

- **General Manager's September 2008 Activity Report**

Summary

The attached report details the activities of the Office of the General Manager for the month of September 2008. Metropolitan has delivered sufficient water supplies and has achieved full compliance with drinking water quality standards.

This report summarizes the status of Metropolitan's business in terms of Strategic Priorities and Core Activities:

Strategic Priorities

- Water Supply Reliability
- Bay-Delta Solutions
- High-Performance Workplace

Core Activities

- Board of Directors and Member Agencies
- Legislative and Community Relations
- Water Supply
- System Reliability
- Water Quality
- Real Property Management
- Capital Investment Plan
- Business Processes / Operations
- Financial Management
- Workforce Effectiveness

Attachment

General Manager's Monthly Activity Report

The Metropolitan Water District of Southern California

General Manager's Monthly Activity Report—September 2008

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Strategic Priority

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STRATEGIC PRIORITY

Water Supply Reliability/Update IRP

IRP Stakeholder Forum

The Integrated Resources Plan (IRP) Update process is proceeding with the launch of Stakeholder Forums. During the month of September, three Stakeholder Forums were held in the cities of Newport Beach, Ontario and Los Angeles with an attendance of about 160, 120 and 140 respectively.

The fourth forum will be held in San Diego on October 22. In this first phase of the process, the discussions have been productive and informative with valuable suggested actions by stakeholders - water agencies, local governments, industry groups and members of the public. The second phase will seek public input on

specific directions and plans that will be proposed by the board and identified throughout the decision-making process in the coming year. Staff continues to report to the IRP Steering Committee to receive direction.

Bay-Delta Solutions/Near- and Long-Term Solutions

Delta Vision Strategic Plan

The Delta Vision Blue Ribbon Task Force released the fourth staff draft of the Delta Vision Strategic Plan on September 12, and discussed the draft at their September 18-19 meeting. The fourth draft has minor refinements over the earlier versions. Per the Board's adopted Delta Action Plan

and adopted position on governance, staff are working with the Governor's Delta Vision Stakeholder Coordination Group (a coalition of water and business interests) to submit comments on the fourth draft strategic plan by October 1. The next Delta Vision Task Force meeting is scheduled for

October 16-17, to seek final public comment on the fifth and final staff draft of the Delta Vision Strategic Plan, which will be released prior to the meeting. The Governor's Delta Vision Committee is anticipated to meet mid-November to review and discuss the final recommendations.

High-Performance Workplace

Review of StrategicHR Plan by Human Resources staff and HR Advisory Council is complete; preparing a Plan for distribution to management.

The High Performance Climate Survey development is in final stages; worked with Ethics Office to incorporate ethics items into

the data collection.

Proposed a Stakeholder Value metric to management for increased line of sight linkage to Metropolitan goals by workforce.



CORE ACTIVITIES

Board of Directors & Member Agencies

Legislative and Community Outreach

Staff organized a letter-signing campaign to urge the Governor's approval of SB 1XX (Perata) which engaged Member Agencies, other water entities and local business groups and association.

Sept. 2: Staff participated in a meeting with Eastern MWD regarding the Perris Valley Pipeline Project Phase 2.

Sept.11: Staff attended the groundbreaking ceremony for the Western MWD Wastewater Reclamation Facility.

Sept. 18: Metropolitan and Calleguas co-sponsored the Association of Water Agencies of Ventura Counties Tenth Annual Member and Elected Officials Reception which was held at the Ronald Regan Library. Directors Ballin, Grandsen, and Rez along with 200 members representing various water agencies and cities throughout Ventura County attended.

Legislative and Community Relations

Federal Legislative Update

Sept. 10: Staff met with Representative Bob Filner (D-CA) to discuss status of the Department of Energy's uranium mine cleanup project in Moab, Utah.

Sept. 15: Staff met with Representative George Miller's staff to discuss the Congressman's support for Clean Renewable Water Supply Bond Act (H.R. 3452 - Becerra).

Sept. 26: Staff met with Commissioner Bob Johnson (U.S. Bureau of Reclamation) to discuss status of Quagga control efforts in the Colorado River Lower Basin.

Updates on these matters will be provided at the Communications and Legislation Committee meeting in October.

State Government Update

Water Bond

AB 8xx (Huffman, D-San Rafael) was introduced late in the session by the Assembly Democratic Caucus. AB 9xx (Plescia, R-San Diego) was introduced as a Republican response to the Democrats' bond proposal. No agreement was reached on a water bond and neither proposal moved forward.

State Budget

Governor Schwarzenegger and the Legislature reached an acceptable compromise on the state budget which the Governor then signed on September 23. Two items in the spending plan - - a budget reform proposal (rainy-day fund) and expansion of the California lottery - - will be decided by voters in a special

election which is likely to be called next spring. It appears that the legislature will have to reconvene on the budget almost immediately due to dramatically changed economic conditions.

Budget trailer bill language that would have prohibited DWR from pursuing improvements to the state and federal water conveyance system in the Sacramento-San Joaquin Delta (Delta) without explicit legislative approval was modified in the final budget package in a form proposed by Metropolitan.

Extraordinary Conservation Outreach

Online conservation advertising ran on a variety of Web sites, including MyFoxLA.com, KNBC.com and NBCSanDiego.com, making 2.1 million impressions and linking visitors to bewaterwise.com for information on conservation rebates and tips.

CORE ACTIVITIES

Legislative and Community Relations

Local Government Update

Sept. 5: Program Engineer Dennis Majors spoke at the West Covina Chamber of Commerce's "First Friday Breakfast." Mr. Majors provided updates on Metropolitan's and the region's water supply, potential Delta risk and possible solutions to supply reliability concerns to more than 70 business and community leaders in attendance.

Sept. 19: Chairman Brick was recognized at the San Gabriel Valley's Economic Partnership's Fifth Annual Community Service Awards annual dinner for his lifetime achievement and commitment to water issues and to improving the quality of life through these efforts. Directors J. Edwards and Fellow along with staff and over 300 San Gabriel Valley business and community leaders gathered to recognize the Chairman, and other

individuals and organizations in the Valley, for their contributions to the quality of life and economic vitality of the region.

Community Outreach and other Events

California Friendly Landscape Training Program classes were held for more than 500 homeowners and professional landscapers.

Sept. 8: Staff provided an update to Riverside County Supervisor Ashley and staff on the Perris Valley Project Phase 2.

Sept. 10: Staff provided an update on the Diemer ORP to the Principal of Lakeview Elementary School and the Brea Police Department.

Sept. 11: Staff coordinated and conducted an inspection trip of DVL for the Association of State Dam and Safety Officials.

Sept. 15: Staff participated in meetings with the San Bernardino City Council, the San Bernardino Police Department and the Neighborhood Cluster Association regarding the Inland Feeder pipe hauling project.

Education

Sept. 6: DVL Education Staff assisted the Western Center for Archaeology and Paleontology in conducting the first of a series of classes called "Science Saturdays." Staff contributed in the development of activities and materials for more than 400 local youth and family members who attended.

Sept. 16, 17 and 19: DVL Education Staff conducted three orientation workshops (about 30 per workshop) for teachers (grades 4-7) who will be participating in the 2008/2009 DVL Education Programs. The field trip program will begin on October 8.

Sept. 23: Staff made a presentation at the San Diego County Water Authority's education and conservation member agency advisory committee meeting featuring the opportunity for at least one San Diego agency to sponsor a high school team to participate in Solar Cup 2009.

Media

Sept. 10: Media advisory issued on the kick-off of the public forums as Metropolitan begins updating its Integrated Resources Plan. Advisory notes that the updated plan will provide a roadmap for maintaining the Southland's supply reliability over the next two decades.

Sept. 16: The second IRP stakeholder forum was covered by reporters with the Riverside Press-Enterprise and Inland Valley Daily Bulletin. Stories quote Directors Randy Record and David DeJesus.

CORE ACTIVITIES

Water Supply / Colorado River and State Water Project

Additional Water Supplies

The Bureau of Reclamation has announced its intent to prepare an environmental assessment for the proposed Yuma Desalting Plant Pilot Run project. The Plant would be operated at one-third of capacity for one year beginning in mid-2009. An agreement with the Bureau of Reclamation for Metropolitan to partially fund the Pilot Run has been reviewed. This opportunity for acquisition of a water supply is scheduled for consideration at the Board of Directors' November meeting. The Southern Nevada Water Authority and Central Arizona Water Conservation District are expected to partially fund the Pilot Run project, as well. Discussions are continuing with Central Arizona on development of a water exchange arrangement. Instead of storing water in groundwater basins in Arizona, Central Arizona would make that

water available to Metropolitan. Water would be returned to Central Arizona in one or more years in the future when the Bureau of Reclamation reduces deliveries of Colorado River water to the Central Arizona Project due to the declaration of a shortage.

Lake Oroville Levels

Lake Oroville is at its lowest end of September storage level in 31 years. Presently, storage is 1.102 MAF. DWR has indicated that as a result of the anticipated low storage levels and dry watershed conditions, the initial SWP allocations for 2009 will be in the 10 to 20 percent range.



Lake Oroville

Water Supply / Conservation

Synthetic Turf

In coordination with West Basin Municipal Water District, staff participated in a check presentation to Palos Verdes High School. Under the Public Sector Program, Metropolitan provided \$61,500 to help retrofit the high school's athletic field with 82,000 square feet of synthetic turf. Staff estimates that the renovation would save about 12 acre-feet annually and provide other benefits including reduced runoff from landscape irrigation and operations and maintenance cost savings.

CUWCC MOU/BMP Revisions

In September, the California Urban Water Conservation Council released the first full draft of its revised Memorandum of Understanding and Best Management Practices. The currently in place MOU and BMPs are due to expire on December 31 and the Council has been engaged in a process this past year to revise these documents. In September, CUWCC advanced the draft revisions, which are available at www.cuwcc.org. The 60-day comment period opened on September 10 for members to provide input. Staff will be reviewing the available draft at the November Board meeting to receive policy direction. A vote on the revisions will be held at the Council's December 10 Plenary to be held at Metropolitan's Headquarters building.

CORE ACTIVITIES

Water Supply / Conservation and Desalination

California Department of Water Resources' 20x2020 Process

Last summer, Governor Schwarzenegger announced a policy initiative to reduce California's per capita water use by 20 percent by the year 2020. In his statement, the Governor directed State agencies to identify ways to achieve this goal, and stated that he would welcome legislation as well. In response, DWR convened a 20x2020 workgroup of five key state agencies involved with water resources. On September 15, staff attended a workshop in Sacramento on the first two draft work products of this

process, which were technical memoranda on current baseline per capita water use and the 20 percent reduction targets by hydrologic region. More work products are due by the end of the year, and the workgroup is expected to have recommendations in early 2009. The status of the efforts can be found at www.swrcb.ca.gov/water_issues/hot_topics/20x2020/.

California's Ocean Plan

Metropolitan conducted a meeting with member agency staff and State Water Resource Control Board staff in September to learn about the update

of California's Ocean Plan. This meeting was organized as part of our role in helping member agencies advance their seawater desalination projects. The Ocean Plan update could impact discharge requirements for existing and future brine lines including seawater desalination outfalls. The meeting allowed for an exchange in understanding, identification of concerns, and focus of efforts as the update process plays out.

Water Supply / Current Reservoir Storage

	As of 9/28/2008 <u>Storage</u>	End of Month <u>Forecast</u>
Lake Mathews	136,100 AF	135,000 AF
Lake Skinner	38,100 AF	38,000 AF
DVL	492,600 AF	490,000 AF
Lake Perris	68,500 AF	68,000 AF

System Reliability

Water Demands

Water Sales Cash Year 2008-09 (May-April)
2,129,000 AF Current Sales Projection
2,151,000 AF Budget Sales Projection
-22,000 AF Difference

Current Sales / Deliveries

September Sales Estimate 217,000 AF
September Delivery Estimate 208,000 AF**

** excludes Desert Water / Coachella Valley deliveries

Sales Projections for CY 2008

As of September 29, Sales Forecast is 2,136,000 AF*
*Includes Interim Agricultural Water Program and Replenishment Cuts

CORE ACTIVITY

System Reliability

System Operations

System operations coordinated the delivery of approximately 208,000 acre-feet of water for the month of September. The use of SWP water continues to be closely monitored and adjusted to optimize its use under the 2008 State Water Project allocation of 35 percent.

Certifications of Interim Agricultural Water Program deliveries for the first six months of 2008 indicate a reduction in usage greater than the 30 percent reduction that was called

for, when compared to the established baselines.

Staff continues to participate in operating committee coordination efforts with member agencies participating in the groundwater conjunctive use programs. Imported supplies are being supplemented with returns from the Calleguas, Foothill, Municipal Water District of Orange County, Western MWD, Long Beach and Chino Basin (Inland Empire Utilities Agency and Three Valleys MWD) groundwater conjunctive use

programs. All conjunctive use programs that are operational and have water in storage have been called to produce water.

Conveyance and Operations

Staff responded to a reported leak on the Santiago Lateral. Working with the City of Anaheim, it was determined that the leak was not imported water from either the retail system or Metropolitan's pipeline. Metropolitan made repairs to the culvert crossing the right-of-way to eliminate problems with ponding water. Staff continues to operate the Temporary Chlorine Feed System at Lake Mathews and will commence commissioning in late October to support

start-up of the new Interim Feed System in November 2008. Contractor continues realignment repair of the Diamond Valley Lake 6.9 kv circuit breakers. The repair work should be complete by the end of September.



Diamond Valley Lake 6.9 kv circuit breakers.

Treatment Plants

Staff received specialized training in response to emergency releases of hazardous chemicals from two vendors. This training is part of an upgrade to Metropolitan's Chemical Response Program.

CORE ACTIVITY

System Reliability/Power Operations and Planning

On September 10 and 24, Metropolitan committed to forward energy purchases in Calendar Year 2009 to support future pumping on the Colorado River Aqueduct. Metropolitan solicited offers from nine agencies and selected the most economic offers from qualified suppliers. During September, Metropolitan purchased a total of 153,800 Megawatt-hours of off-peak energy at an average price of \$50.77/MWh for a total obligation of approximately \$7.8 million. Metropolitan will pay for this energy after it has been received. The

supplemental energy is required due to increased volumes of water expected to be imported through the CRA in CY2009. Metropolitan has now committed to a total of 244,200 MWh of supplemental energy for CY2009, or enough energy to move 122,200 AF on the CRA.

On September 2, Pacific Gas and Electric Co. filed with the Federal Energy Regulatory Commission a settlement with the California Department of Water Resources regarding charges for transmission service supporting DWR

pumps and generators. Metropolitan worked closely with DWR to oppose the original request by PG&E and structure an appropriate settlement. PG&E's original request would have resulted in transmission costs to DWR increasing from the current \$12 million/year to an estimated \$51 million. The settlement reduces the estimated annual charge to \$32 million. This is the first change in PG&E's transmission rates impacting DWR since 2003.

Metropolitan initiated two meetings of the California Hoover power contractors on September 9 and 17 to finalize the initial California position regarding post-2017 Hoover power contracts and discuss future negotiations with non-Californian contractors. There also was a meeting on September 12 with all Hoover power contractors at which Metropolitan presented the California position on post-2017 contracts. Negotiations are expected to continue over the next several months.

System Maintenance / Shutdowns

Staff implemented piping changes for reverse flow around the Perris Pumpback Facility to provide a 15-cubic foot per second flow to Eastern MWD until service from Lake Perris could be established. Water Quality in Perris remains unacceptable. Water quality staff continues weekly monitoring of the lake. Staff met with Eastern MWD at the Perris Pumpback Facility to conduct a tour and provide an overview of the operation.

Staff reinstalled a 48-inch conical plug valve at the Foothill Pressure Control Structure. This valve was

rehabilitated by the La Verne Maintenance Support Unit staff.

The 2008/2009 Shutdown Schedule was distributed at the September Member Agency Managers' meeting. There are 23 shutdowns scheduled for this fiscal year.



Foothill Pressure Control Structure

CORE ACTIVITY

System Reliability

Environmental Health and Safety

On September 9, staff participated in an appeal hearing on two Cal/OSHA Citations regarding the height of the 230 KV breaker energized parts and the ground grid system testing at the Gene facility. The Ground Grid Testing citation was amended from "General" to a "Notice" with no penalty. The 230 KV

Breaker citation was reduced from "Serious" to "General" with the penalty reduction from \$6,750 to \$600. All parties agreed to all elements of the settlement.

Staff is in the final phase of developing an updated Diver Safety Program. After the DWR incident last year, Metropolitan

participated in a thorough assessment of its diving program and has incorporated recommendations into the new program. The operating manual is expected to be complete by October.

Emergency Management

On September 4, staff participated in a California Office of Emergency Services functional exercise at the Southern Region Emergency Operations Center. Staff provided input about water utility issues in an emergency while also receiving a training refresher course.

Water Quality

Taste and Odor

Lake Skinner was treated with copper sulfate on July 30 to control a methylisoborneol event produced by the blue-green algae, Planktothrix. A follow-up treatment was required on September 4 which has been successful thus far.

There is methylisoborneol producing algae growth in the East Branch of the State Water Project. Low flows have allowed concentrations of methylisoborneol to accumulate. Staff is discussing treatment options with California Department of Water Resources.

Total Dissolved Solids

The blend plants (Weymouth, Diemer, and Skinner) continue to treat higher blends of Colorado River water resulting in higher levels of Total Dissolved Solids. The latest TDS results from July for Weymouth, Diemer, and Skinner Water Treatment Plants are 532, 540, and 554 mg/L, respectively. All three plants are currently above the operating goal of 500 mg/L TDS.

Source Water Protection

On September 10, Water Quality staff conducted a tour of Lake Mathews and hosted a meeting with representatives from the Clean Water Coalition, Southern Nevada Water Authority, and the City of Las Vegas. This meeting was part of Metropolitan's continued coordination with the CWC on the Boulder Basin Adaptive Management Plan, a process established to address issues related to their project that will discharge increased levels of wastewater effluent into Lake Mead. The purpose of the meeting was to give the Las Vegas area agencies a better understanding of Metropolitan's concerns and the efforts we take in managing water quality issues resulting from wastewater-derived constituents in our source waters.

Chromium 6

On September 15, staff hosted a meeting of the Topock Remediation Project Clearinghouse Task Group at the Water Quality Laboratory. The task group is working on a briefing packet and periodic memo for the newly formed Topock Leadership Advisory Board.

Bromate

The Mills and Jensen plants are utilizing acid addition at the plant influent to minimize bromate formation from ozonation. The bromate levels at Mills have ranged from 4.8 to 6.0 µg/L and at Jensen from 7.5 to 8.3 µg/L. Both plants are below the MCL of 10 µg/L.

CORE ACTIVITY

Real Property Management

Diamond Valley Lake Recreation Infrastructure

Requested RFQs for Property Development Planning. Pre-qualification meeting held September 15.

DVL Visitor Center

Metropolitan solicited bids from qualified contractors to furnish Metropolitan with janitorial services at the Diamond Valley Lake Visitor Center. The successful bidder was M&K Services.

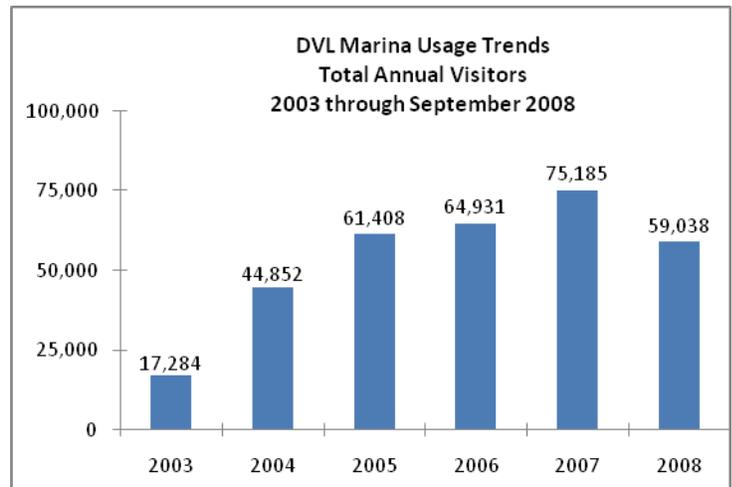
Real Estate Activities

An easement was granted to Eastern Municipal Water District for access over a portion of Metropolitan's Colorado River Aqueduct. This easement allows Eastern access to its neighboring facilities.

Diamond Valley Recreation Program

Appropriation Budget	
Approved distributed funds	\$68.9 M
Undistributed funds	\$23.9 M
Total Appropriation	\$92.8 M
Surplus Property Sales*	\$ 4.7 M
Estimated expenditure as of 8/31/08	\$63.7 M

* Appropriated for use related to the Center for Water Education debt per February 2007 Board Action.



Real Property Activity Related to Future Water Infrastructure

- A cost study was completed for the Middle West Alignment of the San Diego Pipeline No. 6 South Reach.
- An updated appraisal for a permanent easement for the Riverside County Transportation Commission property for the Perris Valley Pipeline Project was completed.
- An easement was recorded for the Carbon Canyon Creek Bridge located north of the Diemer treatment plant.
- An easement was recorded for the Energy Dissipater adjacent to the Yorba Linda Feeder.
- An easement was recorded for the Telegraph Creek Bridge located north of the Diemer treatment plant.

CORE ACTIVITY

Real Property Management

Leases, Licenses and Entry Permits

A year-to-year lease was granted to the City of Montebello to operate communication equipment at Metropolitan's Garvey Reservoir facility. Metropolitan will receive reciprocal space in city-owned communication buildings and towers. A month-to-month lease was granted to the Los Angeles Infrastructure Academy to use office space and parking at Metropolitan's Headquarters Building. Three license agreements with the City of Fontana were amended to make a rent adjustment and to

consolidate the leased areas over Metropolitan's Foothill Feeder/Rialto Pipeline right-of-way. The City will be responsible for maintenance of the property helping to defray Metropolitan's costs. The uses of these licenses are for trails, secondary and emergency access, and drainage.

An entry permit was issued to Blythe Energy. The permit allows for soil borings for Blythe Energy's preparation of plans and design of an electrical transmission line and

interconnection to Southern California Edison's substation at Julian Hinds Pumping Plant.

An entry permit was issued to the City of Temecula to perform geotechnical investigations along portions of San Diego Pipelines Nos. 4 and 5. The City is preparing to construct a new bridge over Murrieta Creek at the terminus of State Route 79S, west of the Interstate 15/State Route 79S interchange in Riverside County. This bridge will connect the

Western Bypass Corridor Project as an alternative route to I-15.

An entry permit amendment was issued to Leonard Glickman extending the term to allow environmental site studies for the feasibility of a proposed alignment of Eagle Canyon Road. The road would serve a proposed development near Metropolitan's Eagle Valley property located west of Lake Mathews.



Engineering and Capital Programs Committee and Water Quality and Operations Committee Inspection Trip

CORE ACTIVITY

Capital Investment Plan

Contracts Summary

Ongoing Contracts

24 construction contracts and 4 related procurement contracts were ongoing through September. The total bid amount of these contracts is \$978 million.

August's Construction Payments

Approximately \$22 million in contract payments were made for construction performed in the month of June. \$6 million were related to contractor mobilization for the Diemer Oxidation Retrofit Program. \$4 million were related to work at the Skinner plant, including the ongoing construction of ozonation facilities, and Washwater

Reclamation Plant 3. Nearly, \$6 million were expended on the Arrowhead Tunnels construction. \$2 million were expended on the north reach of the Perris Valley Pipeline. Nearly \$2 million were related to procurement of ozone equipment for the Diemer treatment plant.

Total projected capital expenditures for the 2008/09 fiscal year are estimated to be \$468 million; however, given the challenging financial market conditions, staff is conducting a thorough review of current and up-coming capital

programs. If analysis demonstrates that a project can be delayed for a year without affecting water quality or reliability to an unacceptable risk level, staff will recommend that the Board defer that project. As a result, projected expenditures for 2008/09 will likely be less than budgeted.

Significant Contracts

In September, continued disassembly of the tunnel boring machine, trailing gear and utilities for the Arrowhead West Tunnel. Once removal is complete and the tunnel invert has been cleaned, installation of the pipe lining will commence.

Other Contracts

Diemer treatment plant Oxidation Retrofit commenced construction with contractor mobilization. Skinner treatment plant Oxidation Retrofit and Washwater Reclamation Plant No. 3 is approximately 91 percent complete. At the Jensen treatment plant, a project for chlorine containment, unloading and handling is approximately 97 percent complete. The Perris Valley Pipeline, North Reach is 81 percent complete. Two additional Ozone Contactors at the Mills treatment plant is 58 percent complete.

Rialto Pipeline Improvements

This program will enable continued operation of the Rialto Pipeline for isolated reaches during scheduled or emergency repairs. This program is being implemented in three phases. Recent activities include the following:

Phase I

Construction of two isolation valve structures within the cities of Rancho Cucamonga and Claremont was completed in July 2007.

Phase II

Installation of the 96-inch isolation valves in Rancho Cucamonga and Claremont was completed in May 2008. Construction of the isolation bulkhead structure in the city of Upland was completed in September 2008.

Phase III

Final design of the Live Oak Pumpback System is 25 percent complete and is scheduled to be completed by May 2009.

The program is on schedule to be completed in fiscal year 2010/11 and is within budget.

Engineering and Capital Programs Committee and Water Quality and Operations Committee Inspection Trip

On September 24, Metropolitan Directors attended the annual inspection trip. The itinerary included a tour of the Water Quality Lab and presentation on current and emergency water quality challenges and an inspection of the Weymouth plant including the proposed ozone facilities site and the maintenance and fabrication shops. Updates were also given on Metropolitan's solar power initiative, and the latest quagga mussel control strategies. The Directors also toured the Mills plant to view the chlorine containment, contactors, and basin covers, and were given updates on Box Springs Feeder, Skinner Ozone construction, the Integrated Area Study program, and the Perris Valley Pipeline construction. Finally, the Directors toured Lake Mathews including the Quagga Mussel forebay chlorine facility.

CORE ACTIVITY

Business Processes and Operations/Business Outreach

Regional Partnerships and Awards

September 6: Metropolitan received the Corporation of the Year Award from the Orange County Black Chamber of Commerce. Chairman Timothy F. Brick, Directors Marcie Edwards and Larry Dick and staff attended the event.

September 26: Metropolitan and the Southern California Minority Business Development Council jointly presented the Third Annual Business Development Summit. More than 300 business owners attended the event joined by Director John W. Murray, Jr., and staff.

Vendor Development

The Business Outreach Section sponsored a project management training program for construction general contractors and subcontractors. The objective of the training program is to enhance the management skills of large and small businesses subcontractors when it comes to public works projects. Effective project management is a primary driver of profitability for contractors and contract performance; however, there are variables that are unique to public contracting that prove to be pitfalls for inexperienced contractors. Participants in this

training program are taught the four vital areas of construction management: Construction Pre-Planning, Effective Project Communication, Managing Changes and Basic Project Management. Thirty-eight participants received their certificate for completing the four-week course.

Update IT Strategic Plan

Completed Energy Management System Phase II Enhancements

Phase II of the Energy Management System assists Metropolitan staff with scheduling, contracting, execution, tracking and auditing of energy purchases related to the Colorado River Aqueduct. The initial project was successfully completed in the third quarter of fiscal year 2007/08. Since that time, staff has worked with the customer to provide additional enhancements.

The enhancements were completed and released for evaluation and user acceptance testing.

Installed Programmable Logic Controller at Jensen for the WashWater Reclaim Process

A Programmable Logic Controller that had reached the end of its useful life was replaced with a new unit at the Jensen treatment plant. Programmable Logic Controllers are industrial process control devices that are tied into Metropolitan's control

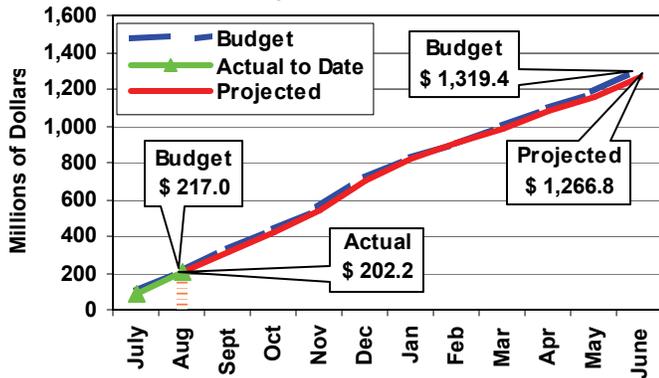
system and control a variety of important water system-related processes. As these field devices are typically exposed to environmental extremes such as temperature, moisture, and dust, the criterion for replacement are units that are older than 10 years. To date, 16 out of 20 controllers have been replaced, as part of the Phase II project.

Security

Security awarded contracts to install security system enhancements at Weymouth's chlorine containment facility and at warehouses. The security systems integrator also completed installation of security enhancements of chlorine containment buildings at the Jensen and Mills plants, and security is now starting 30-day acceptance testing.

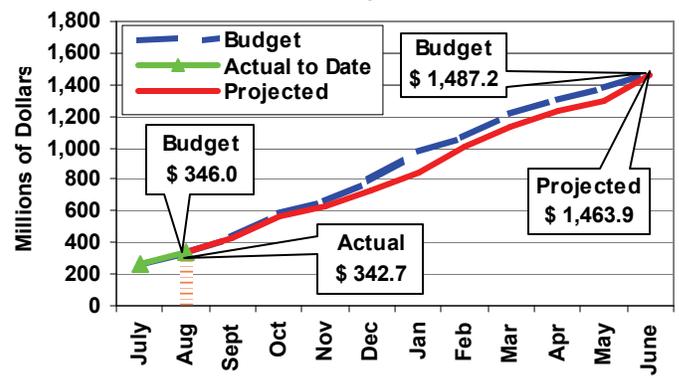
Finance as of August 31, 2008

Receipts are expected to be \$53 million under budget by year end, mainly due to lower water sales and CRA power sales.



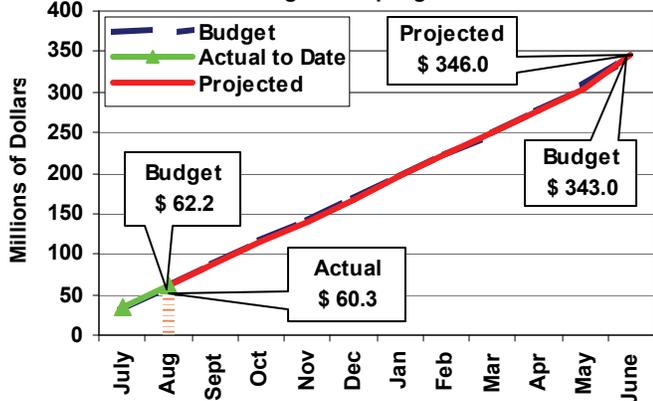
Excludes Bond Construction and Other Trust Funds Activity

Expenditures are expected to be \$23 million under budget by year end, mainly due to lower debt service and SWP power costs.

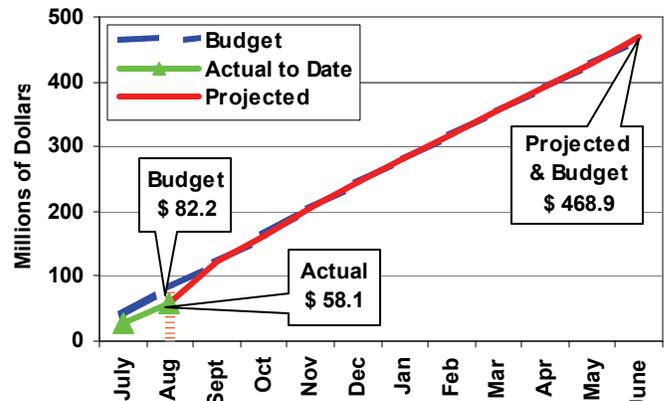


Excludes Bond Construction and Other Trust Funds Activity

O&M expenditures are expected to be slightly over budget due to Cargill settlement payments and water management programs.

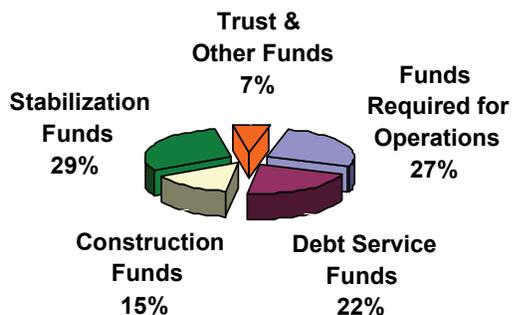


Construction costs are expected to be on budget throughout the year.



Cash and Investments

\$ 926.3 million



Summary Financial Statistics

	Target	Actual
Fixed Charge Coverage	≥ 1.20 x	1.28 x
Revenue Debt Service Coverage	> 2.00 x	1.73 x
Revenue Bond Debt / Equity Ratio	< 100.0%	71.3%

Credit Ratings

	Target	Actual
- Moody's Investors Service	Aa2	Aa2
- Fitch Ratings	AA	AA+
- Standard & Poor's	AA	AAA

CORE ACTIVITY**Financial Management/Internal Controls over Financial Reporting**

In October 2007, Metropolitan's Board of Directors amended the Administrative Code to require the General Manager to include in his annual Business Plan a description of the effectiveness of internal controls over financial reporting, including information technology security and control (Administrative Code Section 2700 (c)). The Business Plan is due in advance of the June Board meeting and the first annual review of internal controls over financial reporting was completed in August 2008 for the fiscal year ending June 30, 2008. Accordingly, this is the first opportunity to report the results of such review.

The review was conducted under the direction of the Chief Financial Officer; with project leadership provided by the Controller. The project team consisted of representatives from the Controller Section, the Information Technology Section and the Internal Audit Department. The documentation and review was completed during an eight month timeframe and was accomplished using a well-established framework that provides a common definition of internal controls, standards, and criteria against which organizations can assess their control systems. The project team used standardized documentation and assessment techniques to review 35 business processes and six information technology processes. The objective was to test the "key controls" in each process to determine whether weaknesses existed. A control is considered a

"key control" if there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis should the control fail. Each control was tested for the effectiveness of its design (design effectiveness) and the consistency of its operation (operating effectiveness). Any weakness noted was categorized as a material weakness, significant deficiency or control deficiency based on the judgment of the project team. A material weakness might prevent management from concluding that internal controls provide a reasonable basis that the financial statements are prepared in accordance with generally accepted accounting principles. A significant deficiency is less severe than a material weakness, yet important enough to merit attention by management. A control deficiency is inconsequential to the financial statements.

In his report to senior management, the Controller reported that no material weaknesses were noted and concluded that the internal controls over financial reporting and information technology security are effective for the fiscal year ending June 30, 2008.

The General Manager has reviewed the report with the Controller and Chief Financial Officer and agrees with the conclusion the internal controls over financial reporting and information technology security were effective for the fiscal year ending June 30, 2008.

CORE ACTIVITY

Financial Management/Internal Controls over Financial Reporting

The Controller reported the following significant deficiencies and corrective actions:

Deficiency	Risk	Remediation	Target Date
<p>Business Process: Nonstandard transactions such as non-matched payments are not consistently reviewed by accounts payable staff.</p>	<p>Erroneous payments may be made without management's knowledge.</p>	<p>IT will generate daily reports of non-matched payments for AP review.</p>	<p>June 1, 2008 (done)</p>
<p>There are no procedures to address the integrity and security of spreadsheets used in calculations affecting financial reporting.</p>	<p>Employees may have inappropriate access to spreadsheets whereby information and formulas could be altered and/or erased.</p>	<p>An inventory of spreadsheets related to financial reporting will be prepared and procedures on development and maintenance will be established to address integrity and security of such spreadsheets.</p>	<p>Sep 30, 2008 (done)</p>
<p>IT Process: Periodic reviews of user access to systems are not performed (Oracle, PeopleSoft and water billing).</p>	<p>Users may be granted inappropriate access to data without the data owner's knowledge.</p>	<p>IT security will generate quarterly reports of users' roles in the subsystems to be reviewed and updated by data owners.</p>	<p>July 31, 2008 (done)</p>
<p>There are no formal procedures for reviewing user's approval limits in Oracle. These limits are described in the Purchasing Manual.</p>	<p>Employees may be granted inappropriate levels of approval without management's knowledge.</p>	<p>Procedures will be documented and IT security will generate quarterly reports to facilitate review of approval limits.</p>	<p>August 31, 2008 (done)</p>

CORE ACTIVITY

Workforce Effectiveness

Apprenticeship Program

Employment offers were extended to nine individuals from the existing apprentice candidate list. These apprentices will be referred to in the future as the class of 2013. Background and medical clearances are being facilitated by Human Resources and the anticipated start date for the group is mid-October of 2008. The new class is made up entirely of mechanical apprentices and they will begin their first period general apprenticeship tools and safety classes in mid-January of 2009. The nine apprentices will also attend a study skills refresher course at the Apprenticeship Program offices later this year to help them succeed in the overall program curriculum.

Training

Classes delivered this month include Conflict Resolution, Moving into Management, Retirement Planning, MS Word and Photoshop.

Education Fairs to promote tuition reimbursement program opportunities were held at the following facility sites: Jensen, Mills, Lake Skinner, Weymouth and Union Station. Approximately 20 local universities and colleges participated at the various locations.

A Water Quality Boot Camp was conducted to align Water Quality Management on key issues and future challenges.

Recruitment

Thirteen new employees completed Day 1 Orientation during September.

On September 25, 32 employees were celebrated as they completed their six-month probationary period.

A comprehensive recruitment process was successfully completed within three weeks for the selection of the Water System Operations Group Manager.

Equal Employment Opportunities

Staff met with the Director of Functional Affirmation Action Programs of the Office of Federal Contract Compliance Programs in Washington, DC to obtain approval for preparations of affirmative action plans using functional rather than establishment approach.

Workforce Planning and Succession

Conducting Group Manager Interviews to identify issues and needs for integrated approach to managing talent at Metropolitan. Developing Workforce Planning/Talent Management framework for the Board.



New Employee Six-Month Probationary Celebration

Worker's Compensation

- Moved medical monitoring and claims management to Human Resources Group from Environmental, Health & Safety.
- Prepared and submitted the Self-Insurer's Annual Report to the State of California Department of Industrial Relations, Self-insurance Plans.

Risk Management

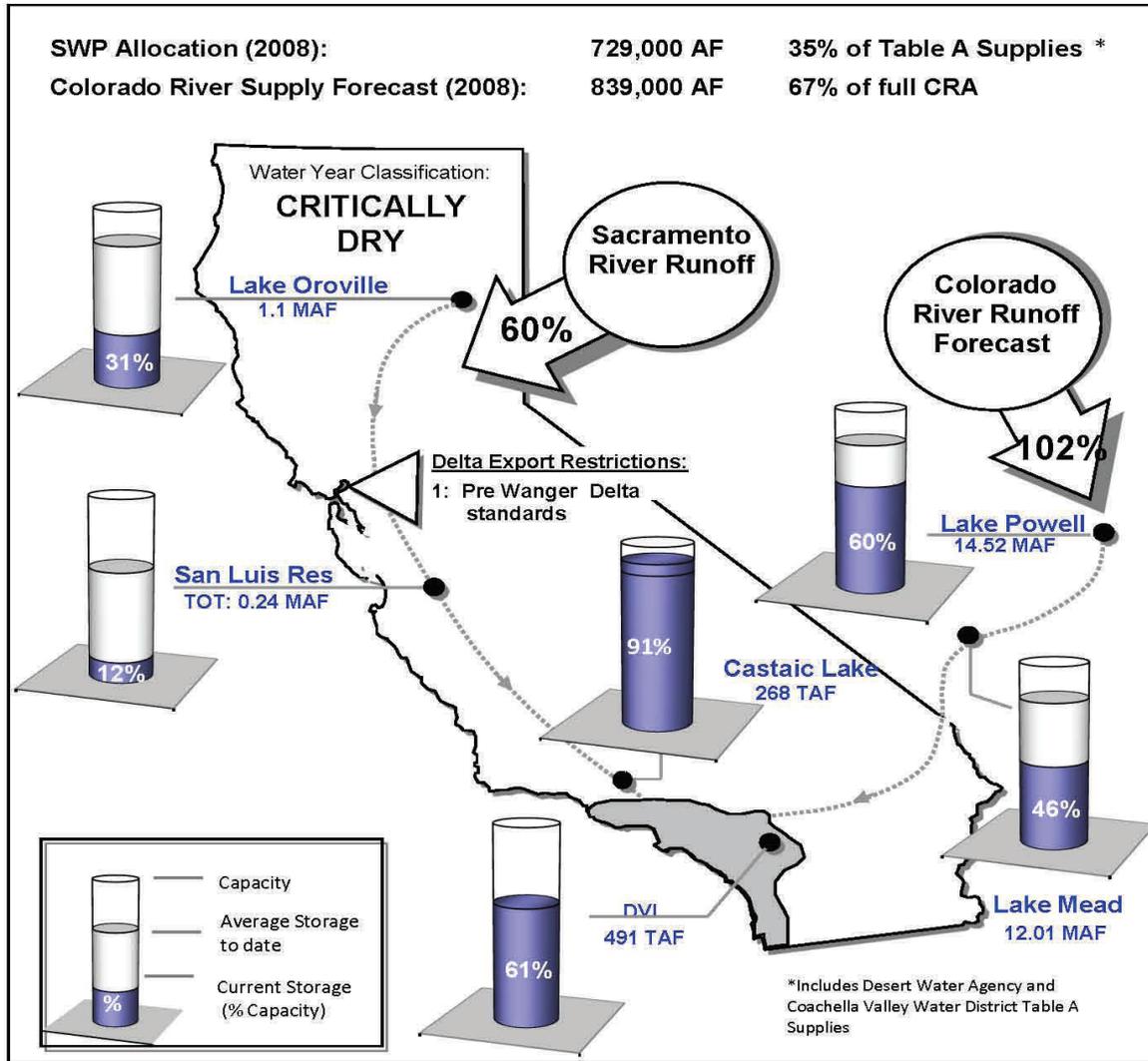
Staff completed a projected 70 incident reports and 50 risk assessments on a variety of contracts and company events.

Employee Relations

Between FY 2006/07 and FY 2007/08, 26 Unfair Labor Practice Charges were filed with the Public Employment Relations Board. Staff have worked to continually reduce the number of open charges. Four were previously settled, one resulted in an actual decision by an Administrative Law Judge, and the rest were either withdrawn or dismissed. Currently there are only five.

In Water System Operations, management set a goal of reducing the time involved in issuing disciplinary actions to two weeks. Thus far, management has been 100 percent successful in doing so.

Water Supply Conditions



The Metropolitan Water District of Southern California



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General Manager Jeffrey Kightlinger

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.

About Metropolitan

The Metropolitan Water District of Southern California is a consortium of 26 cities and water districts that provides drinking water to nearly 19 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

www.mwdh2o.com
www.bewaterwise.com