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VIA HAND DELIVERY

July 18, 2013

James C. Wrenn, Jr.
Hoppers, Hicks & Wrenn, PLLC
111 Gilliam St.
Oxford, NC 27565

RE: CITY OF CREEDMOOR MEMORANDUM OF
UNDERSTANDING WITH SGWASA
ATTORNEY PRIVILEGED AND CONFIDENTIAL
FOR NEGOTIATION PURPOSES ONLY

Dear Jim:

This is in response of your June 25, 2013, letter. You have requested that we dispense with the Memorandum of Understanding previously discussed and proceed directly to negotiation of a contract which would govern the acquisition of Creedmoor's water and sewer system by SGWASA. Assuming solutions to each of Creedmoor's concerns as expressed in the draft Memorandum of Understanding can be found, the City has no objection to proceeding in that manner.

Last August Butner Mayor Tom Lane addressed the Creedmoor Board in open session and stated that SGWASA was interested in acquiring the system for a purchase price of \$13.5 million. He detailed the manner of payment being proposed. In his discussions with Lindsay Mize, City Manager Tom Mercer stated the City's position with regard to a sales price. He indicated that the City's current value of its system was \$22.7 million. Neither of these figures took into account or anticipated the transfer of Creedmoor's approved capacity for discharge of effluent into Tar River. It is the City's position that the purchase price for sale of its assets is an essential element of the agreement which should be stated in the contract document in a sum certain. The City will be happy to negotiate with SGWASA to reach a purchase price of the assets transferred in advance of execution of the contract.

Regarding Creedmoor's concerns with SGWASA's capacity, we have reviewed your proposed modified allocation scenario attached as Exhibit B to your letter. The numbers used in your example on the second page appear to assume 2.3 million gallons per day of current unused capacity. This is based upon the untested assumption that SGWASA will achieve 2.0 milligrams per liter of total nitrogen discharge after its Stage I plant upgrade. SGWASA engineers have not projected achievement of that level after the upgrade.

Based upon the current make-up of the Total Nitrogen in the effluent at the SGWASA WWTP and technology based achievable nutrient limits, the anticipated effluent Total Nitrogen concentration after completion of the Phase I wastewater treatment system improvements and optimizing the treatment system performance at the SGWASA WWTP is as follows:

Organic Nitrogen, mg/L	= 1.2
Ammonia Nitrogen, mg/L	= 0.5
Nitrit-Nitrate Nitrogen, mg?	= <u>1.0</u>
Total Nitrogen, mg/L	= 2.7

You will probably achieve at least 3.0 mg/l. Creedmoor is not prepared to go forward without additional guaranteed reserve capacity based solely upon your assertion of 2.0 mg/l Total Nitrogen. Some mechanism would have to be developed to assure Creedmoor first of its previously contracted allocations and thereafter sufficient capacity for Creedmoor's unrestricted waste water flow for at least 20 years. If SGWASA does not achieve a TN output of less than 3.0 mg/l then it has no available reserve at all.

As you know, allocations for discharge into Tar River have been capped for several years. No additional allocations are available. Creedmoor's allocation to the Tar River is approximately 2,000 lbs TN/year. You indicate that when SGWASA determines that a discharge to Tar River is appropriate, it would use Creedmoor's allocation but treat the wastewater discharged in the river at its existing plant. Creedmoor sees the financial advantage in this and has no problem with the capacity being treated through the existing plant. However, as the TN discharge capacity held by Creedmoor is roughly equivalent to the total capacity currently held by SGWASA and as best case planning indicates SGWASA's current Falls Lake capacity will be exhausted in less than 20 years (and possibly in as little as 13-14 years), the City would want to reserve the rights to its Tar River capacity to serve Creedmoor when needed or in the alternative for SGWASA to purchase that asset

as a part of this contract for a separate consideration.

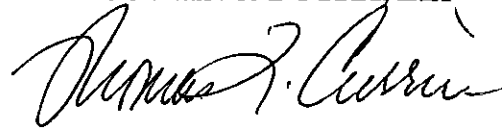
Both our mayor and our manager are available for "a dialog" concerning the service area/ETJ to be administered by Creedmoor in the future. The City has already grown well beyond its current ETJ. I appreciated your acknowledgment at our meeting that identification of a territory certain which would constitute both Creedmoor's utility service area and its ETJ makes good practical and legal sense. As you are fully aware of the circumstances and issues involved and have had an opportunity to communicate with members of the boards of both the Town of Butner and Granville County, we should be able to determine if there is any current objection to Creedmoor's request in this regard from any of the interested parties.

Creedmoor remains fully committed to finding a regional solution to its future water and sewer needs if possible. Please let us know if you think it would be appropriate to have further discussions to that end.

Thank you for your attention in this matter. Should you have any questions regarding the above, please do not hesitate contacting me. With kindest regards, I am,

Sincerely,

CURRIN & DUTRA, LLP

A handwritten signature in black ink, appearing to read "Thomas L. Currin", written in a cursive style.

Thomas L. Currin

TLC/mle