



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

VIA EMAIL

February 23, 2016

Director Michael T. Hogan
Director Keith Lewinger
Director Fern Steiner
Director Yen C. Tu
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Re: Your letters dated February 4, 2016, February 6, 2016, and February 9, 2016

Dear Directors:

This letter addresses your comments and requests in your letters dated February 4, 2016, February 6, 2016, and February 9, 2016, relating to Metropolitan's 2016 budget and rate setting process.

February 4, 2016 Letter re Written Request for Notice and Request for Data and Proposed Methodology under Government Code Section 54999.7

We have received your request for notice of the public meetings relating to establishment of Metropolitan's 2017 and 2018 rates and charges, and the data and proposed methodology relating to such rates and charges, pursuant to Government Code Section 54999.7. SDCWA has and will continue to receive notice of all meetings, workshops, and public hearings relating to Metropolitan's 2017 and 2018 rates and charges, as well as the information, data, and methodology supporting the rates and charges proposal, in accordance with Metropolitan's practices and the Brown Act.

As you know, Metropolitan disputes SDCWA's litigation position that Section 54999.7 applies to Metropolitan's rates. SDCWA has previously agreed that Section 54999.7 does not apply to Metropolitan. This is an issue in the pending litigation between SDCWA and Metropolitan. The judgment in the litigation is currently on appeal and, therefore, is not binding on Metropolitan. Nevertheless, Metropolitan has and will continue to fully comply with Section 54999.7's requirements through the budget and rates and charges information provided and to be provided to the member agencies and the public.

February 6, 2016 Letter Re Board Memo 9-2

We appreciate receiving your preliminary written comments in advance of the first workshop of the 2016 budget and rate setting process, held on February 8, 2016 (“Workshop #1”). Staff has reviewed your written comments, as well as your and other Metropolitan Directors’ comments made at Workshop #1, at the February 9 Board meeting, and at the February 23, 2016 Workshop #2. Consistent with past practice, staff has and will continue to address all Directors’ comments and questions at the scheduled workshops to ensure full participation of the Finance & Insurance Committee and Board. As we have informed the Board, the proposed schedule for the 2016 budget and rate setting process will consist of four workshops, with a fifth workshop available if the Board requests it, and one public hearing before the Board may take action on April 12 to adopt the biennial budget and rates and charges.

You have also included in your February 6 letter a request that the General Counsel provide (1) a public presentation regarding the applicability of Proposition 26 to wholesale water agencies such as Metropolitan, and (2) a legal opinion “why MWD’s actions” with respect to the Readiness-to-Serve and Capacity Charges “are not the opposite of what was intended by passage of” Sections 124.5 and 134 of the Metropolitan Water District Act. As you know, the applicability of Proposition 26 to Metropolitan’s wholesale water rates is an issue in the pending litigation between SDCWA and Metropolitan. Metropolitan contends that Proposition 26 does not apply to its rates and Metropolitan has explained that position extensively in the litigation. As stated above, the judgment in the litigation is on appeal and is not currently binding on Metropolitan. Metropolitan’s position is that its rates and charges comply with all applicable law, including but not limited to, the Metropolitan Water District Act.

February 9, 2016 Letter re “2016 Rate Setting Process and Schedule for Public Hearing; Request for Distribution of Cost of Service Report Prior to the Public Hearing”

You commented in your February 9 letter that you have not received “MWD’s 2016 Cost of Service Report” and that Government Code Section 54999.7(d) and (e) require distribution of such report no later than 30 days before rates and charges are adopted.

First, we note that staff has made available prior to Workshop #1 the proposed biennial budget and ten-year forecast, containing revenue requirements and cost of service analysis. Staff also made an extensive presentation regarding the revenue requirements that form Metropolitan’s projected costs of service. Moreover, as explained in the February 9 Board Letter, “[t]he estimated rates are based on Metropolitan’s current methodology for developing rates and charges to produce the necessary revenue required to cover costs.” (Board Memo 9-2, p. 1.) In other words, the proposed rates and charges, with the exception of the Treatment Surcharge, will continue to be proposed pursuant to the rate structure that has been in place since January 1, 2003. Further explanation of the cost of service analysis supporting the continuing rate structure, including a Cost of Service Report, will be presented throughout the budget and rate process.

Second, as stated above, Metropolitan agrees with SDCWA’s prior position that Government Code Section 54999.7 does not apply to Metropolitan. In any event, we point out that SDCWA

SDCWA Directors

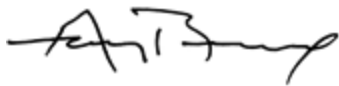
February 23, 2016

Page 3

has misread Section 54999.7. The Section requires that the “request of any affected public agency” be “made not less than 30 days prior to the date of the public meeting to establish or increase any rate, charge, surcharge, or fee” (Cal. Gov. Code § 54999.7(e).) The 30-day deadline applies to the request for information – not to the provision of information as you represent in your letter.

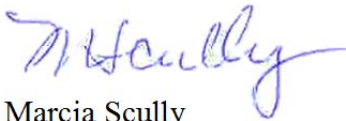
We will respond separately to your correspondence received after February 9, 2016. Thank you again for providing your comments in advance and in writing.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Breaux".

Gary Breaux

Assistant General Manager/ Chief Financial Officer

A handwritten signature in blue ink, appearing to read "Marcia Scully".

Marcia Scully

General Counsel

cc: Metropolitan Board of Directors