

DEPARTMENT OF WATER RESOURCES
CALIFORNIA WATER COMMISSION
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MAR 29 2011

Honorable John Laird
Secretary for Natural Resources
California Natural Resources Agency
1416 Ninth Street, Room 1311
Sacramento, California 95814

Ronald Yank, Director
Department of Personnel Administration
1515 S Street, North Building, Suite 400
Sacramento, California 95811-7258

The California Water Commission is deeply concerned about a workforce recruitment and retention crisis that is impacting the State Water Project (SWP), and its ability to safely operate and maintain critical facilities and provide reliable water supplies to 25 million Californians and over 700,000 acres of farmland.

At our January 19 meeting, the Department of Water Resources (DWR) provided information to the Commission on its inability to recruit and retain necessary numbers of qualified personnel, particularly in the highly specialized hydroelectric power trades and crafts classifications which are responsible for performing the daily operations and maintenance of the SWP infrastructure. Despite a statewide unemployment rate of 12 percent, qualified workers are not applying for these DWR positions, underscoring both the limited talent pool and DWR's non-competitive salaries for these classifications.

The skills required to run the country's largest state-owned water and power utility - such as purchasing power, scheduling water and power deliveries, and operating and maintaining the SWP's complex infrastructure - are in great demand from private and other public utilities. This is especially true since deregulation of California's energy market in the mid-1990s. However, DWR's civil service pay scales simply have not kept pace with other utilities to attract and retain employees with these highly specialized skills. According to recent salary surveys, DWR's total compensation packages for employees in these classifications are by far the lowest among comparable water and power utilities in California. This problem has been compounded in recent years by numerous administrative actions including furloughs, salary cuts, overtime restrictions, and hiring freezes in response to the State's ongoing General Fund deficit, despite the fact that 100 percent of the SWP operations and maintenance costs are borne by the SWP contractors and their ratepayers, not the General Fund. The need for these highly-skilled employees continues to grow, and yet DWR continues to lose people to similar jobs in higher paying utilities.

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DWR conducts an extensive apprentice training program for its hydroelectric trades and crafts classifications. Through the program, apprentices complete three to four years of on-the-job training to reach the journey level. This training represents a significant financial investment for the State, yet many of these employees leave DWR shortly after graduation for significantly higher paying jobs at other utilities.

DWR has been seeking resolution of the pay parity issue with previous administrations for more than 10 years, without success. In the absence of resolution, DWR has been forced to rely heavily on overtime to conduct necessary maintenance and on contracting out millions of dollars of work. The impacts of the recruitment and retention crisis are evident and, if not addressed, will certainly become more severe, perhaps even catastrophic. Staff shortages and inexperience have resulted in a serious backlog of deferred maintenance and increase the probability of operational errors and equipment malfunctions that jeopardize public safety and SWP reliability. For the first time in its 50-year history, the SWP missed water deliveries last fall. Critical equipment was out of service due to the lack of staff needed to perform necessary maintenance and repairs. DWR reported to the Commission that the SWP was unable to export tens of thousands of acre feet from November 2010 through January 2011 due to forced outages at its Delta pumping facilities, increasing the risk that these water supplies may not be available to farms, families and communities later this year. This could result in higher costs passed on to ratepayers for replacement water supplies.

In addition, the decline in operational reliability is increasing the cost of water for SWP customers through higher costs to meet the SWP's electrical power demands. The SWP is the largest single consumer of electricity in California. To reduce energy costs, pumping is generally scheduled "off peak" when energy demands and prices are lowest. However, limited pumping capacity due to the shortage of operations and maintenance staff is restricting the ability to manage power uses efficiently, forcing more pumping loads into the higher priced "on-peak" electricity market. DWR estimates that SWP energy costs will increase between \$25-30 million for 2011 without the ability to optimize the pumping schedules.

DWR has outlined the issues in a letter to the Department of Personnel Administration dated February 18, 2011 (attached). In the last several months, both the Little Hoover Commission and the Public Policy Institute of California have recommended reorganizing SWP governance as a long-term solution to a number of issues. While this may represent a long-term solution, the Commission sees the need for more immediate action on compensation and labor relations issues by the Administration and the Legislature and to address the current recruitment and retention issues and reverse the troubling decline in SWP operational reliability.

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Consistent with its statutory authority to review the operation of the SWP and report to the Legislature, the Commission is asking Legislature and the Administration to quickly resolve this recruitment and retention crisis. The present situation is not sustainable. California owes its economic development to the forward-thinking leaders of the 1950's and 1960's, and to the employees who operate and maintain the SWP. Yet these workforce issues continue to impact the reliability of California's water system, the state's economy, its farms, and its people.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anthony Saracino', written over a horizontal line.

Anthony Saracino, Chair
California Water Commission

California Water Commission Members:

Andrew Ball
Joseph Byrne
Dave Cogdill
Daniel Curtin
Joe Del Bosque
Kimberley Delfino
Luther Hintz
Paul Kelley
Sue Sims, Executive Officer

Attachment

Memorandum

Date: FEB 18 2011

To: Ronald Yank, Director
Department of Personnel Administration
1515 S Street, North Building, Suite 400
Sacramento, California 95811-7258

From: Department of Water Resources

Subject: Recruitment and retention crisis within the State Water Project

California's State Water Project (SWP) is the largest State-built, State-operated multipurpose water and power system in the United States. The SWP supplies water to approximately 25 million people (two-thirds of the State's population) and to over 700,000 acres of farmland, supporting California's \$36.6 billion agriculture industry.

The SWP is experiencing a severe recruitment and retention crisis with its Operations and Maintenance (O&M) workforce. Inability to recruit and retain experienced personnel in the specialized hydroelectric power and utility craftworker classifications is directly impacting the Department of Water Resources' (DWR) ability to safely operate and maintain critical SWP facilities.

These specialized, department-specific classifications are unique to state government. Disparity between DWR's pay scales and the median of those of other comparable public-sector utilities now exceed 30 percent. DWR has been working with the former Governor's Office and the Department of Personnel Administration on this issue for over seven years without resolution.

Equipment malfunctions and operational errors due to deferred maintenance, inexperience, and staff shortages threaten the safety of DWR employees and the public. Catastrophic failure of a SWP facility may result in loss of life and property in the immediate area and long-term interruption of critical SWP water supplies to the San Francisco Bay Area, San Joaquin Valley, Central Coast, and southern California. With two-thirds of the State's \$1.7 trillion gross domestic product generated within the SWP service area, the indirect costs of an extended SWP service interruption to California's economy could be several billion dollars.

For the first time in its history, the SWP missed water deliveries last fall due to equipment limitations which were directly tied to staffing shortages, staff turnover, and inexperience. In November 2010, the SWP plant Operating Availability (OA) fell below 70 percent as a direct result of these maintenance staffing issues. Consequently, the SWP lost approximately 77,000 acre-feet of Delta water exports through December 31, 2010, due to forced unit outages at its Delta pumping facilities. That volume of water is enough to supply over 150,000 homes for one year. These export losses cannot be recovered at a later date due to stringent State and federal environmental restrictions on the timing and quantity of Delta water exports.

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Staffing issues also affect other critical aspects of SWP operations beyond water delivery. The continuing decline in OA will soon impact the SWP's electrical resource adequacy commitments with the California Independent System Operator (CAISO), which will increase SWP energy costs by over \$200,000 per month for the Delta facilities alone. In 2010, DWR faced maximum penalties exceeding \$7,000,000 in fines for violations of new federal energy grid reliability standards. DWR's exposure to future violations, fines, and sanctions is expected to increase significantly in 2011 and beyond as a result of new federal energy reliability standards and continued SWP staffing shortages.

Interruption of SWP service on a temporary basis may be necessary to ensure the safe and continued delivery of water and power into the future. While operating the SWP out of regulatory compliance and without proper maintenance may serve short-term water supply needs, it would do so at great risk to life and property. It would also compromise the long-term operability of the SWP and expose DWR to millions of dollars in potential fines or severe regulatory sanctions including the removal of SWP facilities from the electrical power grid.

The situation is not sustainable; DWR must work together with your Department and the Governor's Office to resolve our recruitment and retention crisis. I invite you to meet with us here in Sacramento or at one of our SWP facilities to discuss these challenges further and explore both short-term and long-term solutions. I look forward to your reply.



Mark W. Cowin
Director
(916) 653-7007

cc: Governor's Office
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