

Date: 2013-05-05

To: Rick Barrett
Bobbie Coulter

From: Newton White

Re: Potential Sale of Lakeshore's Water System

Unfortunately, I will be out of town on Monday, May 6, 2013. Since I will miss the meeting that evening, I am writing to express my strong support for the idea of selling Lakeshore Company's water system to a commercial water company. Please feel free to share all or any part of this memorandum with other members of our community.

Back in 2001, I got my feet wet with water system operations when Jim Irving recruited me as a VSA (Volunteer Statistical Analyzer). He trained me to collect data about the operation of our water system (daily pumping volumes, residual chlorine levels, etc.) and put me into the VSA rotation – one week of daily observations followed by several weeks of recuperation while other VSAs took their turns. Later, I was elected to the board of Lakeshore Company where I spent many happy hours learning about water system operation, studying laws and regulations governing water systems in New Jersey, and getting wet and dirty for the cause. I eventually served time as the President and then the Treasurer of Lakeshore Company. My records indicate that I passed the checkbook to Bob Yingling early in 2009, about 8 years after I first got involved with Lakeshore Company

Based on what I learned about our water system during my time with Lakeshore, I strongly favor selling our water system to a commercial water company.

EXECUTIVE SUMMARY

I believe that selling our water system to a commercial water company would probably: (1) reduce the risk (blessedly slight though it is) that water from my tap might make me sick, (2) stabilize the cost of obtaining water for my home (protecting me from some unlikely but potentially very expensive risks -- precisely the reason why I buy insurance in other areas of my life), (3) reduce the risk of having no water come out when I open my tap and (4) reduce the risk that I might share the pain of paying fines imposed by government regulators (ironically enough, fines that most likely would be imposed to punish someone else who failed to take steps designed to protect my health and safety).

DETAILED DISCUSSION

1. Safe operation. Proper operation of our water system is vital to the health and safety of everyone in our community. A commercial water company is more likely to achieve safe operation because a commercial water company offers:
 - a. Depth of management.
 - i. Lakeshore's management of the water system is only as good as the volunteers who happen to step forward from time to time, and the quality of management varies as volunteers get busy at work or go on vacation. Sometimes, Lakeshore

has benefited from free services from people like Dave Molendyke, Jim Irving and Bill Manser. Other times, it will not. While the need for good management is constant, there is no particular reason to expect that someone with the right skills will always happen to step up and volunteer just when needed.

- ii. A commercial water company can hire a good manager and then spread the cost over thousands of customers. It can also afford to have an assistant manager who can take care of things when the manager is on vacation or otherwise unavailable. Running a commercial water company is the “real job” or “day job” of its managers, so if our water system should be purchased, there would be less risk that needed managers would be busy doing other work when our water system needs their attention.

b. Depth of staff.

- i. Lakeshore depends upon volunteers. For the important job of visiting the pump houses daily to see what is happening and to detect problems while they are still small, Lakeshore’s VSA corps (created by Jim Irving) does a magnificent job. For other tasks, Lakeshore depends upon a blend of volunteers, licensed consultants and independent contractors. This system works when Lakeshore has good volunteer managers with time to coordinate the efforts of multiple vendors. However, Lakeshore’s shallow staffing and reliance upon outsiders can cause delays, extra expense, and other problems when Lakeshore’s volunteer water system manager is encountering a problem for the first time, distracted by a day job or out of town. Also, since Lakeshore will always be a small customer to its outside vendors, Lakeshore will always lack clout.
- ii. A commercial water company would be likely to have people on its payroll who would have the training and experience needed to address most normal situations. Because a commercial water company would employ such a staff, it ought to be able to mobilized the right people quickly when the need arises. For any tasks that might still require an outside contractor, a commercial water company would have clout with the contractor because a commercial water company would be a large customer.

c. A staff with more training and experience.

- i. No matter how much enthusiasm Lakeshore’s volunteers may have, almost every water system problem they encounter will be new to them. I enjoyed learning about, and doing, lots of new things when I was involved with our water system. However, I could have done a better and quicker job if I should have had more training and experience. To the best of my knowledge, my on the job training did not sicken or kill anyone or even create an unreasonable risk of such a result. However, part of that was just luck. Hoping to be lucky is not a plan. It is unreasonable to expect that Lakeshore’s volunteers will always be lucky when they first encounter a problem that is new to them. Lakeshore’s long standing relationship with its current licensed operator (Agra) brings these risks down to an acceptable level. Knowing what I know, I drink the tap water at

home. However, whenever an unlicensed, inexperienced person has the power to touch a chemical, flip a switch or turn a valve, there is the potential that something might go wrong, seriously wrong.

- ii. It is reasonable to expect that a commercial water company would have a staff that is trained and experienced for the jobs that they are asked to do. This ought to reduce the risk that a health threatening mistake might be made when a problem arises, because members of the commercial water company's staff would be likely to have relevant personal experience or to have heard about similar problems during training.
2. Predictable costs. As a captive customer of our water system, I want the cost of obtaining water for my home to be predictable. A commercial water company is more likely to provide stable pricing because:
- a. Price regulation
 - i. The last time I looked into the issue, I came away convinced that the Association and Lakeshore have great freedom to set dues related to operating our water system. (That is not a legal opinion, and I looked at this years ago.) In fact, Lakeshore typically sets its dues unilaterally, without asking for approval from the community. Although homeowners might have an ability to influence who is on the board of Lakeshore, and to disapprove dues increases requested by the Association, neither board members nor homeowners can control the actual cost of running our water system. If something should go wrong and it should be expensive to fix, the full cost would eventually be spread among the fewer than 100 households in our community.
 - ii. Conversely, the per gallon rate charged by a commercial water company in New Jersey is highly regulated. I have been told, and I believe, that a commercial water company in New Jersey must charge all of its customers the same price per gallon. The upside of this would be that if something should go wrong with our water system, the cost would be spread among all of the commercial water company's customers. The obvious downside is that we would feel part of the pain if something should go wrong elsewhere in the commercial water company's territory. Because a commercial water company will have thousands of customers, it is reasonable to expect that the per gallon price for water will be more stable when the cost of whatever problems do arise are spread among thousands of customers.
 - b. Insurance
 - i. The last time I thought about the insurance carried by Lakeshore, I wanted to increase the amounts and types of coverage. I never had sufficient time to explore what insurance might be available at what cost, so I always felt uncomfortable about this. I understand that our insurance coverage has increased since I left the board, and I am glad about that. However, it would be unfair to ask Lakeshore's volunteers to spend lots of time every year exploring insurance options for our water system. They have lives of their own.

- ii. It is reasonable to expect that the professional management of a commercial water company would spend more time thinking about insurance.
 - c. The risk of dry or poisoned wells. Things can go wrong with wells. Changes underground can cause a well that was productive for years to stop producing water. A prolonged draught can reduce a well's production. A leak of toxic chemicals (near or far, depending upon unknown and unknowable underground conditions) can make the water from a well either costly to purify or totally undrinkable.
 - i. If Lakeshore's two main wells should go fully or partially dry or should become polluted while Lakeshore operates our system, we could have a catastrophic problem. (Note that drawing water from one well lowers the water level in the other well, so if one of our wells goes, the other is likely to go at the same time.) If such a thing should occur, we might be forced to bring water in by truck until we can pay to have a water main extended to our community from points north or south along 202. Both trucking enough water for our community and installing water mains is expensive. My understanding is that Lakeshore does not insure against this risk because the premium would be very high.
 - ii. If our two main wells should go fully or partially dry or should become polluted while our water system is owned by a commercial water company, the commercial water company would pay for trucking water, drilling wells and/or extending water mains. That cost would (for reasons discussed above) be spread out over all of the company's customers (thousands of customers) rather than just our community (less than one hundred customers).
- 3. Reliable water supply. I like to have water come out of the tap every time I open the valve. If equipment and back-up systems are not regularly and properly maintained, our water tanks can run dry. A commercial water company is more likely to achieve reliable operation because a commercial water company offers:
 - a. Depth of management.
 - i. With respect to Lakeshore, see my discussion above about depth of management (under the safety heading). Also, please consider the following anecdote. At least one service interruption that occurred on my watch at Lakeshore could have been avoided if I had fixed (or had someone else fix) some monitoring and backup systems as soon as I had detected that they had problems. However, I was busy, water was still pumping, and I didn't want to spend extra money to have an outside contractor address problems that I thought I could fix myself. Finally, when a problem did develop, one system that might have detected the problem before water pressure was lost was "temporarily" out of service and another system that might have automatically started the pump in our secondary well was also "temporarily" out of service. If Lakeshore should continue to operate its water system using volunteers, I would expect that, from time to time in the future, my water supply would be interrupted because some future volunteer was unable to devote full time effort to running our water system.

- ii. As discussed above (see depth of management under the safety heading), it is reasonable to expect that a commercial water company (1) would have full time management for whom running our water system would be their real job and (2) would address preventative maintenance issues and repairs as though their jobs were on the line.
 - b. Depth of staff. See my discussion above about depth of staff (under the safety heading).
 - c. A staff with more training and experience. See my discussion above about training and experience (under the safety heading).
- 4. Regulatory compliance / avoiding fines. The Federal government and the state of New Jersey both have many laws and regulations governing the operation of water systems. Those laws and regulations are designed to encourage safe and reliable operation. Failure to follow those regulations can affect safety and reliability, and can also result in hefty fines. A commercial water company would be more likely to achieve regulatory compliance because a commercial water company offers:
 - a. A staff with more training and experience. The laws and regulations are not always intuitive and are not always clear. A better trained and more experienced staff is more likely to achieve compliance.
 - b. The ability spread compliance costs over thousands of customers.
 - i. While Lakeshore and/or the Association continue to operate our water system, the responsible volunteers are faced with a Hobbesian choice between (i) spending lots of money asking Agra (our licensed operators) and possibly even lawyers to research everything that comes up (costs that must be paid by fewer than 100 customers) or (ii) crossing fingers and hoping for the best. As I said above, hoping for good luck is not a plan.
 - ii. If a commercial water company should purchase our water system, then they would be able to spread the cost of experts and lawyers over thousands of customers, so that the cost per customer for experts and lawyers could be very low, even if the total costs should be high.

CONCLUSION

Although, for the most part, I enjoyed the time I spent as a Lakeshore volunteer, I believe, for the reasons discussed above, that, going forward, our community would be better served by a commercial water company.

The out-of-pocket cost per gallon of water consumed will vary over time regardless of who runs our water system. As a matter of logic, I expect that (i) for some years (e.g., years when nothing goes wrong with our water system and years when potential volunteers are thick on the ground) purchasing water from a commercial water company would increase my cost per gallon and (ii) for other years (e.g., years when something expensive needs to be repaired or upgraded in our community water system or years when skilled potential volunteers are not easy to find) purchasing water from a commercial water

company would decrease my cost per gallon. I am firmly convinced that having a commercial water company take over our water system would stabilize my annual cost for water. I know it would eliminate the risk that I might be hit by a large Lakeshore special assessment arising out of some future water system problem.

I am so strongly in favor of professional management and staff for our water company, that I would even endorse Lakeshore's paying a commercial water company a considerable sum (of which I would pay only about 1%) to take over Lakeshore's water system related responsibilities, obligations and potential liabilities.

I am very pleased, and more than a little surprised, that current management has been able to find a commercial water company that is actually willing to pay significant cash up-front to Lakeshore for the privilege of protecting our community from some unlikely, but potentially devastating, risks.

I encourage everyone to support a sale of our water system to a commercial water company.