

December 6, 1994

COMMENTS TO THE MWD BOARD OF DIRECTORS

I have appeared before this board on two previous occasions in an attempt to convince you that your rates are unnecessarily high. While net income is commonly used as a measure of the operating results of a utility there are other financial ratios which are used as well.

I have provided them in tabulation form as an attachment to these comments with a brief description of what they indicate. Included are ratios for the MWD, other large publicly owned utilities in the U.S. including the Los Angeles Department of Water and Power (LADWP) and finally ratios for the Dominguez Water Corporation a privately owned water company subject to the jurisdiction of the California Public Utilities Commission (CPUC).

There is only one conclusion that can be reached after reviewing the numbers. That is that the MWD's rates for water produce net income greatly in excess of what is necessary to provide water to Southern California. From a rate payers standpoint you are irresponsible.

Certainly the fact that the MWD realized several times as much net income in '93 - '94 as you would be allowed if you were a private company cannot be described as fiscally responsible. Can it possibly be a source of satisfaction to this board or its staff? Do you think the general public is more concerned about whether the agency that serves them is public or private than they are about the rates they pay?

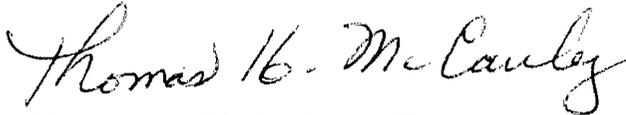
It is interesting to note that water rates from the Dominguez Water Company, a private company, are almost identical to those in Burbank which gets most of its water from the MWD.

You are here today to consider rates and revenue requirements for future years. You have been inundated with volumes of information and recommendations from the staff. I am astounded and more than a little curious however as to why they have neglected to include accrual based budgets somewhere in these reams of paper. Isn't the board as curious as I am as to how much net income the MWD will realize in future years based on generally accepted accounting principles? How you could settle for such a crude budgeting concept, that of matching cash receipts and cash disbursements, when doing budgeting for future years is beyond my comprehension.

The staffs abysmal record when budgeting speaks for itself. In a May 25 1993 budget transmittal letter you indicate the Water Rate Stabilization Fund (WRSF) will be drawn down by 87.7 million in '93 - '94. What did we find instead? The WRSF increased by \$101,000,000. Your May 27, 1994 budget transmittal letter indicates the WRSF will be drawn down in '94 - '95 by \$84.1 million. Three months into fiscal '94 - '95 you are now projecting that it will increase instead by \$41 million. Your estimates of receipts and expenditures are off by a combined total of \$100 million as well. This is budgeting?

I remind you of statements I have made in the past. Your own auditors have repeatedly admonished you with regard to cash accounting. While they do not offer an opinion on your budgeting nor is one solicited apparently I am sure they take the same dim view of your cash budgeting process.

It is time the MWD recognizes what is happening in the real world of finance and accounting and that they produce an accrual based budget. The result will be a budget and rates that are defensible.

A handwritten signature in cursive script that reads "Thomas H. McCauley". The signature is written in black ink and is positioned above the typed name and address.

Thomas H. McCauley, P.E.
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November 1, 1994

Financial Ratios	93/94 MWD	1992 Median for Large Publically Owned Electric Utilities	1993 Dominguez Water
Debt to Assets (a)	48.32%	59% 57.8%*	68.6%
Current (b)	2.58%	1.47% 1.48%*	1.56%
Times Interest Earned (c)	5.23%	1.35% 1.74%*	3.74%
Operating (d)	39%	79.4% 83.2%*	81.73%
Net Income (e)	42.1%	2.3% 6.1%*	9%

- (a) Debt to Asset ratio compares long term debt plus current and accrued liabilities to total assets and other debits. It is a measure of a utility's ability to meet its current and long term liabilities based on the availability of assets.
- (b) Current ratio compares total current and accrued assets to total current and accrued liabilities and is a measure of a utility's short term liquidity. That is the ability to pay its current bills.
- (c) Times interest earned is the ratio of net income plus interest paid on long term debt to interest on long term debt. It measures the ability of a utility to cover interest charges and is indicative of the safety margin to lenders.
- (d) Operating ratio is total operating and maintenance expense compared to operating income. This ratio measures the proportion of revenues received required to cover operating and maintenance expenses associated with providing a service to customers.
- (e) Net income is the ratio of net income to total operating revenues. It measures the amount of income remaining after accounting for operation and maintenance expenses, depreciation, interest, taxes and tax equivalents for every dollar received from gross income.

* Los Angeles Department of Water and Power only.