

- **General Manager's 2007/08 Year-in-Review Report**

Summary

The attached report highlights the activities and achievements of the Office of the General Manager for the period July 1, 2007 to June 30, 2008. These activities and achievements are aligned with meeting the goals of the General Manager's Business Plan approved by the Board of Directors on June 12, 2007, in support of Metropolitan's mission and policies.

Attachment

General Manager's Year-in-Review Report

Fiscal Year July 1, 2007–June 30, 2008

General Manager's Year-in-Review Report



General Manager's Message

Just a few weeks shy of the end of this fiscal year, Metropolitan's Board of Directors issued a water supply alert to drive home the region's need to curb water use and preserve the Southland's rapidly diminishing water reserves. This call to action, on the heels of Governor Arnold Schwarzenegger's statewide drought proclamation, marked the beginning of an aggressive regional approach towards conservation that will complement the efforts of our member agencies.

In a year where we have seen conditions that were "more of the same" difficulties – more record dry weather patterns, more court-ordered pumping restrictions in the Delta, more demands and challenges – we have also experienced a number of "firsts." These firsts represent breakthroughs for Metropolitan – both literal as in the Arrowhead Tunnel East breakthrough, and more figurative as in breakthroughs in strategy planning, and changed habits.

Some of the "firsts" we've recorded this fiscal year include: historic new agreements for Colorado River operations and conservation programs, introduction of the Business Process Sustainability Program; the inaugural Spring Green Fair; final design of the largest solar power facility project for Metropolitan at the Robert A. Skinner Water Treatment Plant; initiation of several new projects related to the Quagga Mussel Control Program; the most extensive system shutdown schedule in Metropolitan history; an accelerated budget process to align with the rates cycle; adoption of the most comprehensive supply allocation plan ever developed at Metropolitan; approval of significant rate increases that will safeguard Metropolitan's future; the installation of more than 2,000 laptops and desktops to augment productivity along with the switch to the Vista operating platform; and the launch of MyHR – the self-service Human Resources portal for employees.

Awards and outside recognition of Metropolitan's firsts and successes kept pace with Metropolitan's progress and reflected appreciation for achievements in a number of core areas.

I want to thank the Metropolitan family—the entire team—for their contributions to this year of continued challenges and impressive firsts. As long as we continue to meet our challenges head-on, and keep an eye toward change and innovation, we will continue to meet our mission of reliably providing water for Southern California.

Thank you.

The Metropolitan
Water District of
Southern California

Metropolitan's Mission
is to provide its
service area with
adequate and reliable
supplies of
high-quality water to
meet present and
future needs in an
environmentally and
economically
responsible way.

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Awards and Recognition – Operations and Water Quality

First Place in International Water-Tasting Competition

A water sample from the Joseph Jensen Water Treatment Plant tied with water from Clearbrook, British Columbia for the first place 2008 Berkeley Springs Award. It was the second received by

Metropolitan in the municipal water category following a 'blind' taste-testing by a panel of 100 journalists and food critics. Previous entries have won first place in 1998, second place in 2000 and 2003; and third place in 2005.



Alvin Percy Black Research Award

Stuart Krasner, Principal Environmental Specialist, of the Water Quality Section was the American Water Works Association's 2007 recipient of the prestigious A. P. Black Research Award. Established in 1967 in honor of Dr. A. P. Black

to recognize outstanding research contributions to water science, Stuart is the 33rd recipient overall, and only the second recipient from a water utility.

Flavor Profile Analysis

Roy Desrochers of GEI Consultants presented Metropolitan a plaque at the April 2008 Board meeting to recognize Metropolitan's introduction of flavor profile analysis to the water industry 30 years ago.

Awards and Recognition – Finance

Credit Rating

Metropolitan has maintained its long-term credit rating on revenue bond debt at AAA from Standard and Poor's even as Metropolitan continued to face ongoing challenges including uncertain water supply conditions and the federal ruling on Delta smelt. Metropolitan's continued prudent financial management,

strong reserves, manageable capital program, and the essential service provided have been cited by the rating agencies as reasons for the strong credit rating.

Financial Reporting and Budgeting Excellence

Received Awards of Excellence from the

Government Finance Officers Association for fiscal year 2007 financial reporting and for the fiscal year 2007/08 budget. Completed the annual audit with no significant issues or audit exceptions and received generally satisfactory internal audit reports.

Awards and Recognition—Business Processes and Sustainability

2008 Outstanding Agency Accreditation Achievement Award in Purchasing

Metropolitan received this award from the National Institute of Governmental Purchasing. It is awarded to agencies who have demonstrated sustained standards of quality and efficiency in their purchasing processes. Of

2,000 public agencies that maintain membership with NIGP, only 103 have attained this award.

Spring Green Fair

The event brought awareness to employees and the public about sustainability efforts and resource conservation.

Energy

Recognition for a conservation project on pumping station OC-88, effectively reducing Metropolitan's ongoing annual costs by 50 percent or better. Presented by the American Water Works Association, California-Nevada Section at the Fall 2007 conference.

Diamond Valley Lake Visitors Center Facility

earned the following sustainability category awards:

- LEED Platinum Certification
- Beyond Green™ 2007 High Performance Building Award
- Gold Nugget Grand Award for Excellence and Value for the Best Sustainable Commercial Project

Energy Star Award—In recognition of its optimized energy performance, Metropolitan received the 2007 Energy Star Award for its Union Station facility from the Environmental Protection Agency.

Achievement of Excellence in Procurement—Metropolitan was awarded the 2007 National Achievement of Excellence in Procurement by the National Purchasing Institute, which was established to recognize organizational excellence in public procurement.

LEED Award for Washington, DC Office—The U.S. Green Building Council awarded Metropolitan's new Washington, D.C. office a Gold certification rating for commercial interiors under the Leadership in Energy and Environmental Design (LEED®) Green Building Rating System.

Government Office Building of the Year Award for Union Station—Received the Government Office Building of the Year Award for the Union Station facility from the Building Owners and Managers Association of Greater Los Angeles for dedication to design, operation and management of a quality government work environment.

Awards and Recognition—Real Property

Metropolitan's Diamond Valley Lake Visitors Center Facility earned the following awards:

- Honor Award for Excellence in Design, Los Angeles and Pasadena Foothill Chapters
- Metropolitan Home Design 100
- Merit Award for Best Public/Private Special Use Facility



Awards and Recognition – Engineering and Information

Consulting Engineers and Land Surveyors of Southern California Award

Board Chairman Timothy Brick received the CELSOC Engineering Achievement Award presented to Metropolitan on May 16. The award acknowledges individuals whose

leadership skills allow the large projects in Southern California to move forward. Under Chairman Brick's leadership, Metropolitan adopted a sustainability initiative to bring together a number of different activities undertaken in the past

few years to reduce our waste and make more environmentally friendly decisions in the way we do business.



Excellence in Architecture Citation Award – for the Jensen Ozone Building

The Ozone Generation Building at the Joseph Jensen Water Treatment Plant was the recipient of the National Organization of Minority Architect's Excellence in Architecture Citation Award in 2007.

International Right-of-Way Association Award for Employer of the Year—This award recognizes Metropolitan's efforts in the areas of education and professional development in the right-of-way profession.

Control Microsystems 2007 Innovators Award for Innovation and Excellence in SCADA Applications—The Control Microsystems Innovators Award is given to the engineering team that displays the highest level of excellence and innovation in solving complex Supervisory Control and Data Acquisition (SCADA) applications using Control Microsystems technology. Metropolitan was the recipient of this award for its unique work in developing a secure, state-of-the-art system for use in the distribution of fresh water over a wide area of Southern California.

Awards and Recognition – External Affairs

Award for Excellence to Metropolitan's Employee Magazine

People.Interactive received a platinum award for its May issue from the League of American Communications Professionals' 2007 Inspire Awards. This competition judges entries comprising of print, video, and web-based materials from a broad range of industries and organizations throughout the world. Overall, *People.Interactive* ranked in the top 4 percent of the 550 entries, giving it the highest achievable award – a platinum – for the best internal and employee communications publication. The magazine

scored 98 out of 100 total points for artwork, readability, creativity, message clarity, audience focus, ease of navigation and first impression.



NEW INITIATIVES

Sustainability

Progress: The comprehensive Business Process Sustainability Program was presented to the Board and announced to all employees in December 2007. This included key elements focusing on energy management, paper and waste reduction, green purchasing, enhanced recycling and other activities. During the fiscal year, Metropolitan accomplished the following in meeting program goals:

- Developed draft "green" procurement guidelines.
- Developed Our Legacy, a biweekly e-publication that identifies numerous ideas and collects employee suggestions to manage sustainable resources.
- Replaced Metropolitan personal computers with energy star models that are 70 percent more energy efficient and monitors that are 50 percent more energy efficient.
- Hosted a successful "Spring Green Fair" at Metropolitan's Union Station Headquarters. More than 1,000 attended this pilot event, which will serve as a model for future green events. There were 48 vendors with certified green products who brought displays to the courtyard while a variety of workshops attended by 400 participants were held to discuss environmentally friendly practices that could be used at home and work. Some of the workshops were of general interest and others were targeted toward educating Metropolitan purchasing staff, architects, engineers, and project/facility managers on sustainable design and construction and green procurement practices.
- Implemented the Paper-wise Program and exceeded the goal to reduce paper consumption by 20 percent with actual cost savings through May 2008 at 45 percent. This was accomplished through employee education; conversion to two-sided copying as a default, the purchase of office paper made from post consumer waste, and expansion of reprographic services to include CD/DVD duplication enabling paperless product delivery.
- Replaced Styrofoam cups with paper products in the Union Station facility cafeteria.



Metropolitan's Courtyard—California Friendly® Plant Garden

- Installed four microturbines at the Weymouth treatment plant to offset power during high peak usage.
- Began small scale pilots of web conferencing.
- Initiated efforts to retrofit plumbing at all field facilities to install water efficient fixtures.
- Developed and implemented an electronic waste (computers, cell phones, etc.) sustainability disposal procedure.
- Convened a Science Review Panel chaired by climatologist Dr. William Patzert of Jet Propulsion Laboratory to discuss the potential impacts of emerging trends including climate change on water supply, watersheds, ecosystems, and economic development in California.
- Installed a California Friendly® garden at the Union Station Building courtyard.

Additional programs:

- Completed the Integrated Area Study report that identifies and evaluates alternative approaches to meeting future water demands.
- In the area of regional water conservation, Metropolitan awarded grants for a total of nine projects as part of the new competitive Enhanced Conservation Program. The ECP provides grants for programs that lead to new approaches to

Sustainability continued.....

Southern California water conservation. Staff also continued to administer incentive agreements for recycled water, recovered groundwater production, and conservation.

- Staff coordinated start-up operations of the San Diego County Water Authority Twin Oaks membrane filtration plant with the Skinner plant.

Energy Management

Metropolitan is developing a comprehensive energy management plan to secure reliable energy at reasonable costs and implementing proactive measures to mitigate risks associated with market fuel cost volatility, ongoing litigation, upcoming contract negotiations, legislative/regulatory requirements, and hydrology.

Progress: Metropolitan achieved the following major milestones during this fiscal year:

- Completed initial inventory of solar, hydro, and wind power opportunities at Metropolitan facilities.
- Completed energy efficiency audits at all water treatment plants.
- Completed Metropolitan's greenhouse gas emissions inventory for calendar year 2005 and 2006. These inventories have been certified and are filed with the California Climate Action Registry.
- Began the greenhouse gas emissions inventory for calendar year 2007.
- Completed final design of 1 MW solar power facility at the Skinner plant, and award of construction contract is scheduled for July 2008 board meeting. Metropolitan qualifies for performance-based incentive rebates of up to \$5 million total.
- Recently obtained board approval for preliminary design of 1 MW solar power facility at the Weymouth plant. Metropolitan is qualified to receive \$4 million in incentives under the California Solar Initiatives Program.
- Completed implementation of Phase II of the

Energy Management System to automate the recording of energy transactions for the CRA.

- Developed and implemented a plan to reduce costs associated with facility improvements during the final years of California Department of Water Resources' contract for energy from the Reid-Gardner power plant.
- Obtained board authorization for the execution of three contracts for the sale of energy from Metropolitan's nine small hydroelectric generators.
- Negotiated allocation of a portion of the funds the Federal Energy Regulatory Commission received or expects to receive from settlements with various parties for activities during the energy crisis of 2000 - 2001.
- Began discussions with Hoover power contractors and development of negotiating strategies for achieving a new Hoover contract by 2017.



Solar Panels

Communications Technology

Progress: As a part of fully utilizing communications technology advances for enterprise efficiency and effectiveness, staff completed the upgrade of videoconferencing equipment at the Washington, D.C. facility, Sacramento office, and Chairman of the Board's conference room. Other efforts included the following:

- Union Station Headquarters Technology Upgrade - Award of contract to replace and upgrade audio, video, and information technology-related equipment for the Board and Committee rooms is scheduled for July 2008 Board meeting.
- Telephone Upgrade – Obtained board approval for the upgrade to a Voice Over Internet Protocol based telephone technology, which will provide a modern, cost-effective phone system to serve Metropolitan's communication needs.
- Conducted pilot tests on voice-to-text and web conferencing technologies with plans for expansion of these technologies to broader section of the workforce.
- Evaluated new technologies for potential application at Metropolitan with site visits to Google on "software-as-a-service" business model and Cisco, Microsoft, and Hewlett Packard on collaboration technologies such as advanced videoconferencing.
- Installed wireless Local Area Networks at all primary field facilities to enhance service.
- Established a "business center" at the Gene facility for the Board, staff, and other guests to enhance productivity. Also, established a business center for Board workshops held at Union Station Headquarters.
- Issued Request for Bids to acquire mobile hardware for Materials Interface and Mobile Technology project. Project will interface Maximo Maintenance Management System with Oracle inventory to automate requisitioning of materials for work orders and will automate collection of timekeeping and work order data by WSO craft employees directly from the field.



Board Room Upgrades



Conferencing Technologies

Rehabilitation and Replacement (R&R)

Progress: The current fiscal year 2007/08 budget for infrastructure reliability is \$126 million, a large portion of which is dedicated to rehabilitation and replacement projects. During this period, the infrastructure reliability Capital Investment Plan categorizations were revised to better differentiate R&R projects from facility upgrade projects such as solids handling facilities, maintenance buildings, etc. This will enable more accurate tracking of expenditures in the R&R category and improved planning and budgeting. A high level of investment and focus on infrastructure reliability projects continued as nearly \$97 million were expended on infrastructure projects, with a significant portion spent at Metropolitan's five treatment plants and the remainder primarily on the Colorado River Aqueduct and the conveyance and distribution system. Specific R&R projects underway include:

- Completed rehabilitation and repair of blow offs, tunnels, and radial gates under a \$10 million construction contract.
- Awarded a \$3.5 million contract and started work on the rehabilitation of slide gates at the San Jacinto Control Structure and replacement of discharge valves at the Whitewater River along the Colorado River Aqueduct.
- Completed replacement of the cathodic protection systems on the Lakeview Pipeline, Foothill Feeder, and Middle Feeder.
- Completed replacement of two 96-inch diameter prestressed concrete cylinder pipe sections on San Diego Pipeline No. 5.
- Completed replacement of filter surface wash piping and washwater tank pumps at the Diemer plant.
- Completed the refurbishment of 36 flocculators in Basin 1 at the Weymouth plant.
- Initiated several projects as part of the Quagga Mussel Control Program, of which the construction of the Copper Basin Chlorination Facilities is scheduled to be completed by June 2008 and the construction of Lake Mathews Chlorination Facilities is scheduled to be completed by July 2008.
- Continued final design for the replacement of floating covers at the Orange County, Palos Verdes, and Skinner reservoirs.
- Continued design on the replacement or rehabilitation of numerous electrical facilities, valves and actuators, and outdated controls and instrumentation at the treatment plants.
- Designed repairs and replacement of fire damaged facilities in Orange County and the Skinner service area.
- Continued construction activities for the hatch cover replacement at the Diemer plant.
- Prepared June 2008 board letter to award a construction contract for the Coagulant Tank Farm at the Weymouth plant.
- Continued seismic assessment of Orange County Reservoir, which will be conducted in four phases; and completed spillway capacity studies at Lake Mathews, Lake Skinner, Eagle and Iron Mountain reservoirs to assess seismic safety.
- Continued final design for the Box Springs Feeder Repair.



Rialto Pipeline Rollout

Robert A. Skinner Treatment Plant



Rehabilitation and Replacement continued.....

- Completed emergency design and obtained board approval to award construction contract for the Sepulveda Feeder Repair.
- Completed 19 total system shutdowns including the Sepulveda and Rialto Feeders, Colorado River

Aqueduct, numerous hydroelectric plant shutdowns, and provided planning, design, construction, or modification activities on 23 service connections throughout the service area.

CORE INITIATIVES

Water Supply

Colorado River—In December 2007, Metropolitan and other Colorado River water agencies executed a number of landmark agreements that put into place new Colorado River operating guidelines. These historic agreements are the most significant changes to the management of the Colorado River since the execution of the Compact in 1922. Under the new agreements, Metropolitan was able to increase its available supplies in 2008 by 80,000 acre-feet with “Intentionally Created Surplus” (ICS) water. The agreements also allow Metropolitan to bank water in Lake Mead to fund conservation programs and receive the conserved water and they extend Metropolitan’s rights to receive surplus water.

One of the new programs under the agreements allowed Metropolitan, Southern Nevada Water Authority, and Central Arizona Water Conservation District to jointly fund a regulatory reservoir along the All-American Canal known as “Drop 2.” When completed, this reservoir will conserve an estimated 70,000 acre-feet of water annually that would otherwise be lost to the system. Metropolitan made its payment in May 2008 and received 100,000 acre-feet of ICS water that it could recover between 2008 and 2010, at a maximum take of 34,000 acre-feet per year, even before the reservoir is constructed.

With the recovery of the ICS water, the San Diego County Water Authority Programs, and Metropolitan’s programs with Imperial Irrigation District and Palo Verde Irrigation District, Metropolitan delivered about



Storage of Intentionally Created Surplus
in Lake Mead.

800,000 acre-feet of Colorado River water to the area during fiscal year 2007/08. Of that total, 250,000 acre-feet of this year’s supplies were developed through cooperative water management programs – the highest amount ever on the Colorado River. The new operating guidelines open the door to allow Metropolitan to develop new water supply programs over the next 20 years .

Water Supply continued.....



Bay-Delta—Metropolitan has continued to play a vital role in the development of the Bay-Delta Conservation Plan (BDCP). Throughout the year significant progress has been made to develop a conservation plan that balances ecosystem needs and water supply reliability. Key accomplishments during the year include the adoption of the Points of Agreement for Continuing the Planning Process which identifies a new water conveyance system that includes an isolated facility as the most promising approach for achieving BDCP

goals. Another major milestone of FY 007/08 was the initiation of the National Environmental Policy Act/California Environmental Quality Act process and formal Environmental Impact Report/Environmental Impact Study public scoping. The BDCP is in progress and is anticipated to continue through 2010.

Significant progress was made in developing policy positions and completing analysis of Delta improvement alternatives to support Metropolitan's participation in the Delta Vision and other Bay-Delta related processes. Metropolitan's Board adopted principles on long-term Delta conveyance options. Metropolitan staff coordinated with water user and business interests to participate in the Delta Vision Stakeholder Coordination Group and contribute to the development of a long-term Delta conveyance vision and strategy. Staff also completed evaluation of near-term Delta action alternatives and worked with water user interests to develop a policy position and support for implementation. Significant progress was also made on emergency response planning and preparation including establishing response protocols, establishing contracts, and stockpiling of supplies.

State Water Project—From June through December 2007, SWP deliveries to Metropolitan were made under a 60 percent SWP allocation while deliveries from January through June 2008 were made under a 35 percent allocation. Total fiscal year deliveries to Metropolitan's service area were 1,488,712 acre-feet. During the January through June period, Metropolitan also took delivery of 98,247 acre-feet from its Central Valley storage programs.

The California Department of Water Resources provided final notice that 85,000 acre-feet is available from the Yuba County Water Agency under the Yuba Dry Year Water Purchase Program. This supply is to be split 50 percent each to the SWP and the Central Valley Project. Metropolitan's cost is approximately \$2.5 million, assuming the delivery of 16,177 AF (after losses) of its share of the Yuba water. Delivery is scheduled for the months of July through September 2008.



Lake Oroville

Water Supply continued...

Water Storage and Transfer Programs—Staff continues to manage Metropolitan's five existing State Water Project storage programs located outside of the service area. These storage programs are implemented in partnership with Semitropic Water Storage District, Arvin-Edison Water Storage District, Kern Delta Water District, Mojave Water Agency, and San Bernardino Valley Municipal Water District and have a total storage capacity of over 1.1 million AF and a capability of returning over 300,000 AFY. In addition, the Arvin-Edison/Metropolitan Water Management Program agreement was amended to increase the store-water return capability and ability of water quality improvement utilizing Proposition 13 state bond funds to expand Arvin-Edison's South Canal.



South Canal Improvement Project

Integrated Water Resources Planning—The IRP Update process is being initiated with planned board workshops, stakeholder forums and member agencies technical workgroups. The IRP Update will incorporate changed conditions on various existing water resources and evaluate uncertainties including climate change impacts.

Working with the Member Agencies and the Board in an eight-month process, a detailed Water Supply Allocation Plan was adopted. The Plan is to be implemented when water shortage necessitates the allocation of Metropolitan's available supplies. Staff has also initiated a five-year water supply planning process with member agencies to coordinate near-term actions to increase supply reliability for the region during the critical interim period.

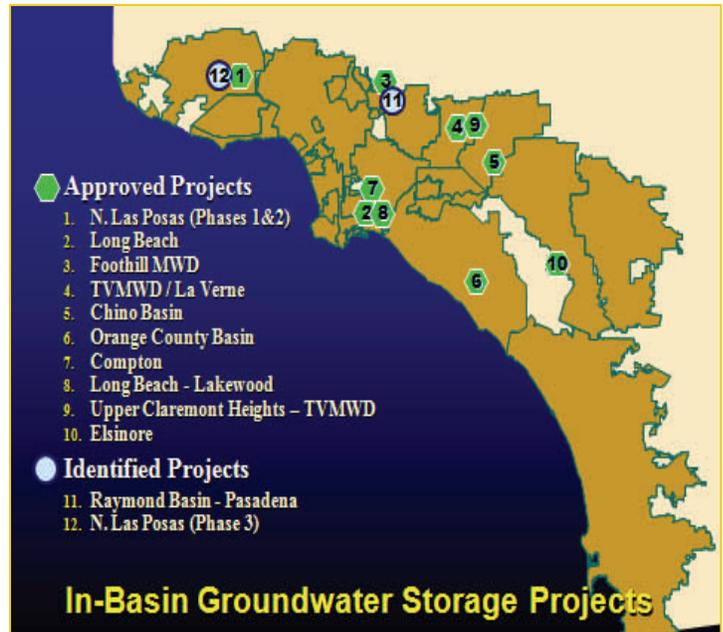
Palo Verde Irrigation District Land Management Program—Metropolitan executed agreements with University of California Cooperative Extension and tenant HayDay Farms, Inc., to undertake an alfalfa stressing study this summer in the Palo Verde Valley. Within the valley, there are more than 45,000 acres of alfalfa using in excess of 300,000 acre-feet of Colorado River water per year. Almost 40 percent of water use occurs during the summer when alfalfa yield and quality are low. During July through September 2008, HayDay will split four 70-acre alfalfa fields and apply normal irrigation to one half and no irrigation to the other half. University of California Cooperative Extension scientists will install field equipment in June and collecting data during the study to quantify the impacts of deficit irrigation on crop yield and water savings.

Results from the study will be used to assess the feasibility of pursuing an alfalfa-stressing program in the future to save additional water on a larger scale basis.

Water Supply continued.....

In-Region Groundwater Storage—Staff completed a Groundwater Assessment Study and planned a groundwater workshop process with member agencies and groundwater basin managers to develop strategies and recommendations to increase groundwater conjunctive use. Metropolitan partnered with member agencies, state water contractors, groundwater basin managers, wastewater agencies and the Santa Ana Regional Water Quality Control Board to successfully execute a cooperative agreement for monitoring and reporting salinity and nitrates in recharge water and groundwater basins. In addition, Metropolitan is partnering with member agencies, groundwater basin managers, wastewater agencies and the Santa Ana Regional Water Quality Control Board to review water quality and monitoring issues for constituents of concern in imported water used for groundwater recharge.

Metropolitan amended the agreement with Calleguas Municipal Water District for the groundwater storage program in the North Las Posas groundwater basin, which clarifies cost-sharing and provides for a joint operating committee.



Staff continued partnering with member agencies and groundwater basin managers to administer Proposition 13 conjunctive use projects and worked towards completion of facility construction and project-level financial audits.

Oroville FERC Relicensing—In March 2006, DWR reached settlement with 51 parties, including Metropolitan, regarding conditions to be recommended to the Federal Energy Regulatory Commission for inclusion in a new license for the Oroville hydroelectric generation facilities. A subsequent settlement agreement in April 2008 was reached with the irrigation districts that were concerned about warm water deliveries for rice. The settlements pave the way for Clean Water Act certification by the State Water Resources Control Board upon issuance of a final Environmental Impact Report by DWR in the near future.

Perris Dam Remediation Project—On June 1, 2007, the California Department of Water Resources issued a Notice of Preparation (NOP) beginning preparation of an Environmental Impact Report for the Perris Dam Remediation Project. DWR has selected rehabilitating the dam to restore its original design water surface elevation of 1,588 feet, or 131,000 acre-feet capacity, as its preferred option, including replacing the outlet tower and constructing a new release channel to provide safe carriage of emergency drawdown flows. Metropolitan and its partners CVWD and DWA submitted comments on the NOP and will provide comments to the Draft Environmental Impact Report, expected to be released by the end of 2008.

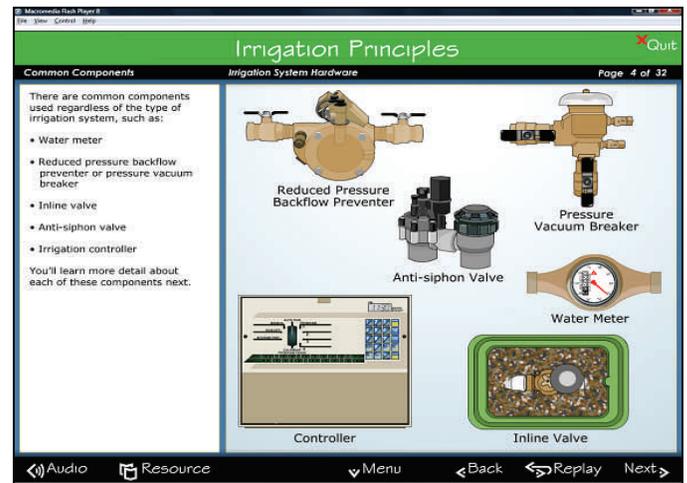
Water Supply continued...

California Friendly® Landscape Training Program— Since 1994, Metropolitan has partnered with its member agencies to provide training to homeowners and professional landscapers regarding a variety of landscape irrigation efficiency topics including watering and fertilizers, basic landscape design, irrigation systems, soils, and low water use plants. To date, more than 52,000 students throughout Southern California have attended.

To increase customer service and reduce program costs, Metropolitan recently created on-line versions of its residential and professional landscape training series. Metropolitan received more than \$153,000 in grant funding from Water for the West Foundation, U.S. Bureau of Reclamation and California Department of Water Resources to complete the three-year project. The on-line classes will benefit homeowners and landscape professionals that otherwise would not be able to attend classroom instruction. The on-line allows students to learn at their own pace and schedule and serves as a supplemental reference to classroom

instruction. Metropolitan benefits by training more citizens and reducing overhead costs.

Beginning in July, Metropolitan's External Affairs Group will assume program administration duties and complement long-standing education services and support.



Conservation Incentive Programs—Staff executed a five-year contract with the Electric and Gas Industries Association to provide management and marketing services for Metropolitan's Region-Wide Residential Water Conservation Program. The five-year contract would total about \$40 million for rebates, rebate processing and marketing. This new approach is expected to increase conservation while reducing regional overhead costs. Member agencies would see cost savings as a result of combining member agency-led efforts into a single region-wide program. Further, residential customers would now be able to participate in all of Metropolitan's rebate programs.

Staff also amended Metropolitan's existing five-year agreement with Honeywell International to increase conservation services from \$20 million to \$45 million. Honeywell provides rebate processing, marketing services, and incentive payments for Metropolitan's commercial/industrial/institutional conservation program. The program has experienced an increase in the number of conservation retrofit rebates from 14,000 in 2005 to 37,000 in 2007. Increasing funding for the

greater vendor services will help sustain momentum with a strong retrofit rate that is improving regional water use efficiency.

Enhanced Conservation Program—Metropolitan selected nine projects under this year's cycle of the Enhanced Conservation Program. ECP supports trial runs of new approaches or improvements to existing programs by providing grants up to \$250 per acre-foot of projected water savings. Selected projects focus primarily in the landscape sector, where there are significant opportunities to achieve increased water savings. The majority of these projects involve retrofitting existing landscape irrigation systems to more efficient devices and approaches. It is anticipated that some of the funded projects would lead to new approaches to water conservation in Southern California and would subsequently be included in Metropolitan's core incentive program. The nine selected projects would receive a collected total of about \$2.2 million and generate savings of about 12,500 acre-feet of water.

Water Supply continued.....

Progress: Metropolitan also engaged in the following activities to ensure water supply reliability :

- Completed State Water Project 2008 Statement of Charges Audit with the Board authorizing corresponding payments to California Department of Water Resources.
- Operated and maintained Metropolitan's conveyance, treatment, and distribution facilities and met all operational demands for our member agencies resulting in sale of approximately 2.3 million acre-feet of water.
- Established operating plans for ten groundwater conjunctive use programs and two supplemental member agency storage programs requesting the return of over 200 thousand acre-feet (TAF) of previously stored supplies. Program calls resulted in over 40 TAF of supply to help offset a low SWP allocation and dry conditions.
- Conveyed 100 percent of available CRA supplies.

System Reliability

Progress: Metropolitan continued to operate and maintain its conveyance, treatment and distribution facilities and meet all operational demands of its member agencies. Activities in support of this effort included the following:

- Responded to "Fire Storm 2007" and manually operated water delivery structures for both San Diego and Orange County. Collaborated with Engineering to rebuild water delivery structures damaged by the fires.
- Conducted a three-day shutdown in October 2007 of the Colorado River Aqueduct to assess the effectiveness of chlorination at Copper Basin for quagga mussel control. Staff is evaluating a chlorination plan to kill established mussels within the CRA and will continue to evaluate control measures as part of the Quagga Mussel Control Plan.
- Continued to improve security of employees, the public and Metropolitan's infrastructure. This included development of master agreements for security system integration during new construction and security system maintenance. Also, staff developed and tested new chlorine security monitoring protocols during extended operation involving out-of-state transport and delivery while local area supplier was closed. In addition, staff implemented changes to strengthen the security of Metropolitan's Supervisory Control and Data Acquisition system that is used to monitor and control the flow and treatment of

water. Staff continues to represent Metropolitan's interest with the California Utilities Emergency Association and the Office of Emergency Services and work with both agencies and others to plan and develop a major emergency exercise as part of the state's annual Golden Guardian emergency exercise scheduled for November 2008.

- Conducted expert workshop in April 2008 regarding quagga mussel control and lake management techniques.
- Provided engineering, manufacturing and rehabilitation support to DWR.



Copper Basin Interim Chlorination System

System Reliability

- Manufactured pipe (machined, fabricated, and coated) for the Sepulveda Feeder shutdown.
- Completed two flood-related damage FEMA projects.
- Contracted with outside agencies for the repair and refurbishment of mechanical equipment.
- Metropolitan's dive team continued to support the Quagga Mussel Control Program as well as maintaining the flow integrity at Intake.
- Provided design, engineering, manufacturing and installation for several service connections throughout the service area.
- Completed the Environmental, Health and Safety Facility Tactical Assessment and Compliance Project. A draft report has been completed to characterize Metropolitan's compliance level in all EHS programs at our operational facilities.
- Met regulatory training requirements with 81 percent completed.



Quagga Mussels

Water Quality

Progress: Staff met 100 percent compliance goal for monitoring and treatment by conducting all necessary chemical and microbial analyses, and continued to work closely with water treatment managers to optimize water treatment plant processes. Some of the key activities included in this effort are as follows:

- The Water Quality Laboratory collected 5,500 samples and processed 437,000 analyses in fiscal year 2007/08.
- Maintained 100 percent compliance with primary drinking water regulations.
- Completed fluoride chemical feed systems at all five treatment plants to comply with the state's mandate. Ozone construction continues at the Skinner plant and start-up procedures are being developed. Diemer oxidation retrofit program construction contracts bid opened on June 3. Staff is currently evaluating submissions.
- Continued to conduct applied research for the optimization of treatment plant processes to meet associated drinking water regulations prior to ozone implementation at the blend plants.
- Continued to optimize chemical feeds, filter performance, and solids handling to meet changing source water quality conditions.
- Completed Weymouth ORP design.
- Completed the successful start-up of the Skinner Module 7 expansion, solids handling process at Diemer, and chlorine containment at Skinner and Mills plants.
- Continued to protect source water quality.
- Participated in a Topock Project Summit with the principal parties, regulatory agencies and stakeholders to establish a "shared understanding" and continuous improvement.
- Participated in two Monitoring and Modeling Technical Advisory Team meetings with the Clean Water Coalition to assess potential water quality impacts associated with proposed Systems Conveyance and Operations Plan. Continued to participate in the Chromium 6 Consultative Work Group.

Water Quality continued.....

- Hosted a Topock Chromium 6 Remediation Project Clearinghouse Task Group meeting and attended a Topock Decision Making Task Group meeting. Participated in a Topock Project Summit with the principal parties, regulatory agencies and stakeholders to establish a "shared understanding" and continuous improvement.
- Continued close collaboration with the Nevada Division of Environmental Protection in tracking perchlorate levels resulting from the remediation activities in Henderson, Nevada. Ongoing perchlorate remediation efforts have continued to result in low perchlorate levels at Whitsett Intake.
- Completed grant funded water quality applied research and development projects such as assessing the Occurrence and Source of E. Coli and EC 0157 Contamination in Castaic Lake, Priority Chlorination Disinfection Byproduct Analysis, and Remediation of Perchlorate-contaminated Well Water.
- Collaborated with Grand County Council to track progress of mill tailings cleanup in Moab, Utah.
- Participated in the State Water Contractors' Facilitation Work Group meetings to evaluate the Semitropic pump-in program and reviewed the Westland pump-in proposal.
- Conducted six Member Agency Water Quality Manager meetings between Water System Operations staff and member agencies on water quality issues and system operations planning/updates.
- Began a routine monitoring program of source waters and finished waters for a select group of pharmaceuticals and personal care products (PPCPs). Partnered with Orange County Water District on a National Water Research Institute funded project to evaluate the fate and transport of PPCPs in source waters.
- Completed final report on the development of long-term water quality and treatment strategies was completed in May. The Phase I study to evaluate the Wanger's decision on water quality was also completed.
- Conducted a bromate control strategy workshop with industry experts to study an alternative

bromate control strategy. Bromate is an ozonation by-product for bromide-laden water. Currently, Metropolitan uses pH adjustment to control bromate formation at Mills and Jensen plants.

- Hosted an NDMA (Nitrosodimethylamine) workshop with industry experts in May 2008. NDMA is a disinfection by-product of chloramination. This workshop evaluated treatment alternatives for the control of NDMA formation in Metropolitan's distribution system.



Assistant Microbiologist Anagha Chitre.

Capital Investment Plan

Progress: Managing the implementation of over 400 capital projects in various stages of study, design, construction or installation with projected capital expenditures of \$390 million through June 2008. Metropolitan met key CIP milestones for the following major projects:

- Inland Feeder: Completed hole-through of Arrowhead East Tunnel in May 2008; and completed 93 percent mining activities of Arrowhead West Tunnel, with hole-through anticipated by fall 2008.
- Skinner Expansion No. 4: Completed construction of the chemical systems modifications in November 2007 and continued construction activities for the reclaimed washwater pumping stations.
- Mills Oxidation Retrofit Program: Obtained board approval for the procurement contract for the Mills Ozone Reliability Program; and continued construction activities for contactors Nos. 3 & 4.
- Diemer Oxidation Retrofit Program: Completed construction of the ORP site preparation.
- Skinner Oxidation Retrofit Program: Continued construction activities for the Skinner ORP chemical facilities (i.e., ozone contactor, ozone destruct building, chemical tank farms, etc.).
- Perris Valley Pipeline: Continued construction of the North Reach Perris Valley Pipeline project, and a request to the Board to award a construction contract for the South Reach Perris Valley Pipeline project is scheduled for June 2008.
- Fluoridation: Completed construction at all five treatment plants.
- Human Resources application: Completed system upgrades to Peoplesoft version 8.9.
- Inventory Warehouse application: Obtained board approval to implement bar coding technology at Metropolitan's warehouses to improve efficiency.



Arrowhead East Tunnel hole through on May 2, 2008

- Completed development of the new water billing system and initiated testing.
- Completed the Fuel Pilot at La Verne as part of the Fuel Management System Project.
- Started to implement a Fleet Management module as a part of Maximo.
- Completed User Acceptance Testing of the Integrated Budget Management System for O&M, Capital, and Operating Equipment modules for full implementation and use in the development of the FY 2009/10 budget.
- As part of the Information Technology Security Remediation Initiative, a security management system was placed into operation to monitor critical security events and network activity allowing identification of suspicious activity and to safeguard Metropolitan's network and computer systems.

Board of Directors

Progress: Continued to provide support to the Board including information, reporting and support on committee and Board meetings, conducting inspection trips of Metropolitan facilities, and providing ongoing technical support.

- Coordinated two-day retreat for the Board of Directors focused on board governance led by faculty at the Peter F. Drucker and Masatoshi Ito Graduate School of Management at Claremont Graduate University. The Board discussed governance best practices, shared leadership approaches and assessed how Metropolitan meets its mission. Governance and Leadership and Audit Committees were formed as a result of the retreat.
- Conducted a board workshop on Real Estate issues including the Diamond Valley Lake Visitors Center.

- Coordinated new committees:
 - Governance and Leadership Committee
 - Audit Committee
 - Special Committee on Bay-Delta
 - Cadiz Advisory Committee



Member Agencies

Progress: In support of a regional conservation message, Metropolitan worked with member agencies and others to promote water conservation through the "Time to Get Serious" advertising campaign, which ran from August 6, 2007 through December 14, 2007. The "Cut" campaign ran from April 1, 2008 to June 30, 2008. Other activities included the following:

- Coordinated 12 monthly Member Agency Managers' meetings. Completed daily Member Agency Web site updates.
- Coordinated and conducted outreach for the Inland Feeder, Perris Valley Pipeline, Rialto Feeder, Sepulveda Feeder, Weymouth, Mills and Diemer treatment plants and the Cross-Connection Project.
- Coordinated community and media outreach for Metropolitan's programs related to conservation education/advertising, fluoridation and pharmaceuticals.
- Scheduled and hosted Member Agency Public Information Officers meetings to develop and consider various water-saving messages and conservation programs. Also, coordinated with affected member agencies in developing and distributing news release regarding traffic detours

and other impacts related to Perris Valley Pipeline, Rialto Feeder and other projects, as needed.

- Continued communication and coordination with member agencies regarding system operations planning and updates.
- Conducted three Member Agency Information Technology Managers Forums during the year to collaborate, share ideas, and discuss various topics such as communications technology, E-discovery, and water billing systems.



Business Partners

Progress: Staff conducted or participated in numerous briefings, tours and speaking engagements for several business, community, civic, environmental education and other organizations. Staff also supported various associations in their legislative trips to Sacramento and Washington, D.C. Additional activities included the following:

- Incorporated sustainability objective to Business Outreach efforts. This objective is to provide resources to Metropolitan purchasers, decision-makers, employees, contractors and consultants to businesses that will help them make environmentally aware decisions about services and products they purchase, use, and ultimately discard.
- Worked closely with the member agencies to place into action Metropolitan's new Accelerated Public Sector Water Efficiency Partnership Demonstration Program approved in August 2007. The Public Sector Program was developed to create public agency leadership by setting examples of water use efficiency on highly visible properties such as parks, median strips and schools providing increased incentives for conservation and water recycling. Member agencies have helped identify public agencies that have high potential to reduce water demand in the near term. Metropolitan has focused on forming partnerships with public agencies that use more than 50 acre-feet of water per year or more. During the first ten months of the new program, more than \$3 million have been committed to public agencies to fund water efficiency measures.
- Coordinated media outreach, including Spanish language for Spring Green Fair, Solar Cup 2008 and World Water Forum, May Water Awareness Month, the Flavor Profile Analysis Panel and 2008 Berkeley Springs Gold Medal for Best-Tasting Municipal Water, Ready Pac Produce's achievement under the Water Savings Performance Program, and the Board's Water Supply Alert Resolution.
- Distributed news releases on various state policy and legislative efforts to continue addressing statewide water issues, including the Sacramento-San Joaquin Delta, Quagga Mussels, and the

Governor's declaration of a drought.

- Coordinated meeting with the Los Angeles Times editorial board on the water supply allocation plan and issues related to the Sacramento-San Joaquin Delta.
- Coordinated a successful sixth annual Solar Cup 2008 program. Forty high school teams and 850 students participated.
- Awarded 18 World Water Forum grants to 15 universities and community colleges totaling \$178,000.
- Conducted 65 inspection trips. Developed new itinerary to the Bay-Delta inspection trip with a focus on current issues in the Delta.
- Increased coordination with member agencies for inspection trips.
- Developed coalitions of regional business leaders, collaborating on critical water issues.
- Initiated outreach program targeting key business leaders.
- Coordinated series of meetings and inspection trips of the Bay-Delta, Colorado River and Diamond Valley Lake for business leaders and elected officials.



USC, Engineers without Borders



Legislative Affairs

Progress: Staff managed the ongoing analysis and monitoring of various legislative proposals. The 2008 Legislative Strategy was adopted by the Board. The federal focus is on water/energy sustainability, Colorado River, water quality, and appropriations priorities. The state focus is on the implementation of Metropolitan's Delta Action Plan, environmental sustainability, and local project implementation. Other external affairs activities included:

- Conducted community leader breakfast briefings with the following hosting legislators: State Senator Alex Padilla, Senator Lou Correa, Assemblymembers Michael Duvall, Anthony Portantino, Kevin Jeffries, John Benoit, Julia Brownley, Bob Huff and Paul Krekorian. Also held a briefing for the California League of Cities—Inland Empire Division and sponsored and/or participated in several community events with elected officials.
- Conducted numerous briefings with members of the Legislature to promote Metropolitan's Legislative Strategy for 2008.
- Arranged for Vice Chair Anthony Fellow, Director Sylvia Ballin and staff to participate in Washington, D.C House and Senate briefing on the issue of the Quagga Mussel threat with Senator Dianne Feinstein's staff and with U.S. Representative Grace Napolitano.
- Staff advanced Metropolitan-sponsored legislative measures. AB 2913 (Salas) would expand the factors for consideration in the development of the Delta Strategic Plan, AB 2938 (De Leon) would create a baseline of water diversion information that is typical of many other regions of the state; and SB 1391 (Padilla) serves as a legislative vehicle to address existing restrictions related to the responsible and effective use of recycled water.
- Staff participated through testimony in several legislative hearings at the state and federal levels. Hearings were held on various matters, including chemical security in drinking water, the Bureau of Reclamation's Reuse and Recycling Program (Title XVI), the Sacramento-San Joaquin Delta and other water supply issues.
- Co-sponsored AB 1420 (Laird): Water Demand Measurement Measures: Grants and Loans and AB 1481 (De La Torre): Waste Discharge: Recycled Water.
- Worked on several fronts to secure or promote funding for various Metropolitan programs, including the federal Omnibus Appropriation Bill, a state water bond and legislation to deliver Proposition 84 state funds.



Competent and Effective Workforce



Progress: Human Resources implementation of the StrategicHR Plan advanced during the year. Other activities included the following:

- Provided coaching and support for various initiatives in Corporate Resources Group and Water System Operations.
- Conducted extensive Best Practices research on workforce planning and succession management and integrated with StrategicHR Plan Deliverables for the first half of FY 2008/09.
- Held service award luncheons recognizing employees with over 20 years of service. Four members of the Apprenticeship Program's graduating class of 2007 were also recognized. All graduates were presented with journey-level certificates issued by the State of California.
- Added a third instructor to the Apprenticeship Program.
- Initiated steps to hire an additional 10 apprentices. Mechanical and Electrical pre-apprentices would start in August 2008.
- Conducted several meetings of the Health-Benefits Advisory Committee to review benchmark data. CalPERS representative affirmed that Metropolitan's health benefits program is sound and healthy.
- Completed training for 81 percent of Water System Operations personnel on meeting regulatory workplace, health, and safety training requirements.
- Implemented MyHR, a self-service portal. This program allows employees to access and change personal information, benefits enrollment and payroll deductions.
- Delivered on-line learning modules for Workplace Harassment Prevention and continuing to develop e-learning modules for Contract Academy and Oracle training.
- Delivered Workplace Violence Prevention training to all managers.



Employees on the Colorado River Aqueduct Inspection Trip, April '08

Real Property Management

Progress: Several steps have been taken to improve and streamline processes, improve procedures and enhance the quality and timeliness of services of the Real Property Development and Management Group. These included the following:

- Continued development of a new internally designed Real Property Management Database. It is expected to launch in August 2008. The streamlined, interactive system will track and provide ready information retrieval regarding entry permits, easements, leases and other property management related transactions. Additionally, a new, improved, electronic property inspection form is slated for late fall implementation. These upgrades are aligned with updates to the antiquated manual filing and numbering system, with all elements focused on improving data management, information retrieval, real property tracking, and faster customer service.
- Since December 2007, the weekly Property Management "Speed Team" meetings have reviewed the status of all pending lease, easement and entry permit transactions, significantly

reducing the number of issues being escalated to the larger Property Review Council (PRC). These one-hour discussions has reduced the number of PRC meetings by 40 percent and improved the overall cycle times of real property transactions internally between teams and units, and "speeds up" decisions for the requestor. The meetings also provide the opportunity for staff to become aware of current property management issues affecting Metropolitan, and assist each other in dealing the complexities of individual property transactions.

- Quagga Mussels, an invasive species detrimental to water supply operations, continue to proliferate throughout Southern California's surface water supplies. To proactively address this concern, the Recreation Management Team has implemented steps to stem the problem at Diamond Valley Lake and Lake Skinner. Boats entering either water body must be clean, dry, and comply with other inspection criteria. From the program launch in March 2008 through May 2008, inspections have been conducted on 4,287 boats at DVL, with only 28 failing to pass.

DVL's Popularity Resilient In The Face of Growing Challenges—In the face of escalating fuel prices and reduced discretionary spending, recreational use of Diamond Valley Lake remains steady. Similarly, public satisfaction with DVL's recreational opportunities remains high. The concessionaire continues to see a gap between their costs and revenues from visitor use, although this remains within budget. Additionally, greater draw on the lake to fulfill water demands in this prolonged dry period has reduced the water level within the reservoir, with resulting concerns regarding continued access to the lake from the existing boat ramp structure.

Visitors at Diamond Valley Lake

FY 2004/05	49,630
FY 2005/06	66,306
FY 2006/07	73,900
FY 2007/08*	74,000

*not including June

DVL Visitor's Center—In late May 2008, a Board Workshop resulted in board direction to staff to develop a workplan for obtaining entitlements at the DVL North Property and East Recreation Area and exploring potential partnerships for the DVL Visitor's Center. The workplan will be submitted at the July Board meeting for approval.

Financial Clarity and Integrity, Capital Market, and Water Rates

Progress: Staff continued to accurately and efficiently manage, record, and report Metropolitan's financial activities in a timely manner, ensuring sufficient financial controls to protect Metropolitan's assets. This is evidenced by continuing to receive favorable audit findings and the Government Finance Officers Association Award of Excellence for FY 2006/07 financial reporting and the FY 2007/08 budget. Other activities included the following:

- Restructured the budget process to run concurrently with the process for developing rates and charges to better align planned expenditures with revenues.
- Completed the cost-of-service report.
- Completed the revenue requirements and board-approved 2009 rates and charges.
- Continued to meet all liquidity requirements and managed Metropolitan's investment portfolio in compliance with the California Government Code and Metropolitan's investment policy.

Metropolitan priced \$133.4 million of revenue refunding bonds. The proceeds of these bonds will be used to refund outstanding debt bearing coupons of 4.75 to 5 percent. The next present value savings from this transaction is \$6.8 million with annual average debt service savings of \$620,000 through 2022. The all-in true interest cost was 4.11 percent.

Metropolitan also continued to maintain its Standard & Poor's long-term bond rating of AAA, the Fitch rating of AA+, and Moody's rating of Aa2; met all liquidity requirements; and managed its investment portfolio in compliance with its investment policy and the California Government Code. Total returns exceeded the board-approved benchmarks by 1.13 percent generating \$9.04 million in additional interest income.

Business Processes

Progress: Initiated the studies and activities for business process improvements to increase organizational efficiencies and manage the organization to achieve budget objectives:

- Completed implementation of engineer's cost estimating and construction change order management recommendations included in the Best-in Class Benchmarking report, with the remaining business process recommendations to be reviewed for feasibility.
- Held Multi-Agency Benchmarking Workshop (Phase 4) to discuss engineering best management practices and key performance indicators.
- Information Technology Business Case Analysis - Continued partnering with Finance to refine the Business Case Analysis tracking process for IT projects to help ensure that each cost-efficiency and productivity project achieves its intended return on investment.
- PC Replacement Program - Completed installation of over 2,000 laptops and desktops throughout Metropolitan to augment workforce productivity.



Multi-Agency Benchmarking Workshop in May 2008

Unanticipated/Significant Events FY 2007/08

- Sepulveda Feeder Repair: electromagnetic inspection indicated four pipe sections are distressed, and repairs are being coordinated to take place in June 2008.
- Metropolitan successfully met all water demands during the emergencies stemming from the October 2007 firestorms that impacted various facilities, including the OC-71 Service Connection, OC-88 Pumping Plant, and other plants in the area.

The Metropolitan Water
District of Southern
California

www.mwdh2o.com
www.bewaterwise.com

About Metropolitan

The Metropolitan Water District of Southern California is a consortium of 26 cities and water districts that provides drinking water to nearly 18 million people in parts of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura Counties.

Statement of Values

In pursuit of "Excellence" as responsible stewards, Metropolitan is committed to the following values:

- Integrity
- Stewardship
- Open Communication
- Diversity
- Leadership
- Teamwork

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