maxwell

ATTEST:

Steve Hoglund, City Clerk

APPROVED AS TO FORM:

Bradford E. Furlong, WSBA#12924
City Attorney
WATER SUPPLY AGREEMENT
BETWEEN
CITY OF ANACORTES
AND
DEL MAR COMMUNITY SERVICE, INC.

This agreement entered into this [initial] day of [April], 2009 between the City of Anacortes, hereinafter referred to as "City" and Del Mar Community Service, Inc., hereinafter referred to as "Customer", is for the purpose of the City supplying water to Del Mar Community Service, Inc. It replaces and supersedes any previous agreements or understandings, oral or written, between the parties.

The Customer is entering into this Agreement to secure a supply of water for its residential water supply requirements. The City owns and operates a water supply system, has water supply available to serve the Customer and is willing to supply water according to the terms and conditions of this Agreement.

The City’s water supply system is defined for purposes of this Agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit river; 2) the City’s water transmission pipelines from the water treatment facilities to the 3 million gallon reservoir on Whistle Lake Road in Anacortes; 3) the City’s 3 million gallon reservoir and booster station located on Whistle Lake Road; 4) transmission pipelines to the City’s 2 million gallon 29th Street reservoir and its 2 million gallon Skyline reservoir; 5) the 29th Street reservoir and the Skyline reservoir; and 6) the City’s transmission and distribution lines serving the Del Mar Community.

In accordance with this agreement, the city agrees to supply the Customer water in accordance with the following terms and conditions.

1. **Quantity:**

   The City agrees to supply quantities and pressures of water at location(s) and in Amounts as stated in this agreement (Exhibits A & B), and any subsequent Amendments to this agreement.

2. **Delivery Points:**

   2.1 **Approved Delivery Points** – The City shall deliver water to the customer at a point on Marine Drive approximately 4,300 lineal feet south of the Anacortes city limits. The 12 inch pipeline extending south from the Anacortes City limits was constructed and paid for jointly by the City and by customers in the Anaco Beach and Del Mar service areas. It was built to the standards of the City of Anacortes and has been accepted by and deeds to the City.
2.2 **New Delivery Points**- The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the City’s water supply system is not a distribution system adequate for its service area. The City shall design and install any new service connection. The City shall own the meter and be responsible for maintaining it in good repair.

The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate.

3. **Quality of Water:**

The City shall operate and maintain its water supply system in order to supply water for municipal and/or industrial purposes that meet the water quality standards of the Washington State Department of Social and Health Services and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall save, keep and hold harmless the City, its officers, agents, employees from all damages, costs or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of any water quality related claim, unless said damages arise solely from the negligence of the City.

4. **Rates and charges:**

4.1 **Rates and Payment** – The Customer shall be considered a commercial account and shall pay the monthly service charge for a 4” meter regardless of whether it uses any water. In addition, the customer shall pay the monthly consumption charge for any water used. Fifty percent (50%) surcharge normally charged for commercial customers outside the City shall be waived for the purposes of this Agreement.

The City shall read the customer’s meter each month and invoice the customer accordingly. Procedure for non-payment of due and payable billing shall be in accordance with the current City ordinances.

The monthly service and consumption charges shall be in accordance with current City water ordinances and shall be automatically adjusted according to any future increases in the City’s rates. The customer shall pay the appropriate monthly
service charge and consumption charge for any future service connections to the City’s system.

5. Metering:

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer an the customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder from the date of the preceding test or for the previous six (6) months, whichever is less, shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. Continuity of Service:

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer’s approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes or other catastrophes, strikes, or failure or breakdown of the water supply system. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer’s negligence.

7. Conflicts:

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.

8. Future Supply:

8.1 Service Area – This agreement between the City and the Customer is to supply water to the Customer’s existing water service area. In this regard, the
Customer agrees not to expand its service area in a manner that would increase its water requirements by more than 10 percent without the prior approval of the City.

8.2 Water Supply Requirements – The City operates its water supply for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 Capacity Limitations – It is agreed that the City shall have the right to limit future increases in water use, or the peak demands of customer should the usage approach the capacity of the water supply system.

9. Term:

This agreement shall remain in full force and effect for a period of 20 years from the date of its execution, except that either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

10. Records Inspection:

The City of Anacortes shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3 year period.

11. Addresses:

All notices and billing required hereunder shall be sent to the following addresses: Del Mar Community Service, Inc., 1004 Commercial Ave. #1111, Anacortes, WA 98221. City of Anacortes, Director of Public Works, P.O. Box 547, Anacortes, WA 98221.

12. Applicable Law:

This agreement and all disputes arising hereunder shall be governed by Washington State Law.
IN WITNESS WHEREOF, the parties hereto have executed this Contract as of the day and year first above written.

CITY OF ANACORTES

By: ____________________________
    H. Dean Maxwell, Mayor

Date: ____________________________

DEL MAR COMMUNITY SERVICE, INC.

By: ____________________________
    James C. Bolt
    President

Date: March 13, 2004

ATTEST:

______________________________
Steve Hoglund, City Clerk

______________________________
Bradford E. Furlong, WSBA#12924
    City Attorney
EXHIBIT A

Water Supply Agreement Between the City of Anacortes and Del Mar Community Service, Inc.

Approved Metered Service Connections:

<table>
<thead>
<tr>
<th>Location</th>
<th>Size</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11668 Marine Drive</td>
<td>4&quot;</td>
<td>Sensus</td>
</tr>
</tbody>
</table>
EXHIBIT B

Water Supply Agreement Between the City of Anacortes and Del Mar Community Service, Inc.

1. Committed Water Volume:

   150,000 Gallon Daily Maximum, not to exceed 50 Million Gallons per year

2. Water pressure:

   As mutually agreed