



Natomas
Mutual Water Company

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February 3, 2009

Dear Shareholders

While Natomas Central Mutual Water Company's contract with USBR provides for a maximum reduction in Natomas Central Mutual Water Company's water supply of 25% please take notice that there is risk of a reduction in Natomas Central Mutual Water Company's water supply in excess of 25% in 2009.

A reduction in excess of 25% could occur under two different scenarios. First, if precipitation in the upper Sacramento River watershed remains critically low, there may be a shortfall in the amount of water physically available to meet Reclamation's contract obligations to Natomas Central Mutual Water Company and the other Sacramento River Settlement Contractors ("SRS Contractors"). In such event, Natomas Central Mutual Water Company would likely have to share the available water supplies with other SRS Contractors; depending on the physical availability of water in the watershed, and Natomas Central Mutual Water Company's share could fall well below 75% of its contract supply. Second, state or federal regulatory agencies and/or environmental organizations may attempt to reduce the water supply available to Natomas Central Mutual Water Company and other SRS Contractors beyond the 25% reduction contemplated in the SRS Contracts through various legal theories asserted in the courts or before the State Water Resources Control Board.

Indeed, Natomas Central Mutual Water Company and other SRS Contractors are currently defending litigation in federal court brought by the Natural Resources Defense Council and other environmental organizations seeking rescission of the SRS Contracts.

If additional legal claims of this type were to be asserted, Natomas Central Mutual Water Company and other SRS Contractors would vigorously defend their water rights and USBR contractual entitlements. Nonetheless, Natomas Central Mutual Water Company believes it is important that each of its landowners and water users fully understands the magnitude of the risks which Natomas Central Mutual Water Company and other SRS Contractors are now facing so that its landowners and water users can make farming and other business decisions with these risks fully in mind.

Sincerely,

Dee E Swearingen
General Manager
Natomas Central Mutual Water Company