

Letters

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E-005903

Natural Resources Defense Council  
Save The Bay

June 4, 1999

Mr. Lester Snow  
CALFED Bay-Delta Program  
1416 Ninth Street, Suite 1155  
Sacramento, CA 95814

Re: Economic Evaluation of Water Management Alternatives

Dear Lester:

As you know, The Natural Resources Defense Council (NRDC) and Save The Bay have been actively involved in CALFED's Economic Evaluation of Water Management Alternatives (EEWMA). From the beginning of the CALFED process we have urged CALFED to undertake such an analysis and, although the methodology is still under development, we are pleased that it is underway. While we recognize that no single analysis will provide "the answer," we believe that the economic analysis, along with a full analysis of the environmental implications of water management alternatives, will be tremendously useful and should inform the preferred alternative.

Until now, understanding that all results were preliminary, we have refrained from characterizing early findings of the EEWMA. However, we found the description of the early findings that were included in the BDAC packet, and your presentation at the last BDAC meeting on the progress of the EEWMA to date, to be somewhat inaccurate and incomplete. We are concerned about the impression that this information may have left with BDAC and the policy group. Accordingly, we write to highlight what we believe to be some of the most critical early findings of the EEWMA, and to highlight some potential problems with that analysis.

In particular, we believe the following to more accurately represent the preliminary findings of the EEWMA:

- Unsubsidized storage does not appear to be the most cost-effective way of meeting demand. Under the "no subsidies/unconstrained" scenario, which gives the most honest assessment of how water management alternatives compare on a purely economic basis, only one storage option survives for inclusion in the preferred alternative (and only for urban water users) Even that storage project only survives using the most optimistic, high yield assumptions that fail to include the environmental protections that are likely to be required for any new storage projects.

Under more realistic operational assumptions, which would be necessary to avoid further damage to ecosystems (and without even considering promised environmental benefits from new surface storage), the preliminary results clearly suggest that it is highly unlikely that any surface storage project can be justified economically.

- The price of most water management alternatives, including the cost of all surface storage projects, is greater than the willingness to pay for new water supplies by agricultural water users. It is a pleasure to see demand curves as part of this analysis—these have long been absent from analysis of water supply projects in the West. These curves transmit the critical information that the demand for water varies depending on the price of that water. There is no willingness to pay, within the agricultural community, for new surface storage supplies, even given the most optimistic yield assumptions. This is a critical piece of information. Given the CALFED principle of beneficiaries pay, we should not pursue water projects for which the price is greater than intended beneficiaries are willing to pay.
- The EEWMA assumes that 800,000 acre-feet of water will be made available to the environment, per Alternative 4 of the CVPIA PEIS. This assumption is not transparent in the analysis and was not clear in the materials provided to and presented to BDAC. We have several concerns with this omission. First, the assumption of this land fallowing does not assure its implementation. In fact, despite the use of the Restoration Fund, the current extremely modest CVPIA land retirement program has been managed to provide water supply benefits solely to agriculture, rather than to the environment. Second, because the EEWMA assumes that the least expensive land fallowing options have been exercised, the analysis makes it appear that no land fallowing is cost-effective as a water management alternative.
- The least expensive voluntary dry year land fallowing options could be dramatically less expensive than new surface storage. We recently received a summary of the environmental water purchases that are assumed by the EEWMA. This data suggest that 800,000 acre-feet of water are available during dry years for a cost of \$160 to \$210 per acre-foot. These price estimates actually reflect a 100% mark up from the true costs of the land fallowing, in order to induce water users to sell. Therefore, the true cost of generating this water is \$80 to \$105 per acre-foot. In addition, this is dry year water; if CALFED were to model the cost of new surface storage facilities if they were managed for dry year benefits, the current cost estimates would increase substantially. Such “apples to apples” analysis is critical.
- The EEWMA only considers the availability of various water management alternatives to meet agricultural and urban demands, not to meet environmental needs. CALFED has identified new storage projects as a possible source of water for the environment, but has failed to fully investigate less expensive and environmentally

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superior sources of water for the environment. Since sources of environmental water do not appear to be under investigation in the EEWMA, we urge CALFED to identify where, when, and how this analysis will occur and be integrated into the water management strategy.

- There are a large number of water management alternatives that can be eliminated on economic grounds, including most surface storage projects. The materials provided to BDAC stated that "there may be little economic justification to implement some water management tools prior to others." It is more accurate to state that there are sufficient lower cost alternatives available to meet demand in 2020, and that to select between those lower cost options, we will need to use additional considerations besides purely economic considerations.

In addition to the points raised above, we have additional concerns about some of the cost assumptions that the analyses are based on and we will continue to work with the CALFED team preparing the analysis to try to address these concerns.

We hope that these points help to clarify the preliminary findings of the EEWMA. We urge you to provide a more complete briefing on the EEWMA to BDAC and to the CALFED policy group from the team conducting the analysis.

Thank you for considering our concerns.

Sincerely,



Ronnie Cohen  
Senior Policy Analyst  
Natural Resources Defense Council



Barry Nelson  
Senior Fellow  
Save The Bay

cc: CALFED Policy Group