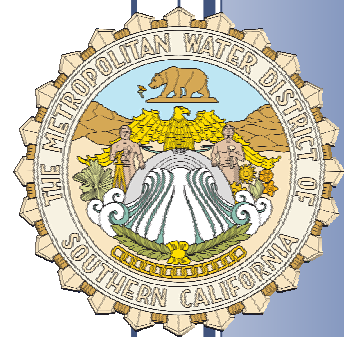


Metropolitan Water District of Southern California

**General Counsel's Business Plan
for
Fiscal Year 2007/08**

**Semiannual Report
July 1, 2007 to December 31, 2007**



**Goal
1****Water Supply**

Provide legal support in carrying out the Board of Directors' priority of ensuring the long-term sustainability of the region's water supply, including Bay-Delta resources, the Colorado River Aqueduct supply and local resources programs and strategies.

Activities**State Water Project/Bay-Delta**

Provide legal support in carrying out the Board of Directors' policies related to the State Water Project (SWP), including defending litigation, assisting with development of the Bay-Delta Conservation Plan and emergency response plans, maintaining long-term source protection, water quality improvements, and protecting Metropolitan's interests in the State Water Contract.

Endangered Species Act

Provided legal assistance to the State Water Contractors (SWC) in preparing for a lengthy evidentiary hearing in federal court to decide what interim remedy should be imposed on the SWP in the delta smelt case, *NRDC v. Kempthorne*. Provided legal assistance in the preparation of the draft Findings of Fact and Conclusions of Law that were submitted to Judge Wanger by the SWC after the remedies hearing. Monitored proceedings in the two pending federal Endangered Species Act (ESA) cases, *NRDC v. Kempthorne* and *PCFFA v. Gutierrez*, and the California ESA case, *Watershed Enforcers v. Department of Water Resources* now on appeal.

Participated in planning and preparation for the section 7 consultation with federal wildlife agencies regarding the impacts of the SWP and Central Valley Project on threatened and endangered fish species. Analyzed and evaluated possible enforcement actions against other stressors that adversely impact threatened and endangered species in the Bay-Delta. Provided legal advice regarding regulatory, legislative, and scientific/technical projects that address threatened and endangered species issues in the Bay-Delta.

Bay-Delta Conservation Plan

Provided legal assistance in negotiation/preparation of a planning agreement for development of a multi-species conservation plan as a basis for federal state authorization for incidental take under the state and federal ESAs for SWP operations and for implementation of South Delta Improvement Plan and the Napa Proposal.

Hyatt-Thermalito

Represented Metropolitan's interests in *Alameda County Flood Control and Water Conservation District, Zone 7, et al. v. California Department of Water Resources*, involving energy cost allocation issues. Developed defense strategy and prepared for trial, scheduled to commence in May 2008. Completed forty-one depositions, including compiling background materials, preparing witnesses for their testimony, and attending many of the depositions, including those of the plaintiffs' key witnesses. Assisted in preparing a comprehensive Motion for Summary Judgment/Summary of Adjudication that was filed on December 19, 2007. If successful, this motion, which is scheduled to be heard on March 27, 2008, could result in the dismissal of the entire case or in the disposal of one or more of the issues in dispute.

Oroville Reservoir

Provided legal support in connection with the ongoing relicensing process for the hydroelectric facilities at Oroville Dam. Most of the activities were focused on maintaining and building support for the proposed settlement agreement, such as engaging in extensive negotiations aimed at resolving concerns regarding the project's potential impacts on rice production. Legal staff participated in all phases of these negotiations, which appear to be nearing a successful conclusion. Continued to monitor the environmental reviews being conducted as part of the relicensing process. Assisted in the preparation of comments on the Draft Environmental Impact Report (EIR) issued by DWR and assisted in reviewing and responding to adverse comments on the Draft EIR submitted by other stakeholders, such as Butte County.

Sacramento Regional County Sanitation District Plant Expansion

In conjunction with counsel for other water agency plaintiffs, completed briefing and argued this case, which involves potential SWP water quality impacts, in Sacramento Superior Court. The court issued its ruling in December, which was in Metropolitan's favor on nearly all claims raised.

Amendment of Arvin-Edison Water Storage District Agreement

Participated in negotiating and drafting a significant amendment to the Arvin-Edison Water Storage District Agreement. The amendment funds improvements to Arvin-Edison's delivery system with Proposition 13 money available to Metropolitan. In return, Metropolitan gains the ability to exercise water quality exchanges increasing SWP water quality, its programs costs are reduced, its right to receive return water in dry years is increased, and the program's total yield is increased.

2008 Water Transfer Program

Participated in negotiating and drafted an agreement with the SWP Authority and other SWP contractors under which the contractors will jointly obtain water transfers in 2008. Participated in negotiating and drafted a water transfer agreement with Glenn-Colusa Irrigation District for an option on as much as 85,000 AF of water in 2008. That agreement will serve as the basis for other water transfer agreements.

Yuba Accord Water Transfer Agreements

Participated in negotiating and drafting agreements to implement water transfers agreed to in principle in 2004 by SWP contractors, DWR, U.S. Bureau of Reclamation (USBR), Central Valley Project contractors and Yuba County Water Agency. Metropolitan will receive between 13,750 AF in dry years and 35,000 AF or more in other years at a cost of between \$50 and \$125. The agreements last until 2025, with a potential re-opener in 2015.

Northern SWP Contractors Claim for Area of Origin Priority under SWP Contracts

Prepared a legal brief in opposition to a claim by State Water Contractors located north of the Delta that they have a right to 100% of their SWP contract water because they are located in the area of origin. Worked with contractors south of the Delta to convince DWR to deny a formal claim filed by the northern contractors.

Monterey Amendment Litigation

Reviewed and provided comment on an administrative draft and public review draft EIR for both Metropolitan and the SWC. Attended meetings with DWR, the plaintiffs, and the assigned settlement agreement mediator concerning the scope and progress of the environmental documentation effort.

Colorado River

Provide legal support for the Board's policy of ensuring a long-term reliable aqueduct supply.

Quantification Settlement Agreement (QSA)

Filed answers and/or joined in demurrers to various petitions for writ of mandate and complaints in the QSA litigation, which continues to be handled entirely by Metropolitan's in-house legal staff. Prepared for preliminary injunction motions set for hearing in January 2008, and reviewed the voluminous administrative records.

Cadiz, Inc. v. Metropolitan

Defended Metropolitan in this action relating to Metropolitan's decision not to go forward with the Cadiz groundwater storage program. Obtained a final ruling from the court dismissing all charges except the allegation that Metropolitan breached its fiduciary duty to Cadiz. Filed a motion for summary adjudication on the single remaining cause of action and requested a trial continuance. The motion for summary adjudication will be argued in March 2008. Filed a motion to compel further discovery, which will be heard in March 2008. Provided extensive litigation support in preparation for oral argument on both motions and trial, which is scheduled for April 7, 2008.

New Federal Guidelines

Provided legal counsel and assisted in negotiation of new federal guidelines for coordinated operations of Lake Mead and Lake Powell, shortage sharing, and Lake Mead banking. The agreements and record of decision to implement these programs were executed in December 2007.

Intentionally-Created Surplus (ICS) Program

Provided legal review and worked with federal Solicitor's office on terms of MWD-USBR delivery agreement and other delivery agreements for ICS (Lake Mead Banking). The delivery agreement, which was executed in December 2007, includes provisions for recovering ICS Metropolitan had previously stored under a demonstration program. Began discussions with USBR and Lower Basin entities on a proposal to implement ICS program for new water from the operation of the Yuma Desalting Plant.

Lower Colorado River Multi-Species Conservation Program

Provided legal advice and oversight for implementation of the program. Prepared written testimony for the Executive Director of the Colorado River Board in connection with federal authorizing legislation for the program. Participated in discussions on amendments to the draft legislation. Hearings on the legislation were completed in both houses of Congress in August 2007.

San Luis Rey Negotiations

Provided legal support in negotiations with the San Luis Rey Tribe regarding the interpretation of the agreement for Metropolitan's purchase of Colorado River water.

Groundwater Contamination

Provided legal assistance on Topock cleanup project, including issues related to administrative obstacles to installing a slant-well from the Arizona side of the river and miscellaneous tribal issues.

Integrated Resources Plan

Provide legal support for regional resource development and updating the Integrated Resources Plan.

Allocation Plan

Participated in the working group that formulated the draft water allocation plan. Addressed legal issues, including those regarding agricultural water deliveries and preferential rights.

Integrated Area Study

Reviewed and commented on the study. Provided legal support on acquisition of property for a future treatment plant in Riverside County identified by the study.

Local/Regional Water Resources

Provide legal support in the continuing development and operation of Local/Regional Resources Programs pursuant to board-adopted policies, including evaluation of proposed changes to programs, proposed projects for inclusion in programs, and the execution of related agreements.

San Gabriel Basin Water Quality Authority, et al. v. Aerojet-General et al.; Aerojet v. Metropolitan

Represented Metropolitan's interests in this third-party action seeking contribution from Metropolitan and other public agencies under CERCLA for contamination alleged to have resulted from the importation and spreading of Colorado River water. Filed motions seeking dismissal of the action, asserting that Metropolitan is not a responsible party under CERCLA and that other claims were not raised on a timely basis. The hearing on that motion has been delayed pending settlement attempts by the court.

Desalination Program

Provided legal counsel in developing contract terms for an incentive program for a proposed ocean water desalination plant in Carlsbad.

Other Programs

Provided legal assistance relating to a new public sector program to promote water efficiency. Provided legal assistance on groundwater storage agreements for the Raymond Basin, Chino Basin, and with the City of Long Beach. Provided legal assistance regarding Metropolitan's Local Projects Program.

Goal
2

Energy

Provide legal support to protect and maximize Metropolitan's existing energy assets and planning for future needs as the California Independent System Operator Corporation proceeds with implementation of its market redesign and to ensure compliance with new electric reliability standards.

Activities**Federal Power Act**

Provided a written opinion on the Federal Power Act as applied to requests by energy companies to interconnect to Metropolitan's Colorado River Aqueduct power lines.

Energy Contracts

Provided legal assistance in negotiating terms of a power sale agreement for Metropolitan's small hydroelectric generating capacity. Reviewed lengthy ISO market redesign tariff compliance filing and submitted comments regarding its proposed treatment of Metropolitan's transmission. Provided legal assistance in negotiating an expanded facilities agreement with Southern California Edison (SCE).

State Water Project Power Issues

Represented the interests of the SWP in California energy refund litigation. Represented the interests of Metropolitan, SWC and SWP in settlement discussions initiated by the Federal Energy Regulatory Commission concerning disbursement of funds accumulated from energy crisis settlement agreements. Actively participated in SWC Energy Committee meetings and provided strategic advice on potential and pending disputes between DWR and Nevada Power Company based on the Reid Gardner Participation Agreement.

Reduction of Greenhouse Gas Emissions

Prepared comments on California Air Resources Board draft regulations concerning mandatory reporting of greenhouse gas emissions. Provided legal assistance in the review of potential renewable energy projects and the development of the solar energy facility under design for the Skinner filtration plant.

California Public Utilities Commission (CPUC) Proceedings

Monitored and participated in stakeholder discussions on the CPUC proceeding regarding the pilot energy conservation plan based upon water conservation efforts. The pilot program received CPUC approval in late December and will commence implementation in July 2008. SCE will partner with Metropolitan to install high efficiency toilets, advanced pH controllers, and weather-based irrigation controllers to its commercial customers.

Electric Reliability Standards

Provided legal assistance in the development of an agreement with SCE concerning new electric reliability standards that became effective during 2007.

Long-Term Strategic Energy Plan

Led the development of suggested revisions to energy policy principles. Legislative principles on energy policy were submitted in January 2008.

Administrative Proceedings

Provided legal support and review of the rulemaking for AB 32, California's landmark Global Warming Solutions Act, including review and response to proposed mandatory reporting regulations.

Goal
3

Communications

Provide legal advice on utilization and implementation of new communications technology in accordance with applicable laws and court rules.

Activities

E-Discovery

Led a multi-departmental E-Discovery Task Force to develop a program for the preservation, retention, and retrieval of electronic documents as required by court rules.

Brown Act Requirements

Provided legal advice regarding compliance with newly enacted Brown Act requirements involving access to documents submitted for Board and committee meetings.

Telecommunications Issues

Provided assistance with legal issues associated with the potential acquisition of licensed frequencies from a public utility. Provided legal assistance for the acquisition of new telecommunication sites and the renewal of telecommunications on Metropolitan property.

Goal
4

Capital Projects

Provide legal support in the planning, environmental compliance and construction of the board approved Capital Investment Plan.

Activities

Perris Valley Pipeline

Provided legal assistance in obtaining entry permits and easements to allow timely construction of the North Reach. Managed the November 20, 2007 hearing before the Board for adoption of resolutions of necessity to acquire easements of five privately owned parcels for the South Reach. Filed three eminent domain actions pursuant to adopted resolutions to acquire the easements. Assisted with the acquisition of three easements through voluntary purchase agreements.

Inland Feeder Project

Represented Metropolitan in discussions with the San Manuel Band of Mission Indians regarding their request for compensation relating to the Arrowhead Tunnels. The San Manuel have requested approximately \$6 million for consultant costs in monitoring the impacts of the Arrowhead Tunnels construction on their reservation.

San Diego Pipeline 6

Participated in discussions with the Pechanga Tribe regarding potential acquisition of right-of-way by Metropolitan on tribal lands and the tribe's desire to obtain Metropolitan water.

Provided legal assistance for the acquisition of monitoring sites for the study of the south reach alignment. Provided legal support with environmental requirements for completion of the north reach and study of the south reach.

Contractor Claims

Provided legal assistance in the successful negotiation of contractor claims arising out of the Skinner expansion.

Diemer North Access Road Project

Negotiated agreements with the California Department of Parks and Recreation for the relocation and improvement of a secondary access road on the south side of the Diemer Plant. Participated in preparing the draft EIR for the project.

Central Pool Augmentation Project

Provided legal assistance regarding potential impacts of the Mid-County Parkway Project, a proposed freeway near Lake Mathews and the proposed treatment site, and the Eagle Valley East Development Project, a proposed 4,600 unit residential development adjacent to the proposed treatment site. Prepared comments on both projects and participated in stakeholder negotiations. Provided legal assistance required to obtain a U.S. Forest Service permit for geotechnical studies.

Washington, DC Office

Provided legal support needed to complete build out of new office space and obtain gold level Leadership in Energy and Environment Design (LEED) certification from the U.S. Green Building Council by meeting strict standards for environmentally efficient design.

Alameda Corridor East Transportation Authority (ACE)

Negotiated a settlement and reimbursement agreement with ACE regarding relocation of a section of the Orange County Feeder located in the City of Industry.

Goal
5

Operations

Provide legal advice on statutory and regulatory requirements and compliance for operations programs.

Activities

Water Quality Issues

Provided legal support regarding the recently implemented fluoridation program. Responded to legal inquiries from member agencies and assisted in responding to numerous public information requests.

Security

Provided legal assistance with the negotiation and completion of agreements with Johnson Controls, Inc. for maintenance of existing perimeter security equipment and future security system improvements.

Workplace Health and Safety Issues

Negotiated resolution of a civil action brought against Metropolitan by the Riverside County District Attorney's office for a 2005 discharge of caustic soda at the Mills Filtration Plant. Provided legal assistance in responding to citations issued to Metropolitan by Cal/OSHA alleging violations of various health and safety regulations.

Center for Water Education (CWE)

Worked cooperatively with the CWE to resolve debt claims of over fifty creditors. Assisted the CWE in obtaining remaining \$500,000 of grant funds from the state Office of Grants and Local Services and applying the funds to discharge the remaining CWE debt. Assisted in the selection of a consultant to prepare a feasibility study to identify potential uses for the facility.

Litigation

Prosecuted *Metropolitan v. XO Communications*, a case in which Metropolitan seeks to recover for damage to an underground pipeline. Prepared to file a lawsuit to recover for damages to Metropolitan's Rialto Pipeline.

Real Estate Issues

Provided legal counsel to the Property Review Council in their consideration of numerous property rights, such as leases, licenses, entry permits, and road easements granted to third parties each month. Provided legal counsel regarding the acquisition of property interests necessary for Metropolitan operations, including access and telecommunication leases. Negotiated the potential purchase of buffer property for operational facilities. Provided legal assistance with responses to and removal of encroachments on district property. Provided legal support with annexation of new service areas.

Service Connections

Provided legal assistance for new member agency service connections.

**Goal
6****Workforce**

Provide legal support on various human resources issues.

Activities**Memoranda of Understanding**

Provided legal assistance in interpreting and implementing the existing bargaining unit MOUs with a focus on ensuring proper, uniform and equitable application.

Cargill v. Metropolitan

Provided oversight on this litigation involving three consolidated class action lawsuits challenging Metropolitan's past use of District temporary employees, independent consultants, and temporary agency workers. Directed implementation of the settlement agreement, with a current focus on assisting Human Resources in submitting enrollment applications for individual class members eligible for retroactive CalPERS benefits.

Civil Actions

Continued to assist in defense of an employment discrimination/harassment lawsuit as co-counsel of record in *Victor Gordon v. Metropolitan*, including a successful motion for summary adjudication that resulted in the dismissal of all of the plaintiff's tort causes of action. Assisted in obtaining a settlement in *Lance Charles v. Metropolitan* as co-counsel of record. Successfully brought a civil action to recover damages for Workers' Compensation fraud against a former employee, resulting in a settlement in which Metropolitan will recover the majority of its recoverable expenses.

PERB Unfair Labor Practice Charges

Defended Metropolitan's interests in several matters before the Public Employment Relations Board (PERB) alleging unfair labor practices pursuant to the Meyers-Milias-Brown Act. Of the seventeen PERB matters that have been active during the past six months, three were dismissed based on objections raised by the Legal Department, one matter was withdrawn by AFSCME Local 1902 after the Legal Department lodged its position statement, three matters were settled with no admission or finding of wrongdoing on Metropolitan's part. One matter has proceeded to trial, and the parties are waiting for a result. The Legal Department continues to defend Metropolitan's interests in the remaining charges.

AFSCME Local 1902 Grievances and Appeals

Defended Metropolitan's interests in hearing officer appeal requests lodged by AFSCME Local 1902. Due to Legal Department's action in addressing the backlog of hearing officer appeal requests, the number of active hearing officer matters has been reduced from

approximately 115 to 90 grievance matters. Successfully defended a job audit report issued by Human Resources in a matter that proceeded to hearing.

Human Resources Issues

Expanded the Legal Department's ability to provide legal advice to Human Resources and to represent Metropolitan in personnel litigation, employee relations, and administrative matters. Handled most matters in-house during the past six months. A working committee consisting of the General Counsel, Assistant General Counsel, and the two staff attorneys responsible for human resources issues meet regularly to coordinate representation of Metropolitan in employment/labor issues. This committee was formed in response to an increase in employment/labor legal issues at Metropolitan, and to coordinate legal support in the areas of deferred compensation plans and beneficiaries.

EEO Claims

Provided investigation oversight for EEO claims, including providing recommendations for remedial actions.

Goal
7

Finance

Provide legal assistance with rates and charges, the issuance of debt obligations, investment of surplus monies, and other financial activities undertaken by Metropolitan.

Activities

Rates and Charges

Assisted with development of rates and charges to be effective January 1, 2009. Provided legal advice regarding budget process. Advised working group on Long Range Finance Plan update.

Bonds

Provided legal assistance for the issuance of the 2007 Series B Water Revenue Refunding Bonds. Prepared and e-filed year-end financial information required by continuing disclosure undertakings for water revenue and general obligation bonds.

Goal
8

Administration

Provide legal support regarding: proposed state and federal legislation that may affect Metropolitan's interests and compliance with statutory and institutional requirements, such as the Metropolitan Water District Act and Administrative Code, the Brown Act, the Political Reform Act, and the Public Records Act. Continue to explore and implement ways in which to expand the effectiveness and efficiency of Legal Department operations.

Activities

Public Records Act

Responded directly to the public and provided legal support in responding to numerous Public Records Act requests.

Legislation

Provided analysis of proposed legislation relevant to Metropolitan's strategic initiatives. Provided legal support for and participated in a work group on AB 1420 (Laird), legislation regarding water conservation best management practices. Provided drafting, review, and comment on several versions of bond bills to fund Delta restoration and implement a Delta conveyance facility, including SB 1 (Perata) and SB 3 (Cogdill) and SB 27 (Simitian).

Utilization of Outside Counsel

Presented the Legal and Human Resources Committee with an update to the General Counsel's May 2007 report on utilization of outside counsel. The report provided updated numbers and examples of ways in which the principles described in the report are being implemented.

Budget

Carried out the Legal Department's functions within its authorized O&M budget.

Department Management

Filled two vacant positions by hiring an attorney to handle employment and litigation matters and an administrative assistant to help with Legal Department financial operations. Provided timely evaluations to Legal Department employees.

Sustainability

Reduced the numbers of copies of departmental reports by creating areas on the network where reports are now shared.

Educational Programs

Provided the following training programs: (1) E-Discovery Seminar by Akerman Senterfitt provided to selected Legal and Corporate Resources staff, (2) Agreement Administrator refresher training provided to Legal Department staff, (3) training for Continuing Legal Education credit on the Los Angeles County Civil Register conducted by the Los Angeles County Bar Association, (4) online training on E-Filing provided to attorneys admitted to practice in the Central District of the U.S. District Court and their assistants.

External Functions

Held a Legal Counsel Member Agency Dinner on January 8, 2008 to provide a program by Life Theatre Services on Bias and the Challenge of Inclusion. This program was well received and qualified for Continuing Legal Education credit.