

VAUGHN WATER COMPANY, INC.

2012 YEAR IN REVIEW

2012 was a busy year for Vaughn Water Company. We added 163 new connections, had a one month water production of over 551,000,000 gallons in August, and produced over 4.18 billion gallons for the year. These water demands were met using the Company's 12 water wells, 11 booster pumping plants, 5 activated carbon treatment plants, 4 ozone treatment facilities, and the 3.8 million gallons of above ground water storage capacity.

We met the water demands while continuing to reduce the number of customer complaints. The water production, treatment, and distribution systems work well, are very reliable, and are cost effective. An increasing number of customers are now paying by credit card or by using our online bill payment feature. The main focus for 2013 will be to improve operations by completing several special projects at our various treatment facilities. We will also continue seek out ways to improve our customer service.

The Distribution System/Construction Department continues to maintain overall system performance and water quality by operating a flushing program. The flushing program maintains good quality water in dead end water mains and remote areas of our system. Also, the addition of the leak repair truck to our fleet in December 2009 has continued to allow us to significantly reduce costs associated with distribution leak repairs. The majority of leak repairs continue to be completed by our staff.

Electricity use accounts for 33% of the Company's expenses. The Staff continues to closely monitor the wells and treatment plants and makes operating adjustments as needed to keep electricity costs as low as possible. We meet with PG&E on a regular basis to review and analyze our electrical usage and then make the necessary meter changes that reduce our electrical costs at individual facilities. Unfortunately PG&E rate increases and special "peak day pricing" rates reduce some of the savings. We plan to continue to find new ways to monitor electricity usage and develop methods to reduce the cost.

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Page 2

Some of the Company's accomplishments for 2012 were:

1. Met the water demand while continuing to reduce the number of customer complaints.
2. Met all federal, state, and local water and air quality regulations and standards.
3. Held weekly meetings to discuss well and distribution system operations to maximize efficiency and minimize costs.
4. Completed special repairs to the sump at Hageman #2 to increase water percolation.
5. Modified the Atakapa facility by replacing the well pump with a more efficient unit that will continue to save \$60,000 a year in electrical expenses.
6. Performed a treatment process on the Willow Pond Carbon vessels to extend the life of the existing carbon media.
7. Continued to install meters on all flat rate services to meet the requirements of Assembly Bill 2572.
8. Completed repairs and modifications on 2 large meter vaults for improved access.
9. Revised our standards and specifications to meet new residential fire sprinkler system flow requirements.
10. Maintained 100% compliance with all State and local agencies.

As the Company prepares to enter its 85th year of operation, we continue to move ahead by using treatment methods to make sure the customers receive the highest quality water possible and by continuing to give the best possible service to each and every customer. The Company has a solid base for supplying water, and our continuing goals are to expand the water supply to meet demand, concentrate on ways to optimize the system, make operations as cost effective as possible, and begin to plan for changes in the Company's future.