



LA HABRA HEIGHTS COUNTY WATER DISTRICT

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August 9, 2017

Mr. Tom Coleman
Rowland Water District
3021 S. Fullerton Road
Rowland Heights, CA 91748

Re: Water Production and Delivery Agreement

Dear Mr. Coleman,

La Habra Heights County Water District ("LHHCWD") received your cover letter and the audit report ("Report") completed by Mr. Joseph Wheat of Hagen, Streiff, Newton & Oshiro, Accountants, PC, on May 25, 2017. We have reviewed the Report and submit these findings in anticipation of our meeting.

First, the Water Production and Delivery Agreement ("Agreement") is between three parties: LHHCWD, Rowland Water District ("RWD") and Orchard Dale Water District ("ODWD"). Section 17.10 of the Agreement, entitled No Third Party Beneficiaries of the Agreement, expressly states: "This Agreement does not create, and shall not be construed to create, any rights enforceable by any person, partnership, corporation, joint venture, limited liability company or other form of organization or association of any kind that is not a party to this Agreement."

In your cover letter, Walnut Valley Water District ("WVWD") is mentioned as a project partner. WVWD and RWD's project partnership is between WVWD and RWD, and not part of the Agreement. Section 17.10 of the Agreement reaffirms that WVWD cannot be part of the Agreement.

LHHCWD's response to Mr. Wheat's Expert Report:

Section A. Introduction

Mr. Wheat states that "La Habra Heights County Water District (LHHCWD) and Rowland Water District (RWD), on behalf of Puente Basin Water Authority (PBWA), entered into the Water Production and Delivery Agreement (the Agreement) dated May 16, 2012." Nowhere within the Agreement does it state that PBWA is a party to the Agreement. Again, Section 17.10 of the Agreement reaffirms that PBWA cannot be part of the Agreement.

Mr. Wheat further states that "the Agreement provides for LHHCWD to provide water to RWD to meet RWD's water needs. In return, LHHCWD is able to use certain of RWD's water rights." The Agreement does not state that LHHCWD will provide water to meet RWD's needs. Instead, section 1 of the

Agreement sets the parameters of how the water is to be delivered to RWD. Similarly, LHCWD does not have any rights to RWD's water rights.

Section C. Opinions

Again, PBWA is not a party to the Agreement.

Section D. Basis for Opinions

Joint Facilities Costs

Opinion RWD was overbilled for Joint Facilities Cost ("JFC"):

1. 10% overhead charge: LHCWD agrees that the 10% overhead charge for moving RWD's water should not have been added.
2. Charges for 77.88 AF of water not received by RWD: The amount billed over the actual meter read at RWD is the portion percentage for water loss. The Department of Water Resources Water Audit Manual and American Water Works Association treat water loss as a Variable Production Cost. Furthermore, section 8.1.(a)(3) of the Agreement, entitled Price Billing, states that LHCWD shall bill RWD for "any other variable cost directly attributable to the production of water for Rowland." Therefore, LHCWD stands behind its billing for water loss.
3. Miscellaneous charges: Mr. Wheat argues that costs for Los Angeles County property taxes, lease costs to Burlington Northern Railroad Company, and maintenance costs to California Arborist are not directly variable costs based on levels of water production. On the contrary, these costs were incorporated into the Agreement when ODWD negotiated inclusion of La Mirada Conduit and La Mirada Reservoir. Therefore, LHCWD stands behind its billing for these items.
4. Energy costs during months that RWD did not receive water: LHCWD has agreed in prior correspondence that it will only bill RWD for the percentage of usage for the months RWD is pulling water.
5. The inclusion of replacement/capital improvement cost as normal costs for Wells 9, 10, and 11:

Well 9: Section 12(b) of the Agreement states that LHCWD had to reach out to RWD and ODWD in order to add any new facilities to the Agreement. LHCWD did so by email communication with both Districts on August 15, 2014. Mr. Ken Deck, then-General Manager for RWD, responded on September 8, 2014, that RWD would accept the inclusion of Well 9 per the Agreement. LHCWD therefor stands behind this billing.

Wells 10 and 11: Section 12(b) of the Agreement also addresses the repair and maintenance of the facilities. All work on Wells 10 and 11 were done as repair and maintenance work, as both wells underwent a complete rehabilitation process. Again, LHCWD stands behind this billing.

6. Other alleged, minor variances: LHCWD is still analyzing these items and will have discuss its findings at the upcoming meeting.

Cost to Move Water, LHCWD Wheeling Charge and Water Replenishment District Charge

LHCWD position is stated above in our response to JFC.

Orchard Dale Wheeling Charge

LHCWD position is stated above when it comes to overbilling of water.

The annual increase of ODWD wheeling fee charges is between RWD and ODWD.

E. Other

Mr. Wheat states that "I have no direct or indirect, present, or contemplated future interest in LHCWD, RWD or PBWA." Again, Section 17.10 of the Agreement reaffirms that PBWA cannot be part of the Agreement.

I look forward to meeting with you and ODWD to discuss the parties' respective positions. We previously discussed meeting at the end of August or beginning of September, so please give me some dates we can choose from.

Sincerely,



Michael Gualtieri
General Manager

CC: Teresa P. Rios, Rowland Water District Director, Robert W. Lewis, Rowland Water District Vice President, Szu Pei Lu-Yang, Rowland Water District President, John E. Bellah, Rowland Water District Director, Anthony J. Lima, Rowland Water District Director, Joseph Velasco III, Orchard Dale Water District President, Ed Castaneda, Orchard Dale Water District General Manager