Chairman’s Report for 2008

Dear Customer:

It was my pleasure to serve as the Chairman of the Board of Directors for Vera Water and Power during 2008. It was a great year for your utility. The year 2008 brought to a close our first century of operation, reconfirmed the direction and goals of the utility and opened the door for a new 20 year relationship with the Bonneville Power Administration.

April 25th, 2008 marked the 100th anniversary of the operation of Vera Water and Power. Vera began its existence as the Vera Land Company to develop this portion of the Valley, and then transitioned to the Vera Electric Water company to provide irrigation water for the local farms and domestic water and power for the homes. During the Depression, the company was reorganized as Vera Irrigation District No. 15, to become publicly owned and to take advantage of access to municipal bonds to reconstruct the water system. In the 1960’s, the company began using the name Vera Water and Power to better represent the current mission of the District, and the name was finally legally changed in 2005 to become the company that serves you today.

The date of the Centennial was marked with a celebration at the office that included a barbecue lunch, speeches by Spokane Valley Mayor Rich Munson and County Commissioner Mark Richard, displays of historical artifacts and photos, giveaways of energy efficient light bulbs and, most importantly, the gathering of old friends, employees, customers and Board members.

As we approached the Centennial, the Board spent a significant amount of time and energy evaluating the direction and goals of the utility. At the end of this project, the mission statement of the company was updated but remained true to the original spirit of the company.

The New Mission Statement of Vera Water and Power:

"Vera Water and Power’s mission is to provide our customers the highest quality service at the lowest possible cost, while responsibly managing our resources, our employees and our environment."

The year 2008 also marked the culmination of a decade long process to define the future relationship with our longtime power supplier, the Bonneville Power Administration (BPA). This resulted in the signing of a new 20 year power purchase contract that insures delivery of cost based power to Vera through 2027. The new contract isolates the existing federal power generation system and locks in our base power supply from that system. However, the federal hydropower system is not growing to match the load growth of BPA’s customers including Vera, so new options had to be created to supply Vera the additional power that will be required to serve our load growth in the future.

The two most viable sources for this power are to either buy it from BPA through its Tier 2 power program (which will be power that is not generated by the existing federal system), or to join together with other similar public utilities to purchase this power on our own. The process to choose one of these options started in 2008 and will end with the official notification to BPA of Vera’s future path in November of 2009.

As always, the reliability and longevity of the infrastructure for the water and power systems is a primary concern of the Board of Directors. Two significant water projects were completed during 2008 that continue this tradition. The transmission water main in 24th from Sullivan up the hill to the one million gallon reservoir (the blue and white tank) was replaced. This main had deteriorated over the years and was the biggest source of water loss due to leaks in the system. Vera had a unique opportunity to partner with City of Spokane Valley as they replaced the asphalt and upgraded the road, to lower our costs. The cooperation of the City, allowing us to include the water main replacement as part of their road contract, resulted in the savings of many thousands of dollars for Vera as the water main was installed after the old asphalt was removed and before the new road was constructed.

The water saved by this project will go a long way in insuring that Vera is in compliance with the mandatory conservation requirements of the State for water loss. Work has also begun on the consumer water conservation program for Vera customers and, next year, will see that effort proceed. As with power, water conservation is becoming particularly important. You can help today by monitoring your water usage, particularly that used for lawn irrigation.

The second major construction project was the installation of the new booster station serving the Ridgemont, Morningside, and Saltese areas of the system. Around 600 of our customers are served by this station. The new booster station provides a second source of water for this area and with the additional pumps keeping the tank level higher during peak demand times, the water pressure remains higher. This second source of water to this area will eliminate the possibility of an extended water outage similar to the two-day outage these 600 customers experienced last summer when a contractor damaged the water main that provides water to the existing pump station. With this new pump station on line, we now have much more flexibility and reliability in our water system.

As the Chairmanship is passed to another Director for the coming year, I am proud of the significant accomplishments of this past year and looking forward to the exciting and difficult issues of the coming year. The decisions on the power supply for our future growth, the continuing work on the infrastructure of the system and the future efforts on water conservation provide opportunities to shape Vera into a company that reflects the ideals of the past into the actions of the future. Thank you for the opportunity to represent you, the customer, in these challenging times.

Sincerely,

Robert Oeflein  Chairman of the Board of Directors for 2008
HOW THE DISTRICT IS GOVERNED

The Vera Irrigation District is organized, and operates, under Chapter 87 of the Revised Code of the State of Washington. The financial and other records are audited annually by the Washington State Auditor. The District is governed by a five-member Board of Directors. The Directors are elected to serve staggered, three-year terms, by position. The Board of Directors is the policy-making body. The Board of Directors hires a general manager who is responsible for the administration and day-to-day operation of the District. All employees of the District are responsible to, and report to, the general manager.

The Board of Directors meets at 7:00 PM on the second Wednesday of each month at a public meeting in the District office. It would be advisable for a customer wishing to make a presentation to the Board to call the office in order to be placed on the agenda to insure time is available for your presentation. You are welcome to attend these meetings.
Additional Vera Water & Power Annual Reporting for 2008

**2008 Operating Expenses**

- **Cost of Purchased Power**: 56%
- **Operation & Maintenance**: 27%
- **Cost of Pumping Water**: 2%
- **Depreciation**: 9%
- **Taxes**: 4%
- **Interest Expense**: 2%

**Number of Electric Customers**

<table>
<thead>
<tr>
<th>Year</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>9,402</td>
</tr>
<tr>
<td>2007</td>
<td>9,598</td>
</tr>
<tr>
<td>2008</td>
<td>9,677</td>
</tr>
</tbody>
</table>

**Water Pumped (Gallons)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gallons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3,112,836,980</td>
</tr>
<tr>
<td>2007</td>
<td>3,252,055,073</td>
</tr>
<tr>
<td>2008</td>
<td>2,863,953,187</td>
</tr>
</tbody>
</table>