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August 20, 1998

Mr. Steve Richie  
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Dear Steve:

Thank you for facilitating the discussion of financial principles on August 18, 1998. As you know, EDF believes strongly that the public interest is best served when the costs of water development and use, including appropriate environmental mitigation, are fully charged to those who are benefiting from that development and use. Accordingly, I would like to take this opportunity to briefly reiterate some of EDF's principles as they relate to implementation of both CALFED's common program and its alternatives.

Of the three handouts distributed Tuesday, you cited the "Draft Preferred Program Alternative 30-Year Policy Framework" as the one that CALFED was "this close" to approving. This document, of course, has so little detail that it is very hard to endorse or reject its elements. I will try to describe very briefly the context under which we would or would not support some of the bullet points in the Finance Package section.

**Benefits-based approach ("beneficiaries pay"):** Water users, through their districts, must pay the full cost, including planning, of any proposed projects which would provide either water supply or water quality benefits. In EDF's view, any result short of strict adherence to this principle will lead to an inefficient use of water and unwarranted pressure to divert more water from the environment. EDF completely rejects Mr. Orth's view that the "whole State" benefits from delivering low-cost water to agriculture.

As we discussed Tuesday, it is not possible to assess the full cost for any new projects without a clear understanding of the expected level of benefit to the parties involved. These benefits can only be determined by comparing the "baseline" water supply (and/or quality) which exist without the proposed project to that with the proposed project. CALFED must establish clear criteria measuring this baseline. For this purpose, current operational criteria, including ESA requirements, the 1995 WQCP as enforced by Water Rights Order 95-6, DOI's b2 policy and a 1995 LOD should be used.

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**Public and User cost split:** Projects which benefit the public interest, such as the ecosystem restoration program, warrant an appropriate allocation of costs between the public and water users. EDF considers water users' contributions to these projects to be mitigation fees.

EDF understand why CALFED, in the interest of moving forward, believes that it is not productive to assess, as described in the "Nailing down the Principles" draft, "reparations to the ecosystem program for damages inflicted in the past". Any EDF support for this principle would be contingent, however, on an adequate overall ecosystem restoration package, including not only adequate funding for habitat, environmental water purchases and scientific research, but adequately protective operational criteria as well. Such funding would have to include a fair share of user fee contributions.

**Crediting for other parallel efforts or contributions to Category III:** EDF supports appropriate user fees for all water diverted for consumptive use within the Bay-Delta watershed. The fees ideally should not only depend on volume but should also include criteria related to the cumulative depletion and environmental damage in each tributary. If CALFED is able to raise sufficient funds for its ecosystem restoration program, water users who currently contribute to category III or the CVPIA restoration fund should be credited for those contributions.

Also enclosed as part of EDF's position on this issue, are detailed testimony which David Yargas submitted to a Congressional committee last May and an article Tom Graff and David Yargas wrote on the subject about a year ago.

Thanks again for Tuesday's discussion. We look forward to discussing these very important financial issues with you and other CALFED representatives in the future.

Sincerely,



Spreck Rosekrans  
Senior Analyst