



PLACER COUNTY GRAND JURY

Supplying Water to Placer County

Placer County Water Agency (PCWA)

Report Date: February 17, 2011

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Summary

The Placer County Water Agency (PCWA) is responsible for providing water to the citizens of Placer County. The organization and its management are dedicated to that task. Over the past 50 plus years it has successfully served Placer County with water. PCWA faces many significant challenges (regulatory, contractual, political, and organizational) in the next several years. PCWA needs to increase its focus on preparedness to meet those challenges.

Background

The Placer County Water Agency (PCWA) was created in 1957 under its own state legislative act entitled the "Placer County Water Agency Act." The Agency is a special district located in Placer County, governed by a five member independently elected Board of Directors. PCWA provides water and energy advocacy and stewardship functions within the boundaries of Placer County. Its primary responsibility is to sustain adequate, reliable, and affordable water for Placer County's present and future needs.

PCWA's two primary sources of water are the Lake Spaulding Drum Canal through PG&E water supply contracts and surface water entitlements on the Middle Fork of the American River. The water is captured and transported to PCWA customers through an extensive system of dams, reservoirs, holding tanks, tunnels, canals, pipes, and water treatment plants. Water is sold both wholesale to various water purveyors who retail it to their customers and directly to retail customers. Wholesale treated and untreated water is sold to, among others, the City of Roseville, City of Lincoln, San Juan Water District, and Sacramento Suburban Water District. Retail water is provided to more than 38,000 customers mostly located in Auburn, Colfax, Loomis, and Rocklin.

In addition to the water system, PCWA also owns and operates five interconnected hydroelectric power plants that were constructed in the 1960's as part of the Middle Fork of the American River project (MFP) to capture and supply water to Placer County. The MFP hydroelectric system can generate 244 megawatts (maximum generation) and produces an average of 1.1 million megawatt hours annually, which is wholesaled to PG&E per a 1963 power sales contract.

PCWA is actively involved in a number of legal/regulatory activities that could significantly impact water and energy related issues affecting Placer County and its residents. The issues with potentially the most impact on PCWA are the Federal Energy Regulatory Commission (FERC) relicensing of the MFP hydroelectric facilities (water and power) and a new power purchase agreement(s) to replace the expiring PG&E contract for MFP power.

Additionally, PCWA is actively involved in: the Bay-Delta process and possible impacts upon Placer County's water supplies through CALFED and its related programs; the Truckee River operating agreement; the State Water Resources Control Board; the Sacramento River water diversion project; and various state and federal legislative and regulatory actions that could impact water supply and/or usage in Placer County.

Investigation Methods

The Grand Jury conducted seven interviews with management of PCWA. The interviews solicited information on:

- Job responsibilities;
- Operations of individual divisions within PCWA;
- Approach for documentation of work practices;
- Process for filling vacant positions;
- Identification of key individuals/positions within PCWA.

Additionally, input was received from organizations within Placer County, which interface with PCWA.

The Grand Jury members reviewed published material supplied by PCWA including; the 2010 Budget Report, the 2009 Annual Financial Report, press releases, various information documents both available to the general public and for internal use only, and Board of Director resolutions.

Facts

- PCWA is one of the largest special districts serving Placer County. Its activities and successes are central to the continued growth of Placer County. Based on interviews with management and input from leaders of organizations that have to deal with PCWA on a regular basis, it is an efficient, lean organization.
- Management is proud of the skill and knowledge of their dedicated staff.
- Customer service is of prime importance to the organization.
- They routinely use contractors/consultants, retired staff, and summer interns to handle peak and special project work.
- Between 2004 and 2009 the population of Placer County increased by 14%; while revenues, expenses, and capital assets of PCWA increased by 30%, 54%, and 95%, respectively; and staff of PCWA by only 7%.

- The existing PG&E power purchase agreement will expire in 2013 when the power generation capital costs associated with construction of the MFP have been paid off. This should result in significantly increased revenues from the power generation facilities in the PCWA system. Depending on approach and who the power supply contract is awarded to, PCWA will face more complexity, risk, and reward associated with power generation. Based on a 2006 Joint Powers Agreement (JPA) with Placer County to finance relicensing, modifications, and improvement work on PCWA's MFP generation facilities, PCWA agreed to split the revenues from the generating facilities with Placer County 50/50 starting in 2015. The total net revenues from the generating facilities could be as much as \$20 million per year by 2025.
- The PCWA Board of Directors has already approved a list of potential types of projects to be funded from their share of the additional revenue. The list included everything that is water-related within Placer County.
- Water supply is adequate for now and 30 years into the future, based on growth trends. However, there are a number of significant water supply issues that PCWA is addressing or watching which could negatively impact the amount of water available to PCWA to serve its customers. They include: PG&E relicensing of Drum-Spaulding; PCWA relicensing of the MFP; Southern California water demands; environmental requirements (Delta); claims/disputes with adjoining water supplies; new state regulations; water storage issues; etc. PCWA has two entitlements through contracts with PG&E and two entitlements under contracts with the Bureau of Reclamation. The contracts with PG&E are up for renewal in 2013, but most likely at an increased cost to PCWA.
- The PCWA workforce has been stable, with most of the management having worked together as a team for several years. However, its workforce is aging, with most of management being eligible to retire now.
- The following is a summary of average employee age and years of service.

<i>Employee Group</i>	<i>No. of Employees</i>	<i>Average Age</i>	<i>Average Years of Service</i>
<i>Exec & Management</i>	<i>8</i>	<i>57</i>	<i>24</i>
<i>Mid-Management</i>	<i>16</i>	<i>49</i>	<i>13</i>
<i>Staff</i>	<i>155</i>	<i>46</i>	<i>11</i>

- The Grand Jury's interviews with PCWA management revealed no specific overall organizational approach for retaining and recruiting staff, although some divisions have an approach for the development of some staff positions. Throughout the interviews, the positions of General Manager and Director of Strategic Affairs were identified as the most difficult to replace if they became vacant.

- During the Grand Jury's interviews with PCWA management, questions were asked concerning important processes within their respective organization and the formal documentation available of those processes. Given the mature nature of the organization and limited personnel turnover, it is not surprising that the availability of valid process documentation is inconsistent across the organization. There seems to be a heavy reliance on institutional knowledge located in a few key individuals in PCWA.

Findings

- F1. PCWA appears to be a lean, stable, efficiently operated organization which is focused on serving the customer within their service area (Placer County).
- F2. The financial and statistical reporting is very impressive for an organization the size of PCWA. In fact they have received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada.
- F3. The Board of Directors recently approved a resolution (08-16, see Appendix) indicating what types of projects could be funded by the expected additional revenue from the sale of power from the Middle Fork Project. This is an excellent start, but the list is so broad it provides little guidance to PCWA staff.
- F4. Although PCWA is currently well positioned to provide water to current and future customers within its service area, there are numerous issues that could significantly impact the water supply. The responsibility for monitoring and/or taking appropriate action is handled by the General Manager, the Strategic Affairs Division, and outside legal counsel. The strategy, analysis, and actions of this critical function are concentrated in very few individuals.
- F5. PCWA has a stable work force, with most of the management team having worked together for a number of years. However, the work force is aging, particularly at the management level, with most being eligible to retire now. The organization does not have a consistent, known strategy to replace key staff or management when vacancies occur.
- F6. There appears to be a heavy reliance on knowledge and experience within a few key individuals and process documentation is inconsistent across the organization. These could be issues if any key individual left the organization suddenly.

Conclusion

The Grand Jury was impressed regarding the quality and dedication of PCWA management. There was a consistent enthusiasm shown for the job they were performing and for fulfilling the needs of their customers.

With few exceptions, the organization is focused on the present; serving the current customer with safe, reliable, affordable water. Given the number of potentially significant impactful issues facing PCWA and an up-coming transition of management, increased focus and preparation needs to be placed on the future.

Recommendations

The Grand Jury recommends:

- R1. Establish an ongoing process to prioritize and rank proposed projects that will be funded from the additional revenue expected by the sale of power from the Middle Fork Project.
- R2. Increase staffing within the Strategic Affairs Division to provide backup and continuity for key positions and to ensure all issues are getting the required attention.
- R3. Develop a formalized and visible plan to both develop internal candidates and outside sources for key staff and management positions. The plan once implemented will need to be monitored and updated on an ongoing basis.
- R4. Each division should assess its current operations to identify critical processes and the current state of their formal documentation. Based on that assessment, a plan should be developed to update or create appropriate process and procedure documentation.

Request for Responses

David A. Breninger, General Manager /
#R1, R2, R3, R4
Placer County Water Agency
144 Ferguson Road
Auburn, CA 95604

Due by May 17, 2011

Copy Sent To

Board of Directors
Placer County Water Agency
144 Ferguson Road
Auburn, CA 95604

Appendix: Resolution 08-16 of the Board of directors of the Placer County Water Agency

RESOLUTION 08-16 OF THE BOARD OF DIRECTORS OF THE PLACER COUNTY WATER AGENCY ESTABLISHING A POLICY FOR THE DISTRIBUTION AND USE OF NET POWER SALE REVENUES FROM THE MIDDLE FORK AMERICAN RIVER HYDROELECTRIC PROJECT

WHEREAS, the citizens of Placer County approved a bond measure in 1962 to fund the construction of the Middle Fork Project with assurances that the Project would provide benefits to the residents of Placer County; and,

WHEREAS, the existing Middle Fork Project power sale contract, which funded the repayment of the bonds which funded the construction of the Middle Fork Project and its annual operating and maintenance costs, will expire in March 2013; and,

WHEREAS, under the terms of a new power sale contract after March 2013 PCWA anticipates that there will frequently be net power sale revenues in excess of the operating costs of the Middle Fork Project, available to provide public benefits; and,

WHEREAS, PCWA intends to invest net revenues into projects and programs which benefit of the people of Placer County consistent with its authorities under the PCWA Act.

NOW THEREFORE the Board of Directors of the Placer County Water Agency does hereby adopt the attached Policy as a guide for the use of Middle Fork Project Net Revenues.

The foregoing resolution was duly passed at a regular meeting of the Board of Directors of the Placer County Water Agency held on June 5, 2008, by the following roll call vote:

AYES DIRECTORS: Gray Allen, Alex Ferreira, Lowell Jarvis, Otis Wollan,
Chairman Mike Lee

NOES DIRECTORS: None

ABSENT DIRECTORS: None

Signed and approved by me after its passage this 5th day of June, 2008.



Mike Lee, Chairman of the Board
Placer County Water Agency

ATTEST:



Cheri Sprunk
Clerk, Board of Directors

PCWA POLICY FOR THE USE OF MIDDLE FORK PROJECT NET REVENUES

This policy is intended to guide future PCWA Boards of Directors in the distribution of the Agency's share of net revenues from the sale of power from the Middle Fork Project.

The Board of Directors should allocate net revenues from the sale of power from the Middle Fork Project for disbursement to public agencies within Placer County, including PCWA's own water systems, in the form of loans or grants for projects and programs which are consistent with PCWA's authorities under the PCWA Act.

PCWA may establish by separate action such rules and procedures as it deems appropriate for the distribution of these funds.

The following is a list of the types of projects that will be eligible for funding:

Water Supply:

Water Rights protection

Water supply development; including needs assessment studies, supply feasibility studies, infrastructure design, and environmental studies – but not including construction of water supply infrastructure intended to supply new land development projects.

Water conservation and water recycling programs; including program development studies, meter installation or replacement, installation of devices for water use efficiency, leak detection, conservation education programs, conservation rebate and incentive programs, and infrastructure construction

Groundwater management; including planning and implementation, aquifer recharge management and facilities, and agriculture groundwater supply protection programs

Renewal and replacement of ageing infrastructure, including planning and assessment programs

Development of new or extension of existing water systems to serve existing homes, neighborhoods and communities that do not have adequate domestic water supplies

Water Supply Reliability:

Projects; including installation of supply facilities for use during water outages, installation of backup power generation facilities for use during power outages, increased storage capacity, control system improvements, and mapping for improved planning and emergency response

Water Quality:

Treatment process improvements; including compliance with mandated water quality requirements and projects to improve water treatment process reliability

Source water quality protection programs; including watershed management to reduce or prevent contaminants from entering the water system, watershed management to sustain or enhance flow and timing, or watershed management to reduce the risk of fire to infrastructure or the sustainability of watershed function.

Ecosystem protection:

Habitat conservation plan support; including the management of Agency lands for protection of water supplies

Aquatic system management; including removal and replacement of fish migration obstacles, installation of fish screens on intakes, stream/river bed management, listed species protection and riparian habitat management of Placer County water systems

Carbon footprint and greenhouse gas emission reduction programs, including renewable energy projects and energy efficiency programs.

Recreation:

Creation or enhancement of recreation opportunities associated with Placer County water or power facilities

Public Education:

Projects and programs designed to educate and inform the public on important water, energy, and resource issues

Financial:

Emergency financial aid to Placer County public water systems

Energy System Supply and Reliability:

Enhancements and betterments to the energy generation system, expansion of the energy portfolio consistent with the PCWA act