



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

April 26, 2012

Jeffrey Kightlinger, General Manager
The Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

Carlsbad
Municipal Water District

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City of Escondido

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Olivenhain
Municipal Water District

Otay Water District

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Municipal Water District

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Rainbow
Municipal Water District

Ramona
Municipal Water District

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South Bay Irrigation District

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Volley Center
Municipal Water District

Vista Irrigation District

Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Re: Request for Negotiation under Paragraph 11.1 of the Amended and Restated Agreement between the Metropolitan Water District of Southern California and the San Diego County Water Authority for the Exchange of Water dated October 10, 2003 (“Exchange Agreement”).

Dear Mr. Kightlinger,

On April 10, 2012, the Board of Directors of the Metropolitan Water District of Southern California took final action to set water rates and charges, effective January 1, 2013 and January 1, 2014. As you know, the San Diego County Water Authority believes that the rates to be charged to the Water Authority under the Exchange Agreement for 2013 and 2014 are contrary to “cost of service” principles and applicable California law. The Water Authority presented oral testimony and documents for inclusion in the record of the March 12 and 13 and April 9 and 10, 2012 meetings of the Finance and Insurance Committee and Board of Directors, which testimony and documents stated the basis for the Water Authority’s objections to these rates. The Water Authority has exhausted all administrative opportunities available to it pursuant to Metropolitan’s public board process. The Water Authority is unaware of any further requirement or administrative opportunity available to it pursuant to Metropolitan’s public board process to contest whether the action taken by Metropolitan’s Board of Directors is lawful. Please advise us immediately if such a process exists.

Paragraph 5.2 of the above referenced 2003 Exchange Agreement provides that the “Price” paid by the Water Authority to Metropolitan under the Exchange Agreement “shall be equal to the charge or charges set by Metropolitan’s Board of Directors pursuant to applicable law and regulation and generally applicable to the conveyance of water by Metropolitan on behalf of its member agencies.” Metropolitan’s 2013 and 2014 rates violate applicable law in breach of paragraph 5.2.

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Paragraph 11.1 of the Exchange Agreement provides that Metropolitan and the Water Authority will use reasonable best efforts to resolve all disputes, including Price Disputes, arising under the agreement by negotiation, before resorting to legal or equitable remedies. To this end, the Water Authority requests a meeting between our respective staff and board leadership to see if there is any basis upon which we can resolve our disputes. Please provide your response by May 4, 2012. If Metropolitan agrees to participate in the requested negotiations, please identify dates in May when the appropriate personnel are available. If we do not receive a response by May 4, we will reasonably construe your failure to respond as Metropolitan's decision to decline our invitation to negotiate and as a knowing, intentional waiver of the provisions of paragraph 11.1. We will appreciate your prompt response so that the meeting can be scheduled.

Sincerely,



Maureen A. Stapleton
General Manager

Cc: Marcia Scully, General Counsel