

Sheep Creek Water Company
4200 Sunnyslope Rd.
P.O. Box 291820
Phelan, CA 92329-1820
Office (760) 868-3755/Fax (760) 868-2174
Email sheepcreek@verizon.net / www.sheepcreekwater.com

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN, that the Annual Meeting of the Shareholders of Sheep Creek Water Company, a California corporation, will be held at **Pinon Mesa Middle School**, located at **9298 Sheep Creek Road, Phelan, California**, on **May 11, 2019 at 10:00 a.m.**, local time, for the following purposes:

- I. Open Meeting
 - a.) Flag Salute & Invocation
 - b.) Introductions
 - 1) Board Members
 - 2) Past Board Members
 - 3) Sheep Creek Water Company Staff
 - 4) Proxy Committee

- II. Financial Update
 - a.) Approval of 2018 Financial Statement

- III. Old Business
 - a.) Approval of Annual Meeting Minutes of 2018
 - b.) System Update
 - 1) Production
 - 2) Tier Water Rate
 - c.) CRWA Technical Assistance
 - d.) Well #11 Update

- IV. New Business
 - a.) Well #11 Loan Repayment- Voting Required
 - 1) Assessment- \$15 per Share for 5 Years
 - 2) \$8 Base Rate Increase per Month per Meter Service for 5 years
 - 3) \$5.00 Base Rate Increase plus Tier 3 for 5 years- (Board Recommended)
 - b.) State Water Resources Control Board- Source Capacity Violation Update.
 - 1) Feasibility Study Alternative Plans- Information Only
 - a) Alternative 1- Drill Additional Wells- Assessments Required
 - b) Alternative 2- Consolidate Sheep Creek Water Company with Phelan Pinon Hills Community Services District
 - c.) Updated Allotment Plan- Voting Required
 - d.) Well #12 Approval and Payment Options- Information Only
 - 1) Assessment- \$30 per Share per year for 5 years
 - 2) \$20 Base Rate Increase per Month per Meter Service for 4 years
 - 3) Increase Water Rates an additional \$1.85 per hcf for 4 years

- V. Procedures for Voting
- VI. Election of Directors
- VII. Adjournment

OVER →

Dear Shareholders,

*Whether or not you plan to attend the
Annual Meeting*

*Please sign, and date the enclosed proxy form.
A return envelope has been provided for your
Convenience.*

Remember,

*If you attend the meeting on May 11, 2019,
You must be signed in before 10:00 A.M.
Or your vote will not be counted!*

We hope to see you there!

*You can also send the Proxy by
E-mail: sheepcreek@verizon.net or
Fax: (760) 868-2174*

***SHEEP CREEK WATER COMPANY
ANNUAL STOCKHOLDERS MEETING
MINUTES OF
MAY 19, 2018***

Welcome All Shareholders & Guests, to the 2018 Annual Stockholders Meeting!

The Annual Stockholders Meeting of May 19, 2018, was held at Phelan Elementary School. The meeting was called to order at 10:00 AM by Board President Andy Zody. Mr. Zody thanked everyone for attending today's meeting. He informed everyone present, that the meeting was being recorded to prepare the meeting minutes. A quorum was announced at 10:00 AM, to officially start the Annual Stockholders Meeting.

Bob Howard led in the Pledge of Allegiance and also the Invocation. Mr. Andy Zody suggested that if anyone wanted to speak at today's meeting, they would need to fill out the *Request to Speak* form. Mr. Zody encouraged everyone to check out the company's website.

Introductions:

Mr. Zody introduced himself and the current Board of Directors. President – Andy Zody, Vice President – Bob Howard, Secretary/Treasurer – Kellie Williams, and Directors David Nilsen and Luanne Uhl.

Mr. Zody respectfully recognized past board members present at today's meeting. Always great to see you Jim Watson and Bob English!

The Sheep Creek Water Company staff was introduced. General Manager Chris Cummings, Field Supervisor Michael Siaz, Water Quality Joseph Tapia, Office Staff, April Dryden Chaplin and Dorothy Zody. Missing from today's meeting, due to water treatment certification testing, was Paul Pollard - Field Tech

Introductions of the Proxy Committee was then recognized. A Big THANK YOU to Bonnie Howard, Joanna Spainhower, and Donna Drover. Thank you so much ladies for your continued help and support!

The Company Attorney, Ernie Riffenburgh was introduced. Thank you Ernie for the many years of service with this company.

Financial Update

a.) Approval of 2017 Financial Statement - Shareholder Jim Watson moved to accept the Financial Statement of 2017 as presented. Massie Parker seconded the motion. Motion carried.

Old Business

a.) Approval of Annual Meeting Minutes of 2017 - Shareholder Marian Wolf moved to accept the Annual Meeting Minutes of 2017 as presented. Shareholder Jim Watson seconded the motion. Motion carried.

b.) System Update – When compared to this time last year in 2017 well levels are down 10 – 44 feet and compared to 2014, the levels are down 30 – 60 feet. Tunnel is currently flowing at 124 gallons per minute. The production is down an additional 181 gpm from last year. Water produced in 2017 was 687 acre feet or 223.8 million gallons. Water sold in 2017 was 558 acre feet or 181.2 million gallons.

Andy Zody reported on the years projects. With a limited staff, the first project presented, was the Canyon Line Replacement. According to the General Manger's reports, the Canyon Line Replacement was completed in two locations on the canyon water main line. The existing line remained in service during the installation of the new water main.

First location is within the company's 40 acre property. It consists of 900 feet of 10" class 150 C-900 PVC. A set of isolation valves and a new fire hydrant were installed.

The second location is located above regulator 2 and below Tank 3. This part of the project included 1,500 feet of 10" class 200 C-900 PVC and 500 feet of 8" class 200 C-900 PVC. An additional

11 isolation valves were installed along with three fire hydrants and one air valve. Total cost of the project was \$124,728.

The next project was the *Phelan Road & Sheep Creek Road Line Replacement and Upgrades*. This included 3,400 feet of new 8" class 200 C-900 PVC pipe. Thirty eight new isolation valves, 10 new fire hydrants, thirteen existing services replaced, and one regulator station, replaced.

Well 2A Rehab & Downsize was originally drilled and installed in 2012 and was designed to produce 1,200 gallons per minute, with a 300 hp motor. As water levels and production dropped, the motor and column pipe was oversized for the current production. The Board approved to rehab the well to have it available for summer. The cost of this rehab was \$86,742.

Miscellaneous system projects consisted of a new 4" regulator station, two fire hydrants replaced, seven gate valves replaced, one regulator vault replaced, and 49 meters were replaced. Nine new meters services have been installed. Eight of the nine meter services had been previously paid for several years ago. Eighteen system leaks that were repaired. The total cost of the maintenance and meter projects was \$78,815.

Shareholder Bob English asked if the company was considering putting a halt on new meters. Mr. Nilsen answered that as previously stated, eight of the new water meters had already been paid for years ago. Shareholder Bob Tolliver shared that he had seen someone move in and plant 250 trees, and he, Mr. Tolliver, is watching his yard die.

Shareholder Sandra Mitchell shared concern about allowing people to loan or borrow shares. Mr. Riffenburgh confirmed that the people do have the right to loan their own shares out if they want. However, everyone needs to still conserve.

The Company's Attorney, Ernest Riffenburgh, brought us up to speed on Well 10 in Los Angeles County. It has been 2 ½ years since the Judge issued the final judgment on the Antelope Valley Litigation. There are two major items that have happened in that time frame. One, the Water Master is in the process of implementing the regulations of the judgment. It is a slow process. The attorney monitors and follows up on any issues, to protect Sheep Creek Water. The second item is that there are a few parties that have filed appeals against the judgment. The appeals do not have anything to do with Sheep Creek Water, but none the less, the lawyers need to monitor every one of the appeals.

Shareholder Robert Walker asked in regards to the L. A County well, about the chromium 6 levels. Mr. Riffenburgh answered that it appears that at this time, the water will not have to go through a "blending" process. The issue mentioned, is trying to get the water into our system. Sheep Creek has tried and will continue to try to work with the CSD and other neighboring water company, in getting the water to its customers.

Mr. Nims, asked if Sheep Creek ever used Chromium 6 to prevent rust in our water lines. Mr. Nilsen assured everyone that Sheep Creek never used Chromium 6 to prevent rust. Mr. Nilsen reported that when the state lowered the levels of Chromium 6, Sheep Creek Water was fine on its levels. The water produced from the Sheep Creek Well Site does not have Chromium 6 in the water. The CSD however, had levels of Chromium 6, and since at the time, Sheep Creek was buying water from the CSD, which was being blended with ours, a letter was sent out to the Shareholders and customers to keep them informed. Sheep Creek has never had high levels of Chromium 6. Chromium 6 is naturally in the water as it is. Mr. Nilsen assured Mr. Nims that the water received from the CSD was not able to get up to his zone due to the elevation. Mr. Nims insisted that he got cancer from drinking Sheep Creek Water. Mr. Howard shared that he is 70 years old and has always drank Sheep Creek Water with no problems.

b.) Well 11 Phase 1 – As you know, Sheep Creek Water continues to face severe drought conditions. The State Water Resource Control Board is requiring Sheep Creek Water to develop additional sources of water, separate from the Wrightwood well site. As of May 14th 2018, the Well 11 has been drilled to 1,500 feet. The casing has been installed and gravel packed. Test pump equipment will be brought on site to begin well development. During this time, the Company's crew is preparing to install nearly 5,500 feet of 8" line, valves and hydrants. The first assessment began in August 2017. Two of the three assessments have been collected for the drilling and test pumping of the well. Once the well is test pumped, the production and water quality will determine the remainder of the project. Once the

project is determined, the Board will schedule the remaining assessments to complete the project. The Board is committed to completing this project as quickly as possible and keeping cost as low as possible.

Bob Howard reported that he read the log on Well 11, and when they found water. They found it below 1,000 feet and were pumping with air.

New Business

a.) Rates – Information Only

The water rates are as follows:

Base Rate - \$55.00

Allotment Usage Charge - \$0.50 per 100 c/ft

Overage Charge - \$4.25 per 100 c/ft

Electric Surcharge - \$0.15 based on full usage

Disclaimer: These prices can change at any time, upon the discretion of the Board.

Shareholder Bob Tolliver asked, that with no rain or snow, is there a possibility of the water company being sold? Mr. Nilsen admitted that we are in a tough spot. We are looking and doing everything that we can to protect the Stockholders. We own our water rights in the canyon, which is a plus. We are in the middle of drilling a new well, and we are continually looking for additional sources.

Mr. Nilsen encouraged everyone to come to the regular board meetings and to be involved. We want to hear what you have to say and welcome additional opinions. We want to know your concerns. Andy Zody explained that the Board is trying to do everything they can, to avoid having to buy water again.

b.) Well 11 Phase 2 – Well 11 will be test pumped next month. Water was found at 1,000 feet. The Driller recommends test pumping. This is something that would not have been recommended unless the well driller felt that there was water. The electric still needs to be installed. Mr. Zody reminded everyone that we still need to practice conservation.

Election of Directors

Nominations for the Board of Directors – Jim Watson moved to keep the current Board of Directors for the 2018 – 2019 year. Shareholder Bob English seconded the motion. Motion carried. Since there was no additional nominations, Mr. Riffenburgh called for a voice vote. Voice vote to keep the current Board of Directors for the 2018 – 2019 year.

Adjournment – Shareholder Marian Wolf moved to adjourn the meeting. Shareholder Albert Young seconded the motion. Motion carried. The 2018 Annual Stockholders Meeting of May 19, 2018 was adjourned at 1:00 PM. Thank you *Snowline School District* for the use of the facility.

Respectfully Submitted,



Kellie Williams
Secretary/Treasurer
Board of Directors – Sheep Creek Water Company

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May 1, 2019

Information for the Annual Shareholders Meeting

PRODUCTION:

- When compared to this time last year 2018, all static well levels are up an average of 10 feet and compared with 2013 the levels are down an average of 47 feet.
- The tunnel is currently flowing at 119 gpm with all sources producing 1,286 gpm including the new Well 11. Production at the Wrightwood Well Field when compared to 3 years ago is down 1,685 gpm. 3 years ago is when sharp declines in water levels and production began.
- Water produced in 2018- 625 acre feet or 203.6 million gallons.
- Water sold in 2018- 532 acre feet 173.4 million gallons

SYSTEM PROJECTS and UPDATES

Line Replacement and Installation Projects

With the development of the new Well #11, several pipeline projects were completed to better flow water on the north end of the system and allow water to flow east to west. 3 dead end line were removed with the various pipeline projects.

The following was installed and replaced during the 2018 year for pipeline replacements and new installations:

- 5,500 feet of 8" class 200 C-900 PVC Pipe installed
 - 1,930' was new installation
 - 3,620 was replacement of 4" & 6" steel.
- 30 new Isolation Valves
- 4 new fire hydrants
- 1 regulator station- to be installed

Well 2A Rehab and Downsize

- Pump and motor downsized from 300 hp to 50 hp
- Pump designed to produce 400 – 500 gpm when water is available
- Column pipe downsized from 10" to 6"
- Casing brushed and bore blasted to loosen the gravel pack

Miscellaneous System Projects and Maintenance

- 3- Fire Hydrants Replaced
- 1- New Gate Valve Installed during line break
- 1- Regulator Station Upgraded
- 69- Meters Replaced
- 5- Meters Services Installed (2 were previously paid)
- 7- Service Lines Replaced
- 32- System Leaks Repaired

Sheep Creek Water Company Annual Shareholder's Meeting

Tiered Water Rate

During the summer of 2018, the Board of Directors developed a Tiered Water Rate to include the newly developed Well #11 and any additional wells that may be drilled outside the Existing Well Field. Tier 2 was added due to the additional cost to produce water from Well 11 which is located within the Mojave Water Agency, a separate water rate and allotment was developed. A concern with many Shareholders was in regards to the overage rate and customers using water over their allotment and not paying the assessments for the new wells. The Board took this into consideration and included an assessment fee into the Tier 3 overage rate. The assessment fee in addition to the overage fee will be used to fund additional wells and line replacements. Included in all the Tier Rates is well maintenance which is to avoid borrowing money in the future to complete well rehabs. At this time the Electrical/Drought surcharge was removed beginning January 2019. See additional page for current Tiered Water Rate Schedule (include).

CRWA Technical Assistance

Breakdown of the submitted engineering report is attached.

The full report can be viewed at <https://www.sheepcreekwater.com/current-projects>

Well #11

The past several years, Sheep Creek Water Company continues to face severe drought conditions due to ongoing dry years. The State Water Resource Control Board is requiring Sheep Creek to develop additional sources of water separate from the Wrightwood well field.

In September 2016 the Board of Directors approved to begin moving forward with the Well #11 project. The Board presented the project to the Shareholders in May 2017 for approval. Along with approval of the project was approval of assessments to pay the cost of the project. The CEQA process was started and once the documents were prepared, the company had a delay in obtaining a Lead Agency for the CEQA process. The County of San Bernardino took the Lead for the CEQA and the process began in June 2017. During the comment period there was four responses with one being the San Manuel Band of Mission Indians. The mitigation process took an additional four months longer than expected. The CEQA documents were tentatively approved in December 2017 and the mitigation process was completed in March of 2018. During the CEQA process, the company completed a property contract, obtain required permits and environmental plans. The drilling contractor began work on site at the end of March 2018 and began drilling on April 5th 2018. The drilling and well casing was completed May 14th 2018.

Test pumping began on July 12th 2018 and was completed on July 18th 2018. Pumping equipment was ordered along with the well piping to complete Well 11 as soon as possible. Edison was contacted to being the electrical installation process. By the end of September 2018, the new pumping equipment was installed along with all the well piping. A generator was brought on site to begin flushing and sampling the well. SWRCB inspected the well on November 7th 2018 and permitted the well as an active source for Sheep Creek to Begin using on November 28th 2018.

A generator is being used to operate the well until the Edison connection is completed. Edison is completing 2 easements need to upgrade the power to 3 phase and will begin replacement of the poles and addition of the electrical service. Well #11 is currently pumping directly into the system and can pump up to 250 gallons per minute.

Sheep Creek had to borrow the remaining funds to complete the Well #11 project. The payment options will be discussed during New Business.

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January – December 2018

New Meter Service Installations-	\$6,027.11
Total New 1” Installations- 4	
Total New 2” Installations- 1	
Future Service Line Installed-1	
Meter Repairs and Upgrades-	\$36,128.44
Meters Replaced- 69	
Services Replaced- 7	
System Leaks-	\$14,065.45
Service Line Leaks- 14	
Main Line Leaks- 18	
System Maintenance-	\$19,393.71
Fire Hydrants Replaced- 3	
New Gate Valve Installed- 1	
PRV Station Upgrade- 1	
New Sample Station- 1	
System Upgrade & Replacement-	\$146,222.68
New Fire Hydrant Installed- 4	
New Valves Installed- 30	
New 8” C900 Water Main- 1,930 feet	
4” Replaced w/ 8” C900- 1,640 feet	
6” Replaced w/ 8” C900- 1,980 feet	
Tank Cleaning and Inspections-	\$15,442.09
Well 2A Video & Cleaning-	\$29,965.74
Well 2A New Pump, Motor, Column Pipe-	\$56,775.78
Well 8 Column Pipe Pump Extension-	\$7,128.14
Total Work 2018	\$331,149.14
Well 11 Drill, Case, Test Pump and Installation to System (excludes Edison and electrical equipment to be completed 2019)-	\$869,741.22

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Tiered Water Use Rates- Board Approved September 20, 2018

	Tier 1 Allotment 750/150 cf	Tier 2 Well #11 Allotment 150 cf	Tier 3 Overage	*Tier 3 Overage With Purchased Water
SCWC Unit Cost- Electricity Cost- Wrightwood	\$0.25	\$0.00	\$0.00	\$0.00
SCWC Unit Cost- Well Maintenance	\$0.25	\$0.75	\$0.75	\$0.25
SCWC Unit Cost- Electricity Well #11 Smoketree	\$0.00	\$1.25	\$1.00	\$0.00
SCWC Penalty Rate	\$0.00	\$0.00	\$1.99	\$0.00
Purchased Water Cost	\$0.00	\$0.00	\$0.00	\$4.62
Assessment Revenue (\$30 per Share)- MWA / AV Cost per HCF (Repl. Water)	\$0.00	\$0.00	\$1.13	\$1.13
	\$0.00	\$1.46	\$1.46	\$1.46
TOTAL Water Consumption Rate	\$0.50	\$3.46	\$6.32	\$7.45
Monthly Meter Charge	\$55.00	No Change		*Only Charged when water is purchased from another water agency.
Electric/Drought Surcharge per HCF	\$0.15	Removed January 2019		

Mojave Water Agency	
Cost for Replacement Water- MWA	
MWA Cost per AF 2017/2018:	\$635.00
1 AF = 435.60 HCF	435.60
Total per HCF:	\$1.46
When applicable (determined each year), charged only if there is a replacement obligation.	
Water Production Improvements	
Assessment Revenue (\$30 per Share)-	
Annual Assessment Revenue	\$240,000.00
Approx. # of Services	1,185
Average per Service	\$202.53
Annual Consumption per EDU	180
Total per HCF	\$1.13
Cost of Connection Fee per HCF- (Penalty Rate)	
Connection Cost per EDU	\$10,750.00
Average years/EDU	30
Average cost per year for connection fee	\$358.33
Annual consumption (HCF) per EDU	180
Total per HCF	\$1.99

Current Water Rates
Tier 1- Allotment- Well Field \$0.50 per HCF
Tier 2- Allotment- Well 11 \$3.46 per HCF
Tier 3- Overage \$6.32 per HCF
Base Rate- Monthly Service Charge \$55.00 Meter Service

*These amounts are current and are subject to change each year.

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WATER ALLOWED PER SHARE OWNED- Tier 1 & 2
 1/1/2019

Water Allowed in Each Tier

Shares Owned	Tier 1- \$0.50 HCF	Tier 2- 3.46 HCF	
	Allotment- 750/150	Allotment- 150	
1	750	150	\$ 8.94
2	900	300	\$ 14.88
3	1050	450	\$ 20.82
4	1200	600	\$ 26.76
5	1350	750	\$ 32.70
6	1500	900	\$ 38.64
7	1650	1050	\$ 44.58
8	1800	1200	\$ 50.52
9	1950	1350	\$ 56.46
10	2100	1500	\$ 62.40
11	2250	1650	\$ 68.34
12	2400	1800	\$ 74.28
13	2550	1950	\$ 80.22
14	2700	2100	\$ 86.16
15	2850	2250	\$ 92.10
16	3000	2400	\$ 98.04
17	3150	2550	\$ 103.98
18	3300	2700	\$ 109.92
19	3450	2850	\$ 115.86
20	3600	3000	\$ 121.80
21	3750	3150	\$ 127.74
22	3900	3300	\$ 133.68
23	4050	3450	\$ 139.62
24	4200	3600	\$ 145.56
25	4350	3750	\$ 151.50
26	4500	3900	\$ 157.44
27	4650	4050	\$ 163.38
28	4800	4200	\$ 169.32
29	4950	4350	\$ 175.26
30	5100	4500	\$ 181.20
31	5250	4650	\$ 187.14
32	5400	4800	\$ 193.08
33	5550	4950	\$ 199.02
34	5700	5100	\$ 204.96
35	5850	5250	\$ 210.90
36	6000	5400	\$ 216.84
37	6150	5550	\$ 222.78

Customer can keep track of water use by reading their meter. Water bill will show previous read and when the next approximate reading date will be. Meters are calculated in cubic feet.

OVERAGE CHARGE- \$6.32

Tier 1- Allotment- \$0.50 (Wells At Wrightwood Well Site)

1st share = 750 cubic feet
 Remaining shares = 150 cubic feet

Tier 2- Allotment- \$3.46 (Wells with Mojave Water Agency)

Allotment = 150 cubic feet per share

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CRWA Proposition 1 Technical Assistance Program

Sheep Creek Water Company System Engineering Report

In 2016 Sheep Creek Water Company requested Technical Assistance from CRWA to help acquire Grant Funding for system improvements and additional water source. Under a Grant Agreement of the Proposition 1 Technical Assistance Program an engineering report was completed for the Sheep Creek Water Company system. CRWA worked with Sheep Creek Staff through records, inspections and staff recommendations to complete a comprehensive report. 3 Alternatives were proposed for improvements for the Sheep Creek System.

Alternative 1- No action

Alternative 2- Recommended projects and cost for System Upgrades:

- 1. Source Capacity-** CRWA recommends three (3) pilot holes be drilled and tested. Production and water quality would determine if additional pilot studies and wells need to be installed. Cost and production for the additional wells are based on the newly constructed Well 11.

The cost for additional wells include Pilot testing, well design and construction, pipelines to connect wells, final design, inspections and contingency.

Engineers Estimated Cost for 3 wells \$3,749,000

***Upon approval of the Shareholders to remain a Mutual Water Company, SCWC will begin installing additional wells and with the cost based on the newly completed Well #11, the estimated cost per well is \$900,000.**

Sheep Creeks Estimated Cost for 3 wells \$2,700,000

Estimated cost per share with collection cost \$360

Estimated cost per service connection\$2,250

- 2. Distribution System Deficiencies-** Fire flow scenarios were modeled throughout the distribution system with a fire flow demand of 1,500 gpm. 60% of the system does not meet the current fire flow demands of 1,500 gpm. Majority of the system meets fire flow demands of 750 – 1,000 gpm which were the requirements at the time of installation. CRWA recommends 25,000 feet of 4” lines be replaced with 8” including 5 PRV Stations installed or replaced.

The cost for 25,000 of replacement line including 5 PRV Stations.

Engineers Estimated Cost \$2,800,000

***The report is calling for 25,000 feet of 4" line be replaced to increase flows to higher density areas of the system and businesses. Of the 25,000 feet, 7,800 feet is existing 8" steel, 3,960 feet is new and existing 8" C900 PVC and 2,600 feet is 6" steel. The 5 PRV Stations that are being called for installation are existing PRV Stations and have already been replaced. Sheep Creek is currently in the process of line replacement with an additional 3,500 feet scheduled for 2019 which will also eliminate 3 additional dead end lines.**

- 3. Dead End Line Hydrants-** The distribution system has a total of 110 dead end lines with 80 dead end lines having a blow-off or fire hydrant for flushing. 30 of the dead end lines do not have a dedicated blow-off or hydrant. The report is calling for fire hydrants to be installed at each dead end line.

The cost for the installation of 30 fire hydrants.

Engineers Estimated Cost \$195,000

***Sheep Creek eliminated 3 of the dead end lines that did not have a blow-off during a pipeline replacement project that was completed in fall 2018. As new and replacement lines are being completed, dead end lines are being removed or new fire hydrants are being installed if a dead end line cannot be removed.**

- 4. Replacement of Water Meters-** CRWA is recommending a complete system meter replacement with an automatic meter reading system. This change out of meters includes 1,166- 1" meters and 25- 2" meters.

The cost for a complete AMR meter replacement with required hardware and software.

Engineers Estimated Cost \$377,295

***Sheep Creek has an estimated 50% of the active meters replaced with newer meters. Sheep Creek currently uses manual read meters. The cost for the ongoing meter replacements is paid through the existing base rate.**

- 5. Booster Pump Station-** There is recommendation to install a booster pump station at the Sunnyslope Yard on the existing 3 million gallon reservoir to push water back up into the higher zones in case of emergencies.

The cost of a 400 GPM booster pump station at the Sunnyslope Tank Site.

Engineers Estimated Cost \$40,000

- 6. Storage Tank Rehabilitation or Replacement-** Based on visual inspection without entry into the storage reservoirs, all tanks have recommendations for recoat and repairs or replacement. Included with recoat of interior and exterior would also include seismic couplings additional hand railings and interior ladders. A second option for all bolted tanks is replacement with new bolted or welded tanks.

Cost for both options of tank rehab and tank replacement.

Engineers Estimated Cost Rehab of Storage Reservoirs 2, 3, 4, 5, 6, 7- \$1,023,680
Engineers Estimated Cost Replacement of Storage Reservoirs 2, 3, 4, 5, 6- \$2,180,000
***All of Sheep Creeks existing storage reservoirs were cleaned and inspected in November 2018.**

- 7. Storage Tank Mixers-** CRWA has a recommendations on installing tank mixers in all storage reservoirs to avoid stratification due to chlorine residual and temperature.

The cost of tank mixers 7 storage tanks.

Engineers Estimated Cost \$315,000

- 8. Communication an Control Infrastructure (SCADA)-** Recommendation for a SCADA control system to be installed on all wells, storage reservoirs and the 2 canyon PRV stations. SCADA allows for remote monitoring and control of all critical equipment.

The cost for complete SCADA system on 7 tanks, 6 pumps and 2 PRV Stations.

Engineers Estimated Cost \$96,000

- 9. Rehabilitation of Existing Wells-** CRWA recommends rehabilitation of all existing wells. Wells need to be videoed, brushed, bailed, dual surge, possible airlift and inspection of pumping equipment.

Cost to rehab 5 existing wells.

Engineers Estimated Cost \$320,000

***Wells 2A and 5 have been rehabbed and currently have new pumping equipment. Sheep Creek collects funds to rehab wells with the existing water charge. Well 3A will be scheduled for rehab. Possible damage that was observed when CRWA videoed Well 3A may be the casing vent outlet not casing damage. \$0.25 per hcf of all water sold goes to well maintenance.**

- 10. Estimated Design, Environmental and Inspection-** Included in design and environmental are Funding Application, Geotech, Survey, Environmental Studies (CEQA), Final Design, Inspections and Contingency (% of Construction).

Engineers Estimated Cost \$3,140,006

Total cost for Alternative 2 Sheep Creek System Upgrades, which include 2 tank replacements and cost for work that has already been completed by Sheep Creek-

Engineers Estimated Cost \$12,221,290

At this time CRWA is addressing comments presented by SWRCB DFA. Grant funding of \$5,000,000 may be available for the installation of additional wells, environmental studies,

design and additional system deficiencies. Sheep Creek is receiving assistance from CRWA through additional Technical Assistance with Leak Detection and Training.

Alternative 3- Consolidation:

Consolidation would include most of the above work as recommended by CRWA along with 3 connection pipelines and a booster pump between the 2 districts tanks.

Additional cost for consolidation including pipework, booster, design, inspection and contingency (% of construction).

\$621,440

CRWA Proposition 1 Technical Assistance- Leak Detection

Sheep Creek Water Company was approved for a full system leak audit with the California Rural Water Association Prop 1 Technical Assistance Grant Funding. The funding allowed for 110 hours of leak detection. 885 meters service were checked along with 7.2 miles of water mains. The water mains that were checked are in areas that are more susceptible to leaks. A number of bad meters were located and replaced along with several possible customer leaks. The leak detection assisted the crew in pinpointing 2 leaks located under the asphalt.

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NEW BUSSINESS ITEMS OF THE ANNUAL SHAREHOLDERS MEETING

Agenda item IV a

Well #11 Loan Repayment: A total loan amount of \$428,000 is outstanding for the completion of Well #11. Annual principal payments of \$85,000 plus monthly interest payments. The total cost to install Well #11 is \$1,113,796. The Board of Directors is asking the Shareholders how they prefer to repay the loan.

The following repayment options for the Well #11 loan repayment:

1. Assessment- \$15 per share, per year for 5 years.
2. \$8.00 base rate increase per month per meter service for 5 years.
3. \$5.00 base rate increase per month per meter service plus Tier 3 Overage Charges.

The Board of Directors is recommending the repayment option number 3 which includes funds collected from the Tier 3 overage to be used in conjunction with a \$5.00 base rate increase for 5 years.

Total Estimated Cost per Option:

- 1.) **Assessment- \$75.00 per Share** (\$15 per share per year for 5 years)
- 2.) **\$8.00 Base Rate Increase- \$480.00 per Meter Service** (\$8.00 per meter per month for 5 years)
- 3.) **\$5.00 Base Rate Increase- \$300.00 per Meter Service plus Tier 3 Overage** (\$5.00 per meter per month for 5 years plus Tier 3 Overage Charges)

Agenda Item IV b (Information Only)

1) State Water Resources Control Board- Source Capacity Violation: August 30, 2018, Compliance Order NO. 05-13-18R-002 was issued by the State Water Resources Control Board (SWRCB) Drinking Water Division. The SWRCB placed a service connection and building moratorium on Sheep Creek Water Company (SCWC). SCWC cannot place any new service connections or cannot issue any "Will Serve Letters" for any building permits. Due to the drought in California, SCWC's well levels and production have been on a steady decline and beginning in June of 2016 well production began to drop significantly. Again in 2018 well production dropped causing the SWRCB to issue a Source Capacity Violation due to SCWC unable to meet the required 10 Year Maximum Day Demand (MDD). In order for SCWC to meet the required 10 year MDD, SCWC needs to have a pumping capacity of 1,453 gallons per minute or 2.09 million gallons a day (MGD). As of July 31, 2018, the pumping capacity was 502 gallons per minute.

The SWRCB required a Feasibility Study be completed by Sheep Creek Water Company (SCWC). SCWC contracted with Infrastructure Engineering Corporation (IEC) to complete the required Feasibility Study. The report was required to have options to bring SCWC into compliance with the regulation to meet the MDD. One of the options considered is Consolidation with Phelan Pinon Hills Community Services District (PPHCSD). Based on production records for July 2018, SCWC could produce .72 MGD and with the addition of Well #11 (361,440 gallons per day), SCWC's total production is 1.05 MGD, a deficit of 1.04 MGD. SCWC will need to drill additional wells to come into compliance with the MDD regulation.

a) Feasibility Study Alternative Plans: 2 options were evaluated

I. Alternative 1- Drill Additional Wells: Alternative 1 would keep SCWC as a private water company. Based on the information provided about Well # 11, SCWC will need to drill additional wells to increase available production to meet the required MDD. The engineering report developed from IEC would require up to four wells be drilled. If production on additional wells is higher than the estimated 250 gpm, this will reduce the number of wells necessary to achieve the required MDD. Several meter services for the Snowline School District have been transferred to PPHCSD and as additional services are transferred, SCWC's MDD may be reduced. Engineers estimate that the cost to drill and equip wells along with associated pipework to connect to the existing water system is **\$5,806,000.**

II. Alternative 2- Consolidate Sheep Creek Water Company with Phelan Pinon Hills Community Service District: Alternative 2 would merge Sheep Creek Water Company with Phelan Pinon Hills Community Service District and dissolve the Sheep Creek Water Company. Minimum requirements from PPHCSD to consolidate the 2 water systems are as follows:

- 3 Flow control facilities and associated pipework needed to connect the 2 water systems.
- Install blow offs at the remaining 27 dead end lines.
- Replace all water meters throughout the SCWC District with automatic meter reading devices.
- With the combined MDD of the 2 water systems, a new well will need to be added. Cost and production for a new well are based on the information from SCWC's new Well #11

Engineers estimate cost for consolidation with PPHCSD- \$3,374,700. Grant funding of \$5,000,000 is available for consolidation through the State of California SWRCB.

The Sheep Creek Water Company Board of Directors have the following requirements before they can support a consolidation between the 2 water districts:

- A fair market value needs to be determined for all 8,000 shares.
- Shareholders will need to be compensated for their shares based on fair market value.
- All outstanding debt must be paid.
- Employees need to be treated fairly.
- Water users must be treated fairly.

At this time, the Board of Directors continue to evaluate the best option and continue to gather the necessary information to bring to the Shareholders so that the best option can be approved. The Board has formed a Committee of 2 Board Members and a Community Member to meet with the PPHCSD Engineering Committee to discuss the option of consolidation. At this time the Committee has met once and will continue to meet. The Committee is preparing a plan to present to the PPHCSD. The Board of Directors need to determine a value of the shares and determine if and how the shares will be bought out. Financing options are also being evaluated as to what Sheep Creek may qualify for with low interest loans or grants. Once the Board has the necessary information to present to the Shareholders, a Special Meeting of the Shareholders will be called. The timeline for the special meeting will be during the month of September 2019. At the time of the Special Meeting, the vote will go forward with the options of drilling additional wells and remain a private water company or consolidate Sheep Creek Water Company with PPHCSD.

Agenda Item IV c

The Board of Directors has proposed an updated Allotment Schedule for staff to adjust allotments as needed with current safe production. Allotments cannot be increased without ground water levels increasing in addition to well production increasing.

Agenda Item IV d (Information Only)

Well #12- The Board of Directors proposes to move forward with the installation of additional wells within the service boundaries of the Sheep Creek Water Company to meet the Source Capacity requirements of the SWRCB Compliance Order. In order for SCWC to become in compliance with the SWRCB, additional wells will need to be installed and Board of Directors is proposing to begin with Well 12. Whether the Shareholders approve to move forward with consolidation with PPHCSD an additional well will need to be installed.

The Board of Directors is asking for Shareholder approval to move forward with the installation of Well 12. The Board of Directors is also asking the Shareholders to vote for the preferred payment option for Well 12. Well 12 is based on constructing a similar well to the recent Well 11. Estimated cost for Well 12 is \$900,000 plus additional pipeline as needed to connect into the system. Below are the options for payment to drill and install Well 12.

1. Assessment- \$30 per Share per year for 5 years
2. \$20 Base Rate Increase per Month per Meter Service for 4 years
3. Increase Water Rates an additional \$1.85 per hcf for 4 year

Total Estimated Cost per Payment Option:

- 1.) Assessment- \$150.00 per Share** (\$30 per share per year for 5 years)
- 2.) \$20.00 Base Rate Increase- \$960.00 per Meter Service** (\$20.00 per meter per month for 4 years)
- 3.) \$1.85 per HCF Water Rate Increase- \$1,066.00 based on average usage of 1,200 cubic feet per month**

Agenda Item IV d Well 12 will be postponed due to Agenda Item IV b not having a vote. Well 12 will be discussed and brought back to the Shareholders for a vote during a Special Meeting of the Shareholders along with the agenda item for the Alternative Options.

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WATER ALLOCATION- Tier 1 Allotment Rate \$0.50 per hcf

The water allocation plan will assist the Sheep Creek Water Company Board and Staff as to how and when the water allotment will be adjusted. This plan can give Shareholders and customers a better idea as to why the allotment will be adjusted. The Board of Directors plan to help the Shareholders as best as possible with the available water to the company. The water allocation plan is based on the production from the Wrightwood Well Field. The Wrightwood Well Field allotment is for the Tier 1 water rate. Sheep Creek's water supply is based solely on recharge in the Swarthout Canyon in Wrightwood. Sheep Creek cannot base the water allotment on how wet the winters are due to the time it takes the water to reach the ground water table. The following are the steps taken to determine what stage of the allotment schedule the company is in.

1. The water allotment must be determined by the current production levels and the groundwater levels.
2. As groundwater levels and production increase or decrease is how the water allotment is to be determined.
3. Due to the time to approve reductions and notify water users, staff will need to monitor groundwater and production levels closely to determine the trend for the several months.
4. The allotment schedule is determined by the number of shares (8,000) with the available safe production yield up to the company's 3,000 acre foot water right.
5. The allotment schedule will be set in stages to allow notification to shareholders and water users.
6. Shareholders and water users will be notified of the current allotment on the current water bill.
7. A tiered water allocation will only be used during emergency or drought conditions.
8. Allotments should not be increased until it is determined that groundwater levels and production has stabilized.

ALLOTMENT SCHEDULE

Stage 1- 1,350 CF per share

- Normal operating conditions, all sources are operating under normal production and water levels. Production yield in excess of 3,000 gpm.

Stage 2- 1,000 CF per share

- Static water levels are showing signs of decline along with a decline in the production. Production yield dropping to 2,600 gpm.

Stage 3- 800 CF per share

- Static water levels are showing higher signs of decline along with significant decline in the production. Production yield dropping below 1,500 gpm.

Stage 4- 750 CF per share

- Static water levels are showing higher signs of decline along with significant decline in the production. Production yield dropping below 1,000 gpm.

TIERED ALLOTMENT SCHEDULE

Water allotments will decrease based on well production in the Wrightwood Well Field.

1.	2,000 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 950 cubic feet
2.	1,900 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 900 cubic feet
3.	1,800 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 850 cubic feet
4.	1,700 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 800 cubic feet
5.	1,500 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 750 cubic feet
6.	1,300 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 650 cubic feet
7.	1,100 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 500 cubic feet
8.	900 gpm	1 st Share = 1,000 cubic feet / Remaining Shares = 350 cubic feet
9.	750 gpm	1 st Share = 750 cubic feet / Remaining Shares = 350 cubic feet
10.	650 gpm	1 st Share = 750 cubic feet / Remaining Shares = 250 cubic feet
11.	500 gpm	1 st Share = 750 cubic feet / Remaining Shares = 150 cubic feet
12.	450 gpm	1 st Share = 500 cubic feet / Remaining Shares = 100 cubic feet

The various stages in the allotment schedule are recommended guidelines for the Board and Staff to follow during dry years and during times of declining water levels. The allotment stages may be adjusted as necessary with the given production and water level information. Dry years with steep declines in water levels may require additional cuts at a quicker pace. Any reduction in the allotment will be notified on the current water bill. Changes to the Allotment Schedule are subject to change.

WATER ALLOCATION- Tier 2 Allotment Rate -\$3.46 per hcf **Wells within the Mojave Water Agency - Alto or Oeste Basin**

1.	250 gpm	All Shares = 150 cubic feet
2.	500 gpm	All Shares = 300 cubic feet
3.	750 gpm	All Shares = 450 cubic feet
4.	1,000 gpm	All Shares = 600 cubic feet

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CONSERVATION KITS AND INFORMATION

Dear Customer,

Sheep Creek Water Company would like to thank you for your interest in the available conservation material. Sheep Creek is reaching out to customers on the importance of making conservation a way of life. With the much needed rain and snow that California has received over the past few months, parts of California are still facing drought conditions. Unfortunately, due to the locations of the Sheep Creeks water source, our water company continues to face drought conditions. When we receive snow, it typically takes around 18 months before the water reaches the water table that the wells produce from.

With continued growth in the High Desert, we need to make conservation a way of life to help protect our water for the future. Sheep Creek Water Company has put together some conservation material to help your household reduce water use where possible. One kit is available per household.

CONSERVATION KIT INCLUDES:

- Toilet leak tablets- additional tablets available in the office
- Toilet tank bank
- Shower timer- 5 minutes
- Kitchen sink aerator
- 2- Bathroom sink aerator
- Chrome showerhead
- Conservation materials

Conservation coloring kit is also available for children. Please continue to find ways to conserve water both indoors and outdoors.

Thank You for your continued help with cutting water use

Chris Cummings
General Manger
Sheep Creek Water Company

“CONSERVATION A Way of Life”