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August 31, 2004

David P. Fanslau, MGA  
Township Administrator  
Township of Winslow  
125 S. Route 73  
Winslow Twp., NJ 08037-9422

SEP 3 2004

Re: Proposal for Services  
Water and Sewer Rate Studies

Dear Mr. Fanslau:

Thank you, Deputy Mayor Holcomb, Charles and Michael for taking the time to meet with Larry and I yesterday to discuss your ideas for water and sewer rate issues. As discussed, we are writing to propose our professional services for moving forward with addressing your rate design concerns. As you are aware, yesterday's meeting covered a broad range of subjects and we have not reviewed any financial or system records of your utilities. Therefore, this proposal will include several alternatives that Winslow Township can consider.

It is our understanding that Winslow Township owns and operates Water and Wastewater Utilities that provide service to approximately 7,000 connections in Winslow Township, although the number of water and wastewater customers is not the same as a portion of the township has different sewer service. Very little discussion of sewer rate issues occurred at our meeting yesterday. For purposes of this proposal, therefore, we are not sure if there are rate design concerns for the wastewater system. We do not know if you are billing on a flat rate for sewer or if the billing is based on water usage, for instance. Water rate concerns were discussed yesterday. There is a concern that the minimum billing with a 15,000 gallon minimum allowance, is not fair to all customers. There is a concern that the overall revenues from water and wastewater customers may not be adequate to meet the Townships financial needs.

In order to address these concerns, G.P.M. Associates Inc. can offer the following services. It should be noted that significantly less work may be involved than contemplated, depending on the level of detail requested.

1. **Water Rate Study:** A water rate study would determine the appropriate overall level of revenues required to meet the needs of the Winslow Township Water Department. While there is a single department for Water and Wastewater, the accounting breaks down most of the costs into water and wastewater. In this study, we would work closely with Township personnel to prepare financial information for the Water system. This would include schedules that show all of the costs required to operate, manage and pay for capital expenditures. Debt service costs and coverage requirements and appropriate reserve accounts would be included in calculating these costs. An estimate would be made of the

level of revenues to be derived from connection fees going forward. The total amount of revenues required from water rates to customers would then be determined.

2. **Wastewater Rate Study:** A Wastewater (Sewer) rate study would, similar to the Water Rate Study, determine the overall level of appropriate revenues for the Sewer Utility. Similar schedules to those described in Task 1 above would break down the various costs associated with providing Sewer service to Winslow Township. This would include capital as well as operating and maintenance expenses, debt service requirements and appropriate reserve funds. An estimate would be made of the level of revenues to be derived from connection fees going forward. The total amount of revenues required from Sewer rates to customers would then be determined.
3. **Water Cost of Service and Tariff Design Study:** This portion of the project would address the distribution of the required Water revenues to the various types of customers. The Base-Extra Capacity methodology as recommend by the American Water Works Association in their M1 Manual entitled "Principles of Water Rates, Fees, and Charges" Fifth Edition would be utilized. These schedules would set forth the appropriate level of revenues that should be derived from the various customer classes. The Tariff Design (Water Rate Schedules) portion of the study would determine the appropriate tariff design to move closer to the cost of service as well as addressing other Township concerns such as the minimum bill. For instance, an appropriate reduction in the minimum allowance and the minimum bill could be recommended, or a Water Conservation Credit may be utilized. Affordability issues would also be considered in this report. These schedules would calculate the cost of providing water at average, maximum day and maximum hour usage levels. While Public Fire Protection Charges are not billed, since the Township is responsible for both domestic and fire service, the cost of providing both Public and Private fire protection service would be determined. The cost of providing bulk sales for resale to other water purveyors would be determined. This could be differentiated between normal sales and "off-peak" sales. After getting significant input from Township officials, we would recommend changes in the existing water rate schedules. Calculations demonstrating that the proposed rate schedules would produce the required water revenues would be included in the study. It should be noted that significant changes in the tariff design intended to promote conservation could reduce water consumption as designed. Estimates of such water use reduction would be utilized in designing the tariff to produce the required revenues.
4. **Wastewater Tariff Design Study:** A formal Cost of Service Study is not recommended at this time. It would be appropriate, however, to look at the Sewer rate schedules to determine if any changes in the tariff design for sewer would be appropriate. Sewer rates can be based on flat rates, amount of sewer fixtures, all water use, winter time water use or a combination of factors. After input from Township officials, we would recommend changes in the existing sewer rate schedules. Calculations demonstrating that the proposed rate schedules

would produce the required sewer revenues would be included in the study.

The total scope of our services as outlined above can significantly change based on the level of detail that is required by Winslow Township for the various studies. One significant change could be in the Water and Sewer Rate Studies if the level of details in the schedules was reduce, and we worked with the financial personnel of the Township to determine the actual costs of providing water and sewer service, then savings could be made. Likewise, if a full blown Cost of Service Study for Water was not required using the Base-Extra Capacity methodology, but only specific tariff design issues were looked at such as the minimum allowance and the cost of providing off-peak bulk water sales were looked at, significant savings could be realized. Accordingly, there is a large range in our estimated costs for providing our professional services. We would estimate that our services for the above work through the submittal of a draft report to Winslow Township could range between \$14,000 and \$25,000.

We would recommend a further meeting, once everyone has had time to review what we gave out at yesterday's meeting and this proposal. This meeting could greatly narrow the focus of our study such that a much narrower cost range could be developed.

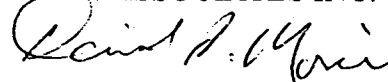
As mentioned in yesterday's meeting, we are providing below references for our rate work. Additional references are available if required.

Company/Municipality	Contact	Telephone Number
South Jersey Water Co.	Gary Ziegler, P.E.	856-478-4484
Aqua Illinois Inc.	Dan Allen	207-236-8428
City of Bordentown	Patricia Ryan	609-298-2121 X 6
Borough of Avalon	Andrew Bednarec	609-967-4148
Shorelands Water Company	Michael Walsh	732-264-7300

Thank you for this opportunity to propose our services. We will be pleased to answer any questions you may have.

Very truly yours,

G.P.M. ASSOCIATES INC.



David R. Monie, P.E.  
President