



September 29, 2008

Water Rate Notification Update

Dear Suncadia Homeowner,

Beginning last May, we have sent you a series of water rate notification letters describing our water rate application pending before the Washington Utilities and Transportation Commission (UTC). This letter is an update on that process.

Since our most recent application on July 2, the UTC staff has been reviewing our requested rates and cost-of-service methodology. As originally proposed, the filing would generate \$603,141 in additional revenue per year.

What Has Changed?

The following table shows some key rates from Suncadia's July 2 rate request along with the UTC staff recommendation.

| | Suncadia July 2 Request | UTC Staff Recommendation |
|---|-------------------------|--------------------------|
| Ready-to-serve charge | \$10.00 | \$20.79 |
| Single-family monthly base charge | \$43.86 | \$42.73 |
| Commercial monthly base charge, per equivalent residential unit (ERU) | \$43.86 | \$42.73 |
| <i>Consumption charge per 1,000 gallons:</i> | | |
| Single-family residential – less than 7,000 gallons per month | \$1.59 | \$2.65 |
| Single-family residential – between 7,000-14,000 gallons per month | \$3.18 | \$2.65 |
| Single-family residential – over 14,000 gallons per month | \$6.36 | \$2.65 |
| All other customer classes | \$2.54 | \$2.65 |

The most significant change is to the ready-to-serve charge. This charge applies to properties that are not currently using water, but for which water service is available. After a meter is installed and service begins, the ready-to-serve charge is discontinued and the customer then begins paying the monthly base charge. The ready-to-serve charge is intended to recover a proportionate share of the capital and depreciation costs—in other words, the cost of system capacity—along with selected operating costs that apply to ready-to-serve customers, such as billing and postage costs. In Suncadia's original proposal, we requested that the ready-to-serve charge remain at \$10.00 per month, even though that would have meant less than 100% recovery of the applicable costs from ready-to-serve customers. Under the UTC staff's recommendation, the ready-to-serve customers will pay 100% of their applicable costs just like all the other customers.

Another notable change in the rate structure is the elimination of block pricing for residential customers, under which those consuming more water are charged a higher consumption rate than those conserving water. It is difficult to design block pricing equitably when we have so little

actual meter history for our customers. For that reason, both Suncadia management and the UTC staff agreed to wait until our planned rate update in 2010 before trying again to develop a more conservation-oriented rate structure.

Several customers have expressed concern that the consumption charge is based on broad engineering estimates of water usage, not meter data that is specific to Suncadia's customers. For instance, residential customers are assumed to use an average of 6,725 gallons per month, but that assumption does not come from actual historical usage, because Suncadia is a new system that has not previously had metered rates. For that reason, the UTC staff will recommend that a "true-up" be required for the consumption charge each year. The company will reconcile every twelve months the difference between actual and estimated usage. An adjustment will be calculated the following month to reflect actual water usage, either an "amount due" or a refund. The adjustment amount may be spread over the following twelve-month period.

An issue that the company asked the UTC to consider is a way to bill customers fairly when the company is unable to read meters that are buried under snow and/or ice. For each month that snow/ice prevents meter reading, customers will be billed the monthly base charge and not the consumption charge. When meters become accessible, the customer will then be charged for accumulated usage. The company will allow these customers time to pay the additional charges, spread over the same number of months as the company was unable to read meters. Customers will be expected to make these payments in addition to payment of regular monthly bills.

Process and Timing

Since ready-to-serve customers were not previously notified of a potential increase in their rates, the commission will provide an opportunity for the public to comment in person about these revised rates at its open meeting of October 8. Open meetings begin at 9:30 a.m., at the UTC headquarters on 1300 South Evergreen Park Drive SW in Olympia. You may also submit written comments by using the "public comment" feature at the Commission's web site, at <http://www.wutc.wa.gov/comment>. If you would like to participate in the October 8 meeting but do not want to drive to Olympia, you can participate by phone. Call 360-664-1234 for instructions the day before the open meeting if you wish to do that.

Following the public comments on October 8, the Commission will take action on Suncadia's application during its October 30 open meeting. If the Commission approves Suncadia's tariff application at that time, the new rates will take effect as of November 1. You can call the commission at 1-888-333-9882 if you have questions about their process.

If you would like a copy of our tariff, previous customer notice letters, or other information relating to our requested rates, please contact Cape Powers at 509-649-3906 or cpowers@suncadia.com.

Sincerely,



Ron Olstad
Managing Director
Suncadia, LLC