

IMPLICATIONS OF A SALE OF THE WATER SYSTEM

If the community chooses to sell the water system to Aqua NJ, the company would own the system and be responsible for all planning, investment, and operations. The properties on which water facilities are located remain community-owned. Aqua NJ would have access to its equipment. Any repairs to piping or other facilities, whether under community roads or elsewhere on community property, will involve restoration upon completion of work.

Meters (read by radio from the street) will be installed in all households and water-using facilities. Aqua NJ will bill all users based on usage. The Association will have no involvement in customer service issues between residents and Aqua NJ. The Association will, however, work cooperatively with Aqua NJ to assure residents are notified of any work performed by Aqua NJ that may disrupt service or roads in the community. If the sale is approved, Association fees could be reduced; the Water Committee calculates that \$573¹ per member per year could be made available, to be returned to members in dues reduction without any change to our projected bank balances, cash flow, planned projects or ability to cope with unplanned projects in other community assets. The bills from Aqua NJ will vary based on metered usage, but it is estimated that households with average usage (250 gallons/day) will pay about \$605² annually. The effective cost differential between MKL and Aqua NJ approximately \$32 per average household per year.

Appendix C is a graph showing the history of the annual cost per household for water provided by the Association and Appendix D shows an analysis of comparative costs.

¹ See Appendix D for details of calculation

² See Appendix D for details of calculation

The NJBPU to whom Aqua NJ must address tariff filings governs rates charged for water to all Aqua NJ customers in New Jersey. All customers in this rate base in the State are charged the same rate. Quality standards are established and regulated by the NJDEP. Commercial water company rates are based on reasonable and necessary costs including a reasonable rate of return on capital investments and operating expenses. Companies are incented to make reasonable capital investments. Unreasonable investments are disallowed.

Capital investments made to the community's water system or to any other system owned by Aqua NJ are figured into the cost basis for tariff filings. Thus, being owned by Aqua NJ is similar to being in an insurance pool where rates are based on expenses for serving all insured.

With a sale, Association responsibilities are eliminated as follows:

- Capital projects planned in the Lakeshore Capital Reserve Fund become the responsibility of Aqua NJ, such as: near-term anticipated costs (e.g. pump replacement), eventual tank replacement, unknown repairs (e.g. pipe replacement), upgrades to the system (e.g. generator), and future regulatory mandates
- Operations move to Aqua NJ performed by the current licensed operator (Agra Environmental), operations monitoring and data collection (work currently done by VSAs), interface with the NJDEP, and coordination and payment for repairs.

Considerable time and energy was spent by both the Association Board and the Water Committee on the subject of uninsured risks in operating a water system. The Association carries property insurance for potential damage to components of the water system (along with other community property). The Association does not carry product liability insurance; that is, insuring against the potential claim that someone became ill from the water and, as a result, sues the Association. Given the nature of the water system, the depth of

the aquifer, and the character of the watershed, it is extremely unlikely that such an event would occur. Commercial water companies carry such insurance and Agra Environmental, that tests the water, also carries such insurance. Nevertheless, while the chance of bacterial contamination is remote, uninsured exposure exists for the community.