

MONTGOMERY COUNTY UTILITY DISTRICT NO. 2

August 12, 2010

To Customers of Montgomery County UD No. 2 (the "District"):

Next month your water and sewer service monthly billing statement will include a new charge that we are required to collect and remit to San Jacinto River Authority ("SJRA"). It will be identified as SJRA WATER FEE on your statement. Following is a brief summary of how this charge came about and the underlying reason for it.

The SJRA was created many years ago by the Texas Legislature to manage and operate the San Jacinto River and its watershed, and that includes Lake Conroe, in an overall plan for water resources in Texas. The plan recognized the importance of water resources in Texas and was foreseeing a growing shortage of water as the Texas population grows.

More recently the Lone Star Groundwater Conservation District ("LSGCD") was created by the Texas Legislature to establish rules and regulations for groundwater production and use in Montgomery County. Its primary objective is to provide an authority to regulate the amount of water withdrawn from our aquifers so that it does not exceed the recharge rate the aquifers receive from rainfall water.

Today the amount of water withdrawn from our aquifers in Montgomery County exceeds the recharge rate and, if continued, will eventually deplete the available supply of groundwater. To meet the challenge of balancing the withdrawal of water with the recharge rate of the aquifers, the LSGCD has determined that the overall total volume of water pumped from wells in Montgomery County today must be reduced by 30% by the year 2016. It is believed that to accomplish this there must be utilization of surface water resources, such as Lake Conroe. Together, LSGCD and SJRA have developed a Plan to do that. In this Plan SJRA agrees to construct the water treatments plants and distribution pipelines to distribute the lake surface water to the two largest water customers in the County – the City of Conroe and The Woodlands. Other well water users, including other Large Volume Groundwater Users, by agreement will continue using wells as their source of water. SJRA will recover their costs of constructing the needed facilities from all water users in the County by charging a Water Pumpage Fee on all water production. It is to be metered at the well head.

The SJRA established an initial pumpage fee of \$0.50 per 1,000 gallons of water pumped effective on August 1, 2010. This fee, plus an administrative fee of 10% or \$0.05 per 1,000 gallons (a total fee of \$0.55 per 1,000 gallons) which is to account for District water losses between the well head and the customers meters, will appear on your water bill in September 2010 as SJRA WATER FEE. For an average customer that uses 8,000 gallons of water per month, the additional monthly charge will be \$4.40.

Currently the LSGCDWU fee shown on your monthly statement is imposed by the Lone Star Groundwater Conservation District ("LSGCD") to recover their operating costs. We are required to collect and remit that fee to the LSGCD quarterly.

If you have questions, or would like additional information, you may call the District's Operator, Regional Water Corporation at 281-897-9100 or check out the SJRA website at <http://www.sjra.net/>. Our monthly Board meetings are normally held at 9 a.m. on the fourth Friday each month at the Montgomery County Central Library located at 104 I-45 North, Conroe Texas 77301. In case you would like to address this issue with the Board please contact Regional Water Corporation for the next scheduled date and location since meeting times and location may change from time to time due to availability of library conference room.

Very truly yours,

Board of Directors
Montgomery County Utility District No. 2