

January 5, 2018

FAQ's Regarding 1,2,3,- Trichloropropane (TCP) and Water Rates.

What is "TCP"?

1,2,3,- Trichloropropane, commonly referred to as "TCP" is a synthetic organic chemical compound that was an impurity in certain soil fumigant pesticides that were used extensively in the 1960s, 1970s, and 1980s. This man-made chemical has been found in groundwater throughout the Central Valley and is a recognized carcinogen that may cause cancer after long-term exposure.

Are domestic water suppliers allowed to serve drinking water contaminated with TCP?

On July 18, 2017, the State Water Resources Control Board adopted new standards that set a maximum contaminant level (MCL) of 5 parts per trillion for TCP allowed within domestic water systems. This recent decision by the State requires domestic water suppliers to begin monitoring for TCP in the water and to take the necessary steps to meet the new regulations beginning early 2018.

Has TCP been detected in the Vaughn Water groundwater wells?

We have TCP detections in 8 of our 12 active groundwater wells and 4 of those wells with TCP contamination are already equipped to remove the TCP from the water. The four existing facilities will need to be expanded in the future to make the treatment process more cost efficient.

How will Vaughn Water meet the new water quality requirements?

Vaughn Water Company supports the state's adoption of the 5 parts per trillion maximum contaminant level for TCP and the Company intends to comply with the new TCP regulations. Because of the very short compliance period, we have initiated the purchase and construction of 4 new "emergency TCP treatment systems" for our wells that currently are not equipped for TCP treatment. These systems are single pass granular activated carbon filter systems that can be constructed fairly quickly and fit within the property boundaries of our well sites. The emergency TCP treatment systems are not as efficient as a full size double pass units, but the capital cost is substantially lower and will minimize the financial impact to the Company and to our customers during this interim period. As with the existing treatment facilities, these new emergency plants will need to be expanded in order to efficiently and cost-effectively treat TCP over time.

What is the cost for emergency TCP treatment and who will pay for these treatment systems?

Installing and operating the emergency TCP treatment systems will be very costly. Capital costs are approximately \$6,200,000 and ongoing operation and maintenance costs are estimated to be \$550,000 a year. We want the parties responsible for causing the TCP contamination, rather than our customers, to cover the costs of treatment. We are attempting to recover these costs through the ongoing litigation against the parties responsible for the TCP contamination, but the outcome of the litigation is unknown at this time. Unfortunately, our customers will bear the cost for the

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construction and operation of the TCP treatment systems until such time we receive anticipated recovery costs from our pending litigation.

Why have the water rates increased 24%?

The Company will need to borrow money in order to complete construction of the emergency treatment systems and the borrowing will require a substantial user rate increase to fund the TCP treatment costs and cover the new debt service payments. In addition to the capital costs, the operation and maintenance of the treatment systems will also have an impact on water rates.

The Rate Increase Effective January 1, 2018 is based on the operating expenses summarized below:

Expense Description	Additional Monthly Cost in Operating Expenses	Resulting Cost Increase to Monthly Water Bill Based on 10,500 Connections	Resulting Percentage Increase to Monthly Water Bill
Debt Service Repayment for the 7 year term loan for the 4 Emergency TCP Treatment Systems. The \$6,200,000 cost for the construction of the 4 Emergency TCP Treatment Systems (material and labor) will be financed over 7 years. Annual Expense Amount = \$906,768	\$75,564	\$7.20	13.7%
Additional Operating and Maintenance expenses of the Emergency TCP Treatment Systems. These expenses include annual granular carbon media replacement, additional lab analysis for water quality testing, and the additional labor necessary to operate the treatment systems. These expenses will be ongoing and will continue as long as the TCP Treatment Systems are operated. Annual Expense Amount = \$548,988	\$45,749	\$4.36	8.3%
Increase in costs for all other remaining operating expenses impacted by inflation or consumer price index for goods and services used by the Company. Annual Expense Amount = \$117,732	\$9,811	\$0.93	1.8%
Overall Increase to Operating Expenses = \$1,573,488	\$131,124	\$12.49	23.8%

Will the water rates be reduced if the Company receives a settlement?

We are looking to recover all current and prospective capital costs and operation and maintenance costs in a lawsuit pending since 2012. It is our intention to decrease the water rates if we receive a settlement or award. Our damage claim includes the costs for the construction and operation of full size double pass treatment systems, however, as with any litigation, settlements are not guaranteed and legal expenses will be deducted from any claim amount awarded. If and when a settlement or damage claim is awarded, the water rates will be revised accordingly.

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Where can I find more information about 1,2,3,-Trichloropropane?

TCP Fact Sheet from the State Water Board:

https://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/documents/123-tcp/123tcp_factsheet.pdf

Media Release from the State Water Board:

https://www.waterboards.ca.gov/press_room/press_releases/2017/pr071817_123tcp.pdf

TCP Litigation:

<http://rbwaterlaw.com/tcp-litigation/>

TCP Treatment Impacts on Water Rates:

<http://sanfrancisco.cbslocal.com/2017/07/25/drinking-water-carcinogen-california-water-rate-hikes/>