

State Water Resources Control Board



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CLOSING BRIEF OF DIVISION OF WATER RIGHTS PROSECUTION TEAM IN THE MATTER OF HEARING ON PROPOSED REVOCATION OF PERMITS 16209, 16210, 16211 AND 16212, OF THE UNITED STATES

I. INTRODUCTION

This matter comes before the State Water Resources Control Board (State Water Board or Board) based on the Notice of Proposed Revocation of Permits 16209, 16210, 16211 and 16212 (permits), of the United States (Permittee), pursuant to Water Code section 1410.

The Division of Water Rights (Division) Prosecution Team (Prosecution Team) presented evidence at the hearing on July 21, 2008. The evidence showed that Permittee failed to complete construction and to put water to beneficial use under Permits 16209, 16210, 16211 and 16212. The evidence further showed that there was cause for revocation under Water Code section 1410, and that revocation was appropriate.

II. FACTS

The Prosecution Team and Permittee entered into a stipulation to facts on June 5, 2008. (PT 3.) Taken together, the stipulation and the testimony provided during the evidentiary portion of the hearing show clearly that there are no material facts in dispute.

On February 5, 1970, the State Water Board adopted decision 1356, which conditionally approved Permittee's applications to appropriate water in connection with the Auburn-Folsom South Unit of the Central Valley Project. (Staff Exhibit 2.) The permits require that Permittee complete construction work on or before December 1, 1975 and complete application of the water to the proposed uses on or before December 1, 2000. (PT 3, ¶ 2; Staff Exhibit 1.)

Permittee halted construction in 1975. (PT 3, ¶ 16.) In response to August 12, 1975 and October 21, 1983 petitions for extension of time, the State Water Board issued a May 11, 1984 Order requiring Permittee to submit the project to the Board pursuant to Water Code section 10504.5, along with documents required under the National Environmental Policy Act (NEPA). (PT 3, ¶¶ 4, 5, 7, 8.) Permittee was required to take those actions prior to submittal of the Auburn-Folsom South Unit to Congress for reauthorization, but not later than December 31, 1987. (PT 3, ¶ 8.) Permittee has not submitted the project to the State Water Board, nor has it submitted any environmental documents to comply with NEPA. The May 11, 1984 Order deleted the specific dates for completion of construction and application of water to beneficial use, and instead specified that Permittee is not authorized to commence construction until it submits the information required for processing of a petition for extension of time and the Board sets new dates for completion of construction and putting water to beneficial use. (PT 1, p. 4.) Permittee has been advised that the Board cannot act on any petition for extension of time until draft environmental documents have been prepared and circulated under CEQA. (PT 3, ¶ 17.) Permittee responded that until Congress reauthorizes the Auburn Dam Project, Permittee would not undertake any environmental work. (PT 3, ¶ 18.)

Permittee has not diverted any water under Permits 16209, 16210, 16211 and 16212. (PT 3, \P 10.)

III. ANALYSIS AND ARGUMENT

The purpose of the hearing, as described in the hearing notice, was to determine whether Permits 16209, 16210, 16211 and 16212 should be revoked pursuant to Water Code section 1410. Water Code section 1410 specifies that "there shall be cause for

¹ Permittee is also required to prepare documents to comply with the California Environmental Quality Act (CEQA). (PT 5; PT 3, ¶¶ 15, 17.) The environmental documentation required for compliance with NEPA might be adequate to serve as a joint document under both NEPA and CEQA, if it meets all CEQA requirements. (PT 3, ¶ 17.)

revocation of a permit if the work is not commenced, prosecuted with due diligence, and completed or the water applied to beneficial use as contemplated in the permit and in accordance with this division [division 2 of the Water Code] and the rules and regulations of the board." (Wat. Code, § 1410.)

Through written testimony and exhibits and at hearing, the Prosecution Team showed that Permittee has not completed or prosecuted the project with due diligence, and that no water has been put to beneficial use under the permits. Permittee stopped construction in 1975, and has no plans to resume construction in the foreseeable future. (PT 3, ¶ 16, PT 4, ¶ C.)

Similarly, the evidence showed that no further construction is authorized because Permittee did not comply with the terms of the 1984 Order. (PT 1, p. 4.) Permittee's current petition for extension of time has been protested, the protest is unresolved, and Permittee has not prepared environmental documentation required for compliance with CEQA. (Transcript, p. 51; PT 1, p. 4.) Permittee cannot be granted an extension of time without resolving the outstanding protest and submitting environmental documents needed to comply with CEQA. The Permittee having failed to meet the requirements for an extension of time within which to complete construction, without having put any water to beneficial use under the permits, revocation is appropriate.

Cause for Extension of Time

Water Code section 1396 requires a permittee to prosecute project construction and beneficial use of water with due diligence, in accordance with the Water Code, the State Water Board's regulations, and the terms specified in the permit. (Wat. Code, § 1396; see also Wat. Code, §§ 1395, 1397 [requiring a water right permit to identify periods of time to begin construction, to complete construction, and to apply water to beneficial use].) The State Water Board may approve a request for an extension of time if the Board finds that there is good cause for the extension. (*Id.*, § 1398, subd. (a).) The State Water Board's regulations allow an extension of time to be granted only on

such conditions as the Board determines to be in the public interest, and on a showing to the Board's satisfaction that (1) due diligence has been exercised, (2) failure to comply with previous time requirements has been occasioned by obstacles that could not reasonably be avoided, and (3) satisfactory progress will be made if an extension of time is granted. (Cal. Code Regs., tit. 23, § 844, italics added.)² The State Water Board generally will not accept as good cause for delay conditions incident to the person and not to the enterprise. (*Ibid.*) Here, Permittee has not exercised due diligence, its failure to comply with previous time requirements could reasonably have been avoided, and there is no indication that any progress will be made if an extension of time were to be granted.

Due Diligence

In determining whether there is good cause to approve an extension of time to complete the beneficial use of water, the State Water Board must consider whether the Permittee has exercised diligence in the past in putting water to beneficial use. Due diligence requires a demonstrable effort to put water to beneficial use within the time period specified in the permits.³ (But see 25 Ops.Cal.Atty.Gen. 32, 40 (1955) [noting that due diligence may require something more than simply complying with time limits in permits].)

In California Trout, Inc. v. State Water Resources Control Board (1989) 207
Cal.App.3d 585, [255 Cal.Rptr. 184] (California Trout), the Court of Appeal observed that the statutory requirement of diligence does not allow the State Water Board "to countenance a scheme placing water rights in 'cold storage' for future use." (Id. at p. 619.) The court concluded that the State Water Board acted improperly when it granted an extension of time because the permittee did not have any immediate plan to proceed

² Unless otherwise indicated, all further regulatory references are to the State Water Board's regulations located in title 23 of the California Code of Regulations.

³ Generally actions taken by a permittee after expiration of time under a permit will not be considered in a due diligence inquiry. Regardless, Permittee has failed to meet any of the deadlines laid out by the Division for submitting requested and required information.

promptly to put the water to full beneficial use.⁴ (*Id.* at pp. 618-619.) The Board also currently recognizes that "a water right permit is not a proper instrument to reserve water for development at some future time." (State Water Board Order WR 82-5, p. 7; accord State Water Board Decision 1083 (1963), p. 6 [quoting Decision 893 (1958); citing Decisions 989, 984, 921, 907, 896, 884, 869]; see also State Water Board Decision 1083 at 5 [noting that every water right applicant bears the burden of providing information that the State Water Board can rely on when setting the time periods for completion of construction and application of water to beneficial use in the water right permit].)

The requirement that an appropriation of water be completed within a reasonable time with the exercise of due diligence is a long-standing principle of California water law intended to protect the public interest by preventing the "cold storage" of water rights. (See State Conservation Commission, Report of the Conservation Commission of the State of California to the Governor and Legislature of California (1913), pp. 21, 39 [concluding that it is not sound public policy to allow an essential natural resource such as water to be kept in cold storage]; see also *Nevada County & Sacramento Canal Co. v. Kiddbut* (1869) 37 Cal. 282, 310-314 [noting that a water right is acquired by the actual appropriation and use of the water and not merely by an intent to take the water].) Thus, while Permittee claims its actions have been consistent with due diligence to the best of its abilities, the effect of Permittee's failure to put any water to beneficial use under its permits is to keep that water in cold storage.

The evidence in the record supports a finding that Permittee has not diligently pursued development of its water rights under Permits 16209, 16210, 16211 and 16212. In the 37 years since the permits were issued, Permittee has neither constructed the diversion facilities nor diverted water under the permits. (PT 1, p. 4; PT 3, ¶ 10.) Permittee has not done any construction work on the dam since 1975. (PT 3, ¶ 16.)

⁴ The discussion of extensions in *California Trout* was part of a retroactivity analysis, and the court did not

Permittee suggests that "it would appear that the State Board was aware of and took into consideration the fact that the actual date for completion of construction of the Auburn Dam Project and the actual date by which the appropriated water would be put to beneficial use would be subject to the power of Congress." (USBR Exhibit 1, p. 5-6.) If the Board did take into account the fact that the branch of the federal government responsible for constructing the Auburn Dam was not also in control of the funding for the project, it would be reasonable to conclude that the dates set in the initial permits reflected that fact. (See Decision 1083, supra.) If the initial dates in the permits accounted for that fact already, the Board should not absolve Permittee of its duty to pursue the project with due diligence. Since the original deadline for completion of construction expired in 1975, Permittee has failed to submit the information required for the Board to approve an extension of time, despite repeated requests. Repeated failure by Permittee to provide the information necessary to secure an extension of time after the initial deadlines in the permits have expired is not commensurate with due diligence.

Failure to Comply With Previous Time Requirements

The State Water Board must also consider whether the Permittee's failure to comply with previous time requirements has been occasioned by obstacles that could not reasonably be avoided. Lack of finances and other conditions incident to the person and not the enterprise will not generally be accepted as good cause for delay. (Section 844.) Permittee contends that "since Congress retains ultimate authority over the Auburn (or any other Reclamation) project, any 'lack of finances' due to a lack of appropriations by Congress, as well as Reclamation's inability to proceed with the project absent an amendment of the project authorization, should be considered as conditions 'incident to the ... enterprise', beyond the control of Reclamation, and not reasonably avoidable." (USBR Exhibit 1, p. 6.) But the Permittee, as listed on the permits, is the United States. (Staff Exhibit 1.) That the United States has not

appropriated sufficient funds for this project does not excuse the United States from having to construct its diversion facilities and put water to beneficial use under its permits with due diligence. Obviously, the failure or refusal of a corporation's or public agency's board of directors to approve the funding necessary for construction of the project is a delay incident to the person, not the enterprise. Congress' failure or refusal to appropriate funds for this project is no different. (See *Westlands Water Dist. v. United States* (E.D. Ca. 2001) 153 F.Supp.2d 1133, 1173, aff'd 337 F.2d 1092 (9th Cir. 2003) ["The United States . . . cannot acquire appropriative water rights to California water without following the same requirements as any other person."])

Furthermore, "lack of finances" is explicitly listed as one example of a condition incident to the person in section 844. In cross-examining Ms. Mrowka regarding section 844 at the hearing, Permittee mischaracterized the plain language of that section. Section 844 does not specify exclusive conditions that will not generally be accepted as good cause for delay, as Permittee attempted to interpret that section. "Lack of finances, occupation with other work, physical disability, and other conditions incident to the person and not to the enterprise will not generally be accepted as good cause for delay." (Section 844, italics added.) "Other conditions" also may be insufficient excuses for delay. As such, Permittee's characterization of section 844 as "identifying certain types of financial problems that would not be accepted as good cause for delay" to the exclusion of all other conditions is inconsistent with the plain meaning of section 844. (Transcript, p. 55) Section 844 speaks for itself. Conditions incident to the person, some categories of which are listed, including lack of finances, occupation with other work, and physical disability, will generally not be considered acceptable causes for delay in constructing a permitted project and putting water to beneficial use.

Satisfactory Progress

The evidence in the record does not support a finding that Permittee will make satisfactory progress if the State Water Board were to grant an extension of time.

Permittee did not claim that it would be able to make satisfactory progress on this

project if an extension of time were granted, even going so far as to argue in defense of its lack of due diligence that it cannot commence construction without a Congressional appropriation and authorization of the project. (USBR Exhibit 1, p. 7.) Inability or irresolution by a permittee to proceed diligently with construction and putting water to beneficial use is inconsistent with the requirement of section 844 that the Board be satisfied satisfactory progress will be made if an extension of time were granted. (See State Water Board Order WR 73-14 [denying time extension when a permittee had not decided whether to proceed with project and there was no evidence that a water supply project would be constructed within a reasonable time].)

Permittee's reliance on Congressional control over appropriations to show why it did not complete construction by the initial deadline and has not resumed construction since then belies any attempt Permittee may make to show that satisfactory progress will be made if an extension of time were to be granted. The Bureau of Reclamation has not proposed any legislation currently pending before Congress to reauthorize the Auburn Dam Project, and has not requested any appropriation of funds for the further construction of the project. (PT 3, ¶ 21.) No party offered any evidence that Congress is likely to appropriate funding any time in the foreseeable future. Put simply, there is no assurance that satisfactory progress will be made if an extension of time were granted.

Petition for Extension of Time Processing Requirements

As described in Ms. Mrowka's testimony, once the Division receives a petition for an extension of time that is deemed complete, the Division follows certain procedures before an extension of time may be granted. In addition to the showings required pursuant to section 844 described above, a petitioner must also resolve any protests to the petition and complete a CEQA analysis before the Division may issue an order approving the petition. (See PT 5.) Permittee's current petition for extension of time has been protested, the protest is unresolved, and Permittee has not completed the environmental documentation needed for compliance with CEQA. (Transcript, p. 51; PT

1, p. 5.) Permittee cannot be granted an extension of time without resolving the outstanding protest and submitting environmental documents needed to comply with CEQA.

Permittee has not diligently pursued fulfilling its responsibilities under CEQA. In the Division's 1984 Order, Permittee was required to submit to the Division documents prepared by Permittee to comply with NEPA no later than December 31, 1987.⁵ (PT 3, ¶ 8.) Permittee did not submit the required documents. In 2001 the Division requested that Permittee respond to the intervening protest and provide a timetable for preparation of a CEQA document. The Division advised Permittee that the Board could not act on any petition for extension of time until draft environmental documents had been prepared and circulated under CEQA. (PT 3, ¶ 17.) Permittee responded that until Congress reauthorizes the Auburn Dam Project, Permittee would not undertake any environmental work. (PT 3, ¶ 18.) To date, Permittee has not completed the required NEPA or CEQA environmental review, and cannot even provide a timetable within which it will do so.

Legal Standard for Revocation

Water Code section 1410 states "[t]here shall be cause for revocation of a permit if the work is not commenced, prosecuted with due diligence, and completed or the water applied to beneficial use as contemplated in the permit and in accordance with [the Water Code] and the rules and regulations of the board." (Wat. Code, § 1410.) Ms. Mrowka testified that in the course of her investigation pursuant to Permittee's request for extension of time, she found the facts recited above, including the fact that Permittee had taken no steps towards completion of construction since at least 1975, and that no water had been put to beneficial use under the permits. (PT 1, p. 6.) Ms. Mrowka determined that these facts, together with Permittee's stated inability to make satisfactory progress and its unwillingness to submit the information required for the

⁵ See footnote 1 and accompanying text.

Board to process a petition for extension of time, constitute cause for revocation of water rights permits 16209, 16210, 16211 and 16212.

Status of Permits if Not Revoked

If permits 16209, 16210, 16211 and 16212 were not revoked, Permittee would nonetheless be unable to commence construction of the Auburn Dam project. As described above, the deadline to complete construction passed in 1975. In 1984 the dates within which to complete construction and put water to beneficial use were deleted. (PT 3, ¶ 8.) The 1984 Order specified that the State Water Board would have to establish new dates for completion of construction and use of water before construction could be resumed and water put to use under the permits. (PT 1, p. 3; PT 3, ¶ 8.) Permittee has said that it will not comply with the requirements for issuance of an extension of time unless and until Congress reauthorizes the project. Until Permittee complies with the requirements for issuance of an extension of time, it is not authorized to commence construction or put any water to beneficial use.

Water Supply Implications

Water supply implications are not a relevant factor in considering whether revocation of a permit is appropriate, except to recognize that allowing a permittee to hold water rights in cold storage undermines the ability of junior permittees and potential applicants to plan for their water supply needs. The Board should decline to include any discussion of water supplies that would be developed by the project if it were being diligently pursued, or any alternative proposals that might be made possible if the permits are revoked.

Although some parties would like the Board's order to include dicta about their water needs, doing so would be outside the scope of the hearing notice would risk either basing the order's discussion of the issue on incomplete information or requiring additional hearings on collateral issues. For example, adequate consideration of water

supply needs in San Joaquin County would require an evaluation of how effectively the County has managed its water supplies. In particular, it would be necessary to reopen the hearing to determine what actions, if any, San Joaquin County has taken to regulate extractions to combat groundwater overdraft, and what water suppliers in San Joaquin County have done to require water conservation and to pursue alternative water supplies such as water transfers or delivery contracts from the State Water Project. Otherwise the record would be incomplete as to the full scope of San Joaquin County's needs and its actions taken to meet those needs. The prosecution team was not on notice that it should prepare testimony regarding this issue, nor would it be the appropriate entity from the Division of Water Rights to address water supply concerns. There is simply not enough information in the hearing record upon which to base any discussion of issues other than revocation.

San Joaquin County and other parties⁶ asked for an additional three years for themselves and Permittee to come to an agreement whereby they could make use of the direct diversion rights under the permits. Even assuming that Permittee was agreeable, however, there is no reason to believe the proposal would make available any more water than the San Joaquin County interests could obtain by pursuing their own applications. San Joaquin County's claim that the priority date of the United States permits would provide the County with any advantage over its own filed applications ignores the "no injury" rule of Water Code section 1702. (Wat. Code, § 1702.) Use of Permittee's permits would require a change in point of diversion to reflect San Joaquin County's proposed use of the Freeport facility.⁷ The "no injury" rule prevents a change in point of diversion, place of use or purpose of use from operating in a way so as to injure any junior appropriator. (See State Water Board Order WR 99-12, p. 12.) This

⁶ The South Delta Water Agency and the Stockton East Water District joined San Joaquin County in this request.

⁷ Any diversion by San Joaquin County via the Freeport facility would also require permission from Sacramento County. Sacramento County presented evidence that San Joaquin County does not yet have any agreement allowing it to use the Freeport facility, either for its own application or under its proposed use of the United States' permits. (Transcript, pp. 146-147.)

means that San Joaquin County would be essentially last in line, and unable to take advantage of any earlier priority of the United States' permits.⁸

The water supply implications of the proposed revocation of permits 16209, 16210, 16211 and 16212 cut both ways. There is a significant likelihood that other existing water rights could be adversely affected if permits 16209, 16210, 16211 and 16212 are not revoked for failure to put water to beneficial use. As shown in Staff Exhibit 4, there are a number of appropriations junior to these permits that could be adversely affected if the permits are not revoked for lack of due diligence. Junior appropriators who diligently constructed projects and put water to beneficial use would have a cloud over their water rights if the United States is exempted from the requirement of due diligence that everyone else must follow.

Flood Control

Some policy statements addressed the need for an Auburn Dam for flood protection purposes. The issue is not relevant to this proceeding.

Flood control is not an authorized use under the permits. Furthermore, a flood control-only Auburn Dam could be built without water rights issued by the State Water Board. Flood control only projects are not within the permitting authority of the State Water Board. Beneficial use is an essential element in an appropriation. (See Wat. Code, § 1375, subd. (c).) Thus, State Water Board precedents recognize that no water right permit or license is needed where water is diverted solely for flood control purposes, without any subsequent beneficial use, because flood control is not a

⁸ Ironically, to the extent San Joaquin County would have a higher priority than some users, that would be based on watershed of origin principles, which apply in spite of, not based on, the priority of the United States' permits.

beneficial use. (See State Water Board Decision 858 (1956), p. 49; Decision 100 (1926), p. 61; see also Decision 1460 (1976), p. 3.)⁹

Additional American River Water Flows

Sacramento County contends that water subject to the permits is needed to flow through the Lower American River. This is another issue that is not relevant in a revocation proceeding. Arguably, any unappropriated water available by revocation of permits 16209, 16210, 16211 and 16212 should be devoted to instream flows instead of new appropriations for consumptive use like those proposed by San Joaquin County. The use of water for recreation and fish and wildlife is a beneficial use, and protection of instream beneficial use is consistent with state policy of putting water to beneficial use to the fullest extent possible. (See Wat. Code, §§ 100, 1243.) But the State Water Board can and should make its decision as to the appropriate balance in the context of proceedings on applications for those appropriations (see Wat. Code, § 1243.), or in proceedings reviewing existing diversions based on the State Water Board's public trust and reasonable use authority, not as part of revocation proceedings.

Sacramento County suggests that because the minimum flow standards under State Water Board Decision 1400 (D-1400) only take effect and supplement those standards placed on the operation of Folsom Dam by Decision 893 (D-893) upon completion of Auburn Dam, "any enforceable requirement to meet the higher minimum flow standards will be eliminated and it may be a year or two before American River Flow Management Standards are fully implemented." (Sacramento County Exhibit 1, p. 2.) The argument is specious. Revocation of the permits will not eliminate any enforceable requirements, because D-1400's minimum flow standards do not apply until

⁹ On the other hand, where projects are operated or used for multiple purposes, for example where water initially diverted for flood control is then delivered for beneficial use, or where water initially impounded for flood control purposes is retained in storage in order to facilitate beneficial use of that water, a water right permit is required. (See, e.g., State Water Board Decision 1637 (1997), Decision 1582 (1982); Decision 1452 (1975); Order WR 80-6. See generally Wat. Code, §§ 1240, 1253.)

Auburn Dam is completed. Moreover, Sacramento County recognizes that "Reclamation has historically been willing to meet the minimum flow standards as a discretionary matter." (*Id.*) There is no reason to believe that Reclamation will suddenly change its historic pattern and reduce flows below those specified in D-1400. If Sacramento County is concerned about that possibility, it should file a complaint asking the State Water Board to use its continuing authority to amend the Bureau's permits for Folsom and Nimbus Dams to specify adequate flows.

Other Issues Raised By Participants

A number of policy statements urged the Board to not revoke the permits at issue for various reasons, but the State has a policy to apply water to beneficial use to the fullest extent possible. This holds true particularly in watersheds where there is heavy demand for water and supply is limited. The San Francisco Bay/Sacramento-San Joaquin Delta (Bay-Delta) is such a watershed, where competition for limited water resources is intense, and the disparity between demand and available supply has been increasing. Increasing demands on water from the Bay-Delta and its tributaries by water users and mounting environmental concerns increase the need for the State Water Board to enforce the requirement for timely project development, and to revoke permits when compliance is not demonstrated. The Board has a strong interest in the effective functioning of the water rights system, and allowing a permittee to put a water right in cold storage is inconsistent with a well-functioning system of water rights.

IV. CONCLUSION

There is clear cause for revocation of permits 16209, 16210, 16211 and 16212. Permittee, the United States, did not complete construction of its Auburn Dam project by the deadline in the permits -- 1975. Since then, Permittee has not undertaken any construction work on the project. Permittee has repeatedly failed to submit requested and required information that would enable the Board to set new dates for completion of construction and putting water to beneficial use. This lack of action on the part of

Permittee is not consistent with the requirement that projects be commenced and completed with due diligence.

Even if the Board did not revoke these permits, Permittee could not resume construction without the Board first setting new dates in the permits, which the Board cannot do without proper action by Permittee. Permittee has provided no evidence that it would be willing or able to make satisfactory progress on this project were an extension of time to be granted. Permittee has no plans to develop this project in the foreseeable future. The Board has previously declared that "a water right permit is not a proper instrument to reserve water for development at some future time." (Board Order WR 82-5 at 7) Permittee's lack of action under its permits is tantamount to it putting water in cold storage.

Finally, the Board should refrain from any discussion of topics not relevant to revocation. Water supply implications, flood control needs, and minimum flow standards for the American River are all irrelevant to whether there is cause for revocation of the permits. Those are all topics of significant concern, which should be addressed with proper notice, by the proper parties, in the proper forum. A revocation proceeding is not that forum.

I declare that the foregoing is true and correct. Executed this 3rd day of September 2008, at Sacramento, California.

Dávid Rose

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STATE WATER RESOURCES CONTROL BOARD