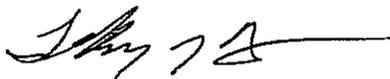


Mr. Frank R. Lindh
December 17, 2008
Page 2

Under Section 7.10 of the Rate Agreement between DWR and the Commission, in 2002 DWR submitted to the Commission a Summary of Material Terms of the bonds to be issued and since then has submitted several addenda to the Summary of Material Terms. In brief, the issuance of refunding bonds as proposed would be a material change described in the Summary and previous Addenda, resulting in the need for the Commission to authorize its designee to approve such change.

Please contact Rusty Mills, Chief, Financial Management Office at (916) 574-2756 or me at (916) 574-2733 if there are any questions.

Sincerely,



Timothy J. Haines
Deputy Director
California Energy Resources Scheduling

Attachment

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

Mr. Frank R. Lindh
December 17, 2008
Page 3

cc: Honorable Dian M. Grueneich, 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 DECEMBER 2008 ADDENDUM TO SUMMARY OF

MATERIAL TERMS OF FINANCING DOCUMENTS, dated as of December 17, 2008 (the “December 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 (the “2002 Addendum”), an Addendum to Summary of Material Terms of Financing Documents dated as of September 20, 2005 (the “2005 Addendum”), an Addendum to Summary of Material Terms of Financing Documents dated as of February 27, 2008 (the “February 2008 Addendum”), and an Addendum to Summary of Material Terms of Financing Documents dated as of March 12, 2008 (the “March 2008 Addendum”, and collectively with the 2002 Addendum, the 2005 Addendum and the February 2008 Addendum, the “Previous Addenda”). All undefined terms in this December 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 (the “Indenture”).

DWR has determined (1) 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 other providers of Enhancement Facilities and relating to the availability of Enhancement Facilities, and (2) that it can achieve those objectives by

refunding variable rate demand Bonds previously issued by DWR under the Indenture with fixed rate 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 or proposed issuance of Bonds in 2002, 2005 and 2008. This December 2008 Addendum addresses matters relating to the proposed issuance by DWR of the above-described fixed rate refunding Bonds (the “2009 Fixed Rate Refunding Bonds”), including specifying that the 2009 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 2009 Fixed Rate Refunding Bonds Authorized.

DWR will issue no more 2009 Fixed Rate Refunding Bonds than it determines are necessary to provide for the defeasance and/or redemption of the variable rate Bonds being refunded and to pay costs incurred in connection with the issuance of the 2009 Fixed Rate Refunding Bonds, the execution and delivery of the related Financing Documents and Enhancement Facilities, if any, and the defeasance and/or redemption of the Bonds being refunded.

2. Use of Proceeds.

DWR will apply the proceeds of 2009 Fixed Rate Refunding Bonds solely to fund an escrow providing for the defeasance and/or redemption of the Bonds being refunded and to the payment of costs incurred in connection with the issuance of the 2009 Fixed Rate Refunding Bonds, the execution and delivery of the related Financing Documents and

Enhancement Facilities, if any, and the defeasance and/or redemption of the Bonds being refunded. The Bonds to be refunded pursuant to this December 2008 Addendum will be determined by DWR and will be selected by DWR from among its variable rate demand Bonds.

3. Rate Agreement Applicable to 2009 Fixed Rate Refunding Bonds.

The 2009 Fixed Rate Refunding Bonds shall be entitled to the benefits of the Rate Agreement in accordance with the terms thereof.