



State of North Carolina

Department of Justice

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March 13, 2008

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By E-mail and first class mail

Special Master Kristin L. Myles
Munger, Tolles & Olson, LLP
560 Mission Street
27th Floor
San Francisco, CA 94015

Re: ***South Carolina v. North Carolina, No. 138, Original; North Carolina's Progress Report No. 1.***

Dear Special Master Myles:

North Carolina respectfully submits its Progress Report No. 1 in advance of the telephone conference call scheduled for March 14, 2008.

North Carolina is pleased to confirm South Carolina's report that the two States have conferred on March 3 and March 11 to address a range of issues and are working together to develop a Case Management Plan acceptable to both States, if at all possible. Both States recognize that, depending on how the motions to intervene are resolved, further changes may be required based on input from any parties who are permitted to intervene. Also, North Carolina will work with South Carolina to agree on a map or maps of the Catawba River Basin that will be both accurate and helpful to the Special Master.

North Carolina agrees that both States are of the view that the case should be bifurcated, with the first phase of discovery and decision to address whether South Carolina can sustain its initial burden. Depending on the outcome of Phase I, the case may proceed to further discovery and resolution of any actual apportionment. The parties generally agree that the issue to be resolved at the end of Phase I is whether South Carolina has made a threshold showing that is sufficient to allow the Special Master to proceed with an equitable allocation. Discovery during Phase I would focus

Special Master Kristin L. Myles

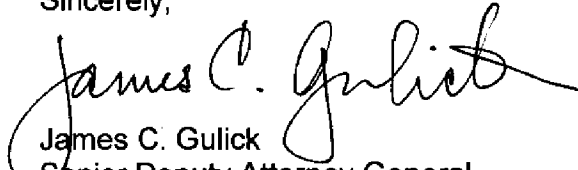
March 13, 2008

Page 2

primarily upon this issue. The parties have not yet exchanged language setting forth the specific Question(s) Presented for resolution during Phase I.

North Carolina is evaluating the significance of South Carolina's responses to North Carolina's six preliminary questions. North Carolina notes that one significant issue presented by South Carolina's answers to Questions 1 and 2 is whether South Carolina is seeking to raise claims not presented in its Complaint. Given the timing of South Carolina's answer to these preliminary questions, North Carolina has not fully evaluated the impact of these responses on the scope of discovery and the necessity for additional pleadings. With respect to South Carolina's responses to the preliminary questions, North Carolina notes that it does not concede that (1) South Carolina's complaint puts at issue any consumptive uses by North Carolina other than interbasin transfers and (2) the Special Master has jurisdiction to resolve issues not presented in the Bill of Complaint that the Supreme Court granted South Carolina leave to file. North Carolina further notes that it does not agree with South Carolina's characterizations of the Comprehensive Relicensing Agreement.

Sincerely,



James C. Gulick
Senior Deputy Attorney General

cc: All Counsel of Record