

Conversion to Surface Water

Harris-Galveston Subsidence District (the “Subsidence District”)

The District is within the boundaries of the Subsidence District, which regulates groundwater withdrawal. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan (the “1999 Plan”) to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District’s jurisdiction. The District Regulatory Plan has been modified from time to time. Under the 1999 Plan, well owners were required to reduce groundwater pumpage by the following percentages: 30% reduction by 2010, 70% reduction by 2020, and 80% reduction by 2030. Under the 1999 Plan, Districts not meeting the Subsidence District’s requirements were to be subject to disincentive fees adopted by the Subsidence District. At that time, the disincentive fees were \$3.00 per 1,000 gallons of water pumped (\$3.00/1000). Effective 1/9/2013, a 2013 District Regulatory Plan was adopted by the Subsidence District. The conversion schedule was modified to require 60% reduction by 2025 and 80% reduction by 2035. The disincentive fees were raised to \$7.00/1000 of groundwater pumped for certain well owners who did not participate in a Groundwater Reduction Plan. The disincentive fees may continue to increase from time to time. Please refer to the Subsidence District’s website (www.hgsubsidence.org) for further information.

North Harris County Regional Water Authority (“NHCRWA”)

The District is located within the boundaries of the NHCRWA. The NHCRWA was created in 1999 to provide for the supply of surface water to north Harris County and to prepare a Groundwater Reduction Plan (GRP) to comply with the Subsidence District’s 1999 Plan. The NHCRWA submitted its GRP proposal to the Subsidence District and received final certification on June 11, 2003. The GRP, as may be amended from time to time, covers the area of the District. The NHCRWA has entered into a contract with the City of Houston to purchase surface water beginning in 2010. Effective with the 2010-2011 permit period (September 1 through August 31), the Subsidence District began issuing an aggregated water well permit to the NHCRWA that covers all well owners within its boundaries. The District pays a groundwater pumpage fee to the NHCRWA for all water pumped from its wells and a fee for all surface water purchased. The NHCRWA sets the price for groundwater pumpage fees and for surface water, and the rates will continue to escalate from time to time. Please refer to the NHCRWA’s website (www.nhcrwa.com) for its current pricing policy. Additional information is also available in the District’s annual Financial Statement (“Audit”). A copy of the District’s Audit is available at this website.

Effective December 3, 2010, the NHCRWA began delivering surface water to the District. In preparation for receiving surface water, the District was required to convert from a chlorine disinfection system to a chloramination system (chlorine plus liquid ammonium sulphate), which is used by the City to treat surface water. The NHCRWA built a surface water line to the District’s Water Plant #2. The District must take surface water first, to the extent that it can be provided by the NHCRWA, with the understanding that the District may exercise its equipment and circulate water as necessary to keep the groundwater system in good condition. It is anticipated that, for the present time, the NHCRWA will deliver more surface water to Faulkey Gully MUD during winter months than during summer months.