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March 3, 2008

Michael Fassio
Assistant Attorney General
Attorney General of Washington
1400 South Evergreen Park Drive SW
Olympia, WA 98504-0128

Re: UW-060343 – Presentation of Finance and Proposal

Dear Michael:

This will follow up the request that Gene Eckhardt made in our meeting of February 28, 2008. At that time, he requested that Iliad Water Services, Inc. ("Iliad Water") present its financing option for the treatment facilities in a more formal way than the e-mail that I had previously sent to Commission Staff on February 19, 2008. This letter will respond to that request.

As you are aware from our meeting on February 28, 2008, Iliad Water must meet three conditions to receive a Safe Drinking Water Revolving Fund loan. For one of those three conditions, it is appearing more and more likely that it will be impossible to meet. That condition is to provide some sort of financial instrument, such as a letter of credit or performance bond, that insures that the loan will be paid over the twenty year life of the loan. In other words, the financial instrument must be in place for the duration of the loan itself.

The Company has investigated both a performance bond and letter of credit. Neither instrument is available for a term of twenty years. Both the performance bond and letter of credit are subject to renewal, likely on an annual basis, although a performance bond may be available that is renewed on a biennial basis. Representatives of the Public Works Board have indicated that such a short term instrument will not satisfy the condition.

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In light of this situation, the Company has searched for other alternatives. Under the circumstances, Iliad, Inc. is willing to fund the loan. Because the Safe Drinking Water Revolving Fund has additional requirements that a private lender would not need, the actual cost of the project can be reduced substantially below the estimated \$177,000 for the Safe Drinking Water Revolving Fund loan. In fact, the Company estimates that with private financing, the project can be completed for \$137,000.

As you are aware, Iliad Water has previously committed to funding certain portions of the project as equity investment. These portions amount to a little over \$20,000 and, with tax, should finish between \$20,000 and \$25,000 in total.

For ease of calculation, I have assumed equity funding of \$20,000. This means that a privately funded loan will be at \$117,000. Iliad, Inc. is willing to make that money available at 5%. A twenty year loan of \$117,000 at five percent has a monthly principal and interest amortization of \$772.15 per month. This has a customer impact of approximately \$19.80 per month.

On the other hand, the Safe Drinking Water Revolving Fund loan would be for approximately \$157,000 at 1.5%. In addition, there would be a 2% premium for any financial product that would be added to the loan (this is the going rate for a performance bond or letter of credit). The premium is an annual premium. A twenty year loan of \$157,000 at 1.5% has a monthly amortization of \$757.60. With an initial price for the financial product of \$3,140 per year or \$6.71 per month per customer, the total impact of the Safe Drinking Water Revolving loan would be \$26.14 per month per customer. This means that private financing at 5% is a benefit to the customer.

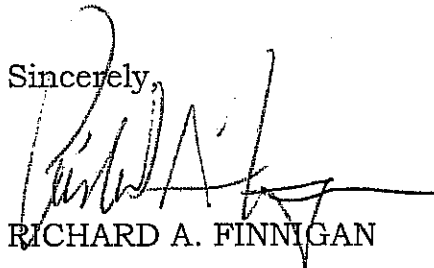
Iliad Water would also make an up front payment option available to customers that choose to opt for the up front payment, as an alternative to the monthly payment option.

Given the uncertainty surrounding the Safe Drinking Water Revolving Fund loan, Iliad Water would like to move forward with this proposal of private financing

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to settle this docket.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Finnigan", written over the word "Sincerely,".

RICHARD A. FINNIGAN

RAF/km

cc: Derek Dorland (via e-mail)
WUTC Records Center (via e-mail)