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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Community Water Company, LLC	)	**Docket No. 17-098-01**
	)	
	)	**Direct Testimony of Intervenor Francis Amendola to the Application Submitted by Community Water Co., LLC on September 13, 2017, for an Interim Rate Increase**
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Being duly sworn, I, Fran Amendola, hereby state that I am an intervenor in Docket 17-098-01. I was also an intervenor for Dockets 16-098-01 and 15-098-01 also filed by Community Water Company (CWC). I have been retained by Red Pine and Hidden Creek HOAs to represent their interests as customers of CWC. Collectively, they represent 391of the 503 water users served by CWC. I have reviewed the Application, and submit the following Direct Testimony.

There are two issues for which I would like to provide Direct Testimony. These are:

- The Special Assessment for replacing the large storage tank, and
- General Rate Increase requested by CWC.

SPECIAL ASSESSMENT FOR REPLACING LARGE STORAGE TANK

I would like to first state that after having several discussions with Mr. Scott Savage, who represents Plats B & D, that his position on the urgency of replacing the tank, the duty of CWC to replace the tank in a diligent manner, and the appropriate manner in which CWC should be reimbursed for the costs of replacing the tank which I understand will be submitted as Direct Testimony are consistent with the positions of Red Pine and Hidden Creek HOAs.

BACKGROUND ON TANK ASSESSMENT

1. On April 17, 2017, the larger of the two storage tanks, with a capacity of 423,000 gallons, abruptly failed. The remaining tank of approximately 230,000 continues to function as the only storage tank for the entire customer base.

2. It should be noted that approximately 120,000 gallons of water is required to be retained in the tank for fire flow purposes, leaving the entire customer base to function on a storage capacity of 110,000 gallons, approximately one sixth of the original storage volume to support all potable and irrigation needs of the entire customer base. It is also worth noting that the "surviving" tank is of similar vintage to the failed tank, creating a precarious situation with respect to potable water and life safety issues like fire flow water.

3. Since early Spring, 2017, the customers of CWC were also informed that the Company had sought and was granted preliminary approval for a loan from

the Utah Division of Drinking Water. This loan was earmarked for several capital improvements to the infrastructure system. While not included in the original loan application because the tank had not yet failed, customers were told that the loan could be expanded to include replacing the failed tank. However, CWC had decided that, based upon the terms of the loan, finding a different funding method for the tank would expedite its replacement and was deemed as the most appropriate course of action.

4. While the Rate Application submitted by CWC on September 13, 2017 provides certain details on the failure, and the company's response prior to submitting the Application, it fails to highlight the pertinent aspects of a funding source to replace the failed tank in an expedited manner. In spite of this precarious situation, CWC has failed to capitalize on the identified preferred funding mechanism advertised to the customer base in several verbal and written correspondence that could have remedied the situation in an expedited manner in the current calendar year of 2017.

5. In meetings as late as July 17, 2017, the customer base was led to believe that funding from the parent company had been secured. It was not until the formal filing of the Application on September 13, 2017 that the customers of CWC became aware that all work beyond removal of the failed tank had ceased, and that funding potentially approved by the Interim Rate Increase Application would become the method to restart the replacement process.

6. In May of this year, customers were initially informed that the large storage tank had failed and that CWC would impose restrictions on outside irrigation. In a follow-up stakeholder meeting scheduled by CWC on June

1, 2017, customers were again told t that due to the failure of the large storage tank, emergency procedures were being implemented. To emphasize the critical nature of the situation, the company had requested that members of the Park City Fire Service District attend the meeting. At that time, customers were informed that approximately 120,000 gallons of the remaining 230,000 gallon tank needed to be reserved for fire flow. While there were discussions as to an implementation of a "revolving" irrigation program for the customer base to sustain major landscape features, CWC took a hardline position that they were not willing to support such a program. A request to model the system was made by a customer to determine if a revolving irrigation schedule was even feasible. The request was not acted upon. Instead, CWC elected to take a draconian position and rule out all irrigation.

7. During the June 1 meeting, CWC identified potential sources of funding to replace the failed tank. These included increasing the loan amount from the Division of Drinking Water (DDW), a PSC Special Assessment or a voluntary assessment by Summit Water Distribution Company (SWDC) if a transfer of ownership to SWDC occurred. The voluntary assessment under SWDC ownership required relinquishment of the Certificate of Public Convenience and Necessity under which CWC currently operates with PSC oversight. Customer support, necessary to effectuate a swift path to severing the PSC oversight was absent.

8. In the June 12, 2017 Customer Update distributed to the customers by CWC, among other things, the customers were informed that CWC had selected a different, more time efficient approach to funding the tank replacement

costs. CWC decided ***"The Company has determined the best course of action is to immediately replace the damaged storage tank. The Company has secured financing for the tank replacement from its parent company, and will repay the loan through customer assessments or other arrangement to be determined pending the resulting structure of the Company. This is the preferred Option because it is a permanent solution to the Company's water storage problems, is the most cost effective measure, and the most timely solution as the tank can most likely be operable by Fall of 2017".*** (attached as Appendix A) Clearly CWC realized the urgency and had a plan to move forward quickly.

9. In the June 12, 2017 Update, CWC alludes to the transfer of CWC to SWDC. Under the heading of Transfer of the Company to SWDC, the Update also mentions current efforts underway which include ***'transferring billing and structuring repayment of the TCFC tank funds and debt service on the DDW SRF Water System Loan.'*** The Update also notes that more details will be provided at an upcoming June 20, 2017 meeting. The Update provides documentation that significant effort had been directed towards a transfer to SWDC.

10. In a Courtesy Update to the PSC dated June 15, 2017, CWC again identifies their intent to transfer the Company to SWDC, and to "finance and begin construction on urgently needed water system repairs". CWC discusses the expedited process of funding the tank replacement with funds from the parent company, and repayment via customer assessments or other arrangements between SWDC and TCFC—pending the results of the transfer. Two key points become evident: Frist, they did secure funding to replace the failed tank from the parent company, and second, the implementation of this funding mechanism was linked directly to a transfer

of CWC to SWDC. The customers had at no time agreed to support such a transfer, and had no information to form an informed opinion of how such a transfer would serve the customer's needs.

11. On June 20, 2017, CWC held a customer meeting. Written correspondence distributed at the meeting confirmed two major points. First, CWC had secured funding from the parent company (TCFC) to replace the failed tank. It was deemed by CWC to be the quickest and most cost-effective approach reducing the replacement costs by 20-25% compared to funding it under the DDW loan. Second, the transfer of ownership was well underway, and a draft agreement between CWC and SWDC had been developed to lay out the terms and conditions of the transfer. There was some general discussion about how the restructuring would work, but no specific details were provided. Similar to previous correspondence, funding for replacing the tank was linked with the transfer to SWDC. Significantly, CWC requests in the written correspondence that customers vote on accepting the DDW loan since they will be repaying the debt. However, as part of the vote, CWC states under Section 5 of the June 20 Handout that ***"CWC wishes for its customers to approve accepting the loans and assuming Loan costs as SWDC assessments. A vote in favor of funding capital improvements through the Loans will also be deemed a vote in support of CWC's ownership transfer."*** The reference to "loans" plural is assumed to include the DDW loan and the tank replacement loan. CWC continues to link replacing the tank, which is a life safety issue, with transfer of the Company to SWDC. In the closing paragraphs of the June 20 Handout, they go on to state that without a vote to accept the loans and approve the transfer to SWDC, the future becomes very uncertain, cluttered with future legal costs

of a possible rate case in front of the PSC, potential bankruptcy etc. jeopardizing the badly needed infrastructure improvements.

12. In the Loan Authorization Packet provided to DDW dated May 12, 2017, which was distributed to the customers at the June 20 meeting, CWC represents to DDW that discussions have been underway for the transfer to SWDC. Also, that additional improvements such as a new interconnect between the two systems will be installed as part of the project budget. Following completion of these improvements, ownership to SWDC will occur. During the June 20 meeting, customers were led to believe that approval of the loan from DDW hinged on the transfer to SWDC. This has not been verified.

13. The last formal communication to discuss the status of replacing the failed tank with funds from the parent company, and other infrastructure improvements funded by the DDW loan occurred in a customer meeting called by CWC on July 17, 2017. During that meeting, customers were provided with an updated rate analysis completed by Bowen & Collins. The rate analysis, which was provided to customers just before the meeting, was based upon Equivalent Residual Units(ERU) as opposed to connected customers. That rate analysis provided only a brief, high-level discussion on how ERUs were determined precluding a meaningful understanding of the possible implications. Also at that meeting, there was significant discussion about how the transfer to SWDC would work. The basic take-away from the discussion was that the customers of CWC would have limited input into key governance and operational issues impacting them which most customers objected to thereby jeopardizing the transfer. Importantly at that

meeting, customers were told that work to replace the failed tank was underway, the old tank had been decommissioned and a deposit had been made on the new tank. The customers at the meeting acknowledged the need to move forward as quickly as possible to replace the failed tank—ideally before winter. Most of the customers, including a representative of Hidden Creek HOA which represents 130 connected customers, expressed a willingness to pay back the parent company on a reasonable reimbursement schedule for the cost of replacing the failed tank. While transfer of ownership continued to be a contentious issue, the customers were told that the emergency condition of operating with only one tank was being addressed by CWC management. No formal communications indicating a change in the course of action on replacing the tank was ever distributed by CWC after that meeting.

14. It was not until CWC filed an Application to Approve Proposed Water Service Schedules and Rates was filed on September 13, 2017 that the customers became aware of the fact that CWC was no longer moving forward to rectify the emergency situation created by the failure of the large storage tank. Inconsistent with what the customers had been told in previous meetings, the last being July 17, 2017, CWC was no longer planning to move forward with funds from the parent company to expedite the replacement. As the filing reflects, approval of a general rate increase and special charge for a major plant upgrade/repair was being sought to cover the cost of replacing the failed tank. By so doing, the timeline on replacing the tank has essentially been extended from later this fall to well into next year, leaving the customers to live with the uncertainty of having little or no back-up should the remaining, smaller tank fail in the next 7-9 months.

15. In the September 13 Application, CWC requests that funds to repay the cost of replacing the failed tank, estimated at approximately $500,000, be paid within 15 days of PSC approval, in one lump payment of approximately $1,100 per ERU.

ALTERNATE PLAN FORWARD ON SPECIAL ASSESSMENT TO FUND FAILED TANK

16. The customer portion of CWC comprised of Red Pine and Hidden Creek HOAs, constituting approximately 77% of the customer base, request the PSC issue an immediate approval for a Special Assessment to replace the failed tank. The customers of CWC are living with a precarious situation created by the failure of CWC to continue to move forward with the replacement as stated in several documents provided by CWC, and the fact that the existing smaller tank of approximately 230,000 gallons is of similar vintage of the failed tank and therefore could fail at any given moment. This constitutes a life safety issue for fire response and potable water needs.

17. CWC has not provided any plan to provide emergency water in the event the remaining tank fails abruptly. CWC has a legal obligation to maintain their infrastructure in an operable manner under their charter issued by the PSC. Failure to correct this problem as quickly as possible represents recklessness on their part.

18. The customers of CWC continue, as they have in the past, to express a willingness to repay the cost of replacing the failed tank. This should be

done on a reasonable pay back schedule that is based upon connected customers, rather than ERUs. The number of connected customers is well documented and accepted by the Division and memorialized in CWCs annual filings with the Division and DDW. The basis of ERUs remains uncertain even in light of recently available Direct Testimony by the Applicant. The equitability of ERUs among customers has not been confirmed and accepted, and therefore is not the correct basis of repayment of the tank loan. We assert that the discussion and acceptance of ERUs is better suited for the General Rate Increase which is not as time sensitive as the Special Assessment to replace the failed tank.

19. Respectfully, we request that the PSC direct CWC to execute the previously stated funding mechanism of a loan from the parent company to rectify this situation. There should not be any link between a transfer of CWC to SWDC and the legal obligation of CWC to move forward with the needed replacement to alleviate a potential emergency situation which arguably is the result of poor management in the first place. The customers should not be held hostage to CWCs desire to exit the water business in exchange for them to do the right thing and satisfy their legal obligations as a water provider.

20. Clearly, a one-time payment of $1,100 per ERU, or even per connected customer for that matter, is extremely burdensome to the customers. Furthermore, to expect payment in 15 days following approval fails any test of reasonableness, and needs to be corrected. The upfront one-time payment is also inconsistent with recent correspondence from CWC where a cashflow of expenditures was presented showing incurred costs requiring

reimbursement and future costs to be incurred. This correspondence indicated a willingness to work with a more reasonable payment arrangement rather than a one-time upfront reimbursement.

21. Our request is that repayment of the costs to replace the failed tank be based upon documented connected customers, and provide a 12-month payback period for the loan to the parent company. Initiation of payment could be 30 days following approval which will provide some amount of time for HOAs to assess their ownership and obtain the money to make payments. The Red Pine and Hidden Creek customers understand that the 30 connected customers of Plats B & D are willing to support a similar position, resulting in 421 of the 503 customers being on board with this approach. This is over 83% of the customer base. This payment method will establish a significant amount of "seed money" to jump start the project.

22. The customers of Red Pine and Hidden Creek HOAs are receptive to some equitable arrangement to reimburse CWC for costs incurred to date, and costs associated with moving the work forward to better insure that the tank will be operational as early in the Spring of 2018 as possible. This should focus mainly on-site preparation work prior to snowfall in Willow Draw, and the start of the ski season. A specific amount associated with specific tasks can be finalized at the upcoming hearing on October 19, 2017.

<u>REQUEST TO DEFER GENERAL RATE INCREASE UNDER INTERIM PROCESS</u>

23. In its September 13 Application, the Company is seeking a General Rate

Increase in addition to the Replacement Tank Special Assessment mainly to cover the costs of future infrastructure improvements. First and foremost, the customers of Red Pine and Hidden Creek HOAs do not dispute the need for major infrastructure improvements. In addition, they applaud CWCs effort to secure a loan for the DDW to cover the costs of the needed improvements. They also support fully a fair and equitable rate increase to cover in total the costs of repaying the loan. Based upon the Schedule Notice, the Hearing scheduled for October 19 is to address Interim Rates and Interim One-time Charge.

24. For several reasons noted below, we request denial of the Interim Rate to address the General Rates only and to approve an assessment to cover the cost of replacing the failed tank.

25. Based upon information provided to the customers by CWC, repayment of the loan begins in January 2019, approximately 18 months after the loan is approved. A large portion of the rate increase sought by CWC is associated with repayment of the loan. Therefore, any advanced payment by the customers constitutes an unnecessary financial burden to the customers.

26. While the timing of repayment is a valid reason to avoid fast-tracking the General Rate Increase, there remain many questions associated with the details of the sought increase. For instance, the rate increase is based upon ERUs and not connected customers as it is now. The merit of an ERU-based rate has not been fully vetted. Over the past several months, different numbers of ERUs have been provided to the customers. In the previous Bowen & Collins report, the total ERUs were 404. More recently, the ERUs

are reported to be 453. The customers even submitted a written request for clarification of how ERUs were calculated to better assess the impact. That request was ignored. The moving target aspect of ERUs has made a meaningful analysis of the new basis for rates difficult, if not impossible to complete in time for approving an Interim rate

27. There remain unresolved questions with the billing methodology and allocation of water for certain customers. Red Pine owners were told that the 60 townhomes that are currently metered individually and are billed individually will, under the new rates, be billed as a single entity as part of the larger Red Pine Complex which includes the 200 Chalets and the Clubhouse. There are questions as to how the metering will be accomplished, and who will pay for any required new meters.

28. Finally, CWC has a very complex chain of ownership and the actual cost of operating CWC is difficult to understand because of how costs from the parent company are allocated to CWC. The allocation of costs to CWC serve as the basis of their cost of operation and the basis of the rate structure itself. The Red Pine and Hidden Creek customers believe that the true operating costs of CWC must be sorted out as part of the regular rate increase process rather than passing increased rates through the Interim Process and trying to rectify any discrepancy between the Interim Rate Approval and Final Rate Approval especially since loan repayment costs, a major element of the increased rates sought by CWC do not become due until January 2019. There is no valid reason to have the customers pay higher rates before they are needed.

I appreciate your consideration of the comments submitted herein on behalf of the Red Pine and Hidden Creek Homeowners Association.

DATED this 13th day of October 2017

Francis Amendola

Option A Environmental Consulting LLC

Intervenor, on behalf of Red Pine and Hidden Creek HOA's

CERTIFICATE OF SERVICE

I hereby certify that on October 13, 2017 a copy of the foregoing **Direct Testimony of Intervenor Francis Amendola to the Application Submitted by Community Water Company, LLC on September 13, 2017 for a Rate Increase in Docket 17 098-01** was emailed on the 13th day of October 2017 to the following:

Community Water Company, LLC
Justin Atwater jatwater@tc-fc.com
Stacy Wilson swilson@tc-fc.com
Emily E. Lewis eel@clydesnow.com

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Francis Amendola __
Option A Environmental Consulting LLC

APPENDIX A

Community Water Company
Customer Update: June 12, 2017

This Community Water Company ("Company") Customer Update is to inform customers about: I) the status of Company outdoor watering restrictions; II) the Company's planned actions regarding replacement of the damaged Company storage tank; and III) an update regarding the Company's State Revolving Fund Water System Loan ("DDW SRF Water System Loan") and Company Transfer. Much of this information is responsive to issues discussed with Company customers on June 1, 2017. The Company has another Company meeting scheduled for June 20th to discuss in detail the SRF Water System Loan and Company Transfer.

I) OUTDOOR WATERING RESTRICTIONS:

TO PROTECT PUBLIC SAFETY
OUTDOOR WATERING RESTRICTIONS WILL CONTINUE UNTIL FURTHER NOTICE

As you are most likely aware, in April the larger of the Company's two water storage tanks experienced a catastrophic failure resulting in the inability to store sufficient water for all of the Company's traditional uses. Since that time the Company has been working diligently to find a solution, however, installing a new storage tank will take time. To meet immediate indoor water needs and public safety requirements for fire protection, the Company has placed a restriction on **all** outdoor water use.

The Company's Tariff provides that "whenever the Company shall determine that the amount of water available to its distribution system has diminished to such a volume that unless restricted, the public health, safety and general welfare is likely to be endangered" the Company may proscribe emergency rules and regulations, including a total prohibition of outdoor watering.

The Summit County Fire Department and the Utah Division of Drinking ("DDW") water require the Company system retain 120,000 gallons of water for fire suppression. Upon the recommendation of the Fire Department, we have determined the current state of the Company's system is not capable of providing both the required fire flow and outdoor water use.[1] If by over use, even by accident, the storage capacity were to fall below the 120,000 gallon requirement it would pose an immediate risk to life and public safety creating undue liability for both the Company and customers.

Thus, outdoor watering at this time threatens having adequate fire flow and poses a threat to public safety. To alleviate this threat, outdoor water restrictions will continue throughout the summer and end when the new storage tank is installed (discussed below). Please note: pursuant to the Company Rule and Regulation 11, the Company is not liable for damages caused by scarcity of water.

[1] The Company has explored a rotating watering schedule to provide outdoor watering for summer of 2017. Unfortunately, even watering under a rotating schedule there is not enough volume in the functioning storage tank to keep storage above the 120,000 gallon requirement. Additionally, the Summit Water Distribution Company interconnect is intended for emergency situations. Supplemental irrigation from SWDC water is not available to Community Water Company customers.

Those found in violation of the outdoor watering restriction will receive a written courtesy notice. If outdoor watering occurs after a written courtesy notice is issued, the Company is authorized to institute an emergency termination of water service. Utah Code Ann. R746-200-7(F); Company Regulation F7. The Company will notify the customer as soon as possible about the termination. Water service can be reinstated upon the request of the customer but will be assessed the reconnection fee of $25.00. Company Regulation 10. The Company reserves to the right to take further action for repeat offenders.

We apologize for the inconvenience the outdoor watering restriction may create. We appreciate your patience and cooperation while work to remedy the situation as fast as possible.

II) TANK REPLACEMENT: Chosen Course of Action and Alternatives

At our meeting and phone conference on June 1, 2017, representatives of the Company, Summit Water Distribution Company ("SWDC"), and Company customers discussed several options for replacing or repairing the damaged storage tank. The Company has further investigated the several options discussed and determined a course of action.

<u>Chosen Course of Action: Immediate Tank Replacement and TCFC Funding</u>

The Company has determined the best course of action is to immediately replace the damaged storage tank. The Company has secured financing for tank replacement from its parent company, and will repay the loan through customer assessments or other arrangement to be determined pending the resulting structure of the Company. This is the preferred Option because it is a permanent solution to the Company's water storage problems, is the most cost effective measure, and the most timely solution as the tank can most likely be operable by Fall of 2017.

<u>Tank Parameters, Cost, and Funding</u>:

The replacement tank is a 450,000 gallon bolted steel tank similar to, but upgraded, the damaged tank. The damaged tank will not be reused or repurposed. It must be disassembled and disposed of.

The cost of the new tank is approximately $300,000, demolition of the existing tank and minor repairs to the Willow Draw ski-run are approximately $50,000, and base excavation and prep work is estimated to be $100,000, but may vary depending on final design and contractor bids. Accordingly, the estimated cost for the tank replacement is about $450,000.

The tank financing is distinct and separate from the Company's DDW SRF Water System Loan needed to fund other capital improvements to the Company's water system. Though tank improvements were included in the Company's DDW SRF Water System Loan request, funds will not be available for many months delaying construction of the tank until Summer 2018. The DDW SRF Water System Loan will be adjusted to remove tank costs. In additional to allowing the Company to move forward immediately, using private financing will save customers the 20-25% increase in costs incurred in complying with the DDW SRF Water System Loan bidding requirements.

In the unlikely event the Company is not transferred to SWDC, the Company will remain a regulated utility under Utah Public Service Commission ("PSC") jurisdiction. There is no expedited

Special Assessment process before the PSC and a special assessment will take at a minimum 120 days and more reasonably 240 days. If the Company remains regulated, the Company will initiate a special assessment proceeding before the PSC to adjust the Company's water rates to include repayment of the TCFC tank funding and the debt service for the larger DDW SRF Water System Loan.

Please note: customer repayment of tank financing and DDW SRF Water System Loan debt service will be based on the ACTUAL cost of the material, labor, design, engineering, consultants, legal, permit and project management fees.

Timeline:

Time is of the essence as the construction window in Park City is extremely short. The Company seeks to ensure regular water service as soon as possible. We anticipate, barring no unforeseen circumstances, the tank can be replaced and operable by October 2017.

The Company has already secured a contractor to demolish the existing tank and anticipate demolition being complete by early July 2017. We have commenced tank design work and anticipate expedited approval from the DDW to also be complete by early July 2017. Bidding for contractors is intended to be complete by mid-July 2017 and initial pad work complete by early August 2017. Tank manufacturing will be complete by early September and installation complete by early October. We are aiming to have a DDW operating permit and the new tank functioning sometime in October 2017.

Tank Replacement Alternatives Not Chosen: Temporary Bladder or Waiting for SRF Loan Funds

At the June 1, 2017, Company meeting alternatives for the tank replacement were discussed. Unfortunately, while the Company understands the frustration and inconvenience caused by outdoor watering restrictions, after further investigation these alternatives are not ultimately prudent decisions for the short or long term financial viability of the Company and its water system.

Installing a Temporary Bladder in Damaged Tank:

Customers requested the Company investigate installing a temporary bladder into the damaged storage tank to provide 2017 summer irrigation and installing the new storage tank when SRF Loan funds became available next summer. It was recommended the bladder be paid for through a Special Assessment before thePSC. The recommendation also extended to potentially leaving the bladder as a permeant additional storage component of the Company system and finding additional land to install the new storage tank.

The Company has reviewed the request and determined it is not a financially, technically, nor temporally preferable option. The cost of the bladder and installation was estimated to be $100,000. Additionally, waiting to fund the replacement tank through SRF Loan funds would increase the tank costs by an estimated $90,000 – $112,500. The total tank and bladder project would cost $640,000 to $662,000 compared to an estimated $450,000 under the Chosen Alternative. The Company believes these additional costs are not prudent financial decisions and risk jeopardizing terminating the Company's Certificate of Necessity or being rejected by PSC as unnecessary costs not recoverable in a special assessment.

Additionally, the approval, ordering, construction, and installation of the bladder would most likely not be complete till Mid-August. Outdoor watering restrictions would not be lifted until that time. With the new tank anticipated to be installed by October of 2017, Company customers would only gain 6 weeks of outdoor irrigation at a significant cost. The Company also has concerns about the structural integrity of the existing pad and tank to house a bladder and the continued liability of having the broken tank being a part of the Company system. The Company reviewed whether additional land is available to house the new tank if the broken tank and bladder were to remain. It does not appear a good location is readily available and the Company is concerned about access issues.

Waiting for SFR Loan Funds to Complete Tank Project:

For various reasons discussed herein, specifically the timely nature of the project and imposition of additional costs, the Company has chosen not to wait for funds to become available under the DDW SFR Water System Loan to fund tank improvements. All tank costs are to be removed from the Company's DDW SRF Water System Loan request.

III) UPDATE: DDW SRF Water System Loan and Company Transfer

The Company has a meeting scheduled for June 20, 2017, to discuss the status of the DDW SRF Water System Loan and the transfer of the Company to SWDC. At our meeting on June 1, 2017, the Company said we would provide additional information about those matters as it came available.

SRF Loan for Non-Tank System Improvements:

This March the Company applied for a DDW State Revolving Fund Loan to fund up to $3,600,000 of needed system repairs ("DDW SRF Water System Loan") (this number will soon be adjusted to remove $450,000 tank and associated design and engineering costs). The DDW SRF Water System Loan was approved on May 12, 2017. The Company has met twice with DDW to discuss closing requirements for the loan. Barring any unforeseen circumstances, we anticipate the Loan will close by November of 2017 and construction on non-tank system improvements will commence in the spring of 2018.

On June 20, 2017, we will discuss the specific requests of the loan, repayment schedule, closing procedures, and other pertinent information. We will distribute additional information in advance of that meeting.

Transfer of the Company to SWDC:

As has been discussed for years, the Company believes the best long term position for the Company is to leave PSC regulation and transfer ownership of the Company to an established water provider.

The Company and SWDC have reached a DRAFT agreement regarding the transfer of the Company to SWDC and how CWC customers will be incorporated into SWDC. We are presently solidifying these details as well as ancillary issues like transferring billing and structuring repayment of the TCFC tank funds and debt service on the DDW SRF Water System Loan. These issues will be more thoroughly discussed at the June 20, 2017 meeting. The Company will provide additional information in advance of that meeting. The Company firmly believes the intended arrangement will best protect customer interests and provide a stable and safe water delivery system.

To respond to customer questions, at prior Company meetings in March and again on June 1, 2017, several customers inquired about a potential transfer of the Company to Mountain Regional Special Service District ("MRSSD"). The Company met with MRSSD earlier this year to discuss transfer. After a brief review of our DDW SRF Water System Loan Application, requested improvements, and estimated SWDC water rate, including debt service, MRSSD stated the package appeared to be competitive to what they could offer. However, MRSSD is not a position to conduct the proper due diligence and critically assess their ability to take over the Company until 2018. Time is of essence and continued efforts to explore transfer to MRSSD are not a preferred option and will not continue.

CONCLUSION

The Company appreciates your continued participation, cooperation and patience with the ongoing, and numerous, Company activities. These efforts are being conducted in the best interest of achieving a sustainable water source and delivery system at the most effective cost to customers. We feel we have made many positive and constructive steps in the last year and look forward to completing the needed system improvements and transfer. Please abide by the outdoor watering restrictions until further notice and please plan to attend the June 20, 2017 meeting at 2:00 at the TCFC Offices, or send a representative if you cannot attend personally.

Please call with questions or concerns in the interim.

Sincerely,

Community Water Company

Larry White

Larry White
Chief Executive Officer TCFC Finance Co LLC
Manager of ASC Utah, LLC
lwhite@tc-fc.com