



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

VIA EMAIL

February 22, 2016

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

Dear Directors:

Your letter dated October 26, 2015 regarding Audit and Ethics Committee Agenda Item 3-b

This letter addresses your comments, received October 26, 2015, on Audit and Ethics Committee Agenda Item 3-b: Discussion of Independent Auditor's report from MGO, LLP for fiscal year 2014/15.

You commented that Metropolitan's water sales amount for fiscal year ending June 30, 2015 "is not accurate; that number is only achieved by characterizing as 'water sales' the revenue MWD is actually paid for wheeling the Water Authority's independent Colorado River water under the Exchange Agreement." SDCWA's payments under the Exchange Agreement are not for wheeling. SDCWA has previously stated that the agreement is not for wheeling, in statements before the California State Water Resources Control Board, the San Francisco and Sacramento Superior Courts, and the California Court of Appeal, including in sworn testimony.

You also commented that Note 1(c) does not acknowledge receipt of revenues such as those under the Exchange Agreement. In fact, Note 1(c) states that water sales revenues includes revenues from exchange transactions.

You further commented that "Judge Karnow specifically found that the Water Authority is not buying water from MWD under the Exchange Agreement" (emphasis in original), in reference to the San Francisco Superior Court's ruling on the preferential rights claim in the SDCWA v. Metropolitan litigation. The Superior Court's decision is under appeal and does not have binding

effect. In any event, the parties' disagreement in the litigation as to whether the Exchange Agreement payments are for the "purchase of water," as that term is used in the preferential rights statute and as it has been interpreted by the California Court of Appeal, has no bearing on Metropolitan's stated water sales revenues. The stated water sales revenues show the revenues received from the payment of Metropolitan water rates. It is agreed that under the Exchange Agreement's price term, SDCWA pays Metropolitan water rates (the System Access Rate, System Power Rate, and Water Stewardship Rate).

The matters raised in your comments are not material to a reader of the financial statements. Metropolitan prepares its financial statements in accordance with accounting principles generally accepted in the United States. Information relevant to the fair presentation of financial statements that are free from material misstatement and in accordance with the aforementioned accounting principles was provided to MGO during the course of the audit. Such information was not inclusive of SDCWA's comments on Metropolitan's bond disclosures, since SDCWA's comments did not provide additional undisclosed information which was relevant to the financial statements.

We do note that Metropolitan issued its Comprehensive Annual Financial Report on December 15, 2015, which includes the basic financial statements. Note 15, Subsequent Events, includes a discussion of the final judgment issued on November 18, 2015 by the San Francisco Superior Court for the 2010 and 2012 SDCWA v. Metropolitan cases, the damages and prejudgment interest awards, and the filing of the Notice of Appeal in each case on November 19, 2015.

Thank you for your comments on Metropolitan's Basic Financial Statements.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Breaux", written in a cursive style.

Gary Breaux

Assistant General Manager/ Chief Financial Officer