



THE STATE WATER PROJECT NEEDS TO BE MORE EFFICIENT

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Water in California sparks news headlines on nearly a daily basis. Much of the attention is focused on the Sacramento-San Joaquin Delta, a sprawling river delta and estuary wedged between Sacramento and Stockton that acts as a funnel for water traveling from water-rich Northern California to heavily populated but water-poor Southern California. The news articles tend to focus on the Bay-Delta Conservation Plan's proposal to build conveyance tunnels to protect endangered species living in the Delta, or the lack of snowmelt that has made 2013 one of the driest year on record in California, leaving the State Water Project to deliver only an estimated 35 percent of requested water to millions of Californians. And then there are the articles about the increased anxiety over climate change and its effects on the reliability of long-term supplies.

While all of these are very important concerns, there is a critical piece to California's water supply that is lurking in the background without the needed attention. The State Water Project is arguably the most critical infrastructure system to the California economy and the quality of life of many of its residents, but it is getting old and is not being operated as efficiently as it has been and needs to be.

The State Water Project, commonly known as SWP, delivers water to agencies that serve more than 25 million Californians and 750,000 acres of farmland. As the nation's largest state-built water and power development system, its infrastructure includes 17 water pumping plants, 8 hydro-electric power plants, 32 lakes that store SWP water, and more than 693 miles of canals and pipelines. Operating 24 hours a day and seven days a week, it is also the state's single largest user of electricity. The SWP generates about 60 percent of the electricity the system requires to operate but that leaves significant amounts of electricity that the SWP must purchase, making it a major player in the state's energy market. In short, it is a massive and complicated utility that needs to move quickly and efficiently to operate as reliably as possible, especially since the future is likely to bring greater uncertainty in water supplies.

Unfortunately, the SWP's current governance structure does not allow it to be as efficient as it needs to be and, not surprisingly, its operational reliability has declined. The California Department of Water Resources, or DWR as it is known, has operated the project since its

inception in the 1960s and does an excellent job under the circumstances. But a half century later, the circumstances have changed. Even though the project was built and its current capital and operational costs are covered by the 29 SWP contractors, with no impact on the state's general fund, DWR is subject to many of the burdensome protocols and administrative requirements that apply to other state agencies. In particular, the state's procurement, contracting and hiring rules, which often involve meeting requirements imposed by the state's finance and general services departments along with the State Personnel Board, have made it very difficult for DWR to efficiently make decisions about the SWP, and to execute them.

For example, the project has a long-standing workforce recruitment and retention crisis because of significant salary gaps between many SWP job classifications and their counterparts in other public and private utilities. In some cases, salaries for SWP workers can be 65 percent less. Not surprisingly, DWR has significant turnover and high vacancies. DWR spends hundreds of thousands of dollars to train people for highly specialized positions, only to watch them leave for higher-paying jobs and, in some cases, shortly after they finish their apprenticeship program. That leaves DWR with limited staff resources to perform maintenance and optimize operations, which directly reduces the SWP's ability to operate efficiently. DWR itself estimates that this lack of flexibility contributed to it incurring an additional \$70 million in energy costs between 2011 and 2012 through missed opportunities to pump water during less expensive, non-peak hours. In addition, as employees of a state agency, SWP workers were forced to take off work days just like other state employees when furloughs were mandated. Furloughing workers who operate the state's critical infrastructure, even though they are paid from the SWP contractors contributions and have no impact on the state's general fund, makes no sense.

This issue has not gone unnoticed. Gov. Brown and his administration, recognizing the severity of the recruitment and retention problem, recently made significant progress towards improving it. Just last week, the governor secured a 17 percent to 37 percent pay raise for the majority of SWP workers. While this pay raise will help stabilize the problem, the structural inefficiencies that required the governor to have to move mountains to secure the pay raise in the first place still persist.

Beyond the recruitment and retention problems, the state's procurement and contracting rules, which in many cases require approvals by other state agencies, cause significant delays in purchasing spare parts and contracting for needed services to maintain the system. This slows down DWR and causes significant operational inefficiencies. In addition, SWP infrastructure is, in most cases, more than 50 years old and will need maintenance and upgrades in the near future.

Given all of these problems and the importance of the SWP, it is critical that we have a more meaningful discussion about how to improve the system and make it a high priority. The discussion should evaluate all options for organizational changes and improvements to the project's operational practices. There are some existing examples and studies that can provide ideas and possible guidance.

For starters, DWR already contracts with two of its contractors to help operate and maintain small portions of the overall system. The Central Coast Water Authority designed and constructed a portion of the SWP's Coastal Aqueduct, and operates and maintains much of it. In

addition, the San Bernardino Valley Municipal Water District operates and performs some of the maintenance for the East Branch Extension of the SWP.

Similarly, the federal Central Valley Project, which brings water from Shasta Lake to the southern San Joaquin Valley and consists of 20 dams and reservoirs, 11 power plants, and more than 500 miles of canals and pipelines, contracts much of its operations and maintenance work for its system to its contractors, either individually or through a joint powers authority, which has led to increased efficiency. At the same time, both the SWP and Central Valley Project have maintained operational control and decision-making authority.

Furthermore, the Little Hoover Commission in 2010 and the Public Policy Institute of California in 2011 both recommended a new governance model for the SWP focused on separating the SWP from DWR and creating an independent, wholesale water utility to run the system. The utility would be modeled after the California Independent System Operator, which operates much of the state's electricity grid.

To its credit, DWR has acknowledged the problems with SWP's current operation and is studying options for how to improve the system's structure and efficiency. DWR officials plan to present an update on their study to the California Water Commission before the end of this year.

Whether the solution to helping the SWP involves creating a new independent entity, DWR entering into an agreement with some or all of its contractors, or another option to more efficiently operate and maintain the system's infrastructure is not clear at this point. What is clear is that this issue is critically important and if not addressed soon, threatens the health and safety of the state's economy and millions of its residents.

About The Author



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