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BAY AREA COUNCIL

OCT 31 1997

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October 15, 1997

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Dear Members of the Bay Delta Advisory Council:

The Bay Area Water Policy Forum represents leaders from business organizations, environmental groups, water agencies and local government working together to meet the region's future water and habitat needs for economic vitality and environmental quality. As co-chairs and leaders in the Bay Area Water Policy Forum, we are writing to share with you our views on an important issue related to water resource management: **voluntary water transfers, particularly water wheeling.**

As California develops new policies to maximize the efficiency of water supply systems, voluntary water transfers become critically important. Further, wheeling policy is central to the success of transfers because it determines to whom, when, and at what price water can be transferred through our state's water infrastructure. In general, the Bay Area Water Policy Forum supports more open access to the state's water delivery system in order to promote water transfers, achieve greater water delivery reliability, and maximize the efficiency of our water infrastructure.

The following summarizes the key policy points on water transfers and wheeling endorsed by the Bay Area Water Policy Forum that we urge you to support and incorporate into your work on water resource management.

Key Points on Voluntary Water Transfers and Wheeling Policy

- A water market that allows and facilitates voluntary transfers must be an integral component of responsible water resource management in California.
- The CALFED/Bay Delta Advisory Council (BDAC) process must incorporate voluntary water transfers as a major component of the Bay-Delta solution.
- Development of a water market will promote demand management and efficient water allocation. A water market also will mitigate increases in future demands, and therefore, moderate future costs to California consumers. Implementation of this key component of California water resource management is not dependent on adoption of the final Bay-Delta solution, but should be consistent with the goals and objectives of CALFED and incorporated into that final solution. It is in the best public interest to take action to improve the water transfer market as soon as possible.

Founded in 1943, the Bay Area Council is a business-sponsored organization that acts on public policy issues affecting the economy and quality of life in the Bay Area. The Council also co-sponsors the Bay Area Economic Forum.

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- Both the Legislature and BDAC, in working to advance transfers, should consider the Model Water Transfer Act developed by the California Business Roundtable, California Farm Bureau, California Chamber of Commerce and the California Manufacturers' Association as a base document from which to build agreement for enactment of legislation and any procedural or regulatory reforms.
- Legislative provisions regarding wheeling and the work of BDAC should ensure the following four central issues are addressed:

Water Quality: Wheeling policy must provide for maintaining water quality standards and assuring that the water quality demanded by current and future customers can be met. Water quality issues should not be used to inappropriately limit access to delivery systems when water quality can be protected. At the same time, the expense of water quality protection for a transfer should not be borne inequitably by the owners and customers of the conveyance facility.

Facility Access: Wheeling policies need to be designed in order to facilitate appropriate access to water infrastructure facilities for parties wishing to transfer water. Access policies must respect the needs of the owners of the facilities, and its customers, while attempting to meet the needs of transferring parties. Specifically, wheeling policies should be designed to help improve, not limit, water reliability. Access to water infrastructure by transferring parties must be compensated or result in no more than a diminimus impact to the reliability and quality of service provided to the customers of the conveyance facility.

Wheeling Charges: Wheeling policies must address all costs of using facilities for parties wishing to use the facilities to transfer water. Rate structures must be designed in order to facilitate efficient use of facilities both ensuring that: (a) rates are not too high, which would limit access, promote inefficiencies, and encourage excess investment; and (b) rates are not too low, which could inappropriately burden current and future rate payers and discourage needed water infrastructure investments.

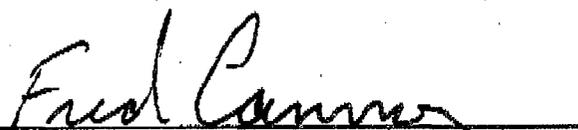
Natural Resources: Wheeling policies must recognize the need to provide full protection for natural resources. Some wheeling arrangements have the potential to affect the state's natural resources, particularly Central Valley fisheries and the Bay-Delta Estuary. Policies must be designed to provide increased opportunities for transfers and efficiency, while avoiding additional damage to natural resources.

In summary, water transfer policy must strive to balance the interests of all parties involved. Wheeling policies must promote efficient transfer decisions. Wheeling customers should be charged the lowest reasonable cost-based rate for wheeling services. And, wheeling arrangements must not affect the reliability or quality of service to a utility's existing customers without just and mutually agreed-upon compensation.

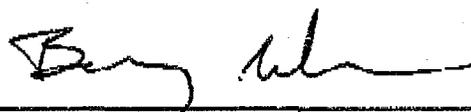
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We encourage a full debate of these issues in the legislature and the CALFED process and urge you to help ensure that state policy is developed that is in the best interests of all Californians.

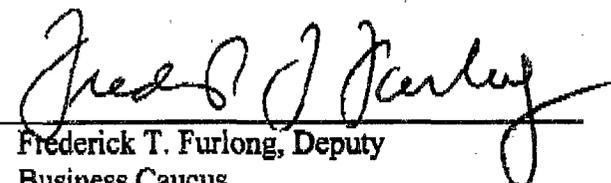
Sincerely,



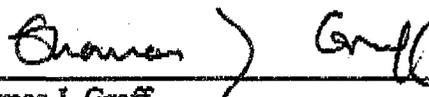
Frederick L. Cannon, Co-Chair
 Business Caucus
 Senior VP, Bank of America



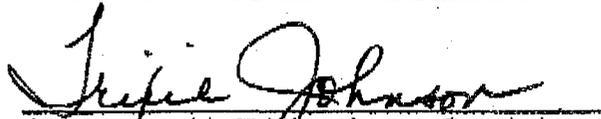
Barry Nelson,
 Senior Fellow
 Save San Francisco Bay Association



Frederick T. Furlong, Deputy
 Business Caucus
 VP, Banking, Finance & Regional Studies
 Federal Reserve Bank of San Francisco



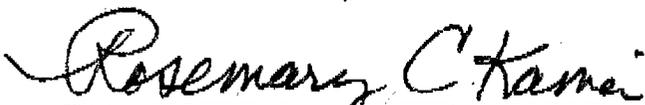
Thomas J. Graff
 Senior Attorney
 Environmental Defense Fund



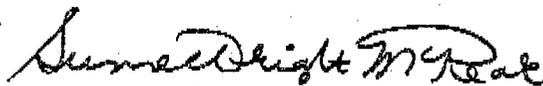
The Honorable Trixie Johnson, Co-Chair
 Public Sector Caucus
 Councilmember, City of San Jose



Mary Selkirk, Deputy
 Water Agencies Caucus
 Director, East Bay Municipal Utility District



Rosemary C. Kamei, Co-Chair
 Water Agencies Caucus
 Director, Santa Clara Valley Water District



Sunne Wright McPeak
 President & CEO
 Bay Area Council