January 16, 2013

The Honorable Art Torres, President
San Francisco Public Utilities Commission
525 Golden Gate Avenue
San Francisco, CA 94102

SUBJECT: Comments on Proposed Budget and Schedule Revisions to the Water System Improvement Program

Dear President Torres:

On December 21, 2012, the San Francisco Public Utilities Commission (SFPUC) notified the Bay Area Water Supply and Conservation Agency (BAWSCA) that it would be considering proposed changes to the Water System Improvement Program (WSIP). The documents supporting the proposed budget and schedule revisions to the WSIP have been reviewed extensively by BAWSCA.

BAWSCA understands that the information provided as part of the Notice of Change (Notice) dated December 21, 2012 was necessarily limited. This letter states BAWSCA's concerns based a review of the Notice and other information, and offers ten specific recommendations for the Commission's consideration prior to its action on the Notice of Change on January 22nd and subsequent actions later this year.

SCOPE AND BUDGET ISSUES: The Notice of Change addresses increasing the scope for the Calaveras Dam Replacement Project (Calaveras Project) and resulting increases in costs. Because project cost impacts are still being evaluated, the Notice was unable to include a complete financial picture of the project, impacts on the budget for the WSIP as a whole, or the ability for the SFPUC to complete the WSIP within the existing budget.

Given the current estimates of the cost impacts to this project, it appears that completing the WSIP within budget may not be possible unless major cost containment actions are taken immediately by the SFPUC. BAWSCA is aware that the WSIP Director has initiated new cost controls which may include some or all of the recommendations in this letter.

The proposed actions cited in the Notice represent temporary solutions, as they anticipate a second project revision "that will reflect the terms of the negotiated change order and will incorporate the additional soft costs and construction contingency required to complete the project." BAWSCA understands the SFPUC's strategy of moving forward with an increased budget authorization at this time to allow a continuation of work on the Calaveras Project while the SFPUC staff complete negotiation of the change order with the contractor.

That said, commitments should be made, or clear direction provided, to ensure all costs are identified, including revised project contingencies; sources of funding within the exiting WSIP
budget are identified or created; and that the information be available prior to the Commission’s consideration of a second project revision later this year.

The SFPUC’s contractor has estimated the newly identified work on the Calaveras Project to cost up to $133M. The SFPUC has conducted its own independent cost estimate which shows a significantly lower cost. At the December 13 Commission meeting, it was stated that funding this work would require the remaining contingency budget for this project as well as the entire $117M balance of the Program Reserve.

Because the project is only 30 percent complete, the size of a contingency budget for the remaining 70% of construction work will need to be determined, and funding located and committed for these purposes.

Because other projects may need additional funds, identifying sufficient funding for the Calaveras Project may be difficult, if not impossible. The risk section of the September 2012 WSIP Regional Projects Quarterly Supplemental Report identified the Top 10 WSIP risks with a “most likely” cost of about $45 million. An allowance for the cost of these risks is not covered in the approved WSIP budget, and to the degree these costs materialize, additional funding would need to be found. While a portion of the $45M is associated with possible risks on the Calaveras Project, it is in addition to the amounts cited above for the Calaveras Project.

For these reasons, possible cost savings should be identified in all WSIP projects. Decreasing project scopes should be avoided unless there are compelling reasons to do so. In no event should the $4.8B program budget be increased or project scopes changed to the extent that the Levels of Service Goals cannot be attained.

BAWSCA recommends that the Commission direct staff to:

1. Immediately implement a cost saving plan aimed at slowing the expenditure of contingency funds and soft costs so that all available funds can be used for completing the WSIP within the approved budget.
2. Re-evaluate the forecast cost at completion for individual projects and for the WSIP as a whole.
3. Identify potential project cost reductions or savings to fund the remaining estimated costs, and identify any budget shortfall.
4. Provide this information as part of the Notice of Change that is anticipated following the final negotiation of the Calaveras Project change order but no later than the Commission’s March 19, 2013 meeting.
5. Report back to the Commission by February 26, 2013 on the progress made on each of these recommended actions.

BAWSCA is aware that SFPUC staff has already initiated some activities related to our recommendations. For example, we support Ms. Labonte’s directive to staff and consultant’s that all contracts be reviewed for phase out as early as possible. Over the last quarter, soft costs for the entire WSIP were being spent at an average rate of $9M per month and all other costs at $50 million per month. BAWSCA’s recommendations are made to ensure that this information is developed and implemented now before it is too late to capture any possible cost savings.
**SCHEDULE ISSUES:** The currently approved completion date for the WSIP is July 29, 2016. The Notice of Change proposes to extend the completion of the Calaveras Project to August 31, 2018, an increase of 25 months.

The Notice cites the technical basis for the change and the impacts to construction schedule and costs. The significance to water customers of the proposed delay, which is not cited in the Notice, is that the Calaveras Project is one of the major WSIP projects designed to provide drought year water supply reliability.

The Calaveras Project is essential for SFPUC to meet its Level of Service goal of limiting rationing to no more than 20% system-wide in any given year. Deferral of this project extends the period during which water customers that rely on the San Francisco Regional Water System are vulnerable to significant drought shortages.

The Calaveras Dam project is not the only project with schedule risks. The proposed Revised WSIP and Notice of Change fail to address all WSIP projects with forecast project completion dates beyond approved project completion dates.

Separate from the Calaveras Project, the September Quarterly Report identified five projects with forecast completion dates from one to 11 months beyond the approved completion dates for those projects. Based on project issues presented in the quarterly report, there are four projects that have potential to impact the existing July 29, 2016 completion date of the overall WSIP: Regional Groundwater, Bioregional Habitat Restoration, Peninsula Pipelines Seismic Improvements, and Upper Alameda Creek Filter Gallery.

These schedule issues should be addressed as part of the second Change Notice to be brought to the Commission later this year. In this way the State’s review regarding the significance of schedule changes with respect to public health and safety can look at the aggregated impacts of these changes.

The possible need to extend the completion of the Calaveras Project should not lead to extensions for other projects. It is important for the water customers that the schedule for attaining the Levels of Service goals for reliable supply of water not be affected by anything other than the completion of the Calaveras Project. All other projects, including water supply agreements or other measures not managed by the WSIP team, should be completed on their current schedules.

**BAWSCA recommends that the Commission direct staff to:**

1. Review and present schedules for all remaining WSIP projects.
2. Review and present schedules for completing other activities related to achieving the Levels of Service goals.
3. Present a plan to the Commission for keeping all projects and activities except the Calaveras Project on schedule for completion by the end of July, 2016.
4. Prepare and implement a plan to terminate all unnecessary WSIP organizational components by July 31, 2016, except for the Calaveras Dam Replacement Project.
5. Provide the above information to the Commission as part of the second Notice of Change, but not later than March 19, 2013.
The SFPUC is at a critical point in time in the implementation of the WSIP. Decisions made today will dramatically impact San Francisco’s ability to deliver the WSIP on schedule and within the approved budget.

These efforts must be given the highest priority and be implemented immediately. BAWSCA appreciates the helpful discussions with SFPUC staff and their actions to date to address budget and schedule issues and this Notice.

Sincerely,

Arthur R. Jensen
Chief Executive Officer/General Manager

cc: Harlan L. Kelly, Jr., SFPUC General Manager
    Julie Labonte, SFPUC Program Director, WSIP
    BAWSCA Board of Directors
    BAWSCA Water Management Representatives