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February 1, 2013

EMAIL & USPS

Mr. Don Ferguson
City Administrator
City of Wimberley
P. O. Box 2027
Wimberley, Texas 78676

Re: Wastewater Service to the Wimberley Downtown Business Center

Dear Mr. Ferguson:

I am responding to your letter of December 26, 2012 addressed to Mr. Robert Laughman wherein you request information concerning Aqua's willingness to enter into negotiations with Wimberley to provide wholesale sewer service to the downtown area of the City. Your questions will be followed by Aqua's response:

1. Based upon the LUEs noted above (proposal of approximately 195 LUEs, and perhaps as many as 300), what would be Aqua's projected monthly wholesale service rate for the subject service area? Does that rate include the cost of the required transmission infrastructure from the Wimberley CCN boundary to the Aqua Treatment Plant? If not, what would be the estimated cost of such infrastructure?

Aqua proposes to provide wholesale service based upon a volumetric flow per LUE, calculated in thousands of gallons. Assuming each LUE produces 210 gallons per day of flow (current AWWA statistics based upon the use of flow saving devices), the average usage per month equates to 6,300 gallons. Aqua's charge for treating each 1,000 gallons of flow will be \$13.96.

The estimated cost of the transmission infrastructure necessary for the project is \$425,000.00. Aqua is prepared to advance the amount of the actual final cost as determined by the engineering firm you specify and Aqua approves. Repayment of the final actual cost of construction will be accomplished by adding a monthly surcharge to each wholesale billing statement, based upon the LUE count. The final cost will be repaid at 5% simple interest over either a 5 year term or a 10 year term, the length of the repayment to be selected by the City. Using the \$425,000.00 estimate, at a 5 year payback, if capacity for 195 LUEs is reserved, the surcharge will be \$6.53 per thousand

gallons per month. If capacity for 300 LUEs is reserved, the monthly surcharge will be \$4.24/1,000 gallons. If the 10 year term is selected, the surcharge for 195 LUEs will be \$3.67/1,000 gallons per month, and for 300 LUEs, the surcharge will be \$2.39/1,000 gallons. If capacity is initially reserved for more than 195 LUEs but less than 300, recalculation of the surcharge will be required.

By way of illustration, assuming capacity for 195 LUEs has been reserved and further assuming 6,300 gallons of flow per LUE per month, the treatment charge for each LUE will be \$87.95 and the surcharge will be \$41.13 (5 year payout) for a total per LUE of \$129.08 per month.

2. Is Aqua's wholesale rate structure volume based? If not, would Aqua be willing to provide a volume based rate structure? If so, what would be the volume based rate structure?

Please see the response to #1 above.

3. Would Aqua consider a fixed service rate for the subject area? If so, what would be the projected rate and how long would the rate remain fixed? What, if any, protection exists for the City from future rate increases?

Aqua is prepared to offer the fixed rate determined by the final calculated cost for a period of five years. For ensuing years, in increments of five years, Aqua will only increase rates after new rates applicable to Woodcreek/Wimberley customers have gone into effect and in an amount no greater than those customers are paying.

4. Is there a different CIAC fee or impact for residential and commercial uses? Is the CIAC a fixed fee? If so, how long will the fee remain at a fixed amount? If not, how often will the fee increase/decrease and at what projected rate?

CIAC fees are charged to commercial customers for the reservation of wastewater capacity in Aqua's facilities, in a current amount of \$2,572.00 per LUE. The CIAC fee is a fixed amount, adjusted on a yearly basis, based upon the amount spent on capital improvements in the Region the previous year, divided by the number of connections.

5. Would the City be able to increase its wastewater volume indefinitely, based on initial and future CIAC fees to be charged? If not, what would be the maximum amount of sewage from the service area that Aqua would be willing to receive?

The City will not be able to increase its wastewater volume indefinitely because of maximum permit limitations on the wastewater plant. The maximum volume Aqua will commit to will be a function of the capacity the City reserves, dependent upon the actual CIAC fees the City pays. Aqua will commit to treating whatever volume 300 LUEs represents, if the City pays CIAC in that amount.

6. What would be the minimum guaranteed term of service that Aqua would consider?

Aqua proposes a 20 year term with the first 5 years at the fixed rate stated in #1, and the ensuing 15 years at rates based on Aqua's then current retail rate, as stipulated in #3 above.

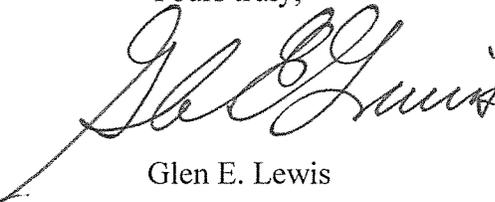
7. Does Aqua currently have the plant capacity to treat the subject service area's projected initial and future LUEs? If not, how would the needed capacity be created and who would be responsible for the cost of doing so? If there is a cost, how would it be recovered?

Aqua will not commit to providing wholesale service unless we have the capacity to do so. The payment of CIAC fees is one manner future capacity is financed and constructed. If the City pays for the capacity allocated to 300 LUEs, Aqua will commit to 300 LUEs of capacity. In the future, should the City request more capacity than originally contracted for, that transaction will be negotiated under the terms and conditions applicable at that time. Aqua will only commit to the capacity the City reserves at the present time.

Should the City determine to enter into the agreement anticipated by this letter, Wimberley shall, at its own cost and expense, obtain all easements, licenses and permits that may be necessary to construct, operate and maintain the wastewater collection line and appurtenances necessary for the project including boring under Cypress Creek and laying lines in the TXDOT right of way .

Aqua looks forward to working with you on this project. Please let me know if you have further questions.

Yours truly,

A handwritten signature in cursive script, appearing to read "Glen E. Lewis". The signature is written in black ink and is positioned above the printed name.

Glen E. Lewis