



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

October 25, 2012

Director Keith Lewinger
Director Fern Steiner
Director Doug Wilson
San Diego County Water Authority
4766 Overland Avenue
San Diego, CA 92123

Dear Directors:

Your letter dated October 8, 2012, regarding Metropolitan's September 4, 2012 response to SDCWA comments on Appendix A to Remarketing Statement and Official Statement

This is in response to your letter dated October 8, 2012, regarding our response dated September 4, 2012, to your comments on Appendix A to Metropolitan's Remarketing Statement and Official Statement. Again, we appreciate your detailed review of Appendix A.

Metropolitan's offering statements are prepared to give investors material information about Metropolitan and its bond offerings. If there is a substantial likelihood that a reasonable investor would consider the information to be important to his or her decision whether to invest in the bonds described in the offering statement, the information is material. Issuers make judgments as to what information is material each time an offering statement is prepared. We make these judgments with assistance from outside counsel, financial advisors, underwriters and their counsel, and other professionals. All changes are subject to review and approval by the General Manager and General Counsel, under authority delegated by the Board.

Board member review of the information about Metropolitan in Appendix A is a key part of the disclosure process. Appendix A is continuously reviewed and may be updated up to the time it is posted for distribution to investors. We carefully consider each comment from board members, staff and the financing team to correct errors, clarify ambiguities and add relevant, material information. When comments request added information, we review the proposed insert for accuracy and materiality. Appendix A includes primarily historical information. Projections reported in Appendix A are derived from and consistent with Metropolitan's budget documents, resources planning documents, and financial reports. Projections that are not supported by or are contrary to the projections in the adopted budget, Integrated Resources Plan or other published documents, speculative statements and policies that are subject to board debate or future board action have no place in Appendix A.

Your October 8 letter asserted that the Board has not adopted the conservation commitment by Metropolitan that was described in the Bay-Delta Conservation Plan discussion of the draft Appendix A submitted to the Board for comment. This commitment is in fact consistent with the IRP and planning goals approved by the Board, not a commitment requiring additional board action. We deleted the reference to this commitment on pp. A-11-12 in response to your comment to avoid similar confusion by investors.

Similarly, your comments on the Appendix A description of the water transfer from Imperial Irrigation District to SDCWA and the Exchange Agreement between Metropolitan and SDCWA prompted us to look more closely at this language which, as your letter noted, has remained the same for some time. The changes conformed the description more closely to the language in the Exchange Agreement and updated it to describe the Notice of Default and additional invoice to SDCWA, as you requested.

Your October 8 letter alludes to substantial risks to Metropolitan and its ratepayers if the QSA agreements are interrupted. Appendix A describes the litigation challenging the QSA agreements and states that such impacts cannot be determined at this time. It would be speculative to assume that none of the programs developed under the QSA that now benefit Metropolitan would survive and that no alternatives could be negotiated by the parties.

Appendix A describes Metropolitan's role as a supplemental supplier, with sales varying according to a number of factors listed on p. A-30. The table on A-30 shows regional water supplies for the years 1971 through 2011 from the State Water Project, Colorado River Aqueduct, Los Angeles Aqueduct, and local supplies. Even taken out of context, the sentence on this page that is cited in your letter does not "suggest the possibility that, in the future, *no amount* of water will be derived from sources other than Metropolitan." In context, it is clear that no such possibility is suggested.

The table on A-30 shows why Appendix A includes a separate discussion of the Los Angeles Aqueduct. The Los Angeles Aqueduct is a significant source of local water supplies available to meet demands within Metropolitan's service area. Metropolitan updates the information about the Los Angeles Aqueduct in consultation with staff from the Department of Water and Power. The AVEK turnout is identified because of its capability, when completed, to deliver water to Los Angeles not to exceed the amount of supplies lost to the City as a result of its Eastern Sierra environmental obligations. The not-to-exceed amount is the fact relevant to investors.

Appendix A also specifically describes the IID-SDCWA water transfer, another significant source of local supplies within Metropolitan's service area. Other local water supply sources are described by category, including surface runoff, groundwater, groundwater storage programs and conjunctive use, groundwater recovery, recycled water and seawater desalination. Metropolitan's water sales projections are the result of a comprehensive retail demand, conservation and local supply estimation process described under "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES." This process includes supply projections from member agencies and other local water providers, past conservation savings and estimates for future conservation from 20 by 2020 goals. A board report dated August 16, 2011, compared Metropolitan's planning projections with supply and demand projections reported in Urban Water Management Plans filed by six

member agencies (SDCWA, MWDOC, IEUA, Central Basin MWD, West Basin MWD, and LADWP) that historically receive about 70 percent of Metropolitan's total water deliveries. Metropolitan's projections of total retail demand after conservation were on average 6 percent lower than the sum of the six member agencies. Metropolitan's projections for total local supplies to be developed by member agencies were on average 4 percent lower than the projected total for the six member agencies. Projected demands for imported water as shown in Metropolitan's Urban Water Management Plan are on average 8 percent lower than the total of the six member agency projections. A comprehensive analysis of all 26 member agencies performed after this report validated the reasonableness of Metropolitan's projections compared to member agency Urban Water Management Plans.

The description of replenishment rates was revised in response to your suggestions to point out that no replenishment rates were adopted for 2013 and 2014, and no replenishment sales were included in the biennial budget. Similarly, we reviewed and clarified the description of actual and projected pay-as-you go (PAYGO) funding compared to projections in prior years, in response to your comment. The disclosure already describes the Board's funding objective to fund all CIP expenditures for replacements and refurbishments of facilities from current revenues, and points out that the Board may reduce or increase the amount of PAYGO expenditures during the fiscal year to reduce drawdowns of reserve balances and mitigate financial risks. We declined to speculate on the "real reason" for PAYGO reductions.

Our edit on A-50 resulted from financing team comments and was made to recognize the Board's discretion over rates and charges. The Board may authorize a variety of actions to replace lost revenues and close a budget shortfall, including raising rates, reducing costs, restructuring of rates and charges, and other options depending on the circumstances.

Changing the basis for projected costs for State Water Project Water, in footnote 1 on A-72, from "water purchase estimates" to the adopted biennial budget merely identified the source document for the estimates. Contrary to your assertions, Appendix A is prepared to fulfill Metropolitan's disclosure obligations to investors, not to "shore up" arguments in the rate litigation.

Sincerely,



Gary Breaux
Assistant General Manager/Chief Financial Officer

cc: J. Kightlinger
M. Scully
MWD Board of Directors
SDCWA Member Agencies