

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 SPECIAL MEETING OF THE SHAREHOLDERS

NOTICE IS HEREBY GIVEN, that the Special Meeting of the Shareholders of the Sheep Creek Water Company, a California Corporation, will be held at **Pinon Mesa Middle School**, located at **9298 Sheep Creek Road, Phelan, California**, on **August 17, 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. Old Business

- a) Approval of Annual Meeting Minutes of May 11, 2019
- b) System Update
 - 1) Production
- c) CRWA Technical Assistance

III. Public Forum

IV. New Business

- a) Well #11 Loan Repayment- Revote 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
- b) Updated Allotment Plan- Revote Required
- c) State Water Resources Control Board- Source Capacity Compliance- Voting Required
 - 1) Alternative 1- Remain Independent- Drill Additional Wells for Source Capacity Compliance
 - 2) Alternative 2- Consolidate Sheep Creek Water Company with Phelan Pinon Hills Community Services District

V. Procedures For Voting

VI. Adjournment

OVER →

Dear Shareholders,

*If you do not you plan to attend the
Special Meeting of the Shareholders,
Please sign, and date the enclosed proxy form.
Proxy may be signed to anyone you wish to vote your shares.
A return envelope has been provided for your
Convenience.*

*Remember,
If you attend the meeting on August 17, 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*

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July 11, 2019

Re: Special Meeting of the Shareholders

Dear Fellow Sheep Creek Water Company Shareholders,

I hope that this letter finds you well, and that you are continuing to conserve water this summer. The Sheep Creek Water Company (SCWC) Board of Directors appreciates your continued water conservation efforts.

Enclosed with this letter is a Notice of Special Shareholder Meeting. The Meeting will occur on Saturday, August 17, 2019 at Piñon Mesa Middle School. The purpose of the Special Meeting is to,

- 1) Re-vote certain matters voted upon at the May 11, 2019 Annual Shareholders Meeting
- 2) Potential vote on alternatives to resolve water supply issues.

As you know, SCWC has faced approximately seven years of inconsistent winter snow and rainfall amounts that have resulted in our Wrightwood water supply falling to record low levels. As a result, in 2018 the State Water Resource Control Board (SWRCB) placed a moratorium on SCWC that prohibits the company from installing additional service connections, at this time. In addition, the SWRCB instructed SCWC to complete a feasibility study, which recommends one of two options:

- 1) Remain independent, drill additional wells with sufficient supply to bring production to the required maximum daily demand based on 2014 usage.
- 2) Consolidate with the Phelan Piñon Hills Community Services District (PPHCSD)

To back up a bit, the Board has completed many projects over the past 15 years, SCWC has added three million gallons of storage capacity to our system, drilled three new wells, between SCWC and developers, 15,000 feet of water main has been replaced and an additional 17,000 feet of new water main has been installed. Along with other enhancements to our system such as new fire hydrants installed throughout the system and regulator stations being upgraded. SCWC spends between an average of \$150,000~\$300,000 on system upgrade and maintenance projects each year. All of this has been accomplished with a water rate of only \$.50 per hundred cubic feet!

Since part of the SWRCB mandate includes possible consolidation with the PPHCSD, the SCWC Board had SCWC's water system professionally appraised. Three quotes were solicited and we selected the lowest qualified bidder. The fair market Appraised value of SCWC is \$23,700,000, or \$2,962.50 per share. Our Consolidation Committee has met with the Engineering Committee of the PPHCSD's Board, which requested that SCWC submit a proposed plan for consolidation, since doing so is a State idea and not the PPHCSD's. The SCWC Board met and developed a proposed plan, which was submitted to the PPHCSD June 19, 2019. As of this writing, SCWC has not received a reply from the PPHCSD and their Engineering Committee handling the consolidation discussions are scheduling a meeting to meet with SCWC.

The SWRCB requires a decision from SCWC on or before August 31, 2019 regarding whether to consolidate with PPHCSD or remain independent and proceed to drill additional wells meeting the 2014 maximum daily demand. If SCWC receives an adequate proposal from PPHCSD in time for consideration

at our Special Shareholder Meeting, it will be presented at that Meeting and a vote taken as described above. If an adequate proposal is not received from the PPHCSD in time for the Special Meeting, then it may be possible that a no vote will be taken on the issue and SCWC will simply proceed to drill wells consistent with State Mandates.

While SCWC waits for a reply from PPHCSD, the SCWC Board is proactively taking the following steps:

- 1) Locating low-interest loans and no-interest grants to pay for the new wells;
- 2) Utilizing the SWRCB resources to identify properties which show promise to yield water if a well is drilled; and
- 3) Identifying additional options to be discussed later, as circumstances dictate the path forward.

If SCWC does not consolidate with PPHCSD, the plan is to, obtain grants and/or a line of credit with one or more financial institutions by utilizing the services of Water Funder LLC, identify the most promising potential drill sites, begin drilling two wells, determine the resulting pumping capacity, and if sufficient, drill one additional well as a back-up. The locations of these wells are planned to be in the Mojave Water Basin where SCWC does not hold existing water rights. Therefore, SCWC would be required to pay the fees established by the Mojave Water Agency, which changes annually. The goal is simple: use our existing Wrightwood water supply as much as possible (per our 1931 adjudicated water right), and use the Mojave Water Basin wells as back-up. In some years the allotments will be increased and the wells within the Mojave Water Basin may not be used much. In other years, it could be used substantially more, as supply and demand dictate.

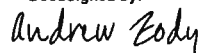
That is where we are. Please watch for additional information to be sent as the Special Shareholder Meeting approaches. Your votes are required to inform the SCWC Board of Directors of the direction you, the Shareholders, desire to take. SCWC's Board members have differing ideas of what is best for the SCWC water users and Shareholders. Some non-SCWC shareholders also have ideas, which they believe are best for the community. In order to learn and evaluate these differing perspectives, please feel free to contact any SCWC Board member regarding their views to benefit the Shareholders, water users and the community. Also consider other information which is available in the community in coming to your own conclusions.

If you are unable to attend the Special Meeting, it is important to identify someone whom you trust to vote your proxy, as you wish it to be voted. Be sure to submit your proxy to the SCWC office no later than, 4:30pm Thursday August 15, 2019 so that vote will be counted. Remaining silent for this election is not a good option, and the Board encourages all Shareholders to become informed and to participate by voting, directly or by proxy.

We look forward to seeing you at our Special Meeting on Saturday, August 17, 2019 at Piñon Mesa Middle School. The meeting starts promptly at 10:00 am. Please sign in by 10:00 am to ensure your vote and proxy are counted!

Sincerely,

DocuSigned by:



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Andrew Zody

President, Board of Directors
Sheep Creek Water Company