

**NOTICE TO OUR CUSTOMERS
OF RATE CHANGES**

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2008 NOV 17 PM 2: 08

IDAHO PUBLIC
UTILITIES COMMISSION

Capitol Water Corporation filed two applications with the Idaho Public Utilities Commission on November 17, 2008. The first Application (Case No CAP-W-08-01) requests the Commission's approval to cancel the surcharges that have been in effect for the last six and one-half years. These surcharges were authorized to repay emergency loans the Company had to take out to make extraordinary emergency repairs to the Company's water system. The Company has now collected from its customers all the funds necessary to satisfy those emergency obligations. This change reduces the Company's rates by 18% to 25% depending upon the rate schedule you are billed under and is reflected on your enclosed December bill.

The Second application (Case No. CAP-W-08-02) requests the Commission's approval to increase the Company's base rates by 7.8% on January 1, 2009. This increase was made necessary by three factors over which the company has no control. The first was the extraordinary cost (\$102,006) the Company incurred to make changes to its water distribution system as required by the Ada County Highway District's Ustick Road widening project. The second factor contributing to the request was the extraordinary failure in October of one of the Company's well pumps requiring a repair cost of \$11,234. The third factor is the increase in the Company's electric power costs experienced since the Company's last rate increase was approved and effective January 1, 2007.

Together these two applications, if approved by the Public Utilities Commission, will result in a net decrease in our customer's bills beginning January 1, 2009 of between 10% and 20% depending upon the rate schedule you are billed under. Separate summer sprinkling rates for flat rate customers will increase by 7.8% as will commercial fire sprinkling rates.

A copy of the Company's applications are on file and available for your review at the Company office located at 2626 Eldorado in Boise. The applications are also available for review on the Public Utilities Commission web site www.puc.idaho.gov under the above case numbers.