

SHERRILL-KENWOOD WATER DISTRICT

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David O. Barker, City Manager
Michael D. Holmes, Secretary
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October 12, 2005

Honorable Leo Matzke
Oneida City Mayor
109 N. Main Street
Oneida, New York 13421

Re: Water Allocations

Dear Mayor Matzke:

This is in response to your letter to David Barker of July 26, 2005 on the issue of water allocations. We appreciate the time and effort you have expended to date in addressing this matter, and look forward to meeting and working with you to resolve the allocations in a mutually advantageous manner--as our communities have done over the last 80 years.

During these 80 years we and Sherrill-Kenwood's enterprises have been both a founding partner and Oneida's best customer. In 1926, a cooperative effort was undertaken to find a reliable source of water for Oneida and for Sherrill-Kenwood and its enterprises. \$300,000--an enormous sum in those times--was provided to develop the source in Taberg and underwrite the transmission infrastructure costs. For the next four decades we had successive twenty year agreements, and since then have had agreements renewed periodically and without serious controversy. That which our respective predecessors built and nourished has been and continues to be a vital asset to our communities.

As you are aware, the last few years have seen gut-wrenching changes at Oneida Ltd. that have affected us all. Sherrill is now at the most critical transition in its history--with the potential to affect both of our communities in a dramatic way. We need to carefully manage this transition particularly over the next few years. As described below, the maintenance of this water supply is critical to that successful transition.

As you have pointed out, Sherrill-Kenwood currently has an allocation of 2.2 MGD and there is a discrepancy between the City of Oneida's system permit of 4 MGD and collective water permits of approximately 5 MGD. Although there is a 1 MGD shortfall, you

have proposed to reduce our allocation by 1.2 MGD. This is unwarranted and exceptionally damaging, and we urge you to reconsider.

Historically we have used as much as 1.6 MGD, although we acknowledge that as Oneida Ltd. and its related enterprises fell on hard times, the volumes have declined. However, there are pending circumstances--much of which will be resolved over the next few years--that indicate that volumes will increase substantially.

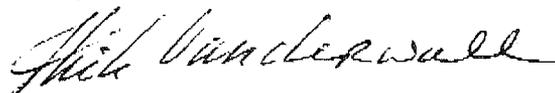
More particularly, we have the imminent sale of the Oneida Ltd. knife plant; the expansion of Sherrill Manufacturing (and additional industrial space to be leased at that site); the potential use of the Oneida Ltd. warehouse property on Highbridge; the renewed operations at the Sithe Energy cogeneration plant; the imminent sale of excess Oneida Ltd. developable acres; and additional industrial and residential lands that are poised for development. As I am sure you are aware, the Oneida Ltd. industrial properties are first class, located in an Empire Zone, turnkey and, when the available low cost power is considered, very likely to be sold in a reasonable period of time. We have outlined in more detail some (but not all) of these expectations and anticipated volumes on the attached.

In short, quantifying only a portion of the impact of the above referenced items brings the Sherrill-Kenwood demand in excess of 1 MGD, with neither room to meet a return to historical levels nor excess available for growth for the district. This could have the unintended effect of precluding the re-establishment of jobs that both benefit our region and provide the Oneida water system with reliable and stable customers.

As mentioned, Sherrill-Kenwood's particular circumstances will be much clearer over the next several years. We would propose the following: assuming resolution of any remaining questions and issues between us in the renewal contracts, we would be prepared to agree to the reduction of the Sherrill-Kenwood allocation from 2.2 MGD to 1.2 MGD, thereby meeting fully at our expense the 1 MGD system shortfall. We would also be willing to immediately negotiate to be included in our current renewal contract provisions that would revisit, in five years from the effective renewal date (i.e. just over four years from now on January 1, 2010), this 1.2 MGD allocation. This would give us an opportunity for these matters that are reasonably imminent, such as the sale of the Oneida Ltd. industrial properties, to be determined and, based upon circumstances at the end of this decade, entertain changes in allocations at that time.

In closing, we ask that you please revisit your last proposal and that we schedule a time for you and me (together with our respective boards) to meet, discuss and conclude this matter. Thank you again for your time. I look forward to meeting with you.

Very truly yours,



Nick Vanderwall
Chairman, Sherrill-Kenwood Water District

MEMORANDUM

To: Sherrill-Kenwood Water District Board
From: David Barker
Date: October 12, 2005
Re: Selected Examples of Anticipated Demands

Knife Plant

Oneida Limited is aggressively trying to sell the Knife Plant. This would relieve OL of a liability and provide them with an infusion of cash. This is a good thing for the City of Sherrill in that utilities would be utilized, the tax base will be stabilized and the jobs this would create will help energize the city and the whole area.

The low energy rates help makes this property very attractive and therefore the most interest has been with high-energy demand manufactures. I know that a plastic molding operation has shown much interest, as has a wire manufacturer that I have worked with in the past. Depending on whom ultimately purchases the property and for what purpose, the amount of water needed is very difficult to determine. If for example a wire manufacture were the purchaser depending on which process is operated would make a huge impact on the water usage. For example, if drawing machines were installed water usage could be on the order of 250-300,000 gpd.

Warehouse property

There is 30+ acres of zoned manufacturing property adjacent to the OL Warehouse on Highbridge. The same potential Knife Plant scenarios apply to this property. Depending on the use the water consumption could be large or it could be small.

Sherrill Manufacturing

Sherrill Manufacturing began operations in April 2005. Management set goals to have 100 employees by the end of the year. Currently there are over 120 employees five months into their operations. Long-term goals of 600-700 employees seem realistic. Current use of 50,000 gpd leads to conservative estimates of 100,000-125,000 as additional employment goals are reached and additional operations (and businesses) begin on the Sherrill Mfg. Campus.

Sithe Energy

We saw in July that Sithe operated many days and that on Mondays thru Thursdays (when Sherrill Manufacturing was operating) the demand went to 600 to 650,000 gpd. Sithe has just been sold again to Alliance Energy. The purpose of the fire sale purchase was to generate electricity indicating that this trend should continue. Alliance recognizes that electrical demand is rising and generation capacity is remaining constant and therefore marginal plants such as Sherrill will become profitable. The newer ownership has given management 2 -3 years to become profitable or it will be sold. These factors cause optimism that Sithe Demand should hold steady at 375,000 gpd.

Residential

Current residential demand is consistently about 220,000 gpd and has been for a number of years without additional homes being constructed. Developable acres owned by Oneida Ltd. could easily equate to an additional 200 homes and an additional load of 60,000 gpd.

Summary

Quantifying these above scenarios would bring the Sherrill-Kenwood demand in the range of 1,050,000 gpd. This allows for zero growth for the district with a 1,000,000 gpd allocation from the City of Oneida. Additionally doesn't present growth potential for 30+ acres of land adjacent to the Oneida Ltd. warehouse or 10+ acres along Route 5 or the prime 12+ acres of vacant land along Betsinger Road lending itself to additional residential units.

End of Memorandum