



3630 FM 1765

Texas City, Texas 77591

409.935.2438

September 10, 2020

Jody Hooks
City of League City
300 W Walker
League City, Texas 77573

Dear Jody Hooks,

Reference: Thomas Mackey Water Treatment Plant (the "Plant") – plant expansion - Notice of opportunity to increase Reserve Capacity in Plant.

Pursuant to Gulf Coast Water Authority's (GCWA's) letter dated December 11, 2019, GCWA informed our Thomas Mackey Water Treatment Plant ("Plant") customers, of the rerate of the Plant approved by the TCEQ. At that time, GCWA requested that each of the Plant's customers provide their requests for additional potable water, if any, from the Plant. GCWA has presented information about the required improvements to the Plant and expenses needed to deliver the water associated with the rerate of the Plant during several municipal operating advisory committee meetings.

GCWA has received from the Plant customers initial requests for more than the 7.9 million gallons per day (MGD) of additional potable water that will become available in connection with the Plant expansion. To ensure fairness and the equitable distribution of the additional potable water that will become available upon completion of the Plant expansion, GCWA's Board on August 6, 2020, by unanimous vote, determined that GCWA will sell the 7.9 MGD of expanded Reserve Capacity in the Plant at the established fair market rate of \$2.80 per gallon. The Board based the price on the price for NRG water sold in 2015 plus inflation, and the costs required for GCWA to effectuate the rerate of the Plant. The proceeds from the sales will be used to pay for the improvements required to make the additional potable water available.

The capital expenditures required to effectuate the rerate of the Plant and to ensure GCWA can deliver the additional 7.9 MGD water include the construction of a high service pump station, associated transformers and switch gears, and an increase in the capacity of the canal from the Texas City Reservoir to the TMWTP take point. (For clarity customers of the industrial division may share in the cost of certain improvements to the canal system.)

As part of its allocation procedures, GCWA will provide each Plant customer with the ability to increase its Reserved Capacity in connection with the 7.9 MGD Plant capacity expansion. To that end, this letter serves as notice that you may increase your Reserved Capacity in the Plant by any amount of potable water up to the 7.9 MGD Plant capacity expansion; provided, however, that your purchase will be subject to other Plant customer's option to purchase a pro rata share of the additional capacity based upon their



existing Reserved Capacities in the Plant. GCWA is extending to each customer a period of three (3) months (ending December 15, 2020) in which to notify GCWA that it desires to contract for all or any portion of the 7.9 MGD Plant Capacity expansion. Lack of response will be deemed as a requested quantity of zero. GCWA will work with customers to establish a payment schedule. GCWA plans to approve the allocations of Reserved Capacity at its December 17, 2020 meeting, for sales to be effective March 1, 2021.

The table below shows the available allocation the 7.9 MGD based on existing customer Reserve Capacities. If a customer desires to purchase all or any portion of the additional 7.9 MGD, then you must give written notice to GCWA specifying the desired amount of the increase in your Reserve Capacity by December 15, 2020.

	Reserve Capacity	Allocation Reserve Capacity	\$2.8/ gallon
Texas City	11.505	1.8287626	5,120,535.21
La Marque	2.780	0.4418913	1,237,295.77
WCID #1 Dickinson	4.165	0.6620423	1,853,718.31
Bacliff	1.190	0.1891549	529,633.80
Bayview	0.388	0.0616740	172,687.32
WCID #12 Kemah	1.043	0.1657887	464,208.45
San Leon	1.785	0.2837324	794,450.70
League City	2.544	0.4043783	1,132,259.15
Galveston	20.990	3.3364386	9,342,028.17
Hitchcock	1.500	0.2384306	667,605.63
WCID #8 Santa Fe	1.000	0.1589537	445,070.42
MUD #12 Bayou Vista	0.450	0.0715292	200,281.69
FWSD #6 Tiki Island	0.360	0.0572233	160,225.35
	49.7000	7.90000	\$ 22,120,000.00

If a Plant customer chooses not to increase their Reserve Capacity in an amount up to their allocated or proportionate share of existing Reserve Capacity, then GCWA reserves the right to allocate such additional capacity among the other Plant customers requesting more than their Allocation Reserve Capacity and other parties or to retain the water for future requests at GCWA's sole discretion.



It is important to note that the purchase of the additional Reserve Capacity addresses only Plant Reserve Capacities. The ability for GCWA to deliver the water from the Plant to any particular customer will depend upon existing pipeline capacity and which customers purchasing water as part of this process and will be discussed during the water purchase contract process. Additional capital may be required to facilitate the delivery of water to customers desiring to acquire water through this process.

We are available to answer your questions. Please do not hesitate to call me if needed.

Kindest Regards,

A handwritten signature in black ink, appearing to read "David E. Davis, Jr.", with a long, sweeping horizontal line extending to the right.

David E. Davis, Jr. CPA
Assistant General Manager
Gulf Coast Water Authority
281-299-2817