



Administration Building
340 West Bayfront Parkway
Erie, PA 16507-2004
814/870-8000

April 22, 2009

Mr. Joseph Kujawa
Mr. Larry Curtis
Mr. Brian McGrath
Millcreek Township Supervisors
3608 West 26th Street
Erie, PA 16506

Gentlemen:

Erie Water Works ("EWW"), a Pennsylvania municipality authority which leases and operates the Erie Water System hereby presents a conceptual outline of a proposal to lease, operate and manage the water supply and distribution system serving Millcreek Township (the "Township") and adjacent areas (herein the "Millcreek Water System"). The Millcreek Water System currently is owned and operated by the Millcreek Township Water Authority ("MTWA"), a Pennsylvania municipality authority. EWW's proposal would include the following:

(1) MTWA as Lessor and EWW as Lessee will enter into an Agreement of Lease whereby the Millcreek Water System will be leased to EWW for operation and use.

(2) EWW proposes to lease the Millcreek Water System for a term of thirty years or more, but not to exceed the term of EWW's lease with the City of Erie for the Erie Water System, which term expires 12/31/2050.

(3) Under the Agreement of Lease, EWW will covenant to manage, maintain and operate the Millcreek Water System in an efficient manner in accordance with sound engineering and water works practices. EWW will be responsible for billing and collection of all receipts and revenues, payment of operating expenses and payment of debt service from receipts and revenues of the Millcreek Water System.

(4) The Millcreek Water System shall be operated and maintained by EWW as a separate "project." EWW shall maintain separate accounts and records with respect to assets and liabilities, receipts and revenues, operating expenses and debt service for the

Millcreek Water System in accordance with sound accounting principles applicable to municipal public utility systems.

(5) Based upon preliminary evaluations EWW believes that its currently effective rate structure will be applicable for service to customers of the Millcreek Water System. The initial rate structure would be mandated in the Agreement of Lease, which would provide that all future rate changes will be based upon cost of service.

(6) Under the Agreement of Lease, EWW would have full operational control of the Millcreek Water System.

(7) EWW also will recommend a financing plan for any capital improvements utilizing available reserve funds applicable to the Millcreek Water System (which will be maintained as a separate account) and/or utilize debt in the form of revenue bonds to be issued by EWW with guarantees by the Township or in such other manner as shall be approved by the Township. Debt service applicable to such capital improvement projects shall be included within rates for service to customers of the Millcreek Water System either in the form of a capital surcharge or such other manner as shall be approved by EWW and the Township and consistent with cost of service principals.

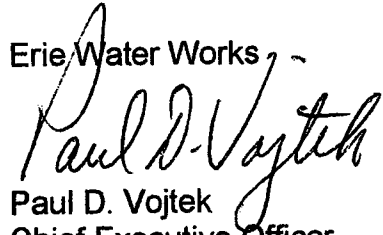
(8) Pursuant to the Agreement of Lease, MTWA will transfer and assign all assets, facilities, materials and supplies used or useful with respect to the Millcreek Water System and shall assign any and all contracts, agreements, permits, leases, rights-of-way and any other rights, franchises or intangible personal property used or useful in connection with the Millcreek Water System to EWW, as Lessee.

The purpose of the foregoing outline is to enable the parties to focus on the issues and to proceed with all necessary due diligence and to negotiate an Agreement of Lease. Accordingly, the foregoing proposal shall be subject to further due diligence and investigation on the part of EWW, the Township and MTWA, review by their respective consultants and counsel and the preparation and final execution of a definitive Agreement of Lease.

If you have interest in pursuing this matter, we would appreciate hearing from you within the next 30 days. If you have any questions regarding this issue, please contact me at 814-870-8000 ext. 303 at your convenience.

Sincerely,

Erie Water Works

A handwritten signature in black ink, reading "Paul D. Vojtek". The signature is written in a cursive style with a large, stylized initial "P".

Paul D. Vojtek
Chief Executive Officer

Cc: Charles Zwally, Esq.
Richard Wasielewski, EWW Chairman
Dave Thiemann, MTWA Chairman
George Riedesel, MTWA Executive Director