STATE OF CALIFORNIA -- THE RESOURCES AGENCY

ARNOLD SCHWARZENEGGER, *Governor*

DEPARTMENT OF WATER RESOURCES
CALIFORNIA ENERGY RESOURCES SCHEDULING
P.O. BOX 219001
3310 EL CAMINO AVENUE, SUITE 120
SACRAMENTO, CA 95821-9001
(916) 574-1291

February 27, 2008

Lionel B. Wilson, Esq.
Acting General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Dear Mr. Wilson:

The Department of Water Resources (DWR) has determined that current market conditions make it necessary and appropriate to reduce DWR's exposure to market uncertainties relating to the credit ratings of the bond insurance companies and mitigate the interest rate risk associated with insured variable rate bonds by issuing fixed rate bonds to refund a portion of our insured variable rate bonds. The bonds expected to be refunded include DWR's "auction rate" bonds and, to the extent necessary or appropriate, a portion of its "variable rate demand" bonds.

DWR plans to implement the transaction so long as current market conditions continue. DWR's financial advisory firm, Montague DeRose, and the State Treasurer's Office will participate in the transaction.

Under Section 7.10 of the Rate Agreement between DWR and the California Public Utilities Commission (Commission), in 2002 DWR submitted to the Commission a Summary of Material Terms of the bonds to be issued and an Amended and Restated Addendum to the Summary of Material Terms. In brief, the issuance of the refunding bonds as proposed would be a material change in the amount of bonds described in the Summary and Addendum, resulting in the need for the Commission to authorize its designee to approve such change.

Please contact Jim Olson, Chief, Financial Management Office at (916) 574-1297 or me at (916) 574-2733 if there are any questions.

Sincerely,

James E Olson

for Timothy J. Haines
Deputy Director
California Energy Resources Scheduling

Attachment

cc: (See attached list)

Honorable Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable John Bohn, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Rachelle Chong, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Dian M. Grueneich, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Honorable Timothy Alan Simon, Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Mr. Joel T. Perlstein, Esq.
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

THIS FEBRUARY 2008 ADDENDUM TO SUMMARY OF MATERIAL TERMS OF FINANCING DOCUMENTS, dated as of February 27, 2008 (the "February 2008 Addendum"), is a supplement to the Summary of Material Terms of Financing Documents ("Summary of Material Terms") which was attached to a memorandum dated February 21, 2002 from the California Department of Water Resources ("DWR") to the California Public Utilities Commission ("CPUC") as Attachment A, as the same was supplemented and amended by an Amended and Restated Addendum to Summary of Material Terms dated as of August 8, 2002 and an Addendum to Summary of Material Terms of Financing Documents dated as of September 20, 2005 (collectively, the "Previous Addenda"). All undefined terms in this February 2008 Addendum shall be defined by reference to the Rate Agreement dated as of March 8, 2002 (the "2002 Rate Agreement") between DWR and CPUC and the Trust Indenture dated as of October 1, 2002 among DWR, the Treasurer of the State of California, as Trustee, and U.S. Bank National Association, as Co-Trustee, as amended.

DWR has determined that current market conditions make it necessary and appropriate to reduce DWR's exposure to market uncertainties relating to the credit ratings of the bond insurance companies and mitigate DWR's interest rate risk associated with variable rate bonds by issuing fixed rate Bonds to refund a portion of its outstanding insured variable rate Bonds. The Bonds expected to be refunded include DWR's "auction rate" Bonds and, to the extent necessary or appropriate, a portion of its "variable rate demand" Bonds.

The Summary of Material Terms and the Previous Addenda specified certain matters which were reflected in the terms of the Financing Documents and addressed matters relating to the issuance of Bonds in 2002 and 2005. This February 2008 Addendum addresses matters relating to the proposed issuance by DWR of the above-described fixed rate

refunding Bonds (the "2008 Fixed Rate Refunding Bonds"), including specifying that the 2008 Fixed Rate Refunding Bonds are not subject to the maximum aggregate principal amount and proceeds limitations reflected in the Summary of Material Terms and the Previous Addenda and are instead subject to the limitations reflected herein and in the 2002 Rate Agreement.

1. Maximum Amount of 2008 Fixed Rate Refunding Bonds Authorized.

DWR will issue no more 2008 Fixed Rate Refunding Bonds than it determines are necessary to provide for the defeasance of the variable rate Bonds being refunded and to pay costs incurred in connection with the issuance of the 2008 Fixed Rate Refunding Bonds, the execution and delivery of the related Financing Documents and Enhancement Facilities, if any, and the defeasance and redemption of the Bonds being refunded, provided that the maximum aggregate principal amount of 2008 Fixed Rate Refunding Bonds which may be issued pursuant to this February 2008 Addendum will not exceed $505,000,000 (plus the amount of any original issue discount) with respect to the refunding of DWR's auction rate Bonds and $1,340,000,000 (plus the amount of any original issue discount) with respect to the refunding of DWR's variable rate demand Bonds.

2. Use of Proceeds.

DWR will apply the proceeds of the 2008 Fixed Rate Refunding Bonds solely to fund an escrow providing for the defeasance of the Bonds being refunded and to the payment of costs incurred in connection with the issuance of the 2008 Fixed Rate Refunding Bonds, the execution and delivery of the related Financing Documents and Enhancement Facilities, if any, and the defeasance and redemption of the Bonds being refunded. The Bonds to be refunded will be determined by DWR and will be selected by DWR from among its auction rate Bonds and its variable rate demand bonds.

3. Rate Agreement Applicable to 2008 Fixed Rate Refunding Bonds.

The 2008 Fixed Rate Refunding Bonds shall be entitled to the benefits of the Rate Agreement in accordance with the terms thereof.