THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

December 13, 2010

Keith Lewinger
MWD Director
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123-1233

Dear Keith:

Thank you for your letter of December 9, 2010, providing comments on Metropolitan's Appendix A. Many of your comments reflect the San Diego County Water Authority's previous comments about Metropolitan's Integrated Resources Plan (IRP). These comments were addressed in Appendix A as described in my letter dated September 23, 2010. Other comments are addressed below.

Water Sales

The five-year forecast of revenues and expenditures included in Appendix A is consistent with those included in Metropolitan's draft Long Range Finance Plan. In particular, average sales volumes are consistent with the analysis used in the IRP. Appendix A shows water sales of approximately 2.0 million acre-feet (MAF) for the five years ended 2015. Your letter notes that demands on Metropolitan would only be 1.75 MAF in 2015, but this figure does not include the almost 300,000 acre-feet of water that Metropolitan will sell to the San Diego County Water Authority under the Exchange Agreement. Metropolitan has consistently reflected those sales in the IRP, budget, and forecasts in prior disclosure documents. The current year's sales forecast was described in some detail in my previous letter, and we have been reporting regularly at Business and Finance Committee that we are forecasting water sales of about 1.75 MAF in fiscal year 2010/11 (including sales to SDCWA under the Exchange Agreement), which is consistent with the 1.8 MAF projection included in Appendix A.

Need for Bond Proceeds

As you know, the Board went through an extensive and exhaustive review of the operating and capital budget this past year. As a result, the capital budget for 2010/11 was reduced to $260 million. The capital budget for 2011/12 is about $341 million. A $400 million bond issue was included in the 2010/11 budget to fund the ongoing capital program. While the CIP is reviewed on an annual basis, and projects are rescheduled to meet needs, there is no scenario whereby the proceeds from this bond issue will not be utilized. Without any change in funding sources this fiscal year, Metropolitan could withdraw as much as $100 million from its water rate stabilization funds. But, as we have discussed at Business and Finance Committee, Metropolitan can reduce this draw by reducing the amount of capital funded with cash (PAYGO). Those PAYGO funds, along with the proceeds from this bond issue, will provide about $300 million to continue funding the important projects included in the CIP. The current bond issue will be less than that included in the 2010/11 budget year, and the next new money bond issue is presently anticipated to be sold in next fiscal year.

Your careful review of the Appendix A is appreciated, and I know that you will continue to play an active role in the budget process to ensure that Metropolitan's capital program is addressing our member agencies' needs.

If you have additional questions, please contact me at 213-217-7121, or Syd Bennion, Assistant General Counsel, at 213-217-6517.

Sincerely,

Brian G. Thomas

Brian G. Thomas
Assistant General Manager/Chief Financial Officer

cc: J. Kightlinger
MWD Board of Directors
MWD Member Agency Managers