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P. David Michalko, General Manager
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Important Notice to Stockholders and Consumers

October 2017

Water Rates and Charges

On September 21, 2016, at the regularly scheduled Board Meeting, the Board approved a 5.5% rate increase that included both service charges and water charges for 2016-17 and for 2017-18. On September 28, 2017, after great deliberation, the Board voted to move forward with the previously approved rates for the 2017-18 fiscal year. The new rates will become effective on October 29, 2017.

There are (2) two significant factors affecting water rates. The first factor, is the continued need to purchase imported water due to the lack of supply from our local ground water. During this current fiscal year, the Company purchased nearly twice as much imported water as has been historically purchased. The second factor, is that the Board is focused on maintaining and replacing the aging water system infrastructure to ensure a continued reliable water supply to you, the consumer. Most, if not all other budgeted items have remained constant during the past few years.

Additional Ongoing Assessment

During the past several years, the Company has been reporting on how significantly the drought has dramatically impacted the Company's groundwater supply and the overall health of the Main San Gabriel Basin (Basin). The Basin is a massive underground aquifer that is managed by a Watermaster, which was granted this authority by the Courts in the early 1970's. The Board of Watermaster is comprised of, and supported by, the San Gabriel Valley water producers.

As a result of nearly 10 years of below average rainfall here in the Valley, and the local watershed, the groundwater is still at or near record lows. In an effort to improve the water levels in the Basin, and improve water reliability for all producers and their consumers, the Watermaster has imposed a "Stormwater Augmentation Assessment" (Assessment). The Assessment funds will be used to purchase import water to be stored in the Basin to improve the reliability of the groundwater supply. Much of this information was reported to you last spring when the Company started collecting the Assessment on the July water bill. In addition to reporting about the Assessment, we also informed you of the long-term effects on your water bill in the annual report. (*See notice at vhwc.org*)

This Assessment is collected by all producers in the Valley on behalf of the Watermaster to purchase water to place or store in the Basin. In July 2017, the Company begin collecting the Assessment on your water bill at a rate of \$0.08 per unit of water used. However, most of the funds for the first year of the Assessment came out of the Company's Purchased Water budget. As previously reported, this Assessment will ramp-up or increase annually over 5 years to about \$0.36 per unit of water used. Starting in November of 2017, the Company will be required to increase this Assessment to \$0.15 to collect the \$110,000 we will be billed by Watermaster. In November of 2018 it will increase to approximately \$0.23 per unit.

Valencia Heights Water Company Board of Directors

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