



November 24, 2010

Dear Water/Wastewater Customer:

I want to let you know that the LCRA Board of Directors directed me to find a buyer for all 32 of LCRA's water and wastewater utility systems, including the system that serves you. The action will not affect LCRA's provision of raw water from the Colorado River, but will include all of the assets of the treated water and wastewater utilities.

We think it will take from 18 to 24 months to find a buyer and to complete the sale. During this time, I pledge to provide information to you and to keep you informed on the progress of the effort. I anticipate no service interruptions and staff will do everything it can to make this transition seamless.

In deliberating the sale of the water utility, the Board of Directors made the following points:

- Over the past 15 years, the LCRA met many of its environmental and economic development goals with the investment it has made in local water and wastewater infrastructure;
- We have found that a water utility made up of multiple systems does not leverage the strengths of LCRA as a large-scale, regional infrastructure provider. As a result, the policies and financial guidelines of the LCRA are not the best match for the water utility business; and
- Other organizations may be better suited to the long-term operation of local water and wastewater utilities and can leverage their strategic advantage to the benefit of customers; and
- If LCRA were to retain the utility, LCRA foresees continuous rate increases for customers. Even with these increases, it cannot predict when the utility will begin to pay all of the costs associated with operating it.

The Board specifically directed me to evaluate certain qualities in potential buyers. These are spelled out in the attached Resolution. These direct me to evaluate the quality of service a buyer is capable of providing to you, the customer, along with the price it is willing to pay for these assets. LCRA, as a non-profit entity, requires an amount from the sale that will appropriately compensate it.

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I know you will be very interested in the process and I pledge to keep you informed. Meanwhile, if you should have any questions, please contact Suzanne Zarling, Executive Manager of Water Services, at 1-800-776-5272, ext. 3297, or (512) 473-3297, (email: [Suzanne.Zarling@LCRA.org](mailto:Suzanne.Zarling@LCRA.org)) or Dennis Daniel, Manager of Customer and Business Strategy, at (512) 473-3301 (email: [Dennis.Daniel@LCRA.org](mailto:Dennis.Daniel@LCRA.org)).

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom Mason". The signature is stylized and fluid.

Thomas G. Mason  
General Manager

**Resolution of the Board of Directors  
of the Lower Colorado River Authority  
Regarding Sale of Water and Wastewater Utilities**

**November 17, 2010**

Whereas, the Lower Colorado River Authority in the past 15 years expanded its ownership and operation of water and wastewater utilities, and now operates 32 such systems in its service area; and

Whereas, the LCRA Board of Directors began in 2007 to reevaluate the strategy of growing the utility system and directed staff to carefully evaluate the feasibility of divesting systems, leading to the sale of six such utilities; and

Whereas, current rate revenues from the water and wastewater utility do not cover the full cost of operating the utility and meeting established Board financial policy would require ongoing rate increases; and

Whereas, the Board believes that continued operation of the water utility will not effectively utilize LCRA's strategic strengths in providing centralized and interconnected infrastructure that serves a large customer base; and

Whereas, many of the LCRA's goals of meeting community needs, providing infrastructure for economic development, and protecting water quality have been met by the LCRA's investment in water utility infrastructure at the local level; and

Whereas, the Board believes LCRA should focus its limited resources on managing the river, promoting conservation, and planning to meet the basin's future water needs, as well as providing a balanced portfolio of electric generation resources, transmission services, and community services.

Now, therefore, be it resolved by the LCRA Board of Directors that:

- The General Manager is hereby directed to seek qualified buyers for all assets comprising the water and wastewater utilities, structuring the sale consistent with LCRA contractual responsibilities, regulatory requirements and market demands;

- In instances in which negotiations for sale of utilities are in progress, the General Manager shall provide 60 days for those negotiations to be completed before offering those assets for sale to another entity;
- In considering proposals from potential buyers, the General Manager will include the following factors in his consideration:
  - the ability and commitment of the buyer to provide reliable and quality utility services;
  - the ability of the buyer to invest capital for additional, necessary water and wastewater utility infrastructure;
  - the commitment of the buyer to meet applicable regulatory requirements; and,
  - the willingness of the buyer to compensate LCRA for its investment in water and wastewater utility systems.
- Following consideration of proposals received, the General Manager will present the best evaluated proposal to the Board for the sale of LCRA water and wastewater utilities.