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August 6, 2009

Mr. Thomas E. Payne, Chairman
James River Water Authority, Inc.
Fluvanna County Office Building, Main Street
Palmyra, Virginia 22963

RE: Lake Monticello Surface Water Plant & the James River Water Authority

Dear Mr. Payne:

As a follow up to the Aqua Virginia, Inc. ("Aqua") letter dated May 20, 2009, and based on recent and on going discussions we would like to provide the James River Water Authority ("JRWA") with an alternate concept for consideration.

Aqua remains committed to working with the JRWA to find the most cost effective solution for delivery of water to the community. Our goal is to benefit and support the community we serve. It is for this reason that we continue to consider different alternatives to the various options we have suggested to date.

BACKGROUND:

Previously, we suggested utilization of Aqua's existing Lake Monticello plant and expanding the capacity from 1.39 MGD to 4 MGD. We asserted that the cornerstone to a successful regional water supply is the use of Aqua's existing plant as both the starting point for the growth of the region and the backbone upon which a successful regional water system can be constructed. Aqua remains committed to using the existing plant, its existing capacity, and the future capacity in the plant to provide safe and reliable potable water to the region, while doing so at the most efficient, expeditious and inexpensive way possible. Aqua remains convinced that utilizing the existing plant is the most cost effective way to provide potable water to the region and will work with the JRWA to achieve its objectives. However, we recognized that with the recent economic headwinds it is difficult to know the pace of growth or to justify a 4 MGD expanded plant.

CONCEPT FOR 0.5 MGD (SHORT TERM WATER USE):

Aqua’s Monticello Surface Water Plant is rated at 1.39 MGD and currently used 0.61 MGD in the most recent month of June, leaving 780,000 GPD of unused production capacity available. Based on current growth rates in the community, Aqua believes it could provide at least 500,000 GPD of this excess capacity to the JRWA for an indeterminate period, for example, seven years or until a specific trigger usage point. This would reduce the cost of the regional water project by deferring the construction of the new plant for some years depending on growth and usage of other existing facilities in the region interconnecting the capacity together. The size of the minimum monthly fee is based on certain upgrades and plant operations extending to 24 hours a day from the current daily operation. Under this scenario, Aqua would construct approximately 2 miles of pipe and the associated meter vaults at its sole cost. By doing so, we estimate that the rate to be charged to the joint water authority would be:

<u>Year</u>	<u>Estimated Usage GPD</u>	<u>Estimated Water Rate Base Annual* Minimum</u>	<u>Estimated Water Rate* Per 1,000</u>
2010	150,000	\$160,000	\$2.75
2011	180,000	\$131,200	\$2.79
2012	210,000	\$107,584	\$2.83
2013	240,000	\$88,219	\$2.88
2014	270,000	\$72,339	\$2.92
2015	300,000	\$26,400	\$2.96
2016	330,000	\$0	\$3.01
2017	360,000	\$0	\$3.05
2018	390,000	\$0	\$3.10
2019	420,000	\$0	\$3.14
2020	450,000	\$0	\$3.19

*The annual base fee for capacity improvement includes no usage and may decrease annually based on actual usage.

*Above rates and usage are total and include usage from two meters.

*The annual usage is estimated.

*These values are estimated and have not been SCC approved.

This rate could be applied to two meters, one located at and or near the Rt. 600 and Rt.53 intersection, and one near the “Crofton” Rivanna River Bridge at Rt.600. The minimum payment could be split between the two metered accounts or as the JRWA suggests. Note that this concept is draft and would require further discussions along with appropriate regulatory approvals. However, the following interim term proposal may be more appropriate for a larger planning period.

CONCEPT FOR 1 MGD (INTERIM UPGRADE):

This plan is based on water usage of up to 1 MGD for a period of five to ten years or longer. Aqua will upgrade the plant from 1.39 MGD to 2.0 MGD as follows. Aqua has preformed a preliminary review of potential upgrades to the existing water treatment plant at Lake Monticello to determine the possibility of constructing a facility that is capable of producing approximately 2 MGD. We believe that two (2) - 1 MGD membrane filtration systems with one Clean In Place (CIP) skid mounted system as manufactured by the Pall Corporation will be sufficient and economical for this application. The membrane filtration system would require the addition of a new building and raw water pump station on the existing site. The new building, to house the membrane filters, would need to be approximately 30' x 60' and be heated and insulated. The new raw water pump station would be located in the vicinity of the existing 3 MG pre-settling tank. The existing clear well would continue to function in its current capacity providing sufficient chlorine contact time for the increased flow. Improvements to the distribution system in Section 10 would be required to effectively discharge the increased flow rate to the distribution system. Again, two bulk flow meters could be located strategically for the JRWA's use, one at or near Rt. 600 & Rt.53 for water moving south and one at or near "Crofton Bridge" for water to be pumped to Zion's Crossroads.

Lake Monticello - 2 MGD Upgrade Cost Estimate			
Unit Cost	Qty	Total Budget	Item
\$900,000	1	\$900,000	Membrane Filter
\$75,000	1	\$75,000	Process Piping
\$75,000	1	\$75,000	Equipment Installation
\$200,000	1	\$200,000	Raw Water Pump Station
\$150	1800	\$270,000	New 30x60 Building
\$10,000	1	\$10,000	Finished Water Pump Upgrade
\$20,000	1	\$20,000	Site Work Piping
<u>\$565,500</u>	<u>1</u>	<u>\$565,500</u>	<u>Off Site Piping Improvements for Delivery</u>
		\$2,115,500	Sub Total
		\$317,325	Contingency 15%
		\$211,550	Engineering 10%
			2 miles of Piping, Easements, & 2 Meter
		\$1,000,000	Vaults (includes contingency)
		\$3,644,375	Total Budget Estimate

Therefore, this plant can provide 1 MGD of capacity to the JRWA, virtually indefinitely and until growth demands that the larger, more expensive 4 MGD plant be constructed.

**REVISED CONSTRUCTION SCHEDULE - AQUA EXPANDS PLANT - 2 MGD
AQUA CONSTRUCTS 2 MILES OF PIPING AND METER VAULTS**

<u>Year</u>		<u>Project Cost</u>	<u>JRWA</u>	<u>Aqua</u>
2010	2 MGD Plant	3,644,375	-	3,644,375
2011	Annual CapX	25,000	-	25,000
2012	Annual CapX	25,000	-	25,000
2013	Annual CapX	25,000	-	25,000
2014	Annual CapX	25,000	-	25,000
2015	Annual CapX	25,000	-	25,000
2016	Annual CapX	25,000	-	25,000
2017	Annual CapX	25,000	-	25,000
2018	Annual CapX	25,000	-	25,000
2019	Annual CapX	25,000	-	25,000
2020	Annual CapX	<u>25,000</u>	<u>-</u>	<u>25,000</u>
		4,194,375	-	4,194,375

The above plant upgrade analysis assumes that Aqua obtains water from the James River via the JRWA's raw water line or will increase the water withdrawal from the Rivanna River temporarily if acceptable to the JRWA or if the JRWA experiences project delays for raw water. Note that Aqua's peak day withdrawal permit is for 2.5 MGD. In short, the above project could be completed quickly, subject to regulatory approvals. The actual costs would be based on actual bids, so these estimates may be high relative to the current economy and pricing. The following tables summarize the bulk water costs:

<u>Year</u>	<u>Estimated Usage GPD</u>	<u>Estimated Water Rate Base Annual* Minimum</u>	<u>Estimated Water Rate* Per 1,000</u>
2010	300,000	\$396,000	\$2.75
2011	360,000	\$324,720	\$2.79
2012	440,000	\$266,270	\$2.83
2013	520,000	\$218,342	\$2.88
2014	600,000	\$129,040	\$2.92
2015	680,000	\$26,400	\$2.96
2016	760,000	\$0	\$3.01
2017	840,000	\$0	\$3.05
2018	920,000	\$0	\$3.10
2019	1,000,000	\$0	\$3.14
2020	1,000,000	\$0	\$3.19

*The annual base fee for capacity improvement includes no usage and may decrease annually based on actual usage.

*Above rates and usage are total and include usage from two meters.

*The annual usage is estimated.

*These values are estimated and have not been SCC approved.

Also, please note the following:

- Aqua has excess capacity available currently and is committed to working with the JRWA.
- Aqua will assist the Authority in planning and development of the system and welcomes the use of the JRWA's preferred vendors for engineering and construction.
- Aqua supports the Authority to seek to obtain all necessary easements and rights of way that will allow the Authority to utilize Fluvanna's existing withdrawal permit or utilize Aqua's withdrawal for an interim period.
- Aqua supports terminating withdrawals from the Rivanna if this goal can be achieved in a cost effective manner for all system customers.
- Aqua supports the Authority to design and construct a raw water line from the James River to a point of interconnection with Aqua's existing plant.
- Aqua supports any ownership or operating option agreement for the raw water line.
- Aqua proposes to treat the raw water at Monticello and will then convey the treated water into a north bound pipe network to Zion's Crossroads which may include booster stations and additional tankage for the JRWA to install and own.
- Similarly, Aqua proposes and supports the Authority or Fluvanna to obtain easements and rights of way to construct a south bound line to Fork Union. Aqua is prepared to discuss the possible purchase of The Fork Union Sanitary District, with the appropriate convening authority for this matter.
- Aqua proposes and supports any ownership option for the south bound piping network and elevated tanks or pump stations which could be connected thereto.
- Aqua is open to and supports developing economical rates for all users including either bulk rates at key points or metering the system to the customer level.
- Aqua is prepared to be responsible for the complete operation and maintenance of the infrastructure located in Fluvanna County or a portion thereof which best suits all parties and all customers.

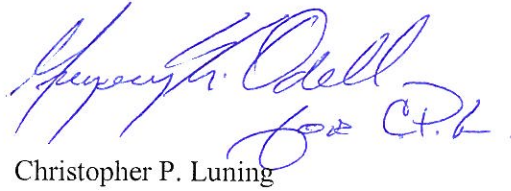
DIFFERENT CONCEPTS:

As we stated before, Aqua remains open to discuss any of the above concepts, or alternatives, and welcomes the opportunity to openly discuss new ideas with you. As you can understand, the above constitutes a concept only, and not an offer to enter into a legally binding agreement. Rather, if

this concept is acceptable to both our board of directors and to the authority, we anticipate that both sides will use their best efforts to formalize this understanding into a written agreement

We appreciate your kind consideration and look forward to discussing various concepts with you at your earliest convenience.

Respectfully,

A handwritten signature in blue ink, appearing to read "Christopher P. Luning". The signature is stylized and cursive, with the first name being the most prominent. Below the signature, the name "Christopher P. Luning" is printed in a standard black font.

Christopher P. Luning