



July 2, 2008

Water Rate Notification Update

Dear Suncadia Homeowner,

We sent you a water rate notification letter dated May 15 and a June 5 update, describing in detail some upcoming changes that will affect your water rates and how they are generated. This notice is a reminder about the ratemaking process and an update on the rates we are requesting from the Washington Utilities and Transportation Commission (WUTC), which has jurisdiction over the Suncadia water system.

We have made some corrections and updated the data in the rate calculation, and as a result, our requested rates are not as high as what we described in the May 15 notice. The following table compares the May 15 requested rates and the current requested rates.

<i>For single-family customers:</i>	May 15 Request	Current Request
Monthly base charge	\$50.49	\$43.86
Rate blocks, consumption charge	12,000 gals./24,000 gals.	7,000 gals./14,000 gals.
Consumption charge, 1 st block	\$1.08 per 1,000 gallons	\$1.59 per 1,000 gallons
Consumption charge, 2 nd block	\$2.16 per 1,000 gallons	\$3.18 per 1,000 gallons
Consumption charge, 3 rd block	\$4.32 per 1,000 gallons	\$6.36 per 1,000 gallons
Average single-family bill	\$71.77 per month	\$60.88 per month

If you want to give feedback to the WUTC about Suncadia's proposed rates, you may testify in person at an open meeting at 9:30 a.m. on July 10, 2008 at 1300 South Evergreen Park Drive SW in Olympia. You may also use the "Public Comment" feature at the Commission's web site, at <http://www.wutc.wa.gov.comment>. You can also participate in the July 10 meeting by a telephone bridge line. If you want to do that, call 360-664-1234 the day before the meeting to receive instructions. The Commission is scheduled to make a decision during its July 31st open meeting, after which the new rates would be effective August 1st.

If you would like a copy of the previous notices, tariff document, or related information, contact Dick Kloss, Water System Manager, at 509-649-6386 or rkloss@suncadia.com.

Sincerely,

A handwritten signature in black ink that reads "Del E. Goehring".

Del E. Goehring
Senior Vice President – Finance & Administration
Suncadia, LLC



June 5, 2008

Water Rate Notification Update

Dear Suncadia Homeowner,

We sent you a water rate notification letter dated May 15 that described in detail some upcoming changes that will affect your water rates and how they are generated. Today's letter provides updated information, in response to feedback we have received from the staff of the Washington Utilities and Transportation Commission (WUTC). Suncadia Water is now subject to WUTC jurisdiction.

One change from the May 15 letter has to do with the timing of the rate change and the WUTC's open meetings to consider Suncadia Water's requested tariff. The effective date of any changes to water rates is now expected to be **August 1**, not July 1. The WUTC will be formalizing Suncadia Water's status as a regulated utility during the month of June, and it will be considering the requested rate changes during the month of July. Accordingly, if you wish to appear in person at the WUTC's open meeting to provide testimony about Suncadia Water's proposed rate changes, the appropriate meeting to attend would be on **July 10**, not June 12. Of course, you may also submit written comments before that time, as explained in the May 15 letter. The Commission is now expected to take action on the requested rate changes during its July 31 meeting.

Based on feedback from the WUTC staff, we also expect two other changes to the requested rates and procedures that were described in the May 15 letter. One is that if a shut-off is required, the reconnection charge will now be \$40 per labor hour required for Suncadia Water's maintenance employees to reconnect the meter. The other is that we now plan to request the WUTC's permission to estimate consumption charges during the winter months and then adjust the billing after the first meter reading in the spring.

No other changes are expected from the information in the detailed May 15 letter. If you would like a copy of that letter, the tariff document, or other information relating to our requested rates, the best person to contact is Dick Kloss, Water System Manager, at 509-649-6386 or rickloss@suncadia.com.

Sincerely,

Del E. Goehring
Senior Vice President, Finance & Administration
Suncadia, LLC
Suncadia Water Company, LLC



May 15, 2008

Water Rate Notice Cover Letter

Dear Suncadia Homeowner,

Enclosed you will find the letter that Suncadia Water Company has submitted to the Washington Utilities and Transportation Commission (WUTC) for regulatory approval of new water rates for Suncadia homeowners. To protect consumers in Washington State, the WUTC regulates water utilities to ensure that rates are reasonable and equitable.

Effective July 1, 2008, Suncadia Water Company will begin billing customers for *actual* water usage, comprised of a base charge plus a consumption charge. Up to this point, your bill has been based on a "placeholder" rate temporarily in force while Suncadia's water system was under construction and few customers were using it. These new rates reflect the fact that our capital investment in the water system is largely complete.

The proposed new rates are as follows:

<u>Base charge:</u>	\$50.49 per month
<u>Consumption charge:</u>	
0 - 12,000 gallons/month:	\$1.08 per 1000 gallons
12,000 - 24,000 gallons/month:	\$2.16 per 1000 gallons
Over 24,000 gallons/month:	\$4.32 per 1000 gallons

Incorporated into these rates are charges for general fire protection, water system maintenance and periodic replacement of water system infrastructure. These charges are necessary to maintain your water system in proper working condition for the long-term.

For a typical customer, these water rates are comparable to those paid in Bellevue, Redmond and Kirkland on an annualized basis. They are more expensive than rates in Seattle and Mercer Island, which are based on older water systems put in place when infrastructure costs were lower and in areas of higher density.

If you would like more information on these rates and how they were calculated, please call 509-649-6370. For questions regarding the ratemaking process, please contact the WUTC: 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504-7250; 1-800-562-6150 or by e-mail: comments@wutc.wa.gov

Sincerely,

Ron Olstad
Managing Director,
Suncadia, LLC



SUNCADIA[™]
RESORT · COMMUNITY · LEGACY

May 15, 2008

Water Company, LLC

Water Rate Notification Letter

Dear Suncadia Homeowner,

The purpose of this letter is to inform you of some upcoming changes that will affect your water rates and how they are generated. The letter goes into detail about the reasons for the proposed changes.

Regulation

One change is that Suncadia Water Company, LLC ("Suncadia Water") is now large enough to be subject to regulation by the Washington Utilities and Transportation Commission (WUTC). From now on, our prices, policies, and practices will be described in an official document called a "tariff" that must be filed with the WUTC. A copy of the tariff will be available for customers to review at our office, or you may request an electronic copy. Any rate increases, changes in ownership, or other significant changes to the tariff that could affect ratepayers must be approved by the WUTC before they take effect.

The rate changes discussed below have been filed for approval by the WUTC, to be effective July 1. More information is given at the end of this letter about how you can contact the WUTC if you wish to comment on any proposed actions.

Reason for a New Approach

Up until now, Suncadia Water has been operating with a simple rate structure that was intended to be a temporary "placeholder" while most of the water system was being developed. Any residential customers receiving service have been charged a flat \$35 per month, regardless of how much water they used. Suncadia, LLC has been subsidizing Suncadia Water while so much of Suncadia resort was under construction.

Now, however, most of the pipes, reservoirs and pumps have been constructed, the number of single-family homes connected to the system is growing, and the The Lodge at Suncadia ("Lodge") and many of the commercial buildings have opened. It is time for Suncadia Water to "grow up" and become a self-supporting utility, and it is time for everyone using water to pay in proportion to the demands they place on the system.

Meter-Based Rates

One type of change that is needed is a change from a simple flat rate to a blend of fixed monthly rates and meter-based rates. In general, the monthly base charge will recover Suncadia Water's fixed costs, while the "consumption charge" that is based on metered usage will recover Suncadia Water's variable costs such as electricity or the potable water purchased from the City of Cle Elum. Monthly meter readings are now being taken for all accounts connected to the water system, both residential and commercial. During the winter months, meter boxes are inaccessible due to snow and ice. During that period (typically November through April), we will bill you only for the monthly base charge. The consumption charge for winter water use will be deferred until the first meter reading in the spring, after which it will be spread evenly over the next two bills.

Having a portion of the water bill based on metered usage is more equitable than the current flat rate, because customers who consume a lot of water cost more to serve than customers who conserve. In order to encourage water conservation, the consumption-based part of the rate for homeowners will be applied in different "usage blocks," where the charge for the first 12,000 gallons of water per month will be relatively low, the charge for the next 12,000 gallons per month will be more expensive, and the charge for the excess water above 24,000 gallons per month will be the most expensive of all. This type of rate structure is common among municipal water utilities, and you might have noticed it in other places where you have lived, but it will be new to Suncadia resort.

Full Cost Recovery Rates

The other major change that is needed is the establishment of "full cost recovery" rates so that the water system can be self-supporting and all customers can help pay a proportionate share of the real cost of providing water service. We engaged FCS Group, a Redmond-based consulting firm that has performed hundreds of rate studies for water and sewer utilities over the past twenty years, to help determine the cost of service and design a rate structure that recovers those costs in a way that is equitable to all customer groups.

A full cost recovery rate will inevitably be an increase over the \$35 per month flat rate, though the amount of the increase will depend on the volume of water used. If the WUTC approves our proposed rates, then single-family customers will see a base charge of \$50.49 per month, an increase of about \$15 per month. In addition, there will be a consumption charge that will depend on how much water you use. For the first 12,000 gallons per month, the consumption charge will be \$1.08 per thousand gallons. For the second 12,000 gallons per month, the consumption charge will be \$2.16 per thousand gallons. Any usage above 24,000 gallons per month will be charged at \$4.32 per thousand gallons. Including both the monthly base charge and the consumption charge, we estimate that a typical homeowner would incur about \$60 per month of charges during the off-peak season and \$77 per month during the peak summer season. (These estimates ignore the deferred billing of wintertime consumption charges.) Those who conserve will pay less, and those who consume more will pay more.

We estimate that a condominium owner in the Lodge will pay a total of about \$40 per month during periods of low demand and \$50 per month in the peak summer season under these proposed rates. All commercial water users, including the buildings, parks, and golf courses, will also pay a proportionate share, based on their meter size and actual water consumption. Those buildings with dedicated water lines serving their fire sprinkler systems will pay a special fire protection charge each month in addition to the regular monthly base charge, to account for their share of the cost of the reservoirs, hydrants and other assets that provide fire protection capacity.

Commitment to Update the Rates

The rates we are proposing are intended to spread the cost of the water system across all customers fairly. However, because we do not have historical meter data, in calculating these rates we used many standard water consumption estimates that engineers use when they design water facilities, including Suncadia's own water system. We recognize that an engineering guideline is not as accurate as actual metered data, so the first two years of this new rate structure will be necessarily tentative. Our proposal to the WUTC includes a commitment to revisit these rates beginning in February of 2010, after we have a year-and-a-half years of meter data and accounting statements from the year 2009. In the meantime, we believe that it is important to move now toward a full cost recovery rate, so that homeowners who are newly connecting to the water system can have a reasonably close idea of what rates to expect. There will undoubtedly be rate changes in the future, but we expect them to be much smaller than this change.

Questions or Comments?

If you have questions about the proposed rates or the Suncadia water system, the best person to contact is Dick Kloss, Water System Manager. Dick can be reached at 509-649-6370 or at rkloss@suncadia.com. The attached Questions & Answers document gives more detailed information about Suncadia Water's proposed water rates and how they compare with rates from other water systems.

The Rate Review Process

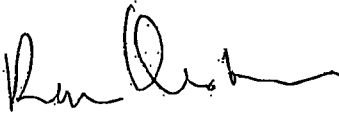
The Washington Utilities and Transportation Commission has the authority to set final rates that may vary from the company's request, depending on the results of its investigation. To comment on this filing, be added to the Commission's mailing list, or ask questions about the ratemaking process, please use the contact information below. You may also comment in person at the Commission's open meeting at 9:30 a.m. on June 12, 2008, or by using the "Public Comment" feature at the Commission's web site, at <http://www.utc.wa.gov.comment>. The Commission is scheduled to make a decision at its open meeting on June 26. Commission meetings are held at its headquarters on 1300 South Evergreen Park Drive SW in Olympia. If you are unable to attend an open meeting in person, the Commission has a bridge line that enables you to participate or listen by telephone. Call 360-664-1234 for instructions the day before the open meeting.

Conclusion

This letter contains a highly detailed explanation of how we determined the new rates for Suncadia Water Company. We recognize that rate increases are rarely met with enthusiasm, however you can be confident that we have made every effort to ensure that the end result is equitable and realistic.

We appreciate your cooperation as we implement these necessary changes.

Thank you,



Ron Olstad
Managing Director
Suncadia, LLC