

Customer Objectives
“Managing for Excellence”
January 8, 2008

The Bureau of Reclamation (“Reclamation”) since early 2006 has formulated the “Managing for Excellence” (“M4E”) Action Plan and process that provide opportunities to address key concerns of Reclamation’s water and power partners. As we work further with Reclamation in this process, the following objectives will allow us to easily determine whether this process has been a success. Our key objectives include the following:

1. **Transparency in Budgeting.** Reclamation should institute a policy that requires area managers to consult in advance with the entity or entities that will be responsible for payment of Project costs regarding the proposed budget and relevant work plans for any Project costs payable by water or power customers. The entity responsible for payment of these costs should have the right to elevate any dispute regarding the proposed budget and work plans within Reclamation. Area Managers should, except in emergencies, be required to consult with the entities responsible for payment of costs in advance of any action that will result in a budget overrun, and the responsible entities should have the right to propose alternative work plans or schedules. Area Managers should also be accountable, as a part of their annual performance review, for operating within the previously adopted budget, and for providing a detailed explanation of the reasons for any budget overrun at a level that will allow the entity responsible for the costs to determine the reason for the overrun. Similar cooperative efforts should be directed towards collaborative development of long-term (10-15 year) work plans and budgets. It is critical that Reclamation provides accurate cost estimates for O&M activities and construction capital improvement projects (CIPs) to the water users and power customers.
2. **Transparency in Accounting.** Water and power beneficiaries of Reclamation Projects should have access to detailed accounting by Reclamation of all Project costs that are repaid by water or power customers at the level of detail that allows the entities responsible for payment of the costs, including, a description, by specific position or function, of the nature of the work performed on a daily basis and any specific Project feature or component for which the costs were incurred. Other work performed by Reclamation at the request of customers on transferred projects, with advanced funds, should be provided the same level of detail.
3. **Transparency in Planning.** A “culture of collaboration” philosophy should be incorporated in the final business model, policy and directives and standards (D&S). The customer interaction process should be revised to include written procedures which would allow for customer input on the current financial circumstances of all Reclamation infrastructure for which the customer has a direct interest, and a documented means through which Reclamation uses (or doesn’t use) this input, except where satisfactory existing arrangements are in place (see #10, below).
4. **A Commitment to Cost Effective Project Operation and Maintenance at the Project Level.** Reclamation should allow the water and power beneficiaries responsible for the payment of Project operation and maintenance costs to assume responsibility for all or portions of Project operation and maintenance under Reclamation oversight.

5. **Cost Effective Design, Contracting, and Construction of User Funded Facilities.**

Absent a finding by the Commissioner (**or the Regional Director**) that non-federal customers / entities are incapable of performing specific work on a proposed facility and that for specific work on a proposed facility Reclamation personnel are the more competent and cost effective source of expertise, a water or power customer who is responsible for payment of 50%¹ or more of the costs associated with the design, contracting, and construction of a facility must have the right to use irrigation district, power customer, or other water user personnel or private consultants for design, procurement, construction, and contract and construction management of that facility with agreed-to Reclamation oversight. This clearly preserves the ability of Reclamation to decide that it must do the work - all that is required is for the Commissioner (or RD) to find that Reclamation is the only entity that can do the work. Someone must be responsible for making the decision that a customer cannot do the work and to require that they explain why. This also provides the test for determining that work cannot be done by a customer, essentially creating an "escape valve" that allows a customer that believes that it has been treated unfairly to go elsewhere for work that is not "inherently governmental". This will create a very important incentive for Reclamation to "do things right". The existence of competition is perhaps the most powerful incentive for Reclamation to do so.

6. **Overhead.** Reclamation may choose to preserve certain technical capabilities at the Regional or TSC level. Specialized staff at the regional level should be discouraged, unless it is determined that there is sufficient long-term demand for staff with the required expertise at the Regional level. The costs of regional and TSC technical services should be allocated only to those Projects for which specific work is performed, and the costs allocated to specific Projects should be the actual costs of performing the work. The cost of maintaining technical capabilities beyond those actually required for specific work on an annual basis should be borne by Reclamation, and not allocated to or subsidized by water and power customers.

For transferred projects still under Federal title Reclamation has a continuing interest in the viability of the project from an operation and maintenance basis. Some customers may decide they would rather utilize Reclamation's expertise (primarily at the TSC) than outsource to others who do not necessarily have the exposure to Reclamation-type projects and don't have the ready availability of previous reports and drawings. Costs associated with this service should be borne by the customer who requests such service including all overhead charges. A careful and detailed evaluation of projected workload will determine the disciplines and number of personnel that may be required for this service to keep overhead costs under control.

7. **Revision of Reclamation standards for construction and O&M** based on an assessment of the relative risk, consequences of failure, opportunities for technological improvements, marginal return, and subject to appeal to policy level officials.

8. **Improved customer input relative to outsourcing decisions.** Reclamation has used contractors and consultants to fill in for staff and expertise shortages, including the use of outsourcing for major maintenance work. Greater opportunities need to be available for customers to provide input and feedback on the selection of contractors, final design and plans, and review of benchmarks and scheduling, including, in some cases, the right to veto a

¹ It may be helpful for Reclamation to understand that some are pushing for an even lower threshold.

proposed contract for specified reasons (e.g. if the costs are excessive). Outsourcing should not increase Reclamation's (and customers) costs; and should be considered when there are expected cost savings or timely completion. Who does the work rests in large part on whether the project involves reserved works or transferred works, and whether costs are reimbursable or non-reimbursable.

9. **Existing positive customer relationships and processes are not jeopardized and existing contracts are respected.** Some customers (particularly power users in the Upper and Lower Colorado and Mid-Pacific regions) are comfortable with their current work program review relationships with Reclamation, and would ardently oppose products coming out of M4E that could jeopardize or impair those relationships. For example, in the Lower Colorado River Region, power customers have already developed process and procedures that are codified by contractual agreement. These customers are more interested in any policy or process that Reclamation might employ that would alter or overrule any decision that the Program or Area Managers have already made in accordance to existing contractual process. Reclamation's desire to maintain "core values" or to have local decisions "guided and restrained" should be secondary to decentralized, or local process with customer collaboration. To avoid this problem, other customers should be allowed to request that Reclamation provide similar opportunities – if local entities choose to pursue them – to work towards improved partnerships. Possible templates for success include the Boulder Canyon Project Implementation Agreement (1995) and the agreement between Colorado River Energy Distributors Association, Western Area Power Administration and Reclamation (1992).
10. **The "Managing for Excellence" process and promises work their way down to the Project level.** Unfortunately, that concern remains. However, we understand that official policy has not yet been developed. We also believe that communication at the project/program/area level needs to work in both directions; water and power customers believe that by sharing management and O&M experiences and ideas, both Reclamation and the customers could improve the ways they conduct their business processes, and operate and maintain their facilities in a more cost-effective and timely manner.
11. **Financial mechanisms that will help Reclamation and water and power users to proactively address failing Western water infrastructure are identified and highlighted.** Reclamation's water and power infrastructure plays a vital role in our economy and in the daily lives of Western citizens. Though we understand that the priority for these types of programs rests with Congress, the M4E forum should address new financial options that can help with necessary infrastructure fixes. For example, the final M4E implementation should include a status report on the loan guarantee program included in the Rural Water Supply Act. Also, loan projects have not been funded for a long time. The M4E process should be used to highlight the need for a small loan program. In particular, the Rehabilitation & Betterment program should be re-evaluated to determine whether conditions, policies, and people have changed. Such an evaluation might suggest that it is timely to re-establish the program.

Implementation of the above processes and objectives will focus Reclamation's capabilities to meet its core mission of operating and maintaining its existing facilities to deliver water and power at peak efficiency.