

Dear Silver Creek Water Corporation Member:

Over the years, the Indiana American Water Corporation (“IAWC”) has periodically approached the Board of Directors (“Board”) for Silver Creek Water Corporation (“SCWC”) and expressed its interest in purchasing SCWC’s water system. **In 2022, IAWC again approached the Board and made a very strong offer that, after a period of negotiation, has been accepted by the Board, and is now subject to approval by the SCWC members and the Indiana Utility Regulatory Commission (“IURC”).** The purpose of this letter is to briefly describe the terms of the offer, provide information about the effect of a potential purchase, and explain the nature of and timing for the prospective steps to complete a sale.

As an initial matter, the SCWC water system has grown to almost 8,000 customers and is in good financial health. SCWC and its water system are not, in any way, financially troubled or in a state of technical or operational distress. **SCWC is, however, at an inflection point in its history because of its growing membership. With SCWC’s current classification, the regulatory requirements are reduced (and therefore less expensive), and the value of SCWC’s system is based on more favorable criteria than is the value of a larger utility system.**

As part of the negotiations with IAWC, the Board hired two independent professional engineering firms, Beam Longest & Neff and Banning Engineers, and an appraisal company, BLN Right of Way Services, to perform an inventory and valuation (“Appraisal”) of SCWC’s assets. **Based on the Appraisal and its own valuation, IAWC ultimately agreed to a purchase price of \$45 Million for SCWC’s system.** The Board of Directors for SCWC have a fiduciary responsibility to work in the best interest of the members and therefore explored this issue and its ramifications for valuing the company for the membership.

The Board wants the membership to be fully informed of the impact of a sale. Outlined below are the general terms associated with the proposed sale:

- 1) Members will be **reimbursed their membership fee.**
- 2) Members as of the date of execution of the Asset Purchase Agreement between Silver Creek and IAWC (i.e., July 28th, 2023) will also **receive an estimated payment of approximately \$4,500-\$4,800 per membership** from the sale proceeds and any remaining cash on hand.
- 3) SCWC anticipates that timing of the reimbursement for the membership fee and each member’s share of the purchase price will be **paid by the end of 2024, but it should be no later than June 30, 2025.**
- 4) **If the IAWC acquisition does not occur, then SCWC will need to increase its rates** due to rising expenses and lower growth projections over the next decade..
- 5) The **Members would transition to IAWC’s Tier One rates,** which would result in an **increase from \$34.75 to \$58.40 for a typical monthly bill of a SCWC customer using 5,000 gallons per month** using IAWC’s current tariff.
- 6) The **higher volume users** (i.e., customers using more than 35,000 gallons per month) with 5/8” meters will **experience decreased rates.** Please see attached chart which shows the anticipated impact on customers at various monthly usage amounts and meter sizes.
- 7) **SCWC’s current employees will have the opportunity to transition** to employment with IAWC.
- 8) IAWC will establish a call center **dedicated to former SCWC members.**
- 9) Payout remuneration for the SCWC employees and Board will total **5.6%** of the total sale price. This is compensation for:
 - i. A retention and salary bonus for the SCWC staff to ensure that the staff remains with SCWC until the sale is finalized and as a reward for years (in many instances, decades) of dedicated service.

- ii. Compensation to the Board who: (a) has diligently negotiated this deal for over a year with the members' and employees' best interests in mind; (b) did not engage a broker and negotiated directly with IAWC, thus saving SCWC and its members the substantial cost of a brokerage fee; (c) negotiated a purchase price which results in a favorable payout to each member; and (d) ensured continued employment for SCWC's existing employees after the IAWC acquisition.

In the coming days, IAWC will be sending you information about itself and its service which will then be followed by a ballot for each member (as of close of business on July 28, 2023) to cast a vote in favor of or against the transaction. The Board would like to have the votes mailed and postmarked by September 15th, 2023. If the membership decides to move forward with the sale, then the Board (along with IAWC) will pursue IURC and IAWC Board approvals before closing on the transaction. To assist you in your review of the potential sale, I am **attaching a list of Frequently Asked Questions** with answers.

On behalf of the Board, I would like to thank each of you for your consideration of this important matter. If you have any questions regarding the proposed transaction, you may contact the Board by emailing **scwcboard@silvercreekwater.org**. The Board will endeavor to review and respond to all inquiries as quickly as possible.

Respectfully,



Doug Chumbler
President of Board of Directors for
Silver Creek Water Corporation

Current as of 7/24/23

5/8" Meter Rates											
Meter Size	Usage Gallons	INAWC - Area One Rates				SCWC				Estimated Variance	Estimated Var. %
		Water Rate*	Fire Protection Service	Water Sales Tax	Total	Water Rate	Fire Protection Service	Water Sales Tax	Total		
5/8"	-	\$ 24.31	\$ 4.85	\$ 1.70	\$ 30.86	\$ 15.40	\$ 1.63	\$ 1.08	\$ 18.11	\$ 12.75	70.4%
5/8"	5,000	\$ 50.05	\$ 4.85	\$ 3.50	\$ 58.40	\$ 30.95	\$ 1.63	\$ 2.17	\$ 34.75	\$ 23.66	68.1%
5/8"	10,000	\$ 75.79	\$ 4.85	\$ 5.31	\$ 85.95	\$ 61.90	\$ 1.63	\$ 4.33	\$ 67.86	\$ 18.08	26.6%
5/8"	20,000	\$ 118.94	\$ 4.85	\$ 8.33	\$ 132.11	\$ 115.90	\$ 1.63	\$ 8.11	\$ 125.64	\$ 6.47	5.1%
5/8"	50,000	\$ 223.38	\$ 4.85	\$ 15.64	\$ 243.87	\$ 270.80	\$ 1.63	\$ 18.96	\$ 291.39	\$ (47.52)	-16.3%
5/8"	100,000	\$ 397.45	\$ 4.85	\$ 27.82	\$ 430.12	\$ 505.30	\$ 1.63	\$ 35.37	\$ 542.30	\$ (112.18)	-20.7%
5/8"	300,000	\$ 1,093.73	\$ 4.85	\$ 76.56	\$ 1,175.14	\$ 1,357.30	\$ 1.63	\$ 95.01	\$ 1,453.94	\$ (278.80)	-19.2%

*INAWC Includes Water Rate, Flat Meter Fee (\$15.26), SEI (\$1.07), and DSIC (\$7.98)

Other Meter Sizes											
Meter Size	Avg. SCWC Usage Gallons by Meter Size	INAWC - Area One Rates				SCWC				Estimated Variance	Estimated Var. %
		Water Rate*	Fire Protection Service	Water Sales Tax	Total	Water Rate	Fire Protection Service	Water Sales Tax	Total		
1"	15,155	\$ 115.50	\$ 12.27	\$ 8.09	\$ 135.86	\$ 89.98	\$ 1.63	\$ 6.30	\$ 97.91	\$ 37.95	38.8%
1-1/2"	30,719	\$ 203.46	\$ 24.57	\$ 14.24	\$ 242.27	\$ 173.69	\$ 1.63	\$ 12.16	\$ 187.48	\$ 54.79	29.2%
2"	71,594	\$ 401.76	\$ 39.30	\$ 28.12	\$ 469.18	\$ 372.09	\$ 1.63	\$ 26.05	\$ 399.77	\$ 69.42	17.4%
3"	213,052	\$ 979.99	\$ 73.68	\$ 68.60	\$ 1,122.27	\$ 987.10	\$ 15.91	\$ 69.10	\$ 1,072.11	\$ 50.16	4.7%
4"	258,108	\$ 1,256.69	\$ 122.80	\$ 87.97	\$ 1,467.46	\$ 1,178.81	\$ 15.91	\$ 82.52	\$ 1,277.24	\$ 190.22	14.9%
6"	364,691	\$ 1,907.66	\$ 245.62	\$ 133.54	\$ 2,286.81	\$ 1,632.92	\$ 57.12	\$ 114.30	\$ 1,804.34	\$ 482.47	26.7%

Frequently Asked Questions Regarding Indiana American Water Company (“IAWC”) Acquisition

Why has the Board of Directors (“Board”) for Silver Creek Water Corporation (“SCWC”) preliminarily approved a sale?

The Board has been periodically approached by IAWC seeking to purchase the SCWC utility. In 2022, IAWC again approached the Board and made a very strong offer. The Board has a fiduciary responsibility to the members to work on their behalf for what is best for them and therefore wants to give the SCWC members the opportunity to realize full value from a sale at this time. The Board hired two independent professional engineering firms and an appraisal company to perform an appraisal or valuation of SCWC’s assets, and the price ultimately negotiated is consistent with the appraisals and the Board’s own valuation of the SCWC system. The Board also believes that due to the economics of water utilities, if SCWC continued to grow as an independent water utility, the value available on a per-member basis from a sale would likely decrease.

What are the benefits of a potential sale of the SCWC system for the SCWC customers?

The sale of the SCWC water system would have many benefits for the existing SCWC customers, including:

- The vast majority of the sale proceeds and remaining cash on hand will be distributed to the membership. It is anticipated that each member (as of July 28, 2023) will receive between \$4,500 and \$4,800 after closing.
- All members would receive a refund of any membership fees previously paid to SCWC.
- Long-term rate stability because of IAWC’s large customer base, access to capital, commitment to operating efficiently, and the ability to leverage its buying power to procure goods and services less expensively.
- Access to industry-leading expertise and resources.
- Access to full-time capital asset management and operations professionals.
- Access to 24-7 award-winning customer service and several convenient billing and paying and online customer service options.
- Enhanced economic development opportunities.
- IAWC and its employees are committed to engaging in the community they serve by giving of their time and money to local charities service, and other types of community organizations.

What is IAWC’s plan regarding investment in SCWC’s infrastructure if the sale occurs?

Based on its due diligence, the Board believes that IAWC systematically invests in infrastructure improvements across the state to ensure that it can continually provide clean water services to its customers. In Indiana, IAWC annually invests more than \$100 million to address aging infrastructure, reduce and eliminate leaks, meet evolving water quality regulations, improve cyber and physical security, and enhance service reliability.

SCWC has done an excellent job in maintaining the system and growth seen over the years and has been forward thinking in planning for future growth. After the acquisition, IAWC plans to complete a more thorough evaluation

to develop both short and long-term improvement plans for the SCWC system. In making this evaluation, IAWC can use its own employees as IAWC has significant expertise throughout its business, including water quality specialists, design engineers, plant operators, and field service representatives, among others who provide value every day for its customers.

Would we still be serviced by the same staff as SCWC?

The staff at SCWC will be offered the opportunity for positions at IAWC but SCWC's current staff will not necessarily be dedicated to SCWC customers. IAWC will deploy the staff where they need them in their operations.

How would the sale affect my water rates?

The Board understands that IAWC will be asking the Indiana Utility Regulatory Commission ("IURC") to implement IAWC's existing Tier One water rates that are in place at the time of the sale. Moving forward, water rates would be regulated by the IURC and would not change unless approved by this state agency. The IURC is an administrative agency that hears evidence in cases filed before it and makes decisions based on the evidence presented in those cases. An advocate of neither the public nor the utilities, the IURC is required by state statute to make decisions in the public interest to ensure utilities provide safe and reliable service at just and reasonable rates. Because SCWC currently purchases water from IAWC, any rate increase by IAWC is already typically passed through to members after the increase is approved by the IURC.

What will be the process for determining IAWC's rates?

Water rates are typically set for both a service fee and a charge based on the amount of water. These fees are determined through a proceeding called a Rate Case. Rate Cases can take anywhere from 6 months to a year to complete. They involve a thorough examination of all components of the company's operations, investments, and expenses. The process involves a variety of stakeholders, including not only state government, but also consumer advocates, local governments, and sometimes trade associations or business groups.

Prices are based on the cost of providing service. In general, IAWC recovers its operating expenses and taxes on a dollar-for-dollar basis, and it is allowed a return on its investment equal to its cost of capital. IAWC does not profit from its expenses. Whether it's the chemicals it buys to treat its water, the water quality tests it runs, or the staffing of its maintenance crews, IAWC will only charge what it costs to provide the service. The IURC does make an allowance for providing a return to IAWC's shareholders for the infrastructure they fund.

Will SCWC customers have a voice in the rate-setting process?

Yes. The IURC regulatory process is open and transparent. Customers can become involved in the IURC's rate-making process by making their voices heard through comments on regulatory proceedings through the agency's website or at public hearings.

What is IAWC’s history on water rate/bill increases?

Since 2009, IAWC’s rates have increased by a compound annual average of 2.9 percent, which is less than the consumer price index for water and sewerage maintenance compiled by the U.S Bureau of Labor Statistics. These increases have, in large part, been used to improve IAWC’s facilities. IAWC has represented to the Board that IAWC has invested over \$1.3 billion in its water and wastewater infrastructure around the state to ensure service reliability, water quality, and fire protection capabilities for its 1.3 million customers.

What types of customer service options will IAWC offer to the SCWC customers?

In 2019, IAWC upgraded its customer self-service portal, MyWater, to make it easier for its customers to access and pay their bills online, 24/7, from anywhere in the world. For its residential customers, IAWC provides options to get alerts about high-water usage, planned work in their service area and emergency repairs, easy-to-read bills, and convenient payment options and plans. IAWC also provides several services for its larger customers, like collective billing and personalized services to help them better manage their accounts and water usage.

IAWC consistently ranks among the best performing water utilities in the nation and has won several awards for its excellent customer service.

Will we see any reduction in the quality of water or service?

SCWC currently purchases its water for sale from IAWC on a 50-year contract. The water will be the same. IAWC has around the clock customer service professionals which should enable IAWC to offer at least the same customer service capabilities as SCWC, and IAWC has agreed to have a dedicated customer service line for SCWC customers for 1 year after the purchase. IAWC also has a maintenance program like SCWC. IAWC is required to meet state and federal regulations for quality and safety the same as SCWC. The Board has no reason to believe that SCWC customers will see any reduction in the quality of water or service after a sale to IAWC.

Will IAWC stop selling water to SCWC if the company decides not to sell to IAWC?

No. IAWC and SCWC are in the middle of a 50-year water purchase agreement, and we have no reason to believe that IAWC would fail to honor this contract. If the membership decides to not move forward with the sale, the SCWC will continue to operate as a nonprofit water corporation.

Is there any consequence to not selling SCWC to IAWC?

As a result of SCWC’s growing membership, it is on the verge of going to a new classification for valuation purposes. Because of its current classification (under Ind. Code § 8-1-30.3-6), the value of SCWC’s system is based on more favorable criteria than it could be in the future as membership continues to grow. If SCWC’s system is not sold now, the Board cannot be sure that members will receive the same value for the system in the future as IAWC is offering now.

Is SCWC in distress?

No. SCWC is in good financial health. SCWC and its water system are not, in any way, financially troubled or in a state of technical or operational distress.

What is the justification for the retention package for the employees?

The Board feels that the employees are key to the smooth operation of SCWC and have been critical in enabling SCWC to demand a high price for any potential sale. The Board also recognizes that the proposed sale will place an extra burden on those employees, and it is critical to the success of the sale that SCWC’s employees remain on the job and ready to help with the extra duties involved with the sale, while allowing the company to continue operating at the high level its customers have come to expect. Many companies in the process of a sale provide extra compensation to employees to make the sale process successful. Therefore, the Board has determined that in connection with the completion of the sale, SCWC’s employees will receive a retention and severance bonus.

What is the justification for the payment to the Board?

The Board has been the guiding force of the company throughout its history. It has evaluated strategies and needs presented by the management and ensured fiscal responsibility and accountability. It collaborated with the staff on long range plans and ensured the activities were needed and funded. The Board believes that these efforts have resulted in the SCWC system being highly respected throughout the state. The Board did not engage a broker and negotiated directly with IAWC, thus saving SCWC and its members an estimated \$3 million in brokerage fees on the sale. The Board also negotiated a purchase price of \$45 million which was an increase of \$9 million from the initial offer. This results in a favorable payout to each member and a price the Board believes is at the top of the range for the company’s fair market value. The payment to the Board is recognition for the leadership and work required to achieve the high sale price as well as the substantial savings to SCWC achieved by not engaging a commercial broker to negotiate the sale price. The negotiations have taken well over a year to perform the due diligence required to ensure the members best interest was met. This detailed work during these negotiations has allowed this favorable position for the member as well as the employees who perform the day-to-day duties in a highly professional manner.

Is the membership the only entity that must approve this sale?

No. The sale will require approvals by the Board, SCWC membership, IURC, and IAWC Board of Directors. At this time, the Board has preliminarily approved the transaction and is now seeking input and approval from SCWC membership. If the membership approves the sale, then the sale and specific details of the sale must be reviewed and approved by the IURC before the deal can be completed. If the IURC approves the sale, then the IAWC Board will be the final entity that approves the sale before closing can occur. Future updates and results of the membership vote and IURC approval can be found on the SCWC website (silvercreekwater.org). Ballots will be received and counted by a Certified Public Accounting firm.

What will happen to SCWC after the proposed sale is completed?

SCWC is a nonprofit corporation organized to provide water service. Once its assets have been sold, there will be no reason for it to exist. Therefore, the Board has approved that SCWC dissolve after completion of the sale and distribute the net proceeds of the sale to the members (as of July 28, 2023). The vote of members to approve the sale will also be an approval of that dissolution and distribution process.

Who will be entitled to vote on the proposed sale and then receive distributions after closing?

On July 28, 2023, the Board executed a Resolution in which it: (i) approved an Asset Purchase Agreement with IAWC, dated the same day, July 28, 2023; (ii) ratifying its policy that a customer would be entitled to one vote per membership; and (iii) establishing a record date of July 28, 2023, which means that only members as of close of business on July 28, 2023, will be entitled to vote on the proposed sale and receive distributions after closing has occurred. The Board's Resolution recognizes that holders of Silver Creek memberships that were acquired after the record date (i.e. July 28, 2023) will be refunded to such members after closing.