

Davidson Water, Inc.

Capital Improvement Program

Davidson Water, Inc. has and will continue an aggressive capital improvement program. This past year we improved our SCADA systems at the filtration plant and for our distribution systems. This gives us almost instantaneous information on all water plant processes and gives us invaluable information in the distribution system on pump stations, water tank levels, pressures and flows, which helps us determine potential leaks.

The filter sweeps which helps cleanse filter media during backwash have been changed out with stainless piping with redundant capability. The greater and more constant pressure provided by the new piping helps provide better water quality. A new 16" water main on Hwy 62 and a 12" on Meadowbrook have been installed and we are in the process of installing new pipe on Kanoy, Jacob, Gate, Bonnie Regan and Whiteheart School roads to replace lines with leakage problems and to update size to provide for future demands.

This year we are planning to build two new one million gallon elevated tanks in the Welcome and Hickory Tree zones giving us much needed storage for peak demands and future growth. A new pump station will be built to serve the Trinity-Archdale area. We hope to replace and upgrade water lines on Hampton, County Home and Howard Black roads. A new 24" and 16" transmission line will be needed for the north end of our system, serving Welcome, Hickory Tree, Wallburg and Hasty.

Convenient Payment Options

In order to better assist our customers we now provide several convenient options for paying your water bill.

http://www.davidsonwater.com/onlinebilling

Auto Draft

E-Bill

Web Pay

By Mail

Pay Stations:

Office Welcome 7040 Old Hwy 52 N Midway Mobile Mart Thomasville on National Hwy Select LSB/Newbridge Offices

Pay Stations are provided for the convenience of our customer, the employees of the Pay Stations are not employed by Davidson Water, Inc. and all questions regarding your account should be directed to our office.

Office: 336 731-2341

Water Plant:

336 731-5571

336 764-2564

336 475-8229

Visit us online: http://www.davidsonwater.com

Drought

The recent drought has again brought forth the need for river intakes that can perform well during low water levels and flows in the Yadkin River. When river flow gets below 300 cubic feet per second or 194 million gallons a day our existing intakes are unable to pump water. During the drought we were processing 15 to 18 million gallons a day, only 7 to 9 percent of the flow at 300 cfps. Flow has not fallen below 400 cfps so far during this drought. We do have emergency pumps available during extreme low flows, but they are costly to operate and not dependable for long periods. We have surveyed the river bottom and determined the best location for a new river intake that will operate under low flow conditions. The new intake will be designed to provide water for our existing reservoirs, new reservoirs and a future water plant. It will also be able to pump directly to the filtration plants if reservoirs need to be bypassed. The new intake will be designed to be much more efficient than our existing intakes.

Water Rate Increase Effective January 1, 2008

Davidson Water, Inc. is increasing its water rates due to increasing operating expenses. This is an overall increase of 3.9%. Transportation cost, chemical cost, electrical cost, residual handling at the plant, testing costs and testing requirements increased and labor cost are the main culprits. As our system's infrastructure is getting older, we expect maintenance cost will continue to rise along with the need for replacement and refurbishment. Tank maintenance has increased dramatically with new safety regulations in place. With the need for additional tank storage as our system grows, we will look at composite tanks that may cost a little more initially, but with less maintenance needs will save over the life of the tanks. Our AMR (automatic meter read) pilot when put into full use will reduce future cost of reading meters and provide better customer service by reading meters more accurately, more timely and safer. Newer models of AMR meters should be able to recognize leak problems on customer's side of meter and possibly be used to detect leaks on Davidson Water, Inc.'s service lines and mains that may not be surfacing to the top of the ground. We will continue to look for new ways to provide better service to you our members and keep our costs down.

0	2,000	Minimum	9.40	9.65
2,001	50,000	Per Thousand	3.35	3.50
OVER	50,000	Per Thousand	2.80	3.05

Davidson Water, Inc. Lead Concerns

Davidson Water, Inc. has made changes in our water chemistry that should reduce the amount of lead leaching into your water. We recently tested 50 homes that have copper pipe with lead solder and only one of the 50 was above the action level of 15 parts per billion. 44 of the sites showed no lead.

Davidson Water, Inc. has always been in compliance with federal (EPA) and state regulations. There have been no detectible levels of lead found in the raw water or water in our distribution system. All detectible levels

of lead apparently stem from customers plumbing and fixtures and not from the water itself. Amendments made to the federal Safe Drinking Water Act in 1996 banned plumbing devices with pure lead pipe but still allow up to 8 percent lead content in brass fixtures, water standing in these fixtures for extended time periods may have elevated levels of lead when capturing the first draw of water.

Recommendations to customers having copper pipe with lead solder would be to flush a faucet for a minimum of 30 seconds after an extended time of non use and prior to using for cooking or drinking. Homes built after 1985

should not contain plumbing with lead solder due to regulation changes in plumbing code. These customers should still flush for 10 to 15 seconds to remove water standing in fixtures for extended time periods. This process is especially important in new faucets. All customers should remove strainer to clean, flush, and reinstall at

least every six months.

Again, Davidson Water, Inc.
has never been out of compliance with lead regulations and has just completed our required testing of Tier I targeted sites. Tier I sites are

selected based on EPA's criteria for testing. These homes were built between 1983 and 1985, and they contain copper pipe and lead solder. Results have shown that only one sample came back above the action level of 15 parts per billion, which is well within EPA requirements. Davidson Water, Inc. will continue to monitor for lead by testing homes that have the greatest potential of leaching lead from homeowners plumbing and fixtures and keep its water chemistry at an optimum to reduce corrositivity. For more information on lead, call EPA's Safe Drinking

Water Hotline at 800-426-4791 or visit their website at

www.epa.gov/safewater/lead/index.html

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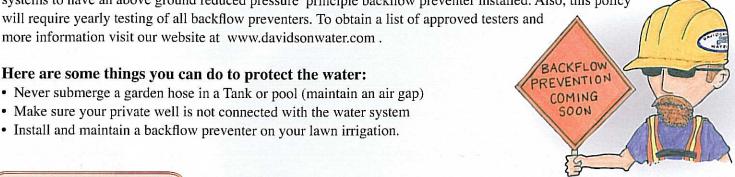
Protecting the water system from Backflow

Davidson Water, Inc. is implementing a cross-connection control policy as of January 1, 2008. This policy aims to improve the safety of the water supply, reducing the risk of contamination from the customer's premises into the water supply system. Backflow can occur when the water pressure drops (i.e. a main break). This policy will require all new lawn irrigation systems to have an above ground reduced pressure principle backflow preventer installed. Also, this policy

more information visit our website at www.davidsonwater.com.

Here are some things you can do to protect the water:

- Never submerge a garden hose in a Tank or pool (maintain an air gap)
- Make sure your private well is not connected with the water system
- Install and maintain a backflow preventer on your lawn irrigation.



Red Water

Red water issues continue to plague Davidson Water, Inc. during high demand periods. Any sediment that has built up in the lines tend to break loose when water velocity is increased way beyond normal flow during high demand periods. Higher water temperatures may also play a factor. We apologize for any inconvenience that this has caused. Davidson Water, Inc. will initiate a much needed flushing program during the winter months to scour the lines removing much of the build up. We are also adding a component to our corrosion inhibitor to reduce red water. The two new larger elevated tanks will help us to meet high demands through storage and then refill at a more regular pumping rate during low demand periods and our new SCADA system will also help us pump at more consistent flows throughout our system helping to reduce red water conditions.

Source Water Protection

Officials from Davidson Water, Inc. are initiating a voluntary Source Water Protection Plan for their Yadkin River intakes and the surrounding watershed. The resulting plan will define strategies to protect public drinking water derived from this source. The cooperative effort will encourage public participation and promote partnerships with other groups and NC agencies.

"We are very excited that Davidson Water has taken this step," said Jay Frick from NC Department of Environment and Natural Resources (NCDENR). "Their effort is purely voluntary and demonstrates a proactive commitment to protect drinking water. We are



eager to assist Davidson Water with this effort." Other groups, such as NC Rural Water Associations, will play an essential role in the process. Any citizen or local action group wishing to participate is encouraged to contact Davidson Water. Davidson Water Resource Manager, Gregg Stabler, will lead effort to initiate source water protection. "We have traditionally enjoyed high quality drinking water and we want to keep it that way," said Stabler. "Maintaining clean drinking water is not only good for public health but has economic advantages as well." An approved protection plan will give Davidson Water priority to obtain grants and low interest loans that can be used to improve the system and implement watershed protection measures. Davidson Water removes 12 million gallons on an average and almost 18 million on a max day from the Yadkin River and supplies drinking water to approximately 140,000 people. In recent analysis by NCDENR, the Davidson Water drinking water assessment area scored a "higher" susceptibility for contamination. A susceptibility rating of "higher" does not imply poor water quality. The rating indicates the potential for the water source to become polluted by contaminant sources within the assessment area.

On October 6th Davidson Water, Inc. employees along with other participated in the "Big Sweep" concentrating on areas above their Yadkin River intakes with the help of Girl Scout Junior Troop 61 and Davidson county employees. A large area was cleaned of all types of trash. We hope this campaign will continue to grow each year covering a much larger area that affects our water basin and our water quality.

More information regarding drinking water quality and Davidson Water, Inc. can be found online at www.deh.enr.state.nc.us/ pws/SWAP and then by clicking "SWAP Reports" at the bottom of the page.