Lagerlof LLP LAWYERS

May 21, 2026

PRIVILEGED AND CONFIDENTIAL SETTLEMENT COMMUNICATION – INADMISSIBLE UNDER EVIDENCE CODE SECTION 1152

VIA E-MAIL – CLPearce@duanemorris.com

Colin L. Pearce, Esq.
Duane Morris LLP
CLPearce@duanemorris.com

Re: Revised Non-Binding Letter of Intent for Long-Term Water Sale and Option Project

Dear Colin:

The Kern County Water Agency ("Agency") appreciates the continuing discussions between our respective clients with respect to the issues relating to the existing water supply contract between Western Hills Water District ("Western Hills") and the Agency entered into in 2000 (the "Existing Contract"). Based on our prior discussions, the Agency has revised the proposed non-binding letter of intent ("LOI") to address the changed structure we have discussed over the past few months.

The purpose of this LOI, as revised, is to outline the principal business terms under consideration for the following transactions:

1. **Water Purchase.** Entry into a new long-term water supply agreement (the "Definitive Agreement") providing for revised volumes, pricing and terms for the sale of water from the Agency to Western Hills; and

2. **Option.** The Definitive Agreement will include provisions to provide Western Hills with an option to increase the volume of the Annual Contract Quantity ("Option Water") to support expanded development within its service area.

This LOI provides a framework for the development of the Definitive Agreement governing the water purchase and the Option. The Definitive Agreement would be subject to approval by the Parties' respective governing boards, in their sole and absolute discretion. Upon execution of the Definitive Agreement, the Parties will terminate the existing Contract, with the understanding that the existing agreements with the Department of Water Resources ("DWR") appended to the Contract will be incorporated into the Definitive Agreement as well.

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The Agency anticipates two separate but interrelated transactions to be addressed in the Definitive Agreement: (i) Transaction 1 addressing the Purchase Water (defined below), and (ii) Transaction 2 addressing the Option Water.

Part I of this LOI sets forth non-binding terms for the Purchase Water terms; Part II sets forth non-binding terms for the Option Water terms; and Part III sets forth the binding provisions of this LOI if executed by both Parties.

PART I – WATER PURCHASE

(Non-Binding)

1. Transaction Summary

The Agency shall make available to Western Hills an annual contract quantity of up to one thousand five hundred (1,500) acre-feet of water ("Annual Contract Quantity").

The quantity available for delivery in any year ("Deliverable Volume") shall equal the Annual Contract Quantity multiplied by the State Water Project ("SWP") allocation percentage announced for that year.

In any year in which the SWP allocation exceeds thirty-five percent (35%), Western Hills may elect to: (i) return to the Agency any portion of the Deliverable Volume in excess of five hundred twenty-five (525) acre-feet ("Return Water"), subject to the credit provisions set forth in Section 6(d); and/or (ii) deliver any Return Water or other portion of the Deliverable Volume that exceeds Western Hills' scheduled demand, under arrangements made by Western Hills separate and apart from the Definitive Agreement, to a third party for future return to Western Hills to meet its dry-year demand. Western Hills shall make that election within fifteen (15) days following the Final Notice specified in Section 3, below. The final volume of water purchased ("Purchase Water") shall be the Deliverable Volume less any Return Water.

2. Unit Price and Admin Fee

The unit price ("Unit Price") shall be calculated pursuant to the methodology attached as Exhibit A (the "Pricing Formula"), which shall include all allocable SWP costs, DWR transportation charges, and Reach 2A conveyance costs necessary to deliver water to the Western Hills point of delivery.

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The Agency's calculation of the Unit Price shall be final and binding absent manifest error. Any objection to that calculation must be submitted in writing within thirty (30) days of invoice or shall be deemed waived.

Western Hills shall pay an annual administrative fee ("Admin Fee") equal to 1,500 AF × $25 per AF ($37,500 annually). The Admin Fee shall increase annually by the greater of (i) the annual increase in the Consumer Price Index ("CPI"), or (ii) three percent (3%). The CPI shall mean the CPI for All Urban Consumers (CPI-U) in the West region, or its successor index. In the event either Party requires support for actions outside the scope of this Agreement, the supporting Party shall have the right to charge the other Party for such actions at the supporting Party's actual cost, including staff time, materials, and any third-party expenses reasonably incurred.

3. Scheduling and Delivery

By December 10 each year, the Agency will notify Western Hills of the initial, anticipated Deliverable Water volume, and will coordinate with Western Hills on a proposed delivery schedule.

By May 10 of each year, the Agency shall notify Western Hills of the final Deliverable Volume as determined by the SWP allocation on May 1 of each year (the "Final Notice"). The point of delivery ("POD") shall be the Western Hills' turnout from the California Aqueduct.

Within fifteen (15) days following Final Notice, Western Hills shall confirm the quantity of Purchase Water it elects to schedule for delivery through the end of the calendar year. Failure to schedule water or take full delivery of the requested amount shall not relieve Western Hills of its payment obligations under Section 6.

Any water not scheduled or delivered shall remain the property of the Agency.

4. Water Sources

The Agency may satisfy its obligation to make Purchase Water available from any lawful source available to the Agency, including without limitation State Water Project supplies, transferred water, exchanged water, banked water, or other supplies acquired by the Agency, in its sole discretion and consistent with its contractual and legal obligations.

Western Hills acknowledges that no representation or warranty is made regarding the specific source, character, priority, or continuity of any particular water supply, and nothing herein shall be construed as transferring, dedicating, or impairing any underlying water right, contract entitlement, or priority of the Agency.

5. Service Area Limitation

Purchase Water shall be used solely within Western Hills' legally established service area as it exists on the Effective Date, unless otherwise approved in advance in writing by the Agency, in its sole and absolute discretion.

Western Hills shall not transfer, assign, exchange, resell, or otherwise convey Purchase Water or any Dry-Year Reserve water under Section 12, or any right thereto, to any third party or for use outside its service area without the prior written consent of the Agency. Any approved transfer shall be subject to such terms and conditions as the Agency may reasonably impose, including cost recovery and compliance with applicable law.

6. Annual Obligation; Admin Fee Adjustment; Payments

Annual Payment Obligation

(a) Obligation for Purchase Water. Except as expressly provided in subsection (d) below, Western Hills shall pay the Unit Price multiplied by the Purchase Water volume. Such obligation shall not be reduced based upon scheduling decisions, demand fluctuations, hydrologic conditions, regulatory constraints, storage limitations, or other downstream factors.

(b) Return Water Election. Any election to make Return Water available must be made in writing within fifteen (15) days following the Final Notice. Credits shall be applied to the final reconciliation invoice for that year and shall not accrue interest.

(c) No Other Credits. Except for credits expressly permitted under subsections (b) and (d), no credits, offsets, re-bills, or adjustments shall apply.

(d) Invoicing.

(i) Payment 1 (January 20): fifty percent (50%) of the Annual Contract Quantity (as adjusted by the SWP allocation announced by DWR as of December 1 of each year) multiplied by the estimated Unit Price for that year (as determined by the SWP allocation announced by DWR as of December 1 of each year), plus the Admin Fee.

(ii) Payment 2 (July 1): Remaining estimated balance of the Unit Price determined for that year multiplied by the Purchase Water volume and any payments for water delivered under Section 12, below.

Within ninety (90) days after calendar year end or as soon as possible thereafter upon receipt of all delivery and variable invoicing information from DWR, the Agency shall issue a

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reconciliation invoice reflecting Purchase Water, other water delivered under Section 12 and applicable credits. Any underpayment shall be due within thirty (30) days. Overpayments shall be credited against the next invoice. Any applicable credits or overpayments shall not accrue interest.

7. Term

The Agreement shall commence on the effective date approved by the Parties' governing boards and shall continue through the expiration date of the Existing Contract, as may be amended. The Water Purchase structure set forth herein constitutes material consideration supporting resolution of the Outstanding Obligations and shall not be terminable by Western Hills except as expressly provided in the Definitive Agreement.

8. Delivery Interruptions

The Agency shall not be liable for delays or interruptions caused by events beyond its reasonable control, including regulatory constraints, facility limitations, legal mandates, hydrologic conditions, or reduced water availability.

In no event shall the Agency be liable for indirect, incidental, special, punitive, or consequential damages. The Agency shall have no obligation to procure replacement water, although the Agency agrees to cooperate in good faith to support any effort by Western Hills to obtain and arrange the delivery of any replacement, dry year or banked water supplies.

9. Regulatory Approvals

Each Party shall obtain, at its sole cost, all approvals necessary for its respective obligations and shall reasonably cooperate with the other.

10. Water Delivery Costs

The Agency shall bear costs and charges to acquire water. Western Hills shall bear all costs of conveyance to and from the POD to its service area.

11. Invoicing; Late Payments

Invoices are due within thirty (30) days of date of the invoice, which shall be e-mailed to Western Hills as Western Hills shall direct.

If any undisputed amount remains unpaid for more than sixty (60) days following written notice, the Agency may suspend deliveries, accelerate unpaid amounts, and/or terminate the Agreement.

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Interest shall accrue at the lesser of twelve percent (12%) per annum or the maximum rate permitted by law.

The Agency's remedies are cumulative.

12. Resolution of Outstanding Obligations

A. In full satisfaction of all amounts Western Hills owes to the Agency as of the effective date of the Definitive Agreement ("Outstanding Obligations"), the Parties will terminate the Existing Contract and Western Hills shall irrevocably transfer to the Agency its right to receive up to 8,000 AF of water per year pursuant to the Existing Contract and all water banked by Western Hills pursuant to Western Hills' banking agreement with the Westside Districts, consisting of 4,798 AF ("Transferred Water"). The Parties acknowledge that the Transferred Water constitutes full and adequate consideration for the Outstanding Obligations.

B. Western Hills represents and warrants that it has good and marketable title to the up to 8,000 AF of water referenced in the Existing Contract, free of liens, claims, or encumbrances, and further represents that it will request and facilitate the transfer of the Transferred Water to the Agency upon execution of the Definitive Agreement.

C. For a period of five (5) years from the effective date of the Definitive Agreement (the "Program Period"), the Agency shall deliver to Western Hills, in addition to any Purchase Water delivered under Section 1, an additional volume of water as requested by Western Hills as necessary to meet Western Hills' demand within its service area, capped at six hundred fifty (650) AF in total deliveries to Western Hills per year (the "Demand Coverage"). For the avoidance of doubt, in any year, the sum of Purchase Water delivered under Section 1 and Demand Coverage delivered under this Section 12 shall not exceed 650 AF, and Demand Coverage is available only to the extent Section 1 deliveries are insufficient to meet that demand. Demand Coverage shall be subject to the scheduling, point-of-delivery, and conveyance-cost provisions applicable to Purchase Water.

D. The price payable for water delivered under this Section 12, whether as Demand Coverage or as Dry-Year Reserve below, shall be the Unit Price in effect for the calendar year of delivery, plus an energy charge of two hundred fifty dollars ($250.00) per acre-foot for any year in which the SWP Table A allocation, as determined by the California Department of Water Resources as of May 1 each year, is less than thirty-five percent (35%). No energy charge shall apply for any year in which such final allocation is thirty-five percent (35%) or greater. Such payment constitutes full consideration for the water delivered.

E. In each year during the Program Period in which the SWP Table A allocation, as determined by the California Department of Water Resources as of May 1, exceeds fifty percent (50%), Western Hills may purchase from the Agency up to one thousand two hundred (1,200)

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AF of water at the then applicable price for Purchase Water, in addition to and separate from any Purchase Water taken under Section 1 and any Demand Coverage delivered under this Section 12 (the "Dry-Year Reserve"), to enable Western Hills to develop a dry-year program for its service area. The Dry-Year Reserve shall be subject to the scheduling, point-of-delivery, and conveyance-cost provisions applicable to Purchase Water; provided, that Western Hills may direct delivery to a third party under arrangements made separate and apart from the Definitive Agreement for banking and future return to Western Hills. If no calendar year during the original five-year Program Period has a final SWP Table A allocation as of May 1 of each year exceeding fifty percent (50%), the Program Period shall be automatically extended by one (1) additional year, with no further extensions permitted.

F. Upon confirmation of transfer:

- Outstanding Obligations shall be deemed fully satisfied and the Agency will release Western Hills from those obligations;
- Western Hills and the Agency each waives any claim, offset, credit, or adjustment relating thereto;
- Western Hills and the Agency each releases the other from claims arising prior to the effective date of the Definitive Agreement.

G. No future credit or reimbursement shall arise from the Transferred Water regardless of its use.

13. Suspension; Termination; Financial Disclosure

The Definitive Agreement shall include customary provisions for suspension, termination, and financial disclosures appropriate for a long-term water supply agreement.

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PART II – OPTION

(Non-Binding)

1. Option Volume

The Agency shall grant Western Hills an option to increase the Annual Contract Quantity by up to an additional 1,000 AF in the aggregate ("Option Water").

2. Option Term

The Option Term shall be five (5) years from the beginning of the first year following the effective date of the Definitive Agreement. The five (5) year Option Term may be extended, subject to mutual agreement by the Parties.

3. Option Fee

Western Hills shall pay an annual, non-refundable option fee of $50,000, to be paid by January 1 of each option year. The Option Fee shall not be credited against any future water purchases. Failure to pay the annual Option Fee within fourteen (14) days after written notice from the Agency shall irrevocably terminate Western Hills' option for the Option Water.

4. Exercise of Option

No later than November 1 of each option year, Western Hills shall provide written notice of the quantity to be exercised. Upon exercise, the Annual Contract Quantity shall permanently increase by the exercised amount for the remainder of the term of the Definitive Agreement.

PART III – BINDING PROVISIONS

1. Non-Binding Effect

Except for this Part III, this LOI is non-binding and intended solely as an expression of mutual intent to negotiate in good faith. No binding obligation shall arise unless and until the Definitive Agreement is executed.

2. No Effect on Agency Water Rights

Nothing herein shall impair or sever the Agency's water rights or constitute a dedication of water to public use. No underlying water right is transferred by the Agency.

3. Confidentiality

This LOI and related communications are confidential and subject to the Parties' existing Non-Disclosure Agreement and the California Public Records Act.

4. Governing Law

This LOI shall be governed by the laws of the State of California.

5. Assignment

Western Hills may not assign this LOI or any rights hereunder without the Agency's prior written consent.

Sincerely,

James D. Ciampa

[Parties' Signature Page follows]

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AGREED AND ACCEPTED:

KERN COUNTY WATER AGENCY

By: Martin Milobar

Name: MARTIN MILOBAR

Title: PRESIDENT

Date: 5/28/2026

WESTERN HILLS WATER DISTRICT

By: ____________________

Name: MARK KOVICH

Title: BOARD PRESIDENT

Date: 5-26-2026

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EXHIBIT A

[electronic version provided separately]

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EXHIBIT A

Kern County Water Agency

Estimated Unit Rates (Fixed + Variable) [1]

	Fixed Costs [2]	Variable [3,4]	SWP Allocation																			
Year	($)	($/AF)	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
2010	$ 85,808,429	28.71	1,775	902	611	465	378	320	278	247	223	203	187	174	163	153	145	138	131	126	121	116
2011	$ 84,534,821	11.34	1,732	872	585	441	355	298	257	226	202	183	168	155	144	134	126	119	113	107	102	97
2012	$ 94,355,301	10.58	1,931	971	651	491	395	331	285	251	224	203	185	171	158	148	139	131	124	117	112	107
2013	$ 93,893,117	12.23	1,923	968	649	490	394	331	285	251	225	203	186	171	159	149	140	132	125	118	113	108
2014	$ 87,464,529	10.95	1,791	901	604	456	367	308	265	233	209	189	173	159	148	138	130	122	116	110	105	100
2015	$ 101,318,265	22.11	2,084	1,053	709	538	435	366	317	280	251	228	210	194	181	169	160	151	143	137	131	125
2016	$ 114,706,906	10.76	2,345	1,178	789	594	478	400	344	303	270	244	223	205	190	178	166	157	148	140	134	127
2017	$ 122,809,721	12.66	2,512	1,262	846	638	513	429	370	325	290	263	240	221	205	191	179	169	160	152	144	138
2018	$ 114,237,368	20.22	2,345	1,183	795	601	485	408	352	311	279	253	232	214	199	186	175	166	157	149	143	136
2019	$ 110,534,495	15.62	2,265	1,140	765	578	466	391	337	297	266	241	220	203	189	176	166	156	148	141	134	128
2020	$ 136,178,262	21.68	2,793	1,407	945	715	576	484	418	368	330	299	274	253	235	220	206	195	185	176	168	160
2021	$ 136,049,604	22.72	2,792	1,407	946	715	576	484	418	369	330	300	274	253	236	220	207	196	186	177	168	161
2022	$ 158,938,338	19.05	3,254	1,636	1,097	828	666	558	481	423	378	343	313	289	268	250	235	221	209	199	189	181
2023	$ 144,134,581	16.67	2,950	1,483	994	750	603	506	436	383	343	310	283	261	242	226	212	200	189	180	171	163
2024	$ 155,485,291	18.19	3,183	1,600	1,073	809	651	546	470	414	370	335	306	282	262	244	229	216	204	194	185	176
2025	$ 152,490,800	19.04	3,122	1,571	1,054	795	640	536	462	407	364	329	301	278	258	241	226	213	202	191	182	174
2026	$ 152,055,553	19.17	3,114	1,566	1,051	793	638	535	461	406	363	329	300	277	257	240	225	213	201	191	182	174
	MIN	10.58	1,732	872	585	441	355	298	257	226	202	183	168	155	144	134	126	119	113	107	102	97
	MAX	28.71	3,254	1,636	1,097	828	666	558	481	423	378	343	313	289	268	250	235	221	209	199	189	181
	AVG	17.16	2,465	1,241	833	629	507	425	367	323	289	262	240	221	205	192	180	170	161	153	146	140

(1) Green highlights represent the final SWP allocation in the listed year. 2025 and 2026 are tentative numbers that are subject to final reconciliation.
(2) Based on the initial Statement of Charges for the listed year. Does not include rebills (credits or charges).
(3) Final variable rate through Banks pumping plant calculated based on DWR variable invoices.
(4) 2025 and 2026 variable rates are still to be determined.

		SWP Allocation																			
WHWD Estimated Annual Payment		5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Estimated Annual Allocation (AF)	1,500	75	150	225	300	375	450	525	600	675	750	825	900	975	1,050	1,125	1,200	1,275	1,350	1,425	1,500
Annual Purchase Water ($)	Avg Unit Rate	184,899	186,185	187,472	188,759	190,046	191,333	192,620	193,907	195,194	196,480	197,767	199,054	200,341	201,628	202,915	204,202	205,489	206,775	208,062	209,349
Admin Fee $25 @ 1500 AF	25	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500
Avgerage Annual Expense		222,399	223,685	224,972	226,259	227,546	228,833	230,120	231,407	232,694	233,980	235,267	236,554	237,841	239,128	240,415	241,702	242,989	244,275	245,562	246,849
	UNIT PRICE	$ 2,965.31	$ 1,491.24	$ 999.88	$ 754.20	$ 606.79	$ 508.52	$ 438.32	$ 385.68	$ 344.73	$ 311.97	$ 285.17	$ 262.84	$ 243.94	$ 227.74	$ 213.70	$ 201.42	$ 190.58	$ 180.94	$ 172.32	$ 164.57