THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Executive Financial Report

For the Six Months Ended December 31, 2008

Executive Financial Report

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For the Six Months Ended December 31, 2008

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Executive Financial Report
For the Six Months Ended December 31, 2008 – Current vs. Prior Year
Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the six months ended December 31, 2008 and December 31, 2007 as well as the changes in the balance sheet for December 2008 are discussed below.

Statements of Operations (page 3)

Net income of $91.6 million was $92.6 million less than prior year's net income. Included in the variance were $2.2 million of higher operating revenues, $79.6 million more in operating expenses, and $15.3 million less in other income-net. These items are further described below.

Operating revenues for the six months ended December 31, 2008 totaled $608.8 million and were $2.2 million higher than prior year operating revenues of $606.6 million. The increase was primarily due to $3.5 million higher wheeling/exchange sales and $2.4 million higher readiness-to-serve revenues, partially offset by a decrease of $2.7 million of power sales and $1.2 million lower water sales.

Operating expenses for the six months ended December 31, 2008 totaled $536.1 million and were $79.6 million higher than prior year operating expenses of $456.5 million. This increase was due primarily to $52.8 million of higher cost of water and $19.3 million more in water management program costs. Cost of water increased due to higher unit costs and less credits from DWR for adjustments to prior year costs. Water management programs were $19.3 million higher reflecting Metropolitan's enhanced emphasis on conservation through new products (synthetic turf and central irrigation controllers), increased public awareness, and growing conservation efforts (low flush toilets and high efficiency washers) in both the residential and commercial sectors.

Other income/(expense)-net of $19.0 million was $15.3 million lower than prior year's other income-net. The decrease was due primarily to a $27.2 million reduction in investment income partially offset by $8.3 million of lower bond interest expense. The lower investment income was due to $13.0 million less in fair value adjustment reflecting the continuing deterioration in capital markets, and includes adjustment for reductions in value of corporate notes and commercial paper held by Metropolitan (e.g., Lehman Brothers, AIG, Merrill Lynch, etc.), and $14.2 million less in interest income as interest rates and portfolio balances were lower than the prior year. The reduction in bond interest expense was due to lower interest rates.

Ratios (page 3)

The fixed charge coverage ratio measures the ability to satisfy fixed financing expenses, such as debt service and other fixed charges, from net operating revenues. At December 31, 2008, this ratio was 1.03x compared to the Board approved guideline of greater or equal to 1.20x. The revenue bond debt service coverage ratio is a measure of Metropolitan's ability to meet its principal and interest payments from operating cash flow. This measure is among the most important statistics used by the national rating agencies to assess Metropolitan's ongoing credit quality. At December 31, 2008, this ratio was 1.45x compared to the Board approved guideline of greater than 2.00x. Metropolitan's revenue bond covenants require a minimum revenue bond coverage ratio of 1.20x in order to issue new bonds. All debt service payments and other fixed charges were met during the past six months.

Balance Sheets (page 4)

At December 31, 2008, assets totaled $11.3 billion, which were $6.2 million higher than December 31, 2007. This variance included $292.3 million of higher property, plant and equipment, net (PP&E), $55.9 million higher deferred charges and water rights, and $28.6 million more in accounts receivable, partially offset by $372.0 million less in cash and investments. The higher PP&E, net was primarily due to construction progress on the Inland Feeder project, the Oxidation Retrofit programs, Perris Valley Pipeline, the Chlorine Containment and Handling facilities program, and Treatment Plant Improvement programs. The increase in deferred charges and water rights included $28.7 million for the Drop 2 reservoir and $29.1 million higher State Water Contract OMP&R costs. The increase in accounts receivable is primarily attributed to $40 million in Proposition 50 grant billings to the State of California, partially offset by $8.4 million of lower interest receivable, $3.5 million of lower water sales receivable, and $3.4 million of lower power sales receivable. The $372.0 million decrease in cash and investments was primarily due to principal paydowns and construction expenditures.

Liabilities totaled $5.3 billion at December 31, 2008, which were $76.6 million less than December 31, 2007. This decrease included $99.6 million less of long-term debt due to principal paydowns and refundings of debt; partially offset by $22.0 million more in accounts payable and accrued bond interest primarily due to a $15.6 million increase in the OPEB liability.

The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis
(Dollars in millions)

	For the Six Months Ended December 31, 2008	2007	*Favorable/ (Unfavorable) Variance*
Operating Revenues:			
Water Sales	**$ 525.0**	$ 526.2	$ (1.2)
Wheeling / Exchange	**13.1**	9.7	3.5
Readiness-to-Serve	**43.5**	41.1	2.4
Capacity Charge	**16.4**	16.2	0.2
Power Sales	**10.7**	13.4	(2.7)
Total Operating Revenues	**608.8**	606.6	2.2
Operating Expenses:			
Cost of Water	**209.8**	157.0	(52.8)
Operations & Maintenance	**172.9**	166.4	(6.5)
Water Management Programs	**41.3**	22.0	(19.3)
Depreciation & Amortization	**112.1**	111.2	(0.9)
Total Operating Expenses	**536.1**	456.5	(79.6)
Net Operating Income	**72.7**	150.0	(77.4)
Other Income (Expense):			
Net Taxes/Annexations	**53.6**	51.5	2.1
Investment Income (1)	**16.5**	43.7	(27.2)
Bond Interest Expense	**(51.0)**	(59.3)	8.3
Other	**(0.1)**	(1.7)	1.6
Total Other Income/(Expense) - Net	**19.0**	34.2	(15.3)
Net Income	**$ 91.6**	$ 184.3	$ (92.6)
Sales Statistics			
Water Sales (TAF)	**1,150.7**	1,229.5	(78.8)
Wheeling/Exchange (TAF)	**46.9**	37.4	9.5
Power Sales (mWh)	**170.2**	236.5	(66.3)
Average Sales Price (2)			
Water Sales	**$ 456.23**	$ 427.98	$ 28.25
Wheeling/Exchange	**$ 280.18**	$ 259.29	$ 20.90
Power Sales	**$ 0.06**	$ 0.06	$ 0.01
Ratios:			
Fixed Charge Coverage (rolling 12 months) - Cash Basis:			
Actual	**1.03 x**	1.69 x	
Target (3)	**≥ 1.20 x**	≥ 1.20 x	
Revenue Bond Debt Service Coverage (rolling 12 months) - Cash Basis:			
Actual	**1.45 x**	2.25 x	
Target (3)	**> 2.00 x**	> 2.00 x	

Notes:

(1) Includes fair value adjustment of ($3.0) million and $10.0 million at December 31, 2008 and 2007, respectively.

(2) Average prices calculated using exact rather than rounded dollar amounts.

(3) Board adopted guideline.

(4) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis
(Dollars in millions)

	December 31, 2008	December 31, 2007	*Increase/ (Decrease)*
Assets:			
Cash and investments at book value (1)	**$ 915.6**	$ 1,287.5	$ (372.0)
Fair Value Adjustment	**(1.0)**	9.1	(10.2)
Accounts Receivable	**319.9**	291.2	28.6 (2)
Property, Plant and Equipment, net	**7,616.9**	7,324.5	292.3
Prepaid State Water Project Costs, net	**1,598.8**	1,596.3	2.5
Participation Rights, net	**249.9**	257.0	(7.1)
Deferred Charges and Water Rights	**400.6**	344.7	55.9
Other	**153.2**	137.1	16.1
Total Assets	**$ 11,253.8**	$ 11,247.6	$ 6.2
Liabilities and Equity:			
Long-Term Debt	**$ 4,468.6**	$ 4,568.2	$ (99.6)
Off-Aqueduct Power Facilities	**63.5**	69.5	(6.0)
Accounts Payable and Accrued Bond Interest	**190.5**	168.5	22.0
Deferred Income	**103.4**	99.3	4.1
State Water Project Obligations	**401.4**	395.8	5.6
Trust Funds and Other	**85.2**	87.9	(2.7)
Total Liabilities	**5,312.6**	5,389.2	(76.6)
Equity	**5,941.2**	5,858.4	82.8
Total Liabilities and Equity	**$ 11,253.8**	$ 11,247.6	$ 6.2

		2008	2007
Revenue Bond Debt as a percent of equity	Actual	**71.1 %**	73.0 %
	Target	**< 100.0 %**	< 100.0 %

Notes:

(1) Fair value of cash and investments was $914.6 million and $1,296.6 million at December 31, 2008 and 2007, respectively.

(2) Includes $40 million of Proposition 50 grant billings. Due to the state funding/budget crisis, payment has been placed on hold indefinitely. The state of California is reassessing its budget/bond situation.

(3) Certain reclassifications of prior year amounts have been made to conform to current year presentation.

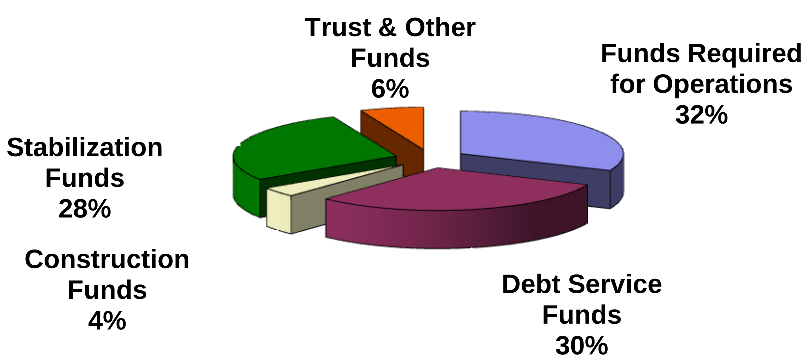
(4) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value
As of December 31, 2008
(Dollars in millions)

	Restricted		Unrestricted	Total	
	Contractual	Board			
Funds Required for Operations	$ 212.6	$ 75.4	$ 0.5	$ 288.5	
Debt Service Funds	279.3	-	-	279.3	
Construction Funds	30.7	-	3.1	33.8	
Stabilization Funds	-	-	256.3	256.3	(1)
Trust & Other Funds	38.3	19.4	-	57.7	
Total	**$ 560.9**	**$ 94.8**	**$ 259.9**	**$ 915.6**	

(1) Includes $25 million of investments posted as collateral with Morgan Stanley.



Executive Financial Report
For the Six Months Ended December 31, 2008 – Actual vs. Estimate
Discussion and Analysis

A summary of accrual basis operations and construction activity for the six months ended December 31, 2008 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 7)

Net income for the six months ended December 31, 2008 was $91.6 million, or $18.9 million higher than the $72.7 million estimate. Included in this variance was $10.3 million of lower operating revenues, $19.9 million lower operating expenses, and $9.2 million of higher other income-net. These items are further described below.

Operating revenues of $608.8 million were $10.3 million lower than estimate due primarily to $8.7 million less in power sales and $4.3 million of lower than estimated water sales partially offset by $2.6 million of higher wheeling/exchange sales related to more water sold. The power sales estimate included revenues of $4.9 million for CRA power sales; instead these sales are recorded as a reduction of water inventory costs for accrual basis accounting. The reduction in water sales included $3.1 million related to lower sales volumes and $1.2 million related to lower prices. Water sales volumes totaled 1,150.7 thousand acre-feet (TAF), or 7.4 TAF less than the estimate of 1,158.1 TAF.

Operating expenses of $536.1 million were $19.9 million lower than the $556.0 million estimate primarily due to $18.8 million lower cost of water and $11.5 million less in O&M costs, partially offset by $13.3 million higher water management programs. The lower cost of water was due primarily to a State Water Contract credit of $21.4 million for prior year adjustments which was not in the estimate. O&M was $11.5 million less than estimate due primarily to $3.4 million in lower chemical and utility costs due to lower State Water Project deliveries; $2.2 million less of outside non-professional services; and $3.3 million less in various other costs due to timing. Chemical costs may continue to run under estimate due to lower State Water Project deliveries, lower plant flows, and favorable water quality conditions. Water management programs were higher than estimate due to increased conservation efforts in both the residential and commercial sectors.

Other income/(expense)-net totaling $19.0 million was $9.2 million higher than estimate due primarily to $5.1 million more in net taxes/annexations revenues and $5.8 million less in bond interest expense, partially offset by $3.3 million less of investment income. The estimate for net taxes/annexations revenues was based on preliminary data which was less than the actual tax levy. The favorable variance in bond interest expense was due to lower variable interest rates. Fair value adjustment is not included in the estimate and comprised $3.0 million of the unfavorable investment income variance.

Construction Activity (page 10)

Construction costs for the six months ended December 31, 2008 totaled $169.0 million, which was $76.6 million, or thirty-one percent, under estimate. The variance includes $22.9 million for the Treatment Plant Improvement programs; $16.9 million for Perris Valley Pipeline; and $9.8 million for the Riverside Treatment Plant land acquisition program. Treatment Plant Improvement programs were less than estimate due to delays in construction and scope reductions. Perris Valley Pipeline was lower than estimate due to contractor scheduling delays which are not expected to be caught up by year-end. Staff continues to evaluate options and timing associated with the acquisition of property for the future Riverside Treatment plant. Construction costs are expected to be $400.0 million or $68.9 million, under estimate by year-end.

The Metropolitan Water District of Southern California

Statement of Operations
Actual vs. Estimate - Accrual Basis
(Dollars in millions)

	For the Six Months Ended December 31, 2008				Fiscal Year Ending June 30, 2009			
			Favorable/ (Unfavorable) Variance				*Favorable/ (Unfavorable) Variance*	
	Estimate	**Actual**	**$**	**%**	**Estimate**	**Projected**	**$**	**%**
Operating Revenues								
Water Sales	$ 529.3	$ 525.0	$ (4.3)	(1%)	$ 1,024.5	$ 988.5	$ (36.0)	(4%)
Wheeling/Exchange	10.5	13.1	2.6	25%	23.6	25.6	2.0	9%
RTS	43.5	43.5	-	0%	87.0	87.0	-	0%
Capacity Charge	16.3	16.4	0.1	0%	32.7	32.7	-	0%
Power Sales	19.4	10.7	(8.7)	(45%)	35.2	25.4	(9.8)	(28%)
Total Operating Revenues	619.0	608.8	(10.3)	(2%)	1,203.0	1,159.2	(43.8)	(4%)
Operating Expenses								
Operations & Maintenance	184.5	172.9	11.5	6%	371.5	371.5	-	0%
Cost of Water	228.6	209.8	18.8	8%	438.1	391.9	46.2	11%
Water Mgt. Programs	28.0	41.3	(13.3)	(47%)	53.7	65.7	(12.0)	(22%)
Depreciation & Amortization	115.0	112.1	2.9	3%	230.0	227.1	2.9	1%
Total Operating Expenses	556.0	536.1	19.9	4%	1,093.3	1,056.2	37.1	3%
Operating Income	**63.0**	**72.7**	**9.7**	**15%**	**109.7**	**103.0**	**(6.7)**	**(6%)**
Other Income/(Expense)								
Net Taxes/Annexations	48.4	53.6	5.1	11%	96.9	102.0	5.1	5%
Investment Income	19.8	16.5 (1)	(3.3)	(17%)	43.0	30.0	(13.0)	(30%)
Bond Interest Expense	(56.9)	(51.0)	5.8	10%	(114.6)	(108.8)	5.8	5%
Other	(1.6)	(0.1)	1.5	(96%)	(3.2)	(1.7)	1.5	(47%)
Total Other Income(Expense)	9.7	19.0	9.2	95%	22.1	21.5	(0.6)	(3%)
Net Income	**$ 72.7**	**$ 91.6**	**$ 18.9**	**26%**	**$ 131.8**	**$ 124.5**	**$ (7.3)**	**(6%)**
Sales Statistics:								
Water Sales (TAF)	1,158.1	1,150.7	(7.4)	(1%)	2,138.3	2,046.4	(91.8)	(4%)
Wheeling Sales (TAF)	37.8	46.9	9.1	24%	84.9	92.4	7.5	9%

Notes:

(1) Includes fair value adjustment of ($3.0) million not included in estimate.

(2) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Operations & Maintenance and Cost of Water
Actual vs. Estimate - Accrual Basis
For the Six Months Ended December 31, 2008
(Dollars in millions)

	Estimate	Actual	*Favorable/ (Unfavorable) Variance* $	*Favorable/ (Unfavorable) Variance* %
Operations & Maintenance				
Fixed:				
Personnel	$ 123.7	$ 122.5	$ 1.3	1%
Materials & Supplies	8.1	8.1	0.0	0%
Professional Services	10.4	10.9	(0.5)	(5%)
Outside Non-Professional Services	9.4	7.2	2.2	23%
Other	8.0	2.8	5.2	65%
Total Fixed	159.7	151.6	8.2	5%
Variable:				
Water Treatment Chemicals	17.0	15.0	2.0	12%
Utility Costs	7.8	6.4	1.4	18%
Total Variable	24.8	21.4	3.4	14%
Total Operations & Maintenance	**$ 184.5**	**$ 172.9**	**$ 11.5**	**6%**
Cost of Water				
Cost of Water	$ 237.7	$ 231.2	6.5	3%
SWP Prior Year Adjustments	(9.2)	(21.4)	12.2	(133%)
Total Cost of Water	**$ 228.6**	**$ 209.8**	**$ 18.8**	**8%**

Note:

(1) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Operations and Maintenance Fixed and Variable Components
Actual vs. Estimate - Accrual Basis
For the Six Months Ended December 31, 2008
(Dollars in millions)

Component	Estimate	Actual	*Favorable/ (Unfavorable) Variance* $	%
Fixed:				
Personnel	$123.7	$122.5	$1.3	1%
Professional Services	10.4	10.9	(0.5)	(5%)
Outside Non-Professional Services	9.4	7.2	2.2	23%
Materials & Supplies	8.1	8.1	0.0	0%
Communications Expense	1.8	1.4	0.4	22%
Travel Expense	1.1	1.0	0.1	10%
Training	0.5	0.3	0.2	43%
Memberships & Subscriptions	1.1	1.7	(0.5)	(46%)
Equipment Expensed	0.3	0.3	0.0	1%
Equipment Rents/Leases	0.5	0.5	0.1	10%
Insurance	5.0	3.9	1.1	22%
Agency Dues	1.9	1.6	0.3	15%
Rents/Leases	0.2	0.2	(0.0)	(15%)
Overhead Credit from Construction	(10.0)	(10.2)	0.3	(3%)
Other	5.5	2.1	3.3	61%
Total Fixed Costs	159.7	151.6	8.2	5%
Variable:				
Water Treatment Chemicals	17.0	15.0	2.0	12%
Utility Costs:				
Utilities	5.7	5.2	0.5	9%
Sludge Removal	1.3	0.4	1.0	74%
Permits	0.8	0.8	(0.1)	(11%)
Total Variable Costs	24.8	21.4	3.4	14%
Total O&M	**$184.5**	**$172.9**	**$11.5**	**6%**

Note:

(1) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Actual vs. Estimate: Construction Activity - Accrual Basis
(Dollars in millions)

	For the Six Months Ended December 31, 2008				Fiscal Year Ending June 30, 2009			
			Variance from Estimate				*Variance from Estimate*	
	Estimate	**Actual**	**$**	**%**	**Estimate**	**Projected**	**$**	**%**
Sources of Funds								
Bond Construction Funds	$ 195.9	$ 106.6	$ 89.3	46%	$ 373.9	$ 305.0	$ 68.9	18%
R & R/General Funds	49.8	62.4	(12.7)	(25%)	95.0	95.0	-	0%
Total	**$ 245.7**	**$ 169.0**	**$ 76.6**	**31%**	**$ 468.9**	**$ 400.0**	**$ 68.9**	**15%**
Program Expenditures								
Oxidation Retrofit Programs	$ 54.5	$ 46.1	$ 8.4	15%	$ 90.1	$ 85.0	$ 5.1	6%
Treatment Plant Improvement	38.7	15.8	22.9	59%	84.0	75.0	9.0	11%
Inland Feeder	30.6	36.3	(5.7)	(19%)	61.4	60.0	1.4	2%
Riverside Treatment Plant Land Acquisition	9.9	0.1	9.8	99%	9.9	4.0	5.9	60%
Perris Valley Pipeline	36.7	19.7	16.9	46%	61.7	48.0	13.7	22%
Distribution System - Rehabilitation Program	12.4	5.6	6.9	55%	23.5	20.0	3.5	15%
Mills Capacity Upgrade	16.8	7.9	8.9	53%	35.8	16.0	19.8	55%
CRA - Reliability/Containment Programs	5.3	2.9	2.4	45%	17.2	15.0	2.2	13%
Local Groundwater Storage	3.7	3.4	0.3	9%	10.3	10.0	0.3	3%
Power Reliability & Energy Conservation	1.8	(0.1)	1.9	105%	7.3	7.0	0.3	4%
Other	35.4	31.5	3.9	11%	67.8	60.0	7.8	11%
Total	**$ 245.7**	**$ 169.0**	**$ 76.6**	**31%**	**$ 468.9**	**$ 400.0**	**$ 68.9**	**15%**

	Major Program Statistics - December 2008			
	Current Estimate	**Project-to-Date**	**% Spent**	**% Complete**
Inland Feeder	$ 1,186.5	$ 1,046.8	88%	84%
Oxidation Retrofit Program	970.8	600.4	62%	61%
Treatment Plant Improvement Projects	748.2	237.5	32%	32%
Chlorine Containment Handling Facilities	162.9	108.9	67%	73%
CRA - Reliability/Containment Programs	166.2	88.3	53%	55%
Skinner Expansion No. 4	153.2	147.0	96%	99%
Diamond Valley Lake Recreation	92.8	64.4	69%	69%

Notes:

(1) Totals may not foot / cross foot due to rounding.

MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: January 13, 2009

To: Board of Directors

From: General Counsel

Subject: Review as to Eligibility of Securities Invested in by the Treasurer for the Month of December 2008

Pursuant to Sections 2741(a) and 5101(b)(5) of the Administrative Code, this office has examined the Treasurer's Monthly Report to the Board for the month of December 2008 covering the investment of securities for that period. The reported forms of investment are within the eligible group of securities authorized by Section 5101 (b)(2) of the Administrative Code, and as of the end of the month are within the percentage constraints specified in that section. We note that the Investment Policy, as amended on October 14, 2008, authorizes continued holding of the Lehman corporate notes for orderly and systematic liquidation. For purposes of this letter, we have not undertaken to independently verify the accuracy of the information submitted by the Treasurer to this office.

Karen L. Tachiki

Karen L. Tachiki

cc: T. E. DeBacker
J. Kightlinger
R. N. Marumoto
B. G. Thomas