

RESOLUTION NO. R-2009-13

A RESOLUTION FINDING A NECESSITY FOR THE ACQUISITION OF THE TALL TIMBERS UTILITY COMPANY, INC.'S SEWAGE SYSTEM AND RELATED PURPOSES; DECLARING SUCH ACQUISITION FOR A PUBLIC PURPOSE; AUTHORIZING CONDEMNATION FOR THE FEE SIMPLE INTEREST IN SAID PROPERTY; AND ESTABLISHING AN EFFECTIVE DATE.

WHEREAS, studies heretofore conducted have determined that acquisition of the hereinafter described property is necessary for the public purpose of the City operating the sewage system known as the Tall Timbers Utility Company, Inc., to provide for improved sewage system capabilities and for fair and equitable charges to the customers; and

WHEREAS, the City Council has found that a public necessity requires such acquisition; and

WHEREAS, the City Council has found and determined that the fee simple interest in and to the hereinafter described property is suitable for such purpose and that it is necessary to acquire same in order to improve the sewage system and to provide for fair and equitable charges for use of the system; and

WHEREAS, the City of Tyler, through its duly authorized representatives, has negotiated with Tall Timbers Utility Company, Inc., a Texas corporation (which is owned 100% by Algonquin Water Services of America, Inc., a Delaware corporation) as the owner(s) of such property and has been unable to agree with such owner(s) as to the fair cash market value thereof:

NOW, THEREFORE, be it resolved by the City Council of the City of Tyler, Texas:

PART 1: The City of Tyler has offered \$768,300.00 to the owner(s), a final offer in writing of a reasonable sum of money to compensate the owner(s) for the value of the fee simple title to the property containing the sewage system and the damages to the remainder of this property, if any, the offer of which is hereby confirmed.

PART 2: The acquisition of fee simple title in and to the Tall Timbers Utility Company Inc.'s sewage system, including the real property, easements, lines, facilities, fixtures, improvements, above-ground and below-ground appurtenances, and related items associated thereto, is hereby found to be necessary for the public purpose of improving, operating, and maintaining the sewage system and providing for fair and equitable charges for the use of the system by its customers.

PART 3: That it is hereby determined that the City of Tyler has in fact transmitted bona fide offers to the property owner(s), in accordance with the laws of the State of Texas, for the

property described herein, and the owner(s) of the property and the City of Tyler have been unable to agree and cannot agree on the value of the sewage system, including the real property, improvements, appurtenances, and related items associated thereto for the damages to be paid and further settlement negotiations have become futile and impossible. A true and complete copy of the agreement to purchase the sewage system offered by the City of Tyler as its last and final offer is hereby attached hereto as Exhibit "A-1." The final monetary offer of the City of Tyler is hereby confirmed and approved.

PART 4: That the City Attorney for the City of Tyler or an attorney authorized by him be and is hereby authorized and directed to file and cause to be filed against the property owner(s), proceedings in eminent domain to acquire fee title in and to the above described property and to conduct all parts of the condemnation in accordance with the laws and procedures of the State of Texas.

PART 5: That the value of the real property owned and utilized by Tall Timbers Utility Company, Inc. for its facilities shall be determined according to the standards set forth in Chapter 21, Property Code, governing actions in eminent domain;

PART 6: That the value of personal property and intangibles associated with Tall Timbers Utility Company, Inc.'s business as a going concern shall be determined by the Texas Commission on Environmental Quality, according to the procedures and standards set forth in Texas Water Code Section 13.254.

PART 7: That this Resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED this 13th day of May, 2009.

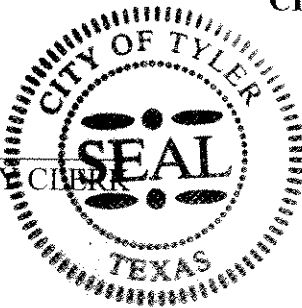


BARBARA BASS, MAYOR
CITY OF TYLER, TEXAS

ATTEST:



CASSANDRA BRAGER, CITY CLERK



APPROVED:



GARY C. LANDERS, CITY ATTORNEY

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DIRECTOR UTILITIES
AND PUBLIC WORKS



P.O. Box 2039
Tyler, Texas 75710

April 30, 2009

Tall Timber Utility Company, Inc.
c/o CT Corporation System
350 N. St. Paul Street
Dallas, Texas 75201

By Federal Express (8634 0922 3104)

Re: Final Offer Letter
Tall Timber Utility Company, Inc. Sewage System
City of Tyler, Texas

Dear Directors:

On March 23, 2009, I sent a letter to Mr. Sean Lonergan, Director, Central Division Algonquin Water Services, a copy of which is attached. While at one time I had been communicating with Mike Weber and Robert Dodds, I was given Mr. Lonergan's name as the proper person to whom to direct all communications. To ensure that Tall Timbers Utility Company, Inc., a Texas corporation (which is owned 100% by Algonquin Water Services of America, Inc., a Delaware corporation) has notice of the Final Offer Letter, I am sending it to all possible entities that are involved. If the Texas Secretary of State's records with regard to the status and ownership of Tall Timbers Utility Company, Inc. are inaccurate please notify me immediately.

As stated previously, for almost three (3) years, the City of Tyler has repeatedly attempted to obtain information in order for the City to formulate a fair and reasonable offer for the acquisition of Tall Timbers Utility Company System, a portion of which is located within the Tyler city limits. As of this date, the Tall Timbers Utility Company can only be described as "non-responsive."

On April 18, 2006, the City of Tyler proposed to purchase the portion of the Tall Timber Utility Company, which is located within the Tyler City Limits, less the treatment plant, for \$227,459. That offer was based on information compiled and submitted by Tall Timber Utility Company in June 2002 to the City of Tyler as part of a Tariff/Rate Change Application. Tall Timbers Utility Company officially rejected this offer on May 1, 2007, well over one (1) year later.

Please let this letter serve as the City of Tyler's final offer letter to purchase Tall Timber Utility Company, Inc.'s sewage system, in its entirety, including but not limited to the real property, easements, lines, facilities, fixtures, improvements, above-ground and below-ground appurtenances, and related items associated thereto, for an amount of **\$768,330**.

This final offer shall remain valid for five (5) days from date of this letter. At the end of five (5) days the City of Tyler shall begin condemnation proceedings in accordance with the City of Tyler Charter and applicable state laws and regulations.

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Attached for your review is a copy of the "Determination of Monetary Value of Algonquin Service Area" prepared by J. Stowe & Company (basis of aforementioned offer) as well as a copy of the Landowner's Bill of Rights, as established by the Texas Legislature.

We await your response.

Sincerely,


Gregory M. Morgan, P.E.
Director, Utilities & Public Works

Enclosure

cc: Mr. Sean Lonergan (By Federal Express 8634 0922 3115)
Director, Central Division
Algonquin Water Services
6519 Mercedes Ave.
Dallas, Texas 75214

Algonquin Water Resources of America, Inc. (By Federal Express 8634 0922 3126)
c/o The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801

Ian Robertson, Director (By Federal Express 7975 5406 3342)
Chris Jarratt, Director (By Federal Express 7975 5406 3342)
Dave Kerr, Director (By Federal Express 7975 5406 3342)
John Huxley, Director (By Federal Express 7975 5406 3342)
Peter Kampain, CFO (By Federal Express 7975 5406 3342)
Tall Timbers Utility Company, Inc.
2845 Bristol Circle
Oakville, Ontario
L6H 7H7 Canada

Tall Timbers Utility Company, Inc. (By Federal Express 8634 0922 3148)
12725 West Indian School Road
Suite D101
Avondale, Arizona 85392

Joe Freeland, Matthews & Freeland, LLP
Jack Stowe, J. Stowe & Co.
Celia Flowers, Flowers & Davis, PLLC
Gary Landers, City Attorney

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DIRECTOR UTILITIES
AND PUBLIC WORKS



P.O. Box 2036
Tyler, Texas 75710

March 20, 2009

Mr. Sean Lonergan
Director, Central Division
Algonquin Water Services
6519 Mercedes Ave.
Dallas, Texas 75214

Re: Tall Timber Utility Company
Tyler, Texas

Dear Mr. Lonergan:

For almost three (3) years, the City of Tyler has repeatedly attempted to obtain information in order for the City to formulate a fair and reasonable offer for the acquisition of Tall Timbers Utility Company system, a portion of which is located within the Tyler city limits. As of this date, the Tall Timbers Utility Company can only be described as "non-responsive".

On April 18, 2006 the City of Tyler proposed to purchase the portion of the Tall Timber Utility Company, less the treatment plant, which is located within the Tyler City Limits for \$227,459. This offer was based on information compiled and submitted to the City of Tyler as part of a Tariff/Rate Change Application submitted to the City of Tyler by Tall Timber Utility Company in June 2002. Tall Timbers Utility Company officially rejected this offer on May 1, 2007, well over one (1) year later.

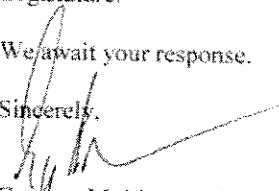
Tall Timber Utility Company's lack of cooperation in this matter leaves us with no choice but to once again, propose a final offer to purchase the Tall Timbers Utility Company, in its entirety, for an amount of \$768,330. Once again, this offer is based on the only information available; the 2002 Tariff/Rate Change Application compiled by Tall Timbers Utility Company. This is our final offer and shall remain on the valid for five (5) days from receipt of this letter. At the end of five (5) days the City of Tyler shall begin condemnation proceeding in accordance with the City of Tyler Charter and applicable state laws and regulations.

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Attached for your review is a copy of the "Determination of Monetary Value of Algonquin Service Area" prepared by J. Stowe & Company (basis of aforementioned offer) as well as a copy of the Landowner's Bill of Rights, as established by the Texas Legislature.

We await your response.

Sincerely,



Gregory M. Morgan, P.E.
Director, Utilities & Public Works

CC: Robert Dodds, Algonquin Water Services
Gary Landers, City Attorney
Joe Freeland, Matthews & Freeland, LLP
Jack Stowe, J. Stowe & Co.
Chris Ekrut, J. Stowe & Co.
Celia Flowers, Flowers & Davis, PLLC
Carrie King, Flowers & Davis, PLLC

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J. STOWE & CO.

To: Mr. Greg Morgan, P.E.
Tyler Water Utilities
City of Tyler

From: Jack Stowe
President
J. Stowe & Co.

Date: March 4, 2009

RE: Determination of Monetary Value of Algonquin Service Area

In May 2005, R.W. Beck, Inc. was retained by the City of Tyler to assist in determining the monetary value of the Algonquin Water Resources of America, Inc. ("Algonquin", also formerly known as "Tall Timers") wastewater service area within the city limits of Tyler. In February 2009, members of J. Stowe & Co. who conducted the original valuation on behalf of R.W. Beck were requested to update the original valuation. In updating the valuation, J. Stowe & Co. has been requested to value the Algonquin service area under two differing scenarios as follows: (1) the value of the Algonquin service area located inside the city limits of Tyler and (2) the value of the entire Algonquin service area.

Please note that while the City has made every effort to obtain updated data from Algonquin to assist in performing the valuation, the requested data, as of the date of this valuation, has not been provided. As such, J. Stowe & Co. has relied upon the historical data readily available to us during the performance of the prior valuation, and updated said data using reasonable assumptions where possible. To the extent that the data and assumptions utilized do not accurately reflect actual performance or conditions of Algonquin, then the valuation contained herein would merit revision.

Based on our analysis, J. Stowe & Co. estimates the monetary value of the Algonquin service, subject to the assessment of the age and condition of the facilities to be purchased and due diligence review, to be as follows:

Service Area located within Tyler City Limits	
Fixed Operating Revenue	\$ 387,024
Return on Investment	8,069
Book Value of Assets (excluding WWTP)	72,747
Total Value	\$ 467,840
Total Algonquin Service Area	
Book Value of Assets	\$ 615,541
Return on Investment	152,789
Total Value	\$ 768,330

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Assumptions

In determining the monetary value of the area in question, several assumptions had to be made, which included:

- Number of connections inside the City as provided by Algonquin Water Resources, July 2005;
- Number of connections outside the City as contained in the Proposal for Decision ("PFD") and Order in TCEQ Docket No. 2003-0153-UCR; SOAH Docket No. 582-03-2283;
- Connection growth based on Texas Water Development Board (TWDB) population growth projections for the City of Tyler (Exhibit A);
- 500 total connections at build-out within the City and that the Algonquin system possess sufficient capacity to support up to 2,579 connections by 2043;
- Algonquin (formerly Tall Timbers) revenue requirement as approved in the PFD and Order in TCEQ Docket No. 2003-0153-UCR; SOAH Docket No. 582-03-2283, adjusted to reflect inflation at 3.5% annual rate (Exhibit B);
- Discount Rate of 10%;
- Algonquin (formerly Tall Timbers) capital structure, rate of return, and amount of invested capital as approved in the PFD and Order in TCEQ Docket No. 2003-0153-UCR; SOAH Docket No. 582-03-2283; and
- Accumulated depreciation and remaining asset life as provided by Algonquin (formerly Tall Timbers) as of December 31, 2004 (Exhibit C).

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Methodology

Service Area Located Within Tyler City Limits

To determine the monetary value of the Algonquin connections located within the city limits of Tyler, J. Stowe & Co. divided the valuation into three parts: (1) Compensation for Fixed Operating Revenue, (2) Compensation for Return on Investment, and (3) Compensation for Book Value of Assets in the service area, excluding the WWTP. The goal of this valuation was to determine the equitable compensation due Algonquin for their investment in the service area, as well as the potential revenue source lost upon acquisition, to ensure that Algonquin is not left with any stranded costs which could impact the remainder of its customers.

It should be noted that in this valuation method, the "compensation" for Fixed Operating Revenue represents future expenses that will still be borne by Algonquin, but which are funded by the acquisition price for the connections to be acquired by the City. It does not represent compensation for any portion of the system's hard assets (e.g., water pipe, pumps, etc.) In comparing this valuation with the value determined for potential acquisition of the entire system, only compensation for return on investment and compensation for the book value of the assets should be considered in order to make an apples-to-apples comparison.

In order to compensate Algonquin for the revenue source lost upon acquisition, J. Stowe & Co. calculated the fixed operating revenue per connection (\$14.43). The fixed operating revenue per connection was derived by removing all variable and non-stranded revenue sources, as approved in TCEQ Docket No. 2003-0153-UCR; SOAH Docket No. S82-03-2283 and adjusted for inflation as illustrated in Exhibit B. These variable and non-stranded revenue sources were then divided by the assumed total number of connections (1,177). This monthly variable revenue per connection (\$13.32) was then deducted from Algonquin's current rate (\$27.75) to determine the monthly fixed operating revenue per connection.

The variable and non-stranded revenue sources removed include: chemicals for treatment; utilities; repairs/maintenance/supplies; rate case expense; miscellaneous expense; a portion of property and other taxes; income taxes; return; and annual depreciation. The portion of property taxes removed was equivalent the original cost of assets to be acquired by the City as a percentage of the total original plant value of the Algonquin system. Depreciation was removed from the calculation because the associated assets are being purchased, and Algonquin will no longer incur the depreciation expense once the acquisition has taken place. Likewise, rate case expense is a non-recurring expense and was also removed. The return component and income taxes are removed as compensation for these components are handled separately, with the return calculated before taxes. Further, miscellaneous expense was removed as the exact composition of this line-item is unknown. To the extent that known and justifiable fixed operating revenue sources are included within this line-item, this valuation may potentially merit adjustment. Finally, J. Stowe & Co. has also allocated a portion of other revenues to the valuation area based upon the number of total connections included in the valuation as a percentage of total system connections.

Once determined, the monthly fixed operating revenue per connection (\$14.43) was multiplied by the number of connections lost (231), and projected over the average remaining life of the

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assets (27 years) in the service area. Applying a discount rate of 10%, results in a net present value compensation of \$387,024 for fixed operating revenue (Exhibit D).

J. Stowe & Co. would note that, in the event the City acquires portions of the Algonquin system in the future under an incremental acquisition approach, then some level of credit for the above fixed operating revenue compensation must be provided the City in future service area valuations.

As Algonquin is a private utility, they are entitled to earn a return on their invested capital. To equitably compensate Algonquin for the return on investment lost upon acquisition, J. Stowe & Co. calculated the total return on investment (before taxes), as approved in TCEQ Docket No. 2003-0153-UCR; SOAH Docket No. 582-03-2283. This was then divided by the total number of connections (1,177) to arrive at a monthly return per connection (\$1.28). The monthly return per connection was then annualized and multiplied by the estimated number of connections added annually through build-out (2043) as illustrated in Exhibit A. As the return on investment is based upon the depreciating value of the Utility's rate base, we have depreciated the annual return allowed assuming a 40-year service life. Applying a discount rate of 10%, results in a net present value compensation of \$8,069 for lost return on investment (Exhibit E).

As part of the potential acquisition, the City of Tyler has expressed an interest in purchasing the wastewater collection lines, but not the wastewater treatment plant (WWTP), currently owned and operated by Algonquin within the city limits of Tyler. To determine the compensation for these assets, J. Stowe & Co. considered the book value of these assets on December 31, 2004, as provided by Algonquin, adjusted to reflect additional depreciation through December 31, 2008. This results in a compensation of \$72,747 for fixed assets (Exhibit F).

Based upon the above analysis, J. Stowe & Co. estimates the monetary value of the Algonquin wastewater service area within the city limits of Tyler, subject to assessment of the age and condition of the facilities to be purchased and due diligence review, to be as follows

Service Area located within Tyler City Limits	
Fixed Operating Revenue	\$ 387,024
Return on Investment	8,069
Book Value of Assets (excluding WWTP)	72,747
Total Value	\$ 467,840

Total Algonquin Service Area

To determine the monetary compensation due Algonquin in the event that the entire service area of the Utility was acquired by the City of Tyler, J. Stowe & Co. has divided the valuation into two components: (1) Book Value of Assets and (2) Return on Investment. Under this scenario, compensation for fixed operating revenue is not required as no costs are left "stranded" by a purchase of only a portion of the service area.

To determine the appropriate compensation for the book value of the Utility's assets, J. Stowe & Co. considered the book value of all of the Utility's assets on December 31, 2004, to the extent

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this information was available, adjusted to reflect accumulated depreciation through December 31, 2008. This results in compensation of \$615,541 (Exhibit G).

As in the above scenario, Algonquin is due a return on their invested capital. While in the previous scenario, Algonquin was granted both a return on debt and a return on equity, assuming all assets are purchased, Algonquin should only be granted a return on equity as compensation for the asset's net book value would be sufficient to pay-off any outstanding debt, thereby enabling the avoidance of interest costs.

To calculate the return on equity, J. Stowe & Co. applied the Utility's approved return on equity to the approved level of invested capital. After grossing up the return to reflect the associated tax liability, the present value of the return was considered, in perpetuity. In considering the present value, J. Stowe & Co. utilized a 10% discount rate adjusted to reflect growth on the system. Assuming an effective growth rate of 2.85% from 2000 to 2060, the discount rate utilized in the present value calculation is 7.15% (10.0% - 2.85%). This results in compensation of \$152,789 (Exhibit H).

Based upon the above analysis, J. Stowe & Co. estimates the monetary value of the total Algonquin wastewater service area, subject to assessment of the age and condition of the facilities to be purchased and due diligence review, to be as follows

Total Algonquin Service Area	
Book Value of Assets	\$ 615,541
Return on Investment	152,789
Total Value	\$ 768,330

J. Stowe & Co. would again reiterate that the above valuation is based upon information readily available to the Project Team. To the extent that the data and assumptions utilized do not accurately reflect actual performance or conditions of Algonquin, then the valuation contained herein would merit revision.

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Exhibit A
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Population Projections ⁽¹⁾

	2006	2010	2020	2030	2040	2050	2060
Tyler Populations ⁽²⁾	723	1,239	1,625	2,010	2,394	3,039	3,892
Effective Rate of Growth		5.53%	2.75%	2.15%	1.76%	2.41%	2.50%

Year	Outside City	Inside City	Total	Inside City			
				Connections at Build-out	Connections Remaining	Annual Incremental Connections	Accumulated Incremental
2005	763	186	949				
2006	805	196	1,002				
2007	850	207	1,057				
2008	897	219	1,115				
2009	946	231	1,177				
2010	999	243	1,242	500	269	12	12
2011	1,028	250	1,276	500	257	13	25
2012	1,055	257	1,312	500	250	7	32
2013	1,083	264	1,348	500	243	7	38
2014	1,113	271	1,385	500	236	7	46
2015	1,144	279	1,423	500	229	7	53
2016	1,175	287	1,462	500	221	7	60
2017	1,208	294	1,502	500	213	8	68
2018	1,241	302	1,543	500	206	8	76
2019	1,275	311	1,586	500	198	8	84
2020	1,310	319	1,629	500	189	8	92
2021	1,338	326	1,664	500	181	9	101
2022	1,367	333	1,700	500	174	7	108
2023	1,396	340	1,737	500	167	7	115
2024	1,426	348	1,774	500	160	7	122
2025	1,457	355	1,812	500	152	7	129
2026	1,488	363	1,851	500	145	7	137
2027	1,520	371	1,891	500	137	8	144
2028	1,553	379	1,931	500	129	8	152
2029	1,586	387	1,973	500	121	8	160
2030	1,620	395	2,015	500	113	8	168
2031	1,649	402	2,051	500	105	8	176
2032	1,678	409	2,087	500	98	7	183
2033	1,708	416	2,124	500	91	7	190
2034	1,738	424	2,161	500	84	7	198
2035	1,768	431	2,199	500	76	7	205
2036	1,800	439	2,238	500	69	7	212
2037	1,831	446	2,278	500	61	8	220
2038	1,864	454	2,318	500	54	8	228
2039	1,896	462	2,359	500	46	8	236
2040	1,930	470	2,400	500	38	8	244
2041	1,977	482	2,458	500	30	8	252
2042	2,024	493	2,518	500	18	11	263
2043	2,073	505	2,579	500	7	12	275
						12	287

(1) Source: 2006 Connections - Inside City - Algonquin Water Resources, July 2005, Outside City - PFD and Order, TCEQ Docket No. 2002-0153-LCR
 (2) Source: Population Estimates - Texas Water Development Board

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Exhibit B
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Approved Revenue Requirement Adjusted for Inflation			
Inflation Rate	3.50%	Approved Revenue Requirement (2009) ⁽¹⁾	Inflation Adjusted Revenue Requirement (2009)
Salaries and Wages		\$ 181,841	208,667
Contract Labor		10,764	12,352
Chemicals for Treatment		1,133	1,300
Utilities (electricity)		42,785	49,097
Repairs/Maintenance/Supplies		34,975	40,135
Office Expenses		20,472	23,492
Accounting & Legal Fees		23,285	26,720
Insurance		3,766	4,322
Rate Case Expense		2,779	3,189
Miscellaneous		30,801	35,345
Subtotal		\$ 352,601	\$ 404,617
Payroll Taxes			
Property and Other Taxes		16,174	18,560
Annual Depreciation ⁽²⁾		3,972	4,558
Income Taxes		18,685	18,685
Return ⁽²⁾		1,500	1,721
Subtotal		\$ 16,510	\$ 16,510
Other Revenues		56,841	60,034
Total Revenue Required		\$ (96,746)	\$ (111,018)
		\$ 312,696	\$ 353,633

(1) Source: Revenue Requirement - PFD and Ochr, TCEQ Docket No. 2005-0153-UCR

(2) Annual Depreciation and Return not adjusted for inflation

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Exhibit C
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Remaining Asset Life ⁽¹⁾

Description	Date Acquired	Remaining Life ⁽¹⁾
Collection Sewers - Force		
Relocation of FM 2493 mandated by Dept. of Trans (Wilkins)	7/30/2004	45
Relocation of FM 2493 casing & gravity main (Wilkins)	8/31/2004	45
Relocation of FM 2493 surveying (KL Kilgore)	8/31/2004	45
Relocation of FM 2493 surveying (KL Kilgore)	8/31/2004	45
Relocation of FM 2493 force main CR engineering (Kenneth Cline)	10/31/2004	45
Relocation of FM 2493 utility crossing permits engineering (Kenneth Cline)	10/31/2004	45
Irish Meadows Lift Station - replaced pump #2	11/30/2004	15
Collection Sewers - Gravity		
Irish Meadows System	1/1/1992	23
Irish Meadows - Lines Ext	7/15/1994	23
New Tap Irish Meadows	8/25/1999	7
Services to Customers		
Tap Fees in Irish Meadows	11/30/2004	15
Pumping Equipment		
Lift Station - Irish Meadows	7/1/1995	0
Lift Station - Irish Meadows	1/1/1996	0
Average Remaining Asset Life		27

(1) Based on accumulated depreciation as of December 31, 2004

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Exhibit D
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Fixed Operating Revenue ⁽¹⁾
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Operating Revenue		
Current Rate	\$	27.75
Number of Connections		
Outside City		946
Inside City		231
Total Connections		1,177
Total Monthly Revenue	\$	32,666
Total Annual Revenue	\$	391,998

		Revenue Requirement
Salaries and Wages	\$	208,667
Contract Labor		12,352
Chemicals for Treatment		1,300
Utilities (electricity)		49,097
Repairs/Maintenance/Supplies		40,135
Office Expenses		23,492
Accounting & Legal Fees		26,720
Insurance		4,322
Rate Case Expense		3,189
Miscellaneous		35,345
Subtotal	\$	404,617
Payroll Taxes	\$	18,560
Property and Other Taxes		4,558
Annual Depreciation		18,685
Income Taxes		1,721
Return		16,510
Subtotal	\$	60,034
Other Revenues	\$	(111,019)
Total Revenue Required	\$	353,633

Annual Revenue for Variable and "Non-Stranded" Operating Costs		
Chemicals for Treatment	\$	1,300
Utilities (electricity)		49,097
Repairs/Maintenance/Supplies		40,135
Rate Case Expense		3,189
Miscellaneous		35,345
Property and Other Taxes		434
Annual Depreciation		18,685
Income Taxes		1,721
Return		16,510
Other Revenue		21,759
Subtotal	\$	188,175
Monthly Revenue for Variable Operating Costs	\$	15,681
Monthly Variable Operating Revenue Per Connection	\$	13.32
Monthly Fixed Operating Revenue Per Connection	\$	14.43

(1) Source: Revenue Requirement - PFD and C-der, TCEQ Order No. B03-0153-LCH, as adopted in Exhibit B

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Exhibit D
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Fixed Operating Revenue (Present Value Calculation)

Discount Rate 10%

Year	Existing Connections	Total Revenue	Present Value
2009	231	\$ 39,948	\$ 38,089
2010	231	39,948	34,627
2011	231	39,948	31,479
2012	231	39,948	28,617
2013	231	39,948	26,016
2014	231	39,948	23,651
2015	231	39,948	21,500
2016	231	39,948	19,546
2017	231	39,948	17,769
2018	231	39,948	16,154
2019	231	39,948	14,685
2020	231	39,948	13,360
2021	231	39,948	12,136
2022	231	39,948	11,033
2023	231	39,948	10,030
2024	231	39,948	9,118
2025	231	39,948	8,289
2026	231	39,948	7,536
2027	231	39,948	6,851
2028	231	39,948	6,228
2029	231	39,948	5,662
2030	231	39,948	5,147
2031	231	39,948	4,679
2032	231	39,948	4,254
2033	231	39,948	3,867
2034	231	39,948	3,515
2035	231	39,948	3,198
			\$ 387,024

**EXHIBIT "A" TO RESOLUTION R-2009-13
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Exhibit E
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Compensation for Return on Investment ⁽¹⁾
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	<u>% of Capital</u>	<u>Cost</u>	<u>Weighted Average</u>
Long-Term Debt	51.84%	8.66%	4.49%
Equity	48.16%	12.00%	5.78%
		Total	10.27%
Invested Capital		\$	160,762
Return on Debt		\$	7,218
Return on Equity (Before Tax)			10,932
Total Return (Before Taxes)		\$	18,150
# of Connections			1,177
Annual Return per Connection		\$	15.42
Monthly Return per Connection		\$	1.28

(1) Source: Capital Structure PFD and Order, TCEQ Docket No. 2003-0153-LCR

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Exhibit E
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Algonquin Water Resources Valuation of Assets in Tyler, Texas Compensation for Return on Investment (Present Value) Calculation

Year	Annual Return	Accumulated Additional Connections	Connections to Buildout	Discount Rate		Present Value	
				10%			
				Total Return			
2009	\$ 15.42	12	269	\$ 187	\$ 178	0.5	
2010	15.03	25	257	374	324	1.5	
2011	14.65	32	250	462	364	2.5	
2012	14.26	38	243	548	393	3.5	
2013	13.88	46	236	631	411	4.5	
2014	13.49	53	229	712	421	5.5	
2015	13.11	60	221	789	425	6.5	
2016	12.72	68	213	864	423	7.5	
2017	12.33	76	206	935	416	8.5	
2018	11.95	84	198	1,002	405	9.5	
2019	11.56	92	189	1,066	392	10.5	
2020	11.18	101	181	1,126	376	11.5	
2021	10.79	108	174	1,181	353	12.5	
2022	10.41	115	167	1,193	329	13.5	
2023	10.02	122	160	1,220	306	14.5	
2024	9.64	129	152	1,244	284	15.5	
2025	9.25	137	145	1,263	262	16.5	
2026	8.87	144	137	1,278	241	17.5	
2027	8.48	152	129	1,289	221	18.5	
2028	8.09	160	121	1,295	202	19.5	
2029	7.71	168	113	1,296	184	20.5	
2030	7.32	176	105	1,292	166	21.5	
2031	6.94	183	98	1,272	149	22.5	
2032	6.55	190	91	1,246	133	23.5	
2033	6.17	198	84	1,219	118	24.5	
2034	5.78	205	76	1,185	104	25.5	
2035	5.40	212	69	1,147	92	26.5	
2036	5.01	220	61	1,103	80	27.5	
2037	4.63	228	54	1,054	70	28.5	
2038	4.24	236	46	999	60	29.5	
2039	3.85	244	38	939	51	30.5	
2040	3.47	252	30	874	43	31.5	
2041	3.08	263	18	812	37	32.5	
2042	2.70	275	7	742	30	33.5	
2043	2.31	287	-	663	25	34.5	
					<u>\$ 8,069</u>		

**EXHIBIT "A" TO RESOLUTION R-2009-13
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Exhibit F
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Algonquin Water Resources		Valuation of Assets in Tyler, Texas		Book Value of Assets in Valuation Area (1)					
Description of Asset	Date Acquired	Original Value	Accumulated Depreciation (as of 12/31/2004)	Incremental Accumulated Depreciation (12/31/2004 to 12/31/2006)	Current Book Value				
Collection Sewers - Force									
Relocation of FM 2493 mandated by Dept. of Trans (Wilkins)	7/30/2004	\$ 15,860							
Relocation of FM 2493 casing & gravity main (Wilkins)	8/31/2004	1,943							
Relocation of FM 2493 surveying (KL Kilgore)	8/31/2004	4,353							
Relocation of FM 2493 surveying (KL Kilgore)	8/31/2004	570							
Relocation of FM 2493 force main CR engineering (Kenneth Cline)	10/31/2004	2,360							
Relocation of FM 2493 utility crossing permits engineering (Kenneth Cline)	10/31/2004	1,120							
Irish Meadows Lift Station - replaced pump #2	11/30/2004	808							
		\$ 27,053	\$ 191	\$	1,727	\$	25,135		
Collection Sewers - Gravity									
Irish Meadows System	1/1/1992	\$ 72,883							
Irish Meadows - Lines Ext	7/15/1994	16,100							
New Tap Irish Meadows	8/25/1999	1,415							
		\$ 90,408	\$ 40,822	\$	5,772	\$	43,814		
Services to Customers									
Trap Fees in Irish Meadows	11/30/2004	\$ 4,075		\$ 17					
		\$ 4,075			260	\$	3,798		
Pumping Equipment									
Lift Station - Irish Meadows	7/1/1995	\$ 4,654							
Lift Station - Irish Meadows	1/1/1996	1,517							
		\$ 6,171	\$ 6,171	\$					
		\$ 127,707	\$ 47,202	\$	7,759				
Total									
									<u>\$ 72,747</u>

(1) Value as of 12/31/2004. Provided by Algonquin Water Resources

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Exhibit G
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Algorithm Plant Resources Valuation of Total Utility Service Area Book Value of Assets in Valuation Area (1)					
Description of Asset	Date Acquired	Original Value	Accumulated Depreciation (as of 12/31/2004)	Incremental Accumulated Depreciation (12/31/2004 to 12/31/2008)	Current Book Value
<i>Approved Level of Annual Depreciation</i>					
Land		18,685		74,740	
		\$ 164,003		\$	164,003
Property, Plant & Equipment					
Fences for plant	12/23/1994	4,473			
Fences for plant	9/2/1999	4,500			
Blower rebuild for Lamson (AirMap Inc.)	10/31/2004	7,307			
Install new bar screen inlet structure @ plant (Wilkins)	10/31/2004	3,852			
Subtotal		\$ 20,132	\$ 5,737	\$ 1,265	\$ 13,108
Structures & Improvements					
Plant	12/23/1994	204,228			
Plant	9/2/1999	69,681			
Plant	10/31/2004	16,625			
Equalization Basin	10/31/2004	9,687			
Plant - additional tanks	12/23/1994	1,100			
New Plant	9/2/1999	255,844			
New Plant	10/31/2004	7,213			
110kv phase electric	10/31/2004	11,001			
3rd Plant	12/23/1994	102,513			
3rd Plant	9/2/1999	45,671			
Reed Beds	10/31/2004	81,086			
New plant	10/31/2004	52,549			
Old plant addition	12/23/1994	34,744			
Head	9/2/1999	14,891			
Head	10/31/2004	56,000			
M&M Contact increase	10/31/2004	71,369			
2002 additions - no back up	12/23/1994	1,400			
Rish Meadows Lift Station - new lift (Wilkins)	9/2/1999	2,000			
Rish Meadows lift small (2K) security fence (Wilkins)	10/31/2004	1,015			
Case Chapel Lift Station - re erect privacy fence after storm (Wilkins)	10/31/2004	1,015			
FTUC-WWTP - demolition of unused blower, relocate electrical supply (Wilkins)	10/31/2004	1,023			
Subtotal		\$ 1,825,037	\$ 587,659	\$ 65,836	\$ 305,662

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Exhibit G
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Albuquerque Water Resources Valuation of Total Utility Service Area Book Value of Assets in Valuation Area #2					
Description of Asset	Date Acquired	Original Value	Accumulated Depreciation (Bs. of 12/31/2004)	Incremental Accumulated Depreciation (12/31/2004 to 12/31/2008)	Current Book Value
Collection Sewers - Force					
Relocation of FM 2493 mandated by Dept. of Trans (Wilkins)	7/30/2004	\$ 15,680			
Relocation of FM 2493 casing & gravity main (Wilkins)	8/31/2004	1,943			
Relocation of FM 2493 surveying (KL Kligore)	8/31/2004	4,353			
Relocation of FM 2493 surveying (KL Kligore)	8/31/2004	570			
Relocation of FM 2493 force main CR engineering (Keneth Cline)	10/31/2004	2,385			
Relocation of FM 2493 utility crossing permits engineering (Keneth Cline)	10/31/2004	1,120			
Inch Meadows Lift Station - replaced pump #2	11/30/2004	808			
		\$ 27,063	\$ 191	\$ 1,727	\$ 25,135
Collection Sewers - Gravity					
Inch Meadows System	1/11/1992	\$ 72,890			
Inch Meadows - Lines Ext	7/15/1994	16,100			
New Tap Inch Meadows	8/25/1999	1,415			
		\$ 90,405	\$ 40,822	\$ 5,772	\$ 43,814
Services to Customers					
Tap Fees in Inch Meadows	11/30/2004	\$ 4,075			
		\$ 4,075	\$ 17	\$ 280	\$ 3,738
Pumping Equipment					
Lift Station - Inch Meadows	7/11/1995	\$ 4,654			
Lift Station - Inch Meadows	5/11/1996	5,517			
		\$ 6,171	\$ 6,171	\$ -	\$ -
Total		\$ 1,340,879	\$ 850,586	\$ 74,740	\$ 615,541

Total Net Book Value of Assets

\$ 615,541

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Exhibit H
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Algonquin Water Resources Valuation of Total Utility Service Area Compensation for Return on Investment		
Invested Capital (Exhibit E)	\$	160,762
Weighted Average Return on Equity (Exhibit E)		<u>5.78%</u>
Return on Equity (After Tax)	\$	<u>9,292</u>
Return on Equity adjusted for Taxes (Return on Equity / 0.85)	\$	10,932
Rate		
Discount Rate		10.00%
Effective Rate of Growth (2000 - 2060)		<u>2.85%</u>
Discount Rate Reflecting Growth		7.15%
Compensation for Return on Investment (\$10,932 / 7.15%)	\$	152,789

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ATTORNEY GENERAL OF TEXAS
GREG ABBOTT

TEXAS LANDOWNER'S BILL OF RIGHTS

This Bill of Rights applies to any attempt by the government or a private entity to take your property. The contents of this Bill of Rights are prescribed by the Texas Legislature in Texas Government Code Sec. 402.031 and Chapter 21 of the Texas Property Code.

1. You are entitled to receive adequate compensation if your property is taken for a public use.
2. Your property can only be taken for a public use.
3. Your property can only be taken by a governmental entity or private entity authorized by law to do so.
4. The entity that wants to take your property must notify you about its interest in taking your property.
5. The entity proposing to take your property must provide you with an assessment of the adequate compensation for your property.
6. The entity proposing to take your property must make a good faith offer to buy the property before it files a lawsuit to condemn the property.
7. You may hire an appraiser or other professional to determine the value of your property or to assist you in any condemnation proceeding.
8. You may hire an attorney to negotiate with the condemning entity and to represent you in any legal proceedings involving the condemnation.
9. Before your property is condemned, you are entitled to a hearing before a court-appointed panel that includes three special commissioners. This specialized hearing panel must determine the amount of compensation the condemning entity owes for the taking of your property. The commissioners must also determine what compensation, if any, you are entitled to receive for any reduction in value of your remaining property.
10. If you are unsatisfied with the compensation awarded by the special commissioners, or if you question whether the taking of your property was proper, you have the right to a trial by a judge or jury. If you are dissatisfied with the trial court's judgment, you may appeal that decision.

CONDEMNATION PROCEDURE

Eminent Domain is the ability of certain entities to take private property for a public use. Private property can include land and certain improvements that are on that property.

Private property may only be taken by a governmental entity or private entity authorized by law to do so.

Your property may be taken only for a public use. Eminent domain cannot be used to take your property for economic development purposes, except for limited exceptions provided by law.

Your property cannot be taken without adequate compensation. Adequate compensation includes the market value of the property being taken. It may also include certain damages, if any, to your remaining property caused by the acquisition itself or by the way the condemning entity will use the property.

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How the Taking Process Begins

The taking of private property by eminent domain must follow certain procedures. First, the entity that wants to condemn your property must notify you about its interest in acquiring your property. Second, before a condemning entity begins negotiating with you to acquire your property, it must send this Landowner's Bill of Rights statement to the last known address of the person in whose name the property is listed on the most recent tax roll.

Third, the condemning entity must make a good faith offer to purchase the property. The condemning entity's offer must be based on an investigation and an assessment of adequate compensation for the property. At the time the offer is made, the governmental condemning entity must disclose any appraisal reports it used to determine the value of its offer to acquire the property. You have the right to either accept or reject the offer made by the condemning entity.

Condemnation Proceedings

If you and the condemning entity do not agree on the value of the property being taken, the entity may begin condemnation proceedings. Condemnation is the legal process for the taking of private property. It begins with a condemning entity filing a claim for your property in court. If you live in a county where part of the property being condemned is located, the claim must be filed in that county. Otherwise, the claim can be filed in any county where at least part of the property being condemned is located. The claim must describe the property being condemned, the intended public use, the name of the landowner, a statement that the landowner and the condemning entity were unable to agree on the value of the property, and that the condemning entity provided the landowner with the Landowner's Bill of Rights statement.

Special Commissioners' Hearing

After the condemning entity files a claim in court, the judge will appoint three landowners to serve as special commissioners. These special commissioners must live in the county where the condemnation proceeding is filed, and they must take an oath to assess the amount of adequate compensation fairly, impartially, and according to the law. The special commissioners are not authorized to decide whether the condemnation is necessary or if the public use is proper. After being appointed, the special commissioners must schedule a hearing at the earliest practical time and place and provide you written notice of that hearing.

You are required to disclose to the governmental condemning entity, at least ten days before the special commissioners' hearing, any appraisal reports used to determine your opinion about adequate compensation for the property. You may hire an appraiser or real estate professional to help you determine the value of your private property. You may also hire an attorney regarding these proceedings.

At the hearing, the special commissioners will consider evidence on the value of the property, the damages to remaining property, any value added to the remaining property as a result of the project, and the uses to be made of the property being taken.

Special Commissioners' Award

After hearing evidence from all interested parties, the special commissioners will determine the amount of money to be awarded as adequate compensation. You may be responsible for the costs if the Award is less than or equal to the amount the condemning entity offered before the condemnation proceeding began. Otherwise, the condemning entity will be responsible for the costs. The special commissioners will give a written decision to the court that appointed them. That decision is called the "Award." The Award must be filed with the court and the court must send written notice of the Award to all parties.