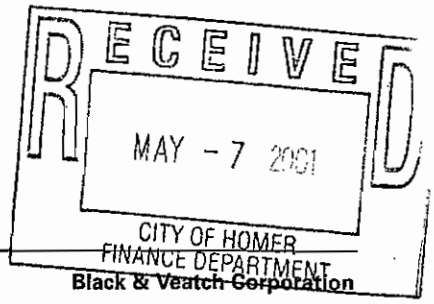
BLACK & VEATCH



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Black & Veatch Corporation

May 2, 2001

Mr. Dean Baugh
Finance Director
City of Homer
491 E. Pioneer
Homer, AK 99603

Dear Mr. Baugh:

For the past several years, Black & Veatch's Management Consulting Division (MCD) has prepared surveys of water and wastewater rates and charges in various states across the nation for distribution to cities and districts. The surveys contain comparative information on water and wastewater rates, typical monthly bills, rate structure types and other related information for a representative sample of utilities in the state surveyed. The surveys are updated approximately every two years.

Enclosed for your use is a copy of our 2001 Alaska Water/Wastewater Rate Survey just completed by MCD's pacific northwest regional office. This office, located in Seattle, provides management and financial consulting services to municipal utilities in Washington, Oregon, Alaska, and Idaho.

If you are not currently included but would like to be, please call or send us a copy of your current water and wastewater rate structures along with a contact name, address, and phone number.

Please feel free to contact us regarding the survey or other services Black & Veatch provides. We would be pleased to assist you with any financial and management needs which may arise.

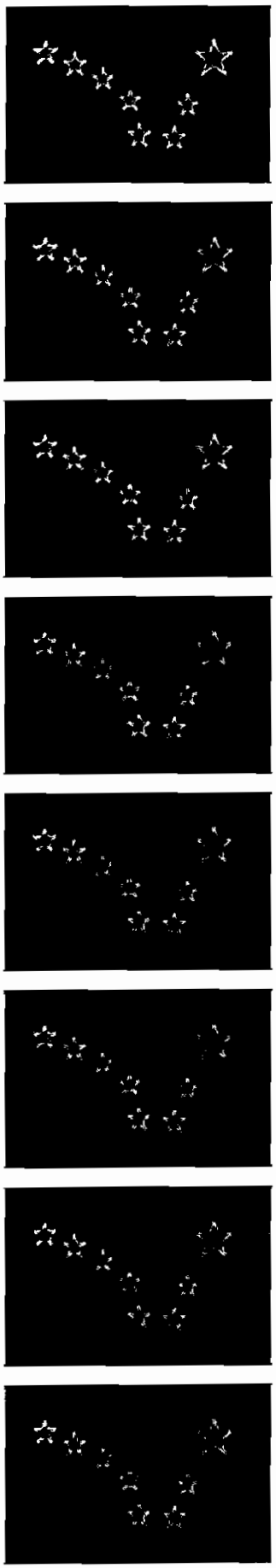
We welcome your comments and hope that the information is of interest to you.

Very truly yours,

BLACK & VEATCH CORPORATION

Timothy F. Lynch
Financial Analyst
Management Consulting Division

Enclosure



Alaska

Water/Wastewater

Rate Survey

2001

BLACK & VEATCH
Corporation

2001 Alaska Water/Wastewater Survey

Introduction

Black & Veatch is pleased to present its 2001 Alaska Water/Wastewater Rate Survey. The survey, intended to provide useful comparative information on utility rates, was conducted by our Management Consulting Division (MCD) and reflects rates effective as of January 2001. MCD provides management and financial consulting services to municipal utilities in Alaska and across the nation.

The survey covers municipal water and wastewater utilities for representative cities with populations ranging from 671 to 261,446. Rates and charges for utilities listed reflect those provided by the utility, which may also provide service outside their municipal boundaries. Such cities may also be served by other utility districts or county operated systems.

Observations on residential rate increases and design practices follow this brief introduction. Summary data of the surveyed municipalities, followed by graphical comparisons of typical residential water and wastewater bills are shown at the end of this document.

Rate Increase Trends

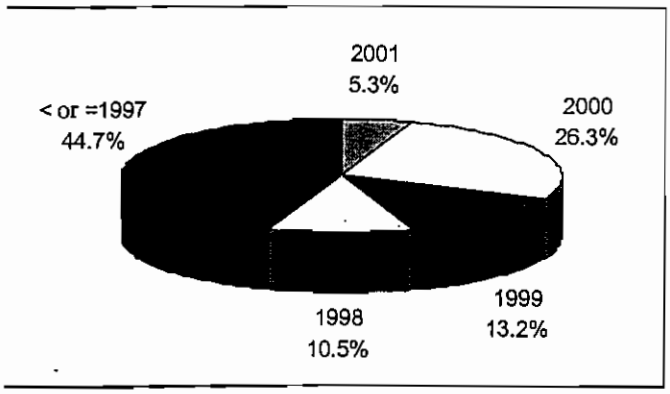


Figure 1 Year of Last Water and Wastewater Rate Increase as a Percent of Total Utilities Surveyed

Water and wastewater utilities in the region are facing increased costs in order to meet existing and future regulatory and capacity requirements in addition to the growing need to replace and rehabilitate existing systems. The result is the need for increased rates to fund the necessary capital programs and increased operating costs. A significant indicator of municipalities efforts to stay abreast of their revenue needs is the frequency with which they increase their rates. As shown in Figure 1, 5 percent of the utilities surveyed implemented increases so far in 2001. Another 26 percent implemented increases in 2000, 13 percent increased in 1999, and 11 percent increased in 1998. Over 44 percent of the utilities surveyed have not increased rates since 1997.

Minimum Bills

Minimum bills represent the fixed monthly service charge which is assessed regardless of whether or not water is used, or the flat monthly rate for those utilities that do not bill based on water volume.

As shown in Figure 2, the average residential monthly minimum bill for water is $20.37 and ranges from $8.50 to $40.10. Of the water utilities surveyed, only two include a water usage allowance in their minimum bill, ranging from 5,000 gallons to 8,000 gallons per month.

The average residential monthly minimum bill for wastewater is $26.32 and ranges from $0.00 to $52.36. Of the wastewater minimum bills shown in the survey, 74 percent represent flat monthly charges which range from $7.75 to $38.75. Only two of the utilities surveyed include a usage allowance in their wastewater minimum bills.

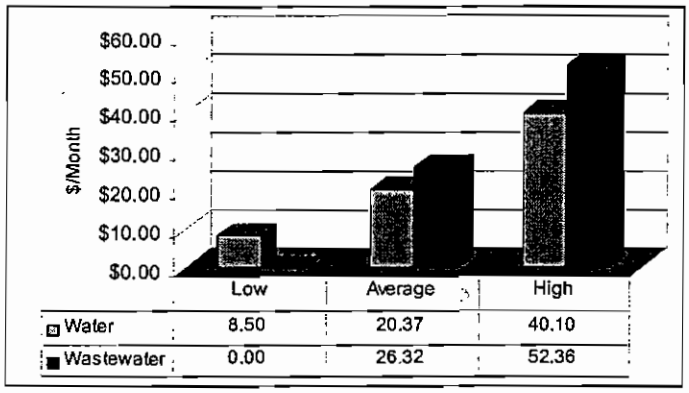


Figure 2 Range of Monthly Residential Minumum Bills

Public attention, heightened by rapidly increasing utility costs, has recently focused on the impact minimum bills have on low and fixed income users. Communities with relatively high minimum bills may want to examine alternative minimum charge design approaches to reduce cost impacts on low and fixed income users. Alternative approaches include eliminating minimum volume allowances or shifting additional costs to the volume charge component of rates. Lifeline or senior citizen discount rates have also been adopted by some utilities to address ability-to-pay issues for specific customer groups. Such rate structures are usually in the form of a reduced minimum charge or a reduced commodity charge for low volume users targeted at fixed income residents.

Water Volume Charges

Water conservation prolongs existing water supplies, reduces utility capital costs, and helps insure the efficient use of a valuable natural resource. One method available to utilities to encourage water conservation is through conservation rates. Carefully designed rate structures, such as inverted-block or seasonal rates, combined with other water conservation measures, have proved successful in reducing water usage in many communities. There are four predominate water rate structures available to water utilities. Uniform or Single Block Commodity Charges apply the same rate to all water usage, irrespective of customer type. Inverted-Block Rate Structures charge higher rates as usage increases. Decreasing Block Rates charge lower rates for increased usage in order to accommodate high volume commercial and industrial customers who place less of a peak load on the water system, and Flat rates charge a given rate per month for each class of service, regardless of usage. Of the utilities surveyed in Alaska, only flat rate and uniform charge rate structure are used.

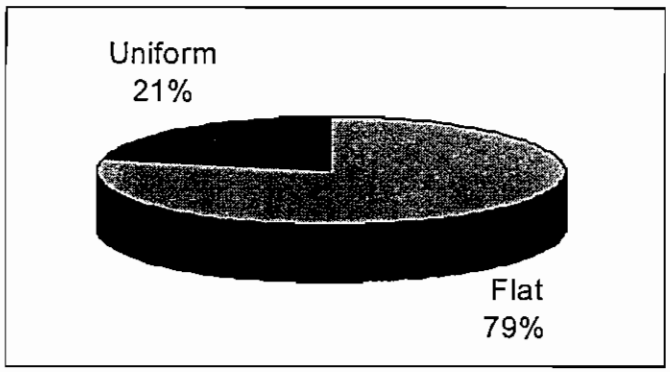


Figure 3 Types of Water Rate Structures

As shown in Figure 3, 79 percent of surveyed utilities have flat rate schedules and 21 percent have uniform rate schedules.

Many communities in Alaska are currently unmetered, and therefore, unable to implement conservation-orientated rate structures. Some utilities require by ordinance that all new customers install meters and pay a monthly bill based on water usage. For these utilities, there is a flat rate structure for existing customers and a water usage rate structure for new customers.

Wastewater Volume Charges

An important consideration in setting wastewater volume charges is the determination of "billable" wastewater volume. Most utilities with meters use metered water consumption as a basis for billing wastewater volume costs. Residential water use for non-sewered purposes, such as lawn irrigation, can be recognized either by reduced rates or by not including all water use in the amount billable for wastewater volume charges.

In Alaska, however, the majority of communities are not metered. As shown in Figure 4, 74 percent use a fixed monthly flat rate for all residential customers and 26 percent use actual water use.

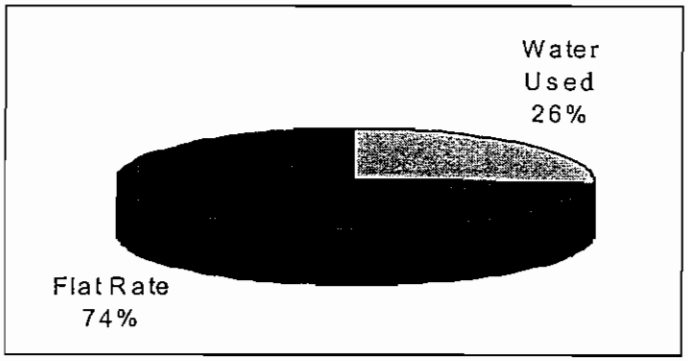


Figure 4 Residential Wastewater Volume Billing Basis

Typical Bills

Figure 5, on the following page, presents data on population, number of accounts, and summary data on residential water and wastewater rate structures. Typical monthly residential water and wastewater bills are summarized in Figures 6 and 7. Combined monthly water and wastewater bills for 7,500 gallons of use average $55.17 and range from $16.25 to $112.77. Increasing the usage to 15,000 gallons yields an average combined residential bill of $67.02, ranging from $16.25 to $177.62.

Final Comments

Balancing various community needs such as low income user relief, equity, and economic development is often difficult when establishing rate structures. Comprehensive cost of service analyses combined with customer class specific rate design approaches can achieve these and other utility goals for a community.

If you have any questions or comments about this survey, or would like additional information on how your community can evaluate its utility charge systems, please contact Ms. Pamela R. Lemoine, Regional Manager, Black & Veatch, 720 Third Avenue, Suite 1100, Seattle, Washington 98104; telephone: (206) 224-4609.

How to Obtain a Copy of the Survey

The survey is available, free of charge, to cities and districts. To request additional copies of the survey, please call or write to Mr. Tim Lynch at the above mentioned address or telephone: (206) 224-4651. We welcome your comments on the survey and any suggestions for additional information which could be added to the next survey, scheduled for May 2003.

Figure 5

Summary Data

Community	Estimated Population	Number of Accounts Water	Number of Accounts Wastewater	Effective Date of Water Rate	Residential Water Rate Structure	Effective Date of Wastewater Rate	Residential Wastewater Billing Basis
Anchorage	261,446	51,000	54,000	1995	Flat	2000	Flat
Craig	2,355	445	365	1993	Uniform	1998	Water Usage
Dillingham	2,400	NP	NP	2000	Flat	2000	Flat
Haines (a)	1,808	540	474	1998	Flat	1998	Flat
Haines (b)	1,808	50	50	2000	Flat	2000	Water Usage
Homer	4,205	1,205	1,102	2001	Uniform	2001	Water Usage
Juneau	31,262	8,671	7,594	1991	Flat	2000	Flat
Kenai	7,039	1,699	1,684	1993	Flat	1993	Flat
Ketchikan	8,295	2,823	2,758	1996	Flat	1999	Flat
King Cove	671	NP	NP	1995	Flat	1998	Flat
Klawock	750	337	357	1997	Flat	2000	Flat
Kodiak	6,869	2,340	2,340	1996	Flat	1996	Flat
Petersburg	3,398	974	1,135	2000	Uniform	1995	Water Usage
Seward	3,085	848	824	1993	Flat	1993	Flat
Sitka	8,788	3,725	3,575	1992	Flat	1992	Flat
Skagway	820	375	375	1991	Flat	1991	Flat
Valdez	4,271	919	774	1999	Flat	1999	Flat
Wasilla	5,568	673	482	1999	Uniform	1999	Water Usage
Wrangell	2,569	850	835	2000	Flat	2000	Flat

NP=Not Provided

(a) Approximately 80% of the City of Haines is served by City of Haines Utilities

(b) Approximately 20% of the City of Haines is served by Crystal Cathedrals Water & Sewer System Inc.

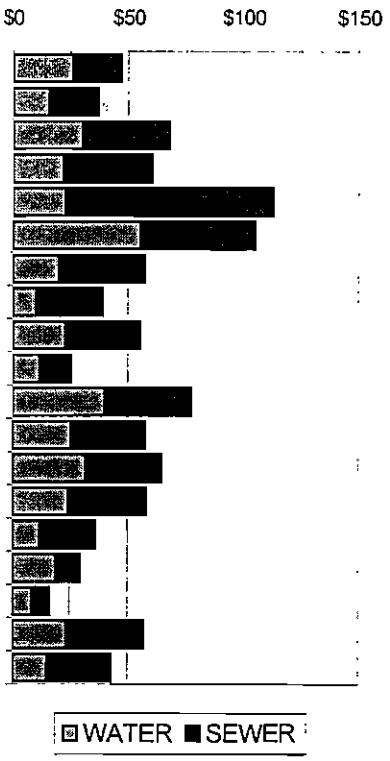
Figure 6

Monthly Water and Wastewater Bills

Ranked from Lowest (1) to Highest (19)

Residential Customers - 7,500 Gallons Usage

Community	Water $	*Rank*	Sewer $	*Rank*	Combined $	*Rank*
Anchorage	25.95	*15*	21.33	*4*	47.28	*8*
Craig	15.75	*6*	21.35	*5*	37.10	*5*
Dillingham	30.45	*16*	37.54	*15*	67.99	*16*
Haines (a)	21.85	*9*	38.75	*17*	60.60	*14*
Haines (b)	23.00	*10*	89.77	*19*	112.77	*19*
Homer	55.18	*19*	49.90	*18*	105.08	*18*
Juneau	19.95	*8*	37.28	*14*	57.23	*11*
Kenai	10.35	*2*	28.70	*8*	39.05	*6*
Ketchikan	23.00	*10*	32.35	*10*	55.35	*9*
King Cove	12.00	*3*	13.50	*3*	25.50	*2*
Klawock	40.10	*18*	37.70	*16*	77.80	*17*
Kodiak	25.30	*14*	32.20	*9*	57.50	*12*
Petersburg	31.81	*17*	32.93	*11*	64.74	*15*
Seward	24.10	*13*	34.00	*13*	58.10	*13*
Sitka	12.00	*3*	24.00	*6*	36.00	*4*
Skagway	19.00	*7*	10.75	*2*	29.75	*3*
Valdez	8.50	*1*	7.75	*1*	16.25	*1*
Wasilla	23.63	*12*	33.38	*12*	57.00	*10*
Wrangell	15.01	*5*	28.12	*7*	43.13	*7*
Average	23.00		32.17		55.17	
Median	23.00		32.35		57.00	



Note: Assumes 7,500 gallons (or 1,000 cubic feet) monthly usage and a 5/8" (or nearest equivalent) meter size.

(a) Approximately 80% of the City of Haines is served by City of Haines Utilities

(b) Approximately 20% of the City of Haines is served by Crystal Cathedrals Water & Sewer System Inc.

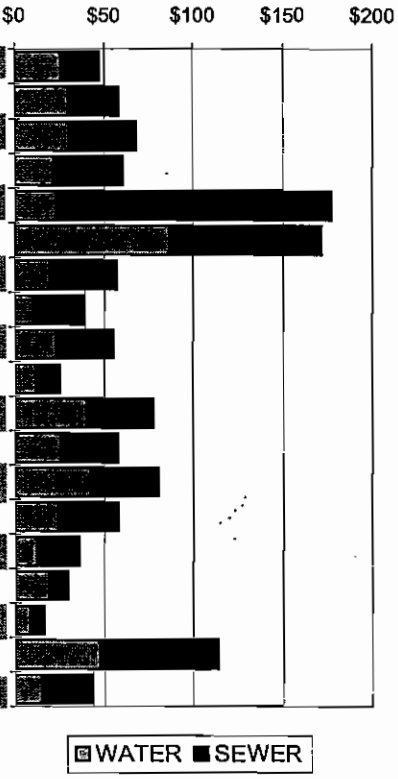
Figure 7

Monthly Water and Wastewater Bills

Ranked from Lowest (1) to Highest (19)

Residential Customers - 15,000 Gallons Usage

Community	Water $	*Rank*	Sewer $	*Rank*	Combined $	*Rank*
Anchorage	25.95	*13*	21.33	*2*	47.28	*7*
Craig	29.75	*14*	28.35	*7*	58.10	*11*
Dillingham	30.45	*15*	37.54	*13*	67.99	*14*
Haines (a)	21.85	*8*	38.75	*16*	60.60	*13*
Haines (b)	23.00	*9*	154.62	*19*	177.62	*19*
Homer	86.68	*19*	85.15	*18*	171.83	*18*
Juneau	19.95	*7*	37.28	*12*	57.23	*9*
Kenai	10.35	*2*	28.70	*8*	39.05	*5*
Ketchikan	23.00	*9*	32.35	*10*	55.35	*8*
King Cove	12.00	*3*	13.50	*3*	25.50	*2*
Klawock	40.10	*16*	37.70	*14*	77.80	*15*
Kodiak	25.30	*12*	32.20	*9*	57.50	*10*
Petersburg	42.23	*17*	38.03	*15*	80.26	*16*
Seward	24.10	*11*	34.00	*11*	58.10	*11*
Sitka	12.00	*3*	24.00	*5*	36.00	*4*
Skagway	19.00	*6*	10.75	*2*	29.75	*3*
Valdez	8.50	*1*	7.75	*1*	16.25	*1*
Wasilla	47.25	*18*	66.75	*17*	114.00	*17*
Wrangell	15.01	*5*	28.12	*6*	43.13	*6*
Average	27.18		39.84		67.02	
Median	23.00		32.35		57.50	



Note: Assumes 15,000 gallons (or 2,000 eubie feet) monthly usage and a 5/8" (or nearest equivalent) meter size.

(a) Approximately 80% of the City of Haines is served by City of Haines Utilities

(b) Approximately 20% of the City of Haines is served by Crystal Cathedrals Water & Sewer System Inc.