

Birch Hill Water Supply

PO Box 1458
Millbrook, NY 12545

Phone (845) 677-1003

April 6, 2006

Mr. Bruce Alch
NYS Department of Public Service
Three Empire State Plaza
Albany, NY 12223-1350

SUBJECT: Birch Hill Water Supply Well Escrow - 04-W-0430

Dear Mr. Alch:

As you are aware, the wells which provide water to Birch Hill Water Supply become encrusted due to high levels of iron and manganese. Therefore, well yields decrease over time. Last Summer, one well stopped producing water, and the second well lost 1/3 of its volume. Case 04-W-0430 provided for the collection of funds via a surcharge to customers of \$55/quarter over four quarters to address the redevelopment or redrilling of one well.

On August 26, 2005, we received a proposal from Folchetti Associates which recommended drilling the non-producing well deeper, and then hydro-surfing it with a cable tool rig (followed by a zone fracturing technique, if need be). The estimate for doing **one** well using this solution was around \$30,000.

With PSC's recommendation, I have been working with Mr. William Bright of Hudson Valley Consulting. Mr. Bright has proposed a different solution which involves using a mild chemical treatment in conjunction with hydro-surfing. The estimate to perform the contractor's work will be approximately \$16,000 for **two** wells. Additionally, there will be some auxiliary costs associated with testing, monitoring, trucking in of water, consulting services, and potential pump repair.

Appendix E of Case 04-W-0398 allowed for the company to accrue approximately \$14,000 over four quarters, which we now have on hand.

I am seeking your approval to continue the surcharge to allow for the continued collection of funds so this project may proceed. The contractor is prepared to do the work before the beginning of summer. I would like to suggest you allow the surcharge of \$55/customer to continue for two more quarters, beginning with the current quarter. This would provide an additional \$7,000.

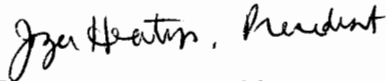
After we have evaluated the outcome of the chemical treatment and hydro-surge process on the two existing wells, it might make sense to put a preventative maintenance plan in place. Birch Hill has an additional two wells which are not in use due to the encrustation or iron and

manganese. Mr. Bright has recommended a plan to do the same process to the these two wells. After the addition of pumps, these wells could be put on-line. Each year, on a rotating basis, one well could be taken off-line, treated chemically, and hydro-surged. This would prevent a situation where the supply to customers is severely compromised, as it is now. Another benefit is that the reduced demand on the individual wells will result in slower encrustation from the iron and manganese. Should this be a plan worth pursuing, we will be looking for your support and guidance to set up a corrective maintenance escrow account for funding.

Thank you in advance for your assistance. I look forward to receiving your reply as soon as possible so we may proceed immediately with our work. Please feel free to contact me at (845) 677-1003 if you have any questions or concerns.

Thank you.

Very truly yours,

A handwritten signature in cursive script that reads "Joyce Heaton, President".

Joyce Heaton, President

/jeh

cc: Mr. William Bright