

**Sheep Creek Water Company**  
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January 5, 2023

Dear Customer:

The Sheep Creek Water Company Board of Directors and myself want to thank you for your support during the potential consolidation with the Phelan/Pinon Hills Community Service District. The State of California declined to provide funding for the purchase of the Water Rights from our company to make the consolidation a viable option. Sheep Creek Water Company has moved forward and continues to increase water production capacity and water line improvements to meet the state demands.

In order to expand the Sheep Creek Water Company system, the Board of Directors have a plan to drill three new wells, a plan to replace outdated water lines, a plan to update the Master Plan, and a plan to seek Grant Funding by the Federal Government to refurbish tanks and other key water supply infrastructure.

Sheep Creek Water Company has serviced the majority of our wells in the Wrightwood Canyon property. The plan is to service all wells by the end of 2023. The serviced wells have resulted in an increase in production. The total production from the canyon wells averages 650 gallons per minute (gpm) and well 11, in Phelan, averages an additional 290 gpm for a total of 940 gpm. With this increase, the State of California Water Division has agreed to allow Sheep Creek Water Company to install 30 additional meters. The income from these additional 30 meters will be used to offset the costs of the new wells that are required. Unfortunately, this is not enough to cover our daily operation costs and improvements to our production system. Prices of materials and outside services have increased from Edison, fuel, pipe, gate valves, fire hydrants, fittings, sampling our water, and etc. Due to the inflation, the Board has approved the following water rates:

**Effective February 1, 2023**

<b>Category</b>	<b>Current Rate</b>	<b>Increase</b>	<b>New Rate</b>
Monthly Base Rate	\$60.00	\$5.50	\$65.50
Tier 1 Rate	\$.50/hcf	\$.05/hcf	\$.55/hcf
Tier 2 Rate	\$3.46/hcf	\$1.04/hcf	\$4.50/hcf
Tier 3 Rate	\$8.32/hcf	\$1.68/hcf	\$10.00/hcf

In addition to these fees, the company has instituted a policy that new meters issued must be active within six months or the owner of the meter will pay an inactive meter fee equal to one-half (50%) of the Monthly Base Rate. This will help Sheep Creek Water Company to drill new wells.

Summary: Tier 3 water fee is charged to those that are using water above and beyond their water allotment allocated per water share. This fee is structured to pay for the loan of the new wells and upgrades to the water company. These fees are projected to generate approximately \$350,000.00 per year or \$3.5 million over the next 10 years. The water continues to be sold at-cost.

Sincerely,

Joseph Tapia

General Manager

Sheep Creek Water Company