

June 1, 2010

Mr. Jeff Kightlinger, General Manager
Metropolitan Water District
of Southern California
P. O. Box 54153
Los Angeles, CA 90054

Dear Mr. Kightlinger:

**RE: Proposed Changes to Metropolitan's Rate Structure
and Cost of Service Methodology**

During the recent Fiscal Year 2010-11 rate setting process, the San Diego County Water Authority (Water Authority) contended that Metropolitan's water rates are unlawful and that Metropolitan's cost of service (COS) methodology does not comply with industry standards. In their letter to Metropolitan dated March 8, 2010, the Water Authority demands changes to the COS methodology that would shift all costs associated with the State Water Project (SWP) and all costs currently recovered through the Water Stewardship Rate, to Metropolitan's Tier 1 supply rate.

This dramatic shift in costs to supply would result in a savings to the Water Authority of over \$26 million in Calendar Year (CY) 2010 (and over \$800 million dollars over the next 20 years) and a corresponding increase in cost shared by Metropolitan's other member agencies. Individual member agency cost increases would be as much as \$7.5 million in CY 2010 (See Enclosure – Attachment A).

The technical and policy foundation for Metropolitan's current rate structure is sound. The unbundled rate components and COS methodology were developed through an interactive three-year process between Metropolitan and its member agencies, and together ensure that each member agency pays for the services it uses. The CY 2010 cost of service study and rate methodology were recently reviewed by Metropolitan's General Counsel and outside rate experts and determined to be reasonable; consistent with California law and industry standards; and consistent with the Metropolitan Water District Act.

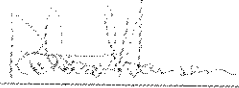
Any potential changes or adjustments to the current rate structure and COS methodology should first be evaluated through the Metropolitan and member agency workgroup process to ensure transparency, fairness, and adherence to underlying policy principles. Until such time, we urge Metropolitan to maintain and defend the current cost allocation assumptions that support the rate-setting process.

Sincerely,
SEE MEMBER AGENCY SIGNATORIES ON 2ND PAGE

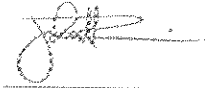
MWD's Rate Structure & Cost of Service Methodology



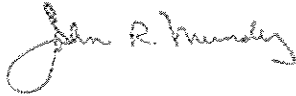
Shana Epstein
City of Beverly Hills



Richard Hansen
Three Valleys MWD



John Rossi
Western MWD



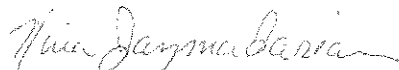
John Mundy
Las Virgenes MWD



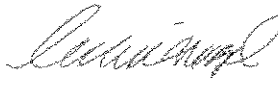
Robert Beste
City of Torrance



Kevin Hunt
MWD of Orange County



Nina Jazmadarian
Foothill MWD



Rich Nagel
West Basin MWD



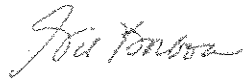
A.J. Pack
Eastern MWD



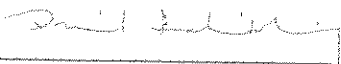
William O. Mace, Jr. P.E.
City of Burbank



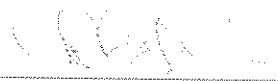
Don Calkins
City of Anaheim



Gil Borboa
City of Santa Monica



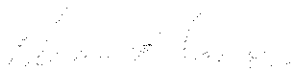
David Schickling
City of Fullerton



Steve Johnson
Upper San Gabriel MWD



James B. McDaniel
Los Angeles DWP



Tom Love
Inland Empire UA



Peter Kavounas
City of Glendale



Raymond L. Burke
City of Santa Ana



Eric Bergh
Calleguas MWD

Enclosure

ATTACHMENT A

NET PRESENT VALUE (NPV) OF ESTIMATED COST SHIFT FROM SDCWA TO EACH MEMBER AGENCY ¹

MEMBER AGENCY	2010 COST SHIFT	NPV OF COST SHIFT (20 YRS)	NPV OF COST SHIFT (40 YRS)	NPV OF COST SHIFT (67 YRS) ²
City of Anaheim	\$395,643	\$11,932,976	\$25,693,664	\$44,465,741
City of Beverly Hills	\$206,426	\$6,226,018	\$13,405,642	\$23,199,953
City of Burbank	\$246,125	\$7,423,367	\$15,983,733	\$27,661,626
Calleguas MWD	\$2,045,196	\$61,685,032	\$132,818,039	\$229,856,376
Central Basin MWD	\$922,969	\$27,837,614	\$59,938,970	\$103,731,048
City of Compton	\$47,810	\$1,442,001	\$3,104,865	\$5,373,314
Eastern MWD	\$1,682,165	\$50,735,672	\$109,242,263	\$189,055,876
Foothill MWD	\$197,113	\$5,945,120	\$12,800,823	\$22,153,247
City of Fullerton	\$165,729	\$4,998,542	\$10,762,684	\$18,626,020
City of Glendale	\$365,520	\$11,024,438	\$23,737,432	\$41,080,264
Inland Empire Utilities Agency	\$1,427,709	\$43,061,059	\$92,717,556	\$160,458,034
Las Virgenes MWD	\$414,161	\$12,491,500	\$26,896,258	\$46,546,964
City of Long Beach	\$568,768	\$17,154,590	\$36,936,658	\$63,922,992
City of Los Angeles	\$7,556,953	\$227,924,846	\$490,759,752	\$849,314,286
MWD of Orange County	\$4,348,454	\$131,153,470	\$282,395,034	\$488,715,987
City of Pasadena	\$396,423	\$11,956,507	\$25,744,331	\$44,553,425
San Diego CWA	\$0	\$0	\$0	\$0
City of San Fernando	\$2	\$53	\$114	\$197
City of San Marino	\$17,663	\$532,724	\$1,147,043	\$1,985,085
City of Santa Ana	\$223,080	\$6,728,299	\$14,487,136	\$25,071,599
City of Santa Monica	\$211,244	\$6,371,320	\$13,718,503	\$23,741,393
Three Valleys MWD	\$1,189,494	\$35,876,275	\$77,247,533	\$133,685,440
City of Torrance	\$338,527	\$10,210,289	\$21,984,435	\$38,046,507
Upper San Gabriel MWD	\$149,266	\$4,502,011	\$9,693,572	\$16,775,804
West Basin MWD	\$2,170,196	\$65,455,148	\$140,935,720	\$243,904,925
Western MWD	\$1,354,678	\$40,858,356	\$87,974,773	\$152,250,121
BENEFIT TO SDCWA / COST SHIFT TO OTHERS	\$26,641,314	\$803,527,229	\$1,730,126,532	\$2,994,176,224

¹ NPV Costs distributed to other Member Agencies according to share of FY 09 Firm Water Purchases

² 67 years based on remaining term of SDCWA's water transfer agreements