Benefit-Cost Analysis of the Delta Conveyance Project

Prepared by David Sunding, Ph.D.

and Oliver Browne, Ph.D.

May 16, 2024

Berkeley Research Group

Table of Contents

Figures

Tables

Executive Summary

This report presents the results of a benefit-cost analysis for the Delta Conveyance Project (DCP), a plan to modernize the State Water Project (SWP)'s conveyance infrastructure in the Sacramento-San Joaquin River Delta (Delta). The SWP plays a crucial role in supplying water resources to 27 million Californians. Businesses in the area served by the SWP produce $2.3 trillion in goods and services annually, making it the world's eighth-largest economy. The SWP delivers an average of 2.56 million acre-feet of water annually to urban and agricultural customers in the Bay Area, Central Valley, Central Coast, and Southern California. However, by 2070, climate change and sea-level rise are expected to reduce SWP deliveries by approximately 22%, or 546 thousand acre-feet per year (TAF/yr). In addition, the SWP faces an ongoing risk of service disruptions following seismic events near the Delta; these events could cause outages and reduce the quality of water exports from the SWP south of the Delta.

The DCP's intended purposes are to mitigate climate and seismic risks for the SWP and provide water managers with additional operational flexibility in the Delta. The DCP would add new intake facilities in the North Delta to divert water from the Sacramento River and a tunnel to convey water to the South Delta for export to the SWP's urban and agricultural customers. The DCP would increase SWP deliveries by approximately 17%, or 403 TAF/yr, largely offsetting the anticipated reduction in water deliveries due to climate change. The DCP would also be less vulnerable to earthquakes near the Delta, meaning that SWP supplies could continue largely uninterrupted following seismic events.

A benefit-cost analysis is a rigorous method for evaluating the economic viability of a project—specifically, by forecasting a project's expected future benefits and costs. The present value of future benefits and future costs is calculated relative to a no-project alternative. Present values are calculated using real discount rates that reflect the time-value of money. As detailed in recent federal guidance (OMB Circular A-94), we adopt a real discount rate that starts at 2% in 2020, reflecting current inflation-adjusted Treasury bond rates, and gradually decreases to 1.4% by 2140 to reflect long-run uncertainties. The benefit-cost ratio is calculated by dividing the present value of future benefits by the present value of future costs. As discussed later in this report, for the DCP, we calculate a benefit-cost ratio of 2.20 and show that this ratio is robust with respect to a number of alternative assumptions regarding climate change, sea-level rise, SWP operations, and project costs. The approach to benefit-cost analysis taken in this report is consistent with the approaches described in the Department of Water Resources (DWR) Economic Analysis Guidebook and with State of California and federal guidelines for economic analysis of water resource–related investments.

The benefits and costs of the DCP are estimated in the context of forecast changes in water supply and demand. Climate change and sea-level rise are expected to significantly reduce future SWP deliveries. Future precipitation and runoff are forecast using an ensemble of climate scenarios selected by DWR's Climate Change Technical Advisory Group. Then, project deliveries are simulated using CalSim 3, a resource planning model that simulates operations of the SWP and Central Valley Project (CVP) under different hydrologic conditions. The project timeline, based on DWR's most recent expectations, involves preconstruction from 2026 to 2028, construction from 2029 to 2044, and an evaluation of economic benefits for a century of operations from 2045 to 2145.

Benefits of the DCP

This report quantifies the benefits of the DCP in four areas: urban water supply reliability, agricultural water supply, water quality, and seismic reliability.

1) ***Urban water supply reliability***

The primary benefit of the DCP is that it would reduce the anticipated increase in the frequency of water supply shortages for SWP's urban contractors caused by climate change and sea-level rise. The frequency and size of future water supply shortages are assessed using information provided by State Water Contractors, as described in their respective urban water management plans (UWMPs) or, for the Metropolitan Water District, in the Integrated Resource Plan (IRP). These models are used to estimate the frequency and magnitude of shortages for each contractor, with and without the project and under various future climate assumptions. This approach to estimating water supply reliability is consistent with the Delta Independent Science Board's 2020 review of approaches to water supply reliability estimation.[1]

The economic impact of future water shortages for urban customers is estimated using economic models that measure consumer welfare, a measure of well-being for urban water customers resulting from the reliability of their urban water supply loss. The estimates of consumer welfare loss use a standard model from the academic literature.[2] Calibration of this model is based on retail water rates and utility-specific estimates of customer demand sensitivity. Over the project's lifetime, the present value of improved water supply reliability (i.e., the DCP's ability to mitigate the effects of forecast climate change and sea-level rise) is estimated to be worth more than $33.3 billion in 2023 dollars.

[1] Delta Independent Science Board. 2016. *Review of Water Supply Reliability Estimation Related to the Sacramento-San Joaquin Delta*. Report to the Delta Stewardship Council. June. Sacramento, CA. Available: https://deltacouncil.ca.gov/pdf/isb/products/2022-06-16-isb-water-supply-reliability-review.pdf.

[2] See, for example, Brozovic et al. 2007, Buck et al. 2016, or Buck et al. 2023 for examples of this approach.

Buck, S., M. Auffhammer, S. Hamilton, and D. Sunding. 2016. Measuring Welfare Losses from Urban Water Supply Disruptions. In *Journal of the Association of Environmental and Resource Economists*, 3(3), 743–778.

Buck, Steven, Mehdi Nemati, and David Sunding. Consumer Welfare Consequences of the California Drought Conservation Mandate. In *Applied Economic Perspectives and Policy,* 45, No. 1 (2023):510–533.

2) Agricultural water supply

The benefits of improved agricultural water supply reliability are estimated using two approaches. First, a willingness-to-pay approach is used, based on the Statewide Agricultural Production (SWAP) model, a regional model of irrigated agricultural production in California's Central Valley developed by researchers at the University of California, Davis that simulates the economic decisions of farmers. This estimate reflects the long-term value of water to agricultural customers in the Central Valley. Second, we use a market-based approach, valuing the incremental water supplies produced by the DCP at average market prices, as measured by the Nasdaq Veles California Water Index. This estimate reflects the ability of farmers to extract additional value by selling water to other urban or agricultural users during short-term periods of scarcity. Averaging estimated benefits across these two approaches, the present value of the DCP's future agricultural water supply benefits is $2.3 billion in 2023 dollars.

3) Water quality

The DCP is expected to lead to a modest improvement in the average quality of water exported south of the Delta. The benefits of improved water quality in the urban sector are estimated using the Salinity Economic Impact Model (SEIM) developed by the U.S. Geological Survey (USGS). The present value of benefits from improved urban water quality in Southern California is worth $1.33 billion in 2023 dollars. The benefits of improved water quality in the agricultural sector of the San Joaquin Valley and Southern California are estimated using models that calculate the value of a reduced yield impact and irrigation water requirements due to reduced salinity in the agricultural water supply. The present value of improved agricultural water quality is expected to be around $0.09 billion in 2023 dollars.

Anticipated operation of the DCP would lead to changes in salinity in the Delta; the impacts of these changes are assessed as being "less than significant" in the project's environmental impact report (EIR); however, costs associated with potential increased Delta salinity are accounted for under the costs of remaining environmental impacts after mitigation. Overall, the benefits of improved salinity for downstream agricultural water contractors significantly outweigh the cost of the small increase in salinity in the Delta region. The project would also provide additional operational flexibility to help SWP operations adapt to water regulations in the Delta, the benefits of which are not explicitly quantified in this report.

4) Seismic reliability

The project would also provide significant economic benefits by acting as an insurance policy against the risk of water supply interruptions during a major seismic event in the San Francisco Bay or Delta region. The DCP's benefits in terms of improved seismic reliability are estimated using a seismic scenario described in the Delta Flood Emergency Management Plan (DFEMP). This scenario describes a 500-year seismic event that causes up to 50 levee breaches in the Delta, flooding 20 islands. Under the recovery scenario that we consider for such an event, exports from the Delta are expected to cease for between six and 448 days. After that period, exports resume but with impaired water quality for between five to 103 additional days. The DCP is engineered to withstand such an event and remain operational. The benefits of continued water deliveries during such an event are estimated by assuming that either the DCP operates at capacity for the duration of the seismic impacts or that it operates at a minimum level to meet health and safety requirements. Depending on the specific scenario, the benefits of DCP operations during the seismic event range from $60 million to $53 billion. Averaging across the scenarios considered and accounting for the annual likelihood of such an event, we estimate the present value of seismic benefits from DCP operations to be around $1 billion in 2023 dollars.

We estimate total benefits with a present value of $33.8 billion. Some benefits of the DCP are not explicitly quantified in this report. For example, this report does not quantify the project's benefits in terms of increased operational flexibility in the Delta or the benefits associated with the Community Benefits Program, which will invest in local communities. The DCP is also expected to relieve pressure on groundwater supplies in the Central Valley and increase the average storage levels of the state's major reservoirs, the impacts of which are not quantified in this report.

Costs of the DCP

In addition to considering benefits, this report quantifies the costs associated with construction of the DCP. Three types of costs are considered in this report: the project costs associated with development and construction of the project, the operations and maintenance (O&M) costs associated with operating the project over its 100-year lifespan, and the costs associated with any remaining environmental impacts after mitigation.

1) Construction costs and related expenditures

The Delta Conveyance Design and Construction Authority (DCA) produced two cost estimates for the DCP. The primary cost estimate reflects the project's current specifications, as detailed in the EIR, estimated at $20.1 billion before discounting. In addition, a secondary estimate, referred to as the "project-wide innovations and savings estimate," evaluates the financial impact of potential design modifications and construction innovations. These innovations aim to enhance cost efficiency and feasibility without changing core project specifications, potentially reducing costs and construction timelines while minimizing environmental impacts. Before discounting, the secondary estimate stands at $18.9 billion.

After applying discount rates, the present value of the primary and secondary estimates is $15.4 billion and $14.5 billion, respectively. These figures are based on 2023 dollars and include various cost components:

- **Construction costs** for the intakes, tunnels, pumping plants, and other infrastructure, including a 30% contingency, worth $11.5 billion or $10.7 billion in present-value terms for the primary and secondary estimates, respectively.
- **Other project costs** include those associated with planning, design, construction management, land acquisition, and power use as well as the cost of a settlement agreement with the Contra Costa Water District, worth $3.0 billion or $2.9 billion in present-value terms for the primary and secondary estimates, respectively.

- **Costs for** a **community benefits program,** worth $200 million undiscounted or $153 million in present-value terms.
- **Costs for the mitigation of environmental impacts** identified in the EIR, worth $960 million undiscounted or $735 million in present-value terms. Expected environmental impacts and approaches to mitigation are identified in the project's EIR.

2) Operations and maintenance costs

Projected O&M costs for the DCP are detailed in a memorandum authored by the DWR and the DCA.[3] This cost forecast included facility O&M, materials, power, capital equipment replacement and refurbishment, and the management of project restoration sites. In 2023 dollars, estimated annual O&M costs are $52.6 million, amounting to a present value of $1.7 billion over the project's 100-year operational span from 2040 to 2140.

3) Remaining environmental impacts after mitigation.

Most environmental impacts identified as significant in the EIR can be mitigated to levels where they are considered less than significant after mitigation. However, some environmental impacts identified in the EIR are anticipated to have significant and unavoidable impacts after the implementation of proposed mitigation measures. In an appendix to this report, each significant and unavoidable impact is considered, and where appropriate, economic tools are used to estimate the economic costs associated with these impacts. Our assessment also estimates costs associated with an increase in Delta salinity, included despite being "less-than-significant" impacts in the EIR, in order to provide a complete account of all salinity-related impacts alongside the previously discussed water quality benefits. The costs of environmental impacts that remain significant after mitigation are calculated in the following areas:

- Lost agricultural land
- Air quality impacts
- Noise impacts
- Transportation impacts
- Reduced water quality in the Delta

The costs of other impacts—specifically, in terms of aesthetic and visual resources, paleontological resources, and tribal cultural resources—are not estimated because there is no appropriate economic methodology to do so. For the impacts that are quantified, the present value of future costs is $167 million in 2023 dollars. These impacts may disproportionately affect specific populations adjacent to the construction project.

[3] California Department of Water Resources. 2024. *O&M Annual Cost Estimate Basis for Bethany Reservoir Alternative*. April.

Benefit-Cost Ratios and Sensitivity Analyses

Table 1 summarizes the primary DCP benefit-cost estimate. We estimate the present value of the benefits of the DCP to be $37.96 billion in 2023 dollars, and we estimate the present value of the costs of constructing and operating the DCP to be $17.26 billion in 2023 dollars. Based on these estimates, we find the proposed DCP project has a benefit-cost ratio of 2.20. Under the cost estimate with project-wide innovations and savings, the benefit-cost ratio is higher, at 2.33.

Table 1 also shows estimates per acre-foot of the benefits and costs of the DCP. These estimates per acre-foot are calculated using a levelized cost-of-water approach that accounts for the timing of future SWP deliveries.[4] Based on this approach, we estimate levelized benefits of $2,918 per acre-foot, along with levelized costs of $1,327 per acre-foot and $1,255 per acre-foot, respectively, in the primary and secondary cost estimates.

The primary benefit-cost analysis shown in Table 1 is referred to as the 2070 median scenario with 1.8 feet of sea-level rise. This scenario considers changes in precipitation and runoff from a median climate change projection, based on an ensemble of global climate models for the period 2056–2085.[5] The primary scenario assumes 1.8 feet of sea-level rise by 2070, based on guidance from the California Ocean Protection Council for the likely range of sea-level rise under a high emissions scenario.[6] To test the robustness of the estimated benefit-cost ratio to these assumptions, a number of sensitivity analyses are also considered that make alternative assumptions in terms of future precipitation and runoff, sea-level rise, and adaptation measures to reduce operational risks associated with climate change. Across all the sensitivity analyses considered, the incremental deliveries of the proposed project are at least 395 TAF/yr on average, highlighting that the proposed project is robust to different assumptions about climate change and sea-level rise. In each of these sensitivity scenarios, the benefits of the project significantly exceed costs with benefit-cost ratios between 1.54 and 2.69.

---

4 Levelized cost of water is calculated with the formula $LCOW = \frac{\sum_{t=1}^{n} \frac{C_t}{(1+r_t)^t}}{\sum_{t=1}^{n} \frac{Q_t}{(1+r_t)^t}}$ where C_t is the cost associated with the DCP at time t, Q_t is the volume of additional SWP deliveries as a result of the DCP at time t, and r_t is the discount rate at time t. This methodology is described in more detail here:
Fane, Simon, J. Robinson, and S. White. The Use of Levelized Cost in Comparing Supply and Demand-Side Options. In *Water Science and Technology: Water Supply,* 3, No. 3 (2003):185–192.

5 See California Department of Water Resources "CalSim 3 Results for 2070 Climate Change and Sea-Level Projections and Sensitivity Analysis."

6 See California Ocean Protection Council. 2018. *State of California Sea-Level Rise Guidance: 2018 Update*. Sacramento: CA.

Table 1: Summary of Benefits and Costs

	Main Scenario	
	Primary Cost Estimate	**Costs w. Project-wide Innovations & Savings**
	Present Value of Future Benefits	
	$ Millions, 2023	$ Millions, 2023
Urban Water Supply and Reliability	$33,300	$33,300
Agricultural Water Supply and Reliability	$2,268	$2,268
Urban Water Quality	$1,330	$1,330
Agricultural Water Quality	$90	$90
Seismic Reliability Benefits (Water Supply)	$969	$969
Seismic Reliability Benefits (Water Quality)	$2	$2
Total Benefits	**$37,960**	**$37,960**
	Present Value of Future Costs	
	$ Millions, 2023	$ Millions, 2023
Construction Costs	$11,486	$10,723
Other Project Costs	$3,021	$2,852
Community Benefit Program	$153	$153
Environmental Mitigation	$735	$735
O&M Costs	$1,697	$1,697
Environmental Impacts after Mitigation	$167	$167
Total Costs	**$17,259**	**$16,327**
Levelized cost per AF	*$1,327*	*$1,255*
Benefit-Cost Ratio	**2.20**	**2.33**

Sources and Notes:

- Construction Costs include 30% contingency.
- Other Project Costs include project design, management, oversite, land, power, and Contra Costa Water District Settlement Agreement cost shares.
- Benefits and costs evaluated under the 2070 median climate scenario with 1.8 feet of sea-level rise. All benefits and costs are net present values in millions of 2023 dollars.
- A declining discount rate of 2% (2023–2079), 1.9% (2080–2094), 1.8% (2095–2105), 1.7% (2106–2115), 1.6% (2116–2125), 1.5% (2127–2134), 1.4% (2135–2140) is used in accordance with Office of Management and Budget guidance.

1. Introduction

1.1. BACKGROUND ON DELTA CONVEYANCE

The Sacramento-San Joaquin River Delta (Delta) is an expansive network of waterways in Northern California at the confluence of the Sacramento and San Joaquin Rivers. The Delta serves as a critical junction for the distribution of water from the wetter northern and eastern parts of the state to the drier coastal and southern regions through two major water conveyance projects: the State Water Project (SWP) and the Central Valley Project (CVP).[7] Water conveyed south through the SWP is used to supply residential, agricultural, commercial, and industrial customers in California, including in the South of the San Francisco Bay Area, in the Central Valley, in the Central Coast, and in Southern California. The SWP supports a service area that includes 27 million people with a gross domestic product (GDP) equivalent to the world's eighth-largest economy ($2.3 trillion). Within this service area, the SWP currently deliveries approximately 2.56 million acre-feet of water annually to urban and agricultural customers. However, the SWP infrastructure that moves this water through the Delta is outdated and at risk due to climate change, sea-level rise, and seismic activity. Climate change and sea-level rise are expected to reduce SWP water deliveries by about 22% by 2070. Rising sea levels threaten to increase saltwater intrusion, which can compromise local ecosystems and the quality of water available for export. Furthermore, climate change is expected to bring more extreme weather patterns, including both severe droughts and intense storms. This unpredictability adds stress to existing ecological constraints on storage and conveyance, potentially reducing future deliveries and making their timing more uncertain. Furthermore, the Delta’s systems of aging levees, some of which date back to the gold rush era, are vulnerable to failure. A major seismic event in the Delta could lead to numerous levee failures, significantly compromising the conveyance system in the area. This would pose a direct risk to water supply and water quality throughout the region.

The construction of additional conveyance infrastructure in the Delta has been extensively studied in a number of different proposals over several decades. The Department of Water Resources’ (DWR’s) 1957 California Water Plan suggested a “Trans-Delta System” to convey water; a peripheral canal was part of the original proposal for the SWP. During the 1980s, Governor Brown passed legislation providing for the addition of a peripheral canal in the Delta as part of the CVP. This proposal was extensively studied; however, the legislation was subsequently repealed in a voter referendum in 1982.

---

[7] The SWP is a complex system of reservoirs, aqueducts, power plants, and pumping stations. It supplies water to more than 27 million people and irrigates about 750,000 acres of farmland. Planned, built, operated, and maintained by DWR, the SWP is the nation’s largest State-owned water and power generator and user-financed water system.
The CVP, managed by the Federal Bureau of Reclamation, serves primarily agricultural users in California's Central Valley. It includes 20 dams and reservoirs, 11 power plants, and 500 miles of major canals, playing a critical role in the region's agricultural productivity.

In 2009, the Bay Delta Conservation Plan proposed by Governor Schwarzenegger studied alternative Delta conveyance facilities, including twin tunnels with a capacity of 9,000 cubic feet per second. A modified version of this proposal, called Cal WaterFix, was proposed in 2015 during Governor Brown's third term. The current Delta Conveyance Project (DCP) proposal considers a single tunnel with a capacity of 6,000 cubic feet per second, along with a new route close to Interstate 5 and a connection to Bethany Reservoir on the California Aqueduct. Authors of this report have been involved in economic analyses for each of these proposals since 2009. Each analysis has used similar methodologies and has consistently found that the benefits of the proposed project exceed its costs, with comparable results in terms of estimated economic benefits.[8]

1.2. THE PURPOSE OF THE DELTA CONVEYANCE PROJECT

The purpose and objectives of the proposed DCP are described in Chapter 2 of the project's environmental impact report (EIR).[9] The purpose of the DCP is to develop new diversion and conveyance facilities in the Delta to protect the reliability of SWP deliveries, in light of anticipated future climate change and sea-level rise. Operation of these conveyance facilities will help achieve several related objectives by addressing sea-level rise, minimizing the impact of major earthquake events on SWP and potentially CVP deliveries, and protecting the ability of the SWP to deliver water and provide further operational flexibility. If approved, these updates would improve climate resiliency and the reliability of the state's largest source of safe, affordable, and clean water for 27 million Californians and 750,000 acres of farmland, with continued support for local water supply projects, such as local storage, recycling, groundwater recharge, and water quality management projects.

1.3. THE DELTA CONVEYANCE PROJECT

The DCP would modernize the water transport infrastructure in the Delta by adding new facilities in the North Delta to divert water and a tunnel to convey water to the South Delta. The proposed project is described in Chapter 3 of the project's EIR. This analyzes the costs and benefits associated with the preferred project alternative proposed in the EIR—specifically, Alternative 5. Other alternatives outlined in the EIR and additional planning documents are not included in this evaluation.

Key components of the DCP entail upgrading existing SWP infrastructure and establishing two intakes on the Sacramento River, alongside a 45-mile-long tunnel and a pumping station to channel water into Bethany Reservoir on the California Aqueduct. The tunnel, designed with launch, reception, and maintenance shafts, runs

---

[8] Sunding, David L. 2018. *Economic Analysis of Stage I of the California WaterFix*. Prepared for the California Department of Water Resources. September 20, 2018.

Hecht, Jonathan, and David Sunding. 2013. *Bay Delta Conservation Plan Statewide Economic Impact Report*. August 2013.

[9] Delta Conveyance Project. 2023. *Certified Final Environmental Impact Report*. Permits and Regulatory Compliance. Available: https://www.deltaconveyanceproject.com/planning-processes/california-environmental-quality-act/final-eir/final-eir-document. Accessed: April 2024. Hereinafter "DCP EIR."

along the eastern perimeter of the Delta, strategically avoiding the central Delta region. The proposed conveyance facilities would have a capacity of 6,000 cubic feet per second. Figure 1 presents a map of the infrastructure that would be built for conveyance in the preferred alternative.

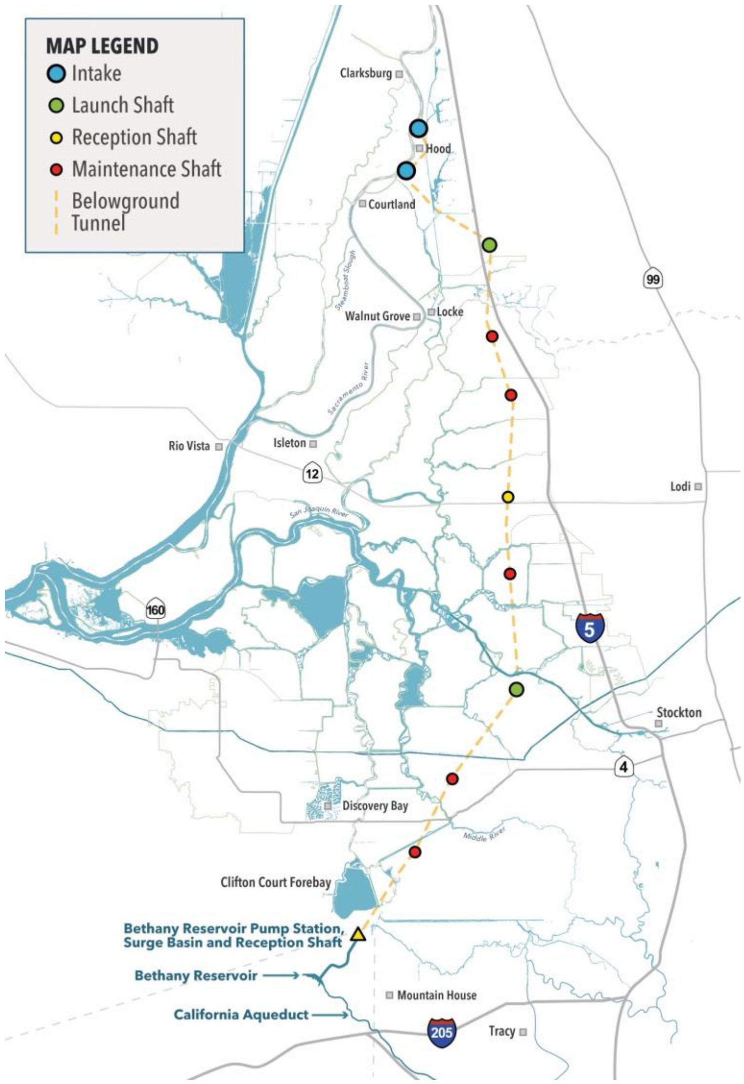
Once the water reaches existing aqueducts and water facilities in the South Delta, it can be conveyed through existing infrastructure to SWP contractors in the Bay Area, Central Coast, Central Valley, and Southern California. These infrastructure enhancements would provide DWR with the flexibility to capture, transport, and store water in accordance with regulatory standards, ensuring its availability during periods of limited supply.

The DCP's increased conveyance capacity will enable increased deliveries of project water to State Water Contractors south of the Delta. The increase in deliveries from the DCP will partially offset the expected reduction in deliveries caused by future climate change and sea-level rise.

The seismic reliability of the DCP ensures the continuous conveyance of water, even during seismic events that might otherwise cause significant disruptions to conveyance operations throughout the Delta. The seismic design criteria adopted for the 45-mile DCP tunnel is based on what is designated as the Maximum Design Earthquake (MDE), an extreme seismic event estimated to happen once every 2,475 years.

Following DWRs currently timeline, in our analysis, preconstruction activities take place between 2026 and 2028. Construction is expected to occur between 2029 and 2044, with subsequent economic benefits estimated over the 100-year operational period from 2045 to 2145.

Figure 1: Map of the Proposed Delta Conveyance Project



Sources: Map of the Delta Conveyance Project, January 2024

2. Framework for Benefit-Cost Analysis

2.1. INFLATION, DISCOUNT RATES, AND RISK

In benefit-cost analysis, as well as in other economic and financial analyses, it is standard to analyze all benefits and costs using "real prices." For the purposes of this report, all figures are expressed in 2023 dollars. This means that, regardless of the year in which a cost or benefit occurs, the value of the cost or benefit is assessed as if it were occurring in 2023. This is done to account for inflation, the general increase in the price of goods and services over time. Because the upfront investment and benefit streams occur in different years, it is important to measure costs and benefits at different times in comparable units. Using 2023 prices removes the distorting effects of inflation, allowing present-day expenditures to be directly comparable to future benefits and providing a clear basis for evaluating a project's economic viability.

Unexpected inflation should not significantly change the outcome of our benefit-cost analysis. If inflation affects future costs and benefits similarly, changes in the inflation rate will not affect the conclusions of the benefit-cost analysis. Unexpected inflation could skew the project's benefit-cost ratio but only if the inflation experienced disproportionately affects costs relative benefits, or vice versa. This is unlikely for the DCP because the benefits are largely tied to water rates, and costs are associated with construction expenses, whose prices generally move in tandem.

In addition to inflation, benefit-cost analyses must also account for the time-value of money, which recognizes that money available today is worth more than the same amount in the future because it can be used immediately (e.g., to pay for things or to invest and earn more money). This concept is crucial, especially in long-term projects like the DCP, which assumes a 15-year construction and commissioning period starting in 2029 followed by a 100-year operational project life.

To account for the time-value of money, future benefits and costs are discounted at a rate called the "real discount rate." This is standard in benefit-cost analysis and other infrastructure benefit-cost planning and regulatory analyses. [10] The benefits of money invested at the beginning of the project unfold over 100 years, and the discounting factor incorporates the forgone opportunity cost of the money had it not been invested into the DCP but rather received the risk-free rate of return on savings in a heavily traded market.[11]

---

[10] The White House. 2023. *Biden-Harris Administration Releases Final Guidance to Improve Regulatory Analysis*. November 9, 2023. Available: https://www.whitehouse.gov/omb/briefing-room/2023/11/09/biden-harris-administration-releases-final-guidance-to-improve-regulatory-analysis/. Hereinafter "OMB Circular A-94."

[11] OMB Circular A-94.

Office of Management and Budget (OMB) Circular A-94 recently updated the guidance on the use of discount rates in benefit-cost analysis. Circular A-94 identifies the real, inflation-adjusted return on long-term government debt is a good measure of the discount rate. The updated long-run discount rate starts at 2% from 2023 to 2079 and gradually falls to 1.4% from 2064 to 2172, reflecting both the social rate of time preference and the expected growth of capital.[12]

It is important to separately account for uncertainty and risk when performing benefit-cost analysis. To account for uncertain but positively correlated discount rates, economists recommend assigning probabilities to future discount rates, resulting in declining certainty-equivalent discount rates.[13] Because the discount rate captures only the risk-free interest rate, other risks are explicitly accounted for in the benefit-cost analysis (e.g., by simulating a distribution of hydrologic outcomes when assessing the project's water supply benefits, based on historic rainfall patterns and climate change).

The outcome of a benefit-cost analysis is an estimated benefit-cost ratio, the ratio of the discounted present value of benefits to the discounted present value of costs. In this analysis, a project should be considered economically viable if the benefit-cost ratio exceeds some hurdle rate, which is set above one. This hurdle rate is a policy decision that reflects social expectations for the required return on investment. A benefit-cost ratio greater than one does not necessarily mean that the benefits exceed the costs for all parties affected by the project. A more detailed analysis is required to assess the distribution of impacts across different groups because the benefits and costs may not be uniformly distributed.

2.2. DWR AND OTHER AGENCY GUIDANCE

The approach for this benefit-cost analysis is guided by DWR's Economic Analysis Guidebook. The DWR published the guidebook in 2008 as a resource to help DWR economists perform economic analyses through its discussion of economic analysis guidelines, methods, and models, among other topics. [14] In the guidebook, it is preferred that analyses be performed in a manner that is also consistent with the federal Principles, Requirements, and Guidelines (PR&Gs), except where State of California (State) interests might differ from federal interests or where the PR&Gs are considered outdated. As such, the approaches in this report have been made consistent with the federal PR&Gs, despite the fact there is no federal component to this project.

---

[12] OMB Circular A-94.

[13] Arrow, Kenneth J., Maureen L. Cropper, Christian Gollier, Ben Groom, Geoffrey M. Heal, Richard G. Newell, William D. Nordhaus, Robert S. Pindyck, William A. Pizer, Paul R. Portney, Thomas Sterner, Richard S. J. Tol, and Martin L. Weitzman. 2014. Should Governments Use a Declining Discount Rate in Project Analysis? In *Review of Environmental Economics and Policy,* Volume 8, No. 2. Available: https://www.journals.uchicago.edu/doi/full/10.1093/reep/reu008. Accessed: December 6, 2023.

[14] California Department of Water Resources. 2008. *Department of Water Resources Economic Analysis Guidebook*. January 2008, pp. vii–viii. Hereinafter "CADWR Guidebook."

The guidebook advocates for an economic evaluation "of all economic costs for structural and non-structural alternatives. These costs include capital, operations, maintenance, and mitigation. Non-monetary costs and benefits must also be taken into account. In addition, identifying how the costs and benefits are allocated among involved parties is an important component of any plan." [15]

The DWR guidebook identifies three common economic analysis methods:

1. **Cost-effectiveness analysis** is used to compare multiple alternatives for achieving an identical set of objectives and identify which alternative achieves those objectives at the lowest cost.
2. **Benefit-cost analysis** estimates all the benefits and costs of a proposed project and compares them to a no-project alternative. In a benefit-cost analysis, a project is considered economically viable if the ratio of a project's benefits to its costs is larger than some proposed hurdle rate that is greater than one.
3. **Socioeconomic impact analysis** considers the distribution of benefits and costs of a proposed project among different parties.

This report contains only a benefit-cost analysis. It does not determine which of the proposed project alternatives is least costly, and it does not consider the distributional impacts of the proposed project.

The DWR guidebook also emphasizes the importance of incorporating risk and uncertainty into any economic analysis. In this context, risk describes situations where the probability of various outcomes can be measured or estimated, whereas uncertainty arises in scenarios where these probabilities are unknown or unquantifiable. For example, estimating the future distribution of precipitation and hydrologic inflows is a key part of our analysis. In this context, risk is described by our estimates of the probability of a future dry year, with low precipitation and inflows based on historical years. There is remaining uncertainty about the extent of future climate change, which we model by simulating a range of different climate scenarios and examining the robustness of our estimates to different climate assumptions.

2.3. CLIMATE ASSUMPTIONS

This report analyzes a range of possible future climate scenarios to give a full picture of the robustness and uncertainty in estimated benefits and costs. The primary benefit-cost analysis scenario considers changes in precipitation and runoff using a median climate change projection, based on an ensemble of global climate models for the period 2056–2085. The primary scenario assumes 1.8 feet of sea-level rise by 2070, based on guidance from the California Ocean Protection Council for the likely range of sea-level rise under a high emissions scenario. In separate sensitivity analyses, we also consider lesser degrees of climate change, either under existing conditions or 2040 climate conditions. We also consider scenarios with greater and lesser degrees

[15] CADWR Guidebook, p. 3.

of sea-level rise. For a comparison across climate scenarios, refer to the Sensitivity Analyses section of the report.

To simulate the 2070 climate scenarios, meteorologic and hydrologic boundary conditions were developed with 10 Coupled Model Intercomparison Project 5 global climate projections. Historical meteorological data perturbed with the differences observed in the ensemble of selected global climate projections are used to estimate future climate conditions, including runoff, surface water evaporation, and evapotranspiration. Ten hydrologic scenarios are used, each representing one General Circulation Model (GCM). The 10 projections were selected from the 64 datasets of Locally Constructed Analogs, based on three metrics of projected change: the mean annual streamflow, a coefficient of variation of streamflow, and the average annual temperature. The inclusion of projected variability in annual streamflow served as an important factor because it is identified as an important driver affecting California's water supply.[16]

Because much of the land in the Delta is below sea level and it relies on more than 1,000 miles of levees for protection against flooding, taking into consideration future sea-level rise scenarios is crucial for analysis.[17] The projections for sea-level rise in the San Francisco Bay considered for this analysis are based on the California Ocean Protection Council's guidance as of 2018.[18] The modeling takes a probabilistic approach, assigning likelihoods of occurrence for potential sea-level rise heights and rates tied to a range of emissions scenarios. The median scenario of sea-level rise is estimated to be 1.8 feet by 2070. The model also produces estimates under extreme scenarios. A 3.5-foot sea-level rise with a probability of occurrence being less than 0.5% is considered in the Sensitivity Analyses section, corresponding to a medium-high risk aversion scenario. Sea-level rise estimates are trained on the Delta hydrodynamic model, then inputted into CalSim 3 through the Artificial Neural Network to simulate the delivery and salinity outputs considered for this analysis. [19]

2.4. PROJECT DELIVERIES

The future deliveries under both the project alternative and no-project baseline are simulated with the CalSim 3 model. The climate models discussed in the previous section simulate future precipitation and runoff. The results are then inputted into the CalSim 3 model to simulate future water supply scenarios, water quality estimates, reservoir levels, groundwater levels, and more. CalSim 3's modeled output with the DCP operations, given environmental and regulatory constraints and demand forecasts, compared to the no-project future

[16] DCP EIR, Appendix 30A.

[17] DCP EIR, Appendix 5A, Section B.

[18] California Ocean Protection Council, 2018. *State of California Sea-Level Rise Guidance: 2018 Update*. Sacramento: CA.

[19] DCP EIR, Appendix 30A.

baseline serve as the basis of the benefit analysis. The allocation of deliveries is based on the existing Table A allocations among contractors that joined the Agreement in Principle.

CalSim 3 is a resource planning model that simulates operations of the SWP and CVP under different hydrologic conditions. The model was developed jointly by DWR and U.S. Bureau of Reclamation.

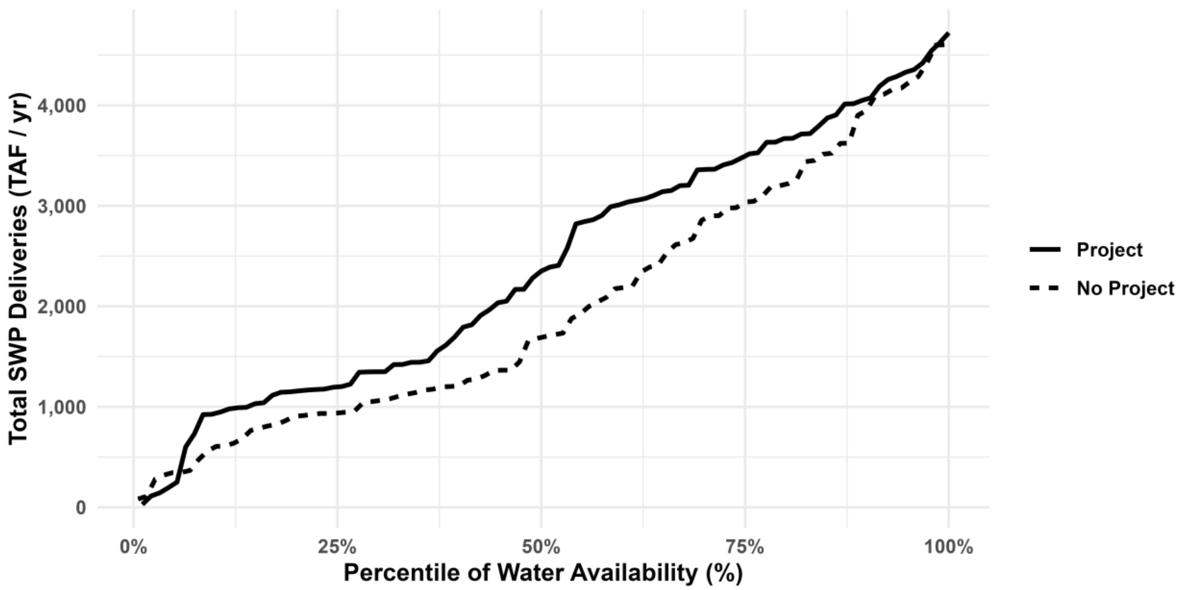
CalSim 3 uses linear programming on monthly timesteps to make water allocation and management decisions.[20] The 94 years of historical hydrology from 1921 to 2015, including unimpaired inflows and rainfall runoff, water demands, return flows, and groundwater recharge from precipitation and irrigation, are used to simulate a distribution of outputs, including river and streamflows, reservoir storage, Delta channel flows, exports, and project deliveries. The water supply and quality measures for Delta exports are of particular interest in analyzing the benefits of DCP.

The simulation of future SWP deliveries under both no-project and with project conditions is shown in Figure 2, below. Without DCP, the SWP deliveries range from 150 thousand acre-feet (TAF) to more than 4,000 TAF. The highly variable deliveries are a result of the variable climate conditions of California, characterized by interchanging drought and wet years. The average delivery under the 2070 median climate scenario, with 1.8 feet of sea-level rise without DCP, is 1,990 TAF.

With DCP, the average additional deliveries would be around 403 TAF per year (TAF/yr) compared to a no-project scenario. The additional water deliveries would be substantial during below normal and above-normal water years. However, during extreme drought and the wettest water years, DCP would not substantially increase SWP deliveries. As shown in Figure 2, in the bottom 10th percentile and above the 95th percentile, project deliveries are almost identical to no-project baseline scenarios.

[20] DCP EIR, Appendix 5B.

Figure 2: Total State Water Project Deliveries with and without DCP



Sources and Notes: Based on CalSim 3 simulations of SWP deliveries to all contractors under the 2070 median climate change scenario, with 1.8 feet of sea-level rise and 94 simulations of historical hydrology.

2.5. FRAMEWORK FOR ESTIMATION OF WELFARE BENEFITS

Two approaches are commonly used to estimate benefits: those based on market prices and those based on estimating consumers' willingness to pay (WTP). The DWR Economic Analysis Guidebook and the federal PR&Gs identify both approaches as appropriate methodologies for economic analysis, depending on the context.

In a market-based approach, estimates of benefits are based on market prices; this is frequently considered the gold standard in economics because the estimates are a straightforward way to measure and reflect actual market activity. However, markets may not exist or prices might not be observable for benefits in many settings. For example, during droughts and seismic events, utilities typically do not increase prices to ration the water supply, instead relying on unpriced conservation programs and rationing. Furthermore, because extreme droughts and major earthquakes are rare, data may not be available to identify market prices in such contexts. Furthermore, WTP is typically highest during extreme shortages resulting from such rare events. Similarly, water quality is typically not priced in the market but has significant implications for consumer welfare. Finally, many environmental impacts, such as reduced air quality or increased noise and traffic impacts, are not explicitly priced in the market. In these cases, instead of adopting a market approach, benefits are estimated by calculating a consumer's hypothetical WTP, the maximum price the consumer would be willing to pay for a good or service. In these situations, WTP can be estimated by observing behavior in adjacent markets or estimating an economic model of consumer demand.

2.6. SENSITIVITY ANALYSES

To evaluate the robustness of the DCP's economic benefits provided by the DCP under uncertain climate trajectories, a sensitivity analysis is performed under different assumptions of future climate scenarios. Three time periods are considered: 2040 median, 2040 central tendency (CT), and 2070 median.

The two 2040 climate assumptions differ mainly in the ensemble of general circulation models that were used to represent climate change in 2040.[21] For the 2040 CT scenario, 20 GCM projections are selected by the DWR Climate Change Technical Advisory Group, consisting of 10 GCMs that each consider two future emission scenarios, or Representative Concentration Pathways (RCPs). The 2040 median scenario consists of 10 GCM projections selected by the DWR Climate Change Program. Both 2040 climate scenarios show similar flow patterns, as flow in December–March increases and in April–July decreases consistently. Both 2040 scenarios also assume 1.8 feet of sea-level rise, which has a probability of occurrence of less than 0.5%.

Because DCP becomes operational only after 2040, and benefits unfold for the next 100 years, the 2070 climate scenarios are more relevant for analyzing the benefits. For 2070, the analysis considers both the median climate scenario of 1.8 feet, which has a probability of occurrence of 66%, and the extreme scenario of 3.5 feet, which has a probability of occurrence of less than 0.5%. In addition, further operational assumptions and scenarios with adaptation measures are included to avoid operational constraints associated with conveyance and the operation of the system's major reservoirs.[22]

Table 2 compares the deliveries across all seven scenarios considered. The incremental deliveries from the DCP are robust to a wide range of climate assumptions, showing that the project is robust to differing degrees of assumed climate change. Furthermore, deliveries in the 2070 project scenario are similar to non-project deliveries in 2020. As such, the project can be viewed as mitigating 50 years of future climate change by bringing future levels of water supply reliability closer to current levels.

[21] DCP EIR, Appendix 30A.

[22] California Department of Water Resources. n.d. *CalSim 3 Results for 2070 Climate Change and Sea Level Projections and Sensitivity Analysis.*

Table 2: Scenarios Considered in Sensitivity Analyses

Scenario	Main Scenario	Sensitivity Analyses 1	Sensitivity Analyses 2	Sensitivity Analyses 3	Sensitivity Analyses 4	Sensitivity Analyses 5	Existing Conditions
	2070 Median w. 1.8' SLR	2070 Median w. 1.8' SLR & Adaptation	2070 Median w. 3.5' SLR	2070 Median w. 3.5' SLR & Adaptation	2040 Median w. 1.8' SLR	2040 Central Tendency w. 1.8' SLR	2020 EC
	[TAF / Yr]						
No Project	1,990	2,019	1,876	1,920	2,098	2,314	2,560
Project	2,393	2,416	2,281	2,315	2,505	2,751	3,014
Difference	403	397	404	395	406	437	454

Sources and Notes: All modeled deliveries are measured in thousand acre-feet and averaged over 94 simulations with historical hydrology. In 2070, analysis is conducted under the median climate scenario along with multiple sea-level rise scenarios and whether adaptation measures are adopted. In 2040, both the median climate scenario and central tendency are considered for analysis. The 2020 EC scenario represents estimated deliveries under existing climate conditions.

3. Urban Water Supply Benefits

A key benefit of the DCP is the increase in water supply reliability for the SWP's urban customers. The SWP supplies water to urban customers in Southern California, the Central Coast, the Central Valley, and the Bay Area.[23] The reliability of the urban water supply has critical implications for public health and safety in urban areas, ensuring consistent access to clean water for drinking, cooking, and sanitation. Water is also critical for daily business operations in the state's commercial and industrial sectors; water supplied south of the Delta by the SWP services an area that accounts for more than half of California's GDP. Business interruptions from disruptions in water supply, if significantly large and sustained, can affect the growth and stability of the local economy.[24]

The DCP will provide additional water supply that will increase reliability by reducing the frequency and magnitude of shortages during dry periods. This section gives an overview of our approach to estimating the economic benefits of reduced water shortage welfare losses for urban customers resulting from the construction of the DCP. Further details on our approach are provided in Appendix B. For each SWP contractor with urban customers, we estimate urban water supply reliability benefits using the following steps:

1. The level of demand and price sensitivity are forecast for different types of urban water supply customers, including residential, commercial, and industrial customers.
2. Future shortages are forecast for each type of urban customers with and without the DCP.
3. The economic cost of future shortages is estimated for each type of urban customers with and without the DCP.
4. The reliability benefits of the DCP are based on the difference in the economic cost of future shortages with and without the project.

3.1. DEMAND FORECASTS FOR URBAN CUSTOMERS

Our estimates of the benefits of improved urban water supply reliability are based on forecasts of water demand and water conservation for each State Water Contractor. These forecasts are based on each contractor's Urban Water Management Plan (UWMP) or, in the case of Metropolitan Water District (MWD), its Integrated Resource Plan (IRP). Agencies are required to produce these plans every five years to ensure

---

[23] There are currently 17 participants in the Agreement in Principle: Alameda Zone 7, Alameda County WD, Santa Clara Valley, Empire West Side ID, Kern County WA, SLO FCWCD, Antelope Valley-East Kern, Santa Clarita Valley, Coachella Valley, Crestline Lake Arrowhead, Desert WA, MWDSC, Mojave, Palmdale, San Bernadino Valley, San Gabriel, San Gorgonio Pass, Ventura County.

[24] Boarnet, Marlon, Wallace Walrod, David L. Sunding, Oliver R. Browne. 2022. *The Economic Impacts of Water Shortages in Orange County.* July 2022.

adequate water supplies are available to meet existing and future water needs under California's 2009 Water Conservation Act (SB X7-7). Demand and conservation forecasts are based on various economic, demographic, and climatic characteristics and produced following best management practices under consultation with local communities. Different agencies take different approaches to forecasting future demand; however, these approaches cover the full spectrum of urban water use, including residential, commercial, industrial, institutional, and unmetered water uses.[25]

In the 2020 UWMPs and MWD's 2020 IRP, agencies project water demands out to 2045. For our analysis, we use these agency-produced forecasts for 2045 and assume no growth in demand during the period for which we simulate DCP operations, 2045 to 2145.

3.2. SHORTAGE ESTIMATES FOR URBAN CUSTOMERS

For urban customers, we define water shortages as the difference between a baseline level of demand, as forecast in urban water management plans, and the actual volume of water made available to customers, based on the realized hydrology in a particular year. In this sense, any reductions in demand relative to the forecast baseline are considered a shortage. The term "shortage" is used to include reductions in consumer demand during drought conditions, including voluntary reductions in response to media campaigns, along with savings from management policies that restrict the scope of when and how water can be used; responses to drought surcharges; and other forms of demand curtailment.

Shortages are estimated using reliability models provided by State Water Contractors, principally an extended version of MWD's IRP Simulation Model (IRPSIM), a supply-and-demand mass balance simulation model that was developed for MWD as a basis for its IRP. IRPSIM forecasts demand using a sales model and simulates supply according to local supplies and imports, SWP supplies, Colorado River Aqueduct supplies, and MWD's storage portfolio. Outputs from the CalSim 3 model are used as inputs in IRPSIM to forecast SWP deliveries. The model accounts for climate change by adjusting inflows from other imported supplies. IRMSIM simulates MWD's

[25] Most agencies consider only a single demand scenario in forecasting their future water supply reliability; however, MWD considers four scenarios in its IRP that consider different future demand and supply assumptions. The four scenarios assume different levels of demand and imported water supply, ranging from a scenario with falling demand and stable imports to a scenario with growing demands and reduced imports. The key differences between these scenarios are assumed climate change, regulatory requirements, and economic conditions For further details, see "2020 IRP – Regional Needs Assessment," The Metropolitan Water District of Southern California, April 2022.
In this analysis, we consider the IRP's Scenario D, which is characterized by growing demand and reduced imports. This scenario most closely comports with our other assumptions pertaining to climate change and population growth. It is described in the IRP as follows: "This scenario is driven by severe climate change impacts to both imported and local supplies during a period of population and economic growth. Demands on Metropolitan are increasing due to rapidly increasing demands and diminishing yield from local supplies. Efforts to develop new local supplies to mitigate losses underperform. Losses of regional imported supplies are equally dramatic."

storage portfolio by considering operational constraints, put-and-take capacities, contractual arrangements, and other operational considerations. [26]

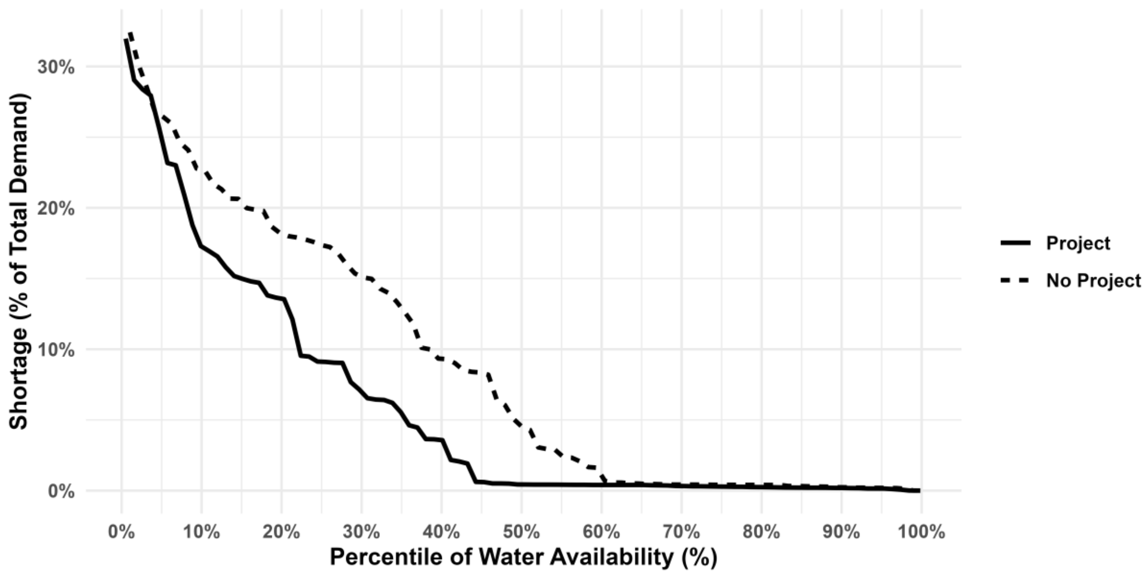
For each year of demand, IRPSIM simulates supply, based on each year of the historic hydrologic trace, adjusted for climate change. This results in 96 trials, based on historical hydrologic data, beginning in 1922. IRPSIM then calculates a distribution of outcomes, allowing MWD to evaluate probabilities of surpluses and shortages and further forecast the magnitude and frequency of shortages. This report uses an extended version of IRPSIM that simulates supply and shortages for most urban State Water Contractors, except the Santa Clara Valley Water District, which provided separate hydrologic modeling for this report that follows a similar methodology, as described in its UWMP.[27] Shortages are forecast with and without the DCP, based on demand levels in 2045. Levels of reliability are assumed to remain constant for the duration of the DCPs operating life between 2045 and 2145.

Based on this modeling, the frequency and magnitude of shortages are estimated for 2070 under the median climate change scenario, with 1.8 feet of sea-level rise. Figure 3 summarizes the results. The vertical axis shows the shortages as a percentage of total demand, ranging from 0% to 32%. The horizontal axis shows the frequency of shortages by arranging simulated hydrologic years from the driest (0%) to the wettest (100%). In the no-project scenario, by 2070, there are demand shortages in 61% of all years. Construction of the DCP increases the water supply such that there are shortages in only 44% of all years. In the no-project scenario, there is an average shortage of 9% of total demand. Construction of the DCP reduces the size of the average shortage to only 5% of total demand.

[26] MWD 2020 IRP.

[27] Santa Clara Valley Water. 2021. *2020 Urban Water Management Plan*. June 2021.

Figure 3: Shortage as a Percentage of Total Urban Water Demand



Sources and Notes: Based on MWD's IRPSIM modeling. The distribution represents 96 simulated shortages under a wide range of historical hydrology and the 2070 median climate scenario with 1.8 feet of sea-level rise.

3.3. ECONOMIC COSTS OF URBAN WATER SHORTAGES

Estimates of the economic costs of urban water shortages are based on an economic model of consumers' WTP to avoid water supply interruptions. Water supply reliability benefits are estimated using a WTP-based approach rather than a market-based approach. Utilities usually rely on non-price mechanisms such as conservation campaigns and water use restrictions to manage demand rather than charging elevated drought rates during droughts. As a result, a market-based approach that estimates water supply reliability benefits only, based on customer rates, would understate the water supply benefits during droughts, which are expected to become frequent due to future climate change and significantly mitigated by construction of the proposed DCP.

To estimate district-specific price elasticities of demand, we rely on econometric models that are estimated in Buck et al. (2016).[28] This paper constructs a panel dataset of average monthly water consumption and average rates over five years that covers 75 urban water utilities, including State Water Contractors in the South Bay and

[28] Buck, Steven, Maximilian Auffhammer, Stephen Hamilton, and David Sunding. 2016. Measuring Welfare Losses from Urban Water Supply Disruptions. In *Journal of the Association of Environmental and Resource Economists,* 3, No. 3 (2016): 743–778.

Southern California. The authors then perform a log-log panel regression of average monthly water use on water rates and household income. This regression also controlled for weather fluctuations, seasonal effects, and utility-specific and secular trends. The result is an estimate of how changes in price and income affect demand for water, based on relative changes across utilities over time. The paper finds that water demand is less elastic for lower-income consumers. For example, across all State Water Contractors, the average price elasticity of demand is -0.18, meaning that a 10% increase in rates would induce only about a 1.8% reduction in water use. This average estimate varies, based on income; customers in higher-income communities typically have more discretionary water uses, such as larger yards with more landscape irrigation, and so can reduce consumption in a less costly manner during drought. In contrast, lower-income consumers who depend heavily on water for basic needs such as drinking and sanitation experience larger welfare losses to reduce their consumption by a similar amount.

Based on the econometric relationships estimated in this paper, we construct an estimate of the price elasticity of demand for each urban State Water Contractor participating in the DCP and for each member agency of the MWD. The estimates presented in this paper have been updated with current water rates and household income data for each water agency.

Using an economic model described further in Appendix B, we apply a formula that estimates welfare losses based on the size of the shortage, the marginal cost of SWP deliveries, and the estimated price elasticity of demand. The derived welfare loss function exhibits a declining marginal utility of water, meaning the larger the welfare loss per unit of shortage, the larger the magnitude of the shortage. This behavior implicitly captures complexities in water consumption behavior; for example, when shortages are small, customers can reduce water use relatively cheaply by reducing outdoor irrigation, leading to relatively small unit welfare losses. However, as shortages become more severe, consumers must reduce water use in more costly ways that might directly affect daily household activities or business operations, leading to much larger unit welfare losses. This behavior is also consistent with drought management plans that utilities are required to put in place to identify the least costly way to meet different levels of conservation.

For each year we simulate, we calculate welfare losses for 96 trials, based on the historical hydrologic trace between 1922 and 2018. Average welfare losses across all simulations are then calculated separately for each district participating in the DCP using customer-specific elasticity estimates and retail water rates.[29] Significant costs are associated with forecast shortages due to forecast reductions in supply as a result of climate change; in the no-project scenario, more than 61% of all years are expected to have water shortages, leading to annual welfare losses of more than $1.1 billion.

[29] Note that currently the reliability estimates are calculated only for Metropolitan Water District and Santa Clara Valley Water. Estimates of welfare losses are then extrapolated to all other agencies. However, the final economic analysis will incorporate water district–specific estimates that will be produced once modeling of district specific shortages becomes available.

3.4. WATER SUPPLY RELIABILITY BENEFITS

The quantified economic benefits of the DCP in terms of improved water supply reliability are based on the change in the frequency and size of water shortages between the project and no-project scenarios. As previously discussed, the costs of shortages are calculated for each State Water Contractor and MWD customer using an economic model that estimates customer welfare losses from shortages, based on the frequency and size of shortages in each district and district-specific rates and demand elasticities. The economic benefits of the DCP for urban customers are estimated as the difference in the welfare losses from shortages between the project and no-project scenarios. Using this approach, the present value of improved water supply reliability is estimated to be worth, on average, more than $33.3 billion in 2023 dollars over the project’s lifetime. These benefits amount to an average value of $2,560 for every additional acre-foot of water supplied to urban customers from the DCP’s operations. However, there is significant variability in the benefits of these deliveries, depending on the prevailing hydrologic conditions. In the driest 5% of years, additional deliveries from the DCP have an average value of between $6,000 and $9,000 per acre-foot.

4. Agricultural Water Supply Benefits

The DCP is estimated to deliver, on average, an additional 148.5 TAF/yr of water to agricultural contractors. Agricultural State Water Contractors may use the additional water supplied by the DCP to grow crops, to recharge or otherwise offset deficits in groundwater extraction, or to sell to other customers in urban sectors.

We take two approaches to estimating water supply benefits to agricultural users. The first approach is a demand-based approach that uses a planning model to estimate the shadow value of water in the Central Valley, based on unmet demands for water of agricultural activity in the Central Valley. The second approach is a market-based approach, based on an index of the prices for water transfers in the Central Valley.

4.1. VALUATION OF WATER USE IN AGRICULTURE – SWAP MODEL

The benefits of agricultural water supply are estimated using a WTP approach that identifies the “shadow price” of water, based on a model of agricultural production in the Central Valley. The SWAP is a multi-region, multi-input and output economic optimization model that simulates agricultural production in California.[30] The model is widely used for policy analysis and planning purposes by the state and federal agencies.

SWAP simulates the behavior and decisions of farmers under the assumption of profit maximization in a static competitive market subject to resource, technical, and market constraints. With 37 regions in the model, 27 of which are in the Central Valley, SWAP provides detailed data coverage and production estimates for agricultural water supply and cost changes. The SWAP model takes account of water supplies (SWP and CVP, other local supplies, and groundwater) into production cost-effectiveness optimization by adjusting the crop mix, water resource availability, and land fallowing.[31]

The SWAP model is widely used in recent studies. It is considered an appropriate and conservative approach for estimating DCP’s agricultural water supply benefits. Based on the SWAP model, the marginal value of agricultural water is $301 per acre-foot in 2023 dollars.

---

[30] UC Davis Center for Watershed Sciences. n.d. *SWAP Model*. Available: https://watershed.ucdavis.edu/project/swap-model.

[31] UC Davis Center for Watershed Sciences. n.d. *A Brief Overview of the SWAP Model*. Available: https://watershed.ucdavis.edu/doc/water-economics-and-management-group/brief-overview-swap-model.

4.2. VALUATION OF WATER USE IN AGRICULTURE – MARKET APPROACH

In addition to a WTP based approach for estimating the benefits of the SWP for the agricultural sector, we also adopt a market-based approach. To provide a comprehensive valuation of marginal agricultural water value, we estimate the water supply benefits of the DCP. The water transfer includes voluntary buying and selling of a quantifiable allocation between a willing seller and buyer; the price of water set in the water bidding process reflects people's perceived marginal value of water.

This analysis relied on the empirical Nasdaq Veles California Water Index. Developed in conjunction with Westwater Research and Veles Water, the index reflects the commodity value of water at the source, not accounting for transportation costs or losses.[32] The price data are aggregated from the five largest and most actively traded markets in California, with Southern California being the most active market.[33] The water is priced weekly and on a per-acre-foot basis, reflecting the prevailing market price for water transactions. The Nasdaq Water Index price is a spot price that reflects the short-term value of water; to estimate a long-run value for agricultural water, we average the historical weekly prices over the entire history of the water index from September 2019 to April 2024. Using this approach, the marginal value of water use in agriculture is $646 per acre-foot in 2023 dollars.

In the benefit-cost analysis, we assess the value of additional SWP deliveries in the agricultural sector, based on the average of the prices estimated using the WTP and the market-based approaches, a value of $474 per acre-foot in 2023 dollars. With an average additional delivery of 148.5 TAF/yr to the agricultural water users, the estimated total benefit is $68.5 million per year.

[32] Nasdaq. 2024. *Nasdaq Veles California Water Index*. Available: https://www.nasdaq.com/solutions/nasdaq-veles-water-index. Accessed: December 8, 2023.

[33] Ibid.

5. Water Quality Benefits

Construction of the DCP will reduce the salinity of water supplies exported south of the Delta to customers in both the urban and agricultural sectors. This improvement in water quality will be a result of some SWP deliveries being conveyed through the proposed tunnels directly to the Banks Pumping Plant where they will be exported through the California Aqueduct rather than being conveyed through more saline parts of the Bay Delta.

Chapter 9 of the EIR quantifies the impacts of the operations of the DCP on a number of different water quality dimensions in the Delta and the Delta's export service area. Water quality is evaluated under project and no-project scenarios using Delta Simulation Model II (DSM2). Based on this modeling, construction of the DCP would reduce the average salinity of Delta exports by 22 milligrams per liter (mg/l), from 237 mg/l under the project scenario to 215 mg/l under the no-project scenario. Note that this average conceals the significant variability of the change in water quality, which is highly correlated with the volume of export volumes and seasonal flows.

The DCP's operations will improve water quality for SWP contractors on two dimensions. First, the DCP will improve the water quality of exports themselves. Secondly, it will lead to a substitution toward relatively higher-quality SWP water and away from lower-quality sources such as groundwater or water imported from the Colorado River.

5.1. WATER QUALITY FOR URBAN WATER CUSTOMERS

The benefits of improved water quality due to the DCP are estimated in the SWP's Southern California service area and evaluated using the Salinity Economic Impact Model (SEIM).[34] The SEIM, a product of a collaborative effort between the Bureau of Reclamation and MWD, is designed to evaluate the economic impact of salinity changes in Southern California and the broader Lower Colorado River service area.

Within Southern California, the SEIM model estimates economic impacts for each of the 15 subregions, accounting for region-specific water supply conditions and economic variables. For each subregion, estimates of salinity costs are based on demographic data, water deliveries, total dissolved solids (TDS) concentrations, and sector-specific cost relationships. To simulate the overall salinity of urban water, SEIM explicitly accounts for the distribution and blending of different water sources within each region, including local surface water and groundwater, desalinated seawater, and the water from the Colorado Aqueduct, along with water delivered through the Delta to the East and West Branch Aqueducts of the SWP. The weighted average salinity in terms of

[34] Metropolitan Water District of Southern California and Bureau of Reclamation. 1999. *Salinity Management Study, Final Report.*

TDS is estimated in terms of mg/l for each region. Economic impacts are calculated for different end uses of water, including residential, commercial, industrial, utilities, groundwater, recycling, and wastewater, based on region-specific demand estimates for each end use.

In the residential sector, the SEIM assesses the damage caused by salinity through its reduction in the useful life of household appliances like water heaters, faucets, and washing machines. It also models the costs of avoidance strategies, such as the installation of water softeners and the purchase of bottled water. In the commercial sector, the SEIM estimates the share of regional water use in sanitary, cooling, landscape irrigation, kitchen, laundry, and other uses; estimates of economic impacts are based on a unit price in each use category. Similarly, in the industrial sector, estimates of economic impacts are based on the total volume of water used in each sector and sector-specific estimates for the cost of demineralization and softening as well as for specific industrial applications such as cooling towers and boiler feed.

To estimate the salinity benefits from the construction of the DCP, estimates of the salinity of project water exported from the Banks Pumping Plant into the California Aqueduct from the DSM2 model are inputted into the SEIM under the project and no-project scenarios. The SEIM then estimates the salinity deliveries on the West Brach Aqueduct and East Branch Aqueduct of the SWP in Southern California.

Table 3 summarizes the annual urban water quality benefits estimated by the SEIM model. Based on this modeling, improvements in water quality as a result of DCP operations lead to an annual benefit of more than $41 million in terms of reduced economic impacts as a result of improved water quality. These benefits are accounted for primarily by benefits to residential customers, improved quality for recycled water, and reduced impacts on groundwater resources. Note that this estimate does not include estimates of the benefits to agricultural customers, which are accounted for separately in the next section. This estimate also does not include benefits to urban customers outside of Southern California, who are not accounted for in this model.

5.2. WATER QUALITY FOR AGRICULTURAL WATER CUSTOMERS

The analysis of water quality benefits to agriculture also focuses primarily on the impact of reduced salinity on water treatment costs and yield losses. Crop production and yield are greatly affected by the salinity of the crop's root zone. High salinity in the crop's root zone creates unfavorable osmotic pressure for the plants to absorb water.[35] This hindered water absorption induces physiological drought within the plant, even if the soil contains abundant water.[36] The salinity threshold for yield losses is below 10 decisiemens per meter (dS/m) for most crops grown in the region. Some sensitive crops such as alfalfa, beans, and maize start to experience yield

[35] University of California Salinity Management. 2024. Crop Salinity Tolerance and Yield Function. Available: https://ucanr.edu/sites/Salinity/Salinity_Management/Effect_of_soil_salinity_on_crop_growth/Crop_salinity_tolerance_and_yield_function/.

[36] Ibid.

losses below two dS/m.[37] Salt-tolerant crops such as cotton and barley also start to experience declining yields when the soil's electrical conductivity reaches eight dS/m.

Irrigation using river or groundwater that contains salts is the primary man-made cause of soil salination. After irrigation water is applied to the soil, the water gradually evaporates or absorbed by a plant, leaving the dissolved salts in the soil. To reduce the salinity level in the soil, farmers adopt a common practice of applying excess irrigation water that drains the salt downward past the root zone, called leaching. The more saline the irrigation water is, the more excess water is required for leaching the salt away from the plant's root zone.

For the salinity benefit to agricultural water users, we calculated the amount of irrigation water savings from leaching due to reduced salinity with the DCP project alternative. Detailed crop coverage data are obtained from the U.S. Department of Agriculture (USDA). For each crop, the irrigation requirements and leaching fractions to lower the salinity level below yield loss thresholds are used to calculate the annual leaching savings in each water district benefiting from the DCP. Overall agricultural irrigation water use would be reduced by nearly 6,000 acre-feet annually. Along with the agricultural water cost estimates produced by the SWAP model and the water transfer market, the annual savings on irrigation water amounts to more than $3 million. The breakdown of agricultural water quality benefits is summarized in Table 3, below. The San Joaquin Valley benefits the most from agricultural water quality improvement, at nearly $2.9 million annually, while Southern California's annual benefit is nearly $300,000.

Because the EIR assessment predicted a slight increase in salinity in the Delta, we also estimate the costs of increased salinity on agricultural water users in the Delta. The CalSim 3 model predicts an increase in electrical conductivity of 0.008 dS/m on average across the Delta. Although deemed "less than significant" in the EIR, we still quantified the costs of increased Delta salinity and incorporated them in the analysis of remaining environmental impacts after mitigation. Overall, the benefits of improved salinity to downstream agricultural water contractors significantly outweigh the cost of the small increase in salinity in the Delta region.

Similar to the urban water quality analysis, this water quality analysis provides a conservative estimate of total DCP water quality benefits. Because this analysis focuses only on salinity improvement, it does not explicitly price many other measures of water quality improvements, such as reductions in pollutants, pathogens, and man-made chemicals that pose health risks.

[37]Ibid.

Table 3: Water Quality Benefits

Urban Water Quality Benefits	Millions of 2023 $
Residential	$12.0
Commercial	$4.3
Industrial	$0.6
Utilities	$0.1
Groundwater	$15.8
Recycled Water	$8.4
Total	$41.2
Agricultural Water Quality Benefits	
Southern California	$0.3
San Joaquin Valley	$2.9
Total	$3.2
Total Annual Water Quality Benefits	$44.4

Sources and Notes: Urban water quality benefits based on SEIM model simulations.

Agricultural water quality benefits based on soil leaching water savings analysis.

5.3. WATER QUALITY IN THE DELTA

The EIR evaluates construction and operation of the project on a number of dimensions of water quality, including on boron, mercury, nutrients, organic carbon, dissolved oxygen, selenium, pesticides, trace metals, and total suspended solids and turbidity relative to existing conditions and concludes that the impact on water quality from construction of the project alternatives would be less than significant.[38] Operation of the proposed project facilities has the potential to affect water quality through differences in Delta inflows from the Sacramento River, relative to existing conditions, resulting in increased proportions of the other Delta inflow waters (such as eastside tributaries, the San Francisco Bay, and the San Joaquin River) in some regions of the Delta.[39] The EIR concludes that changes in bromide, chloride, and electrical conductivity (EC) would be less than significant.

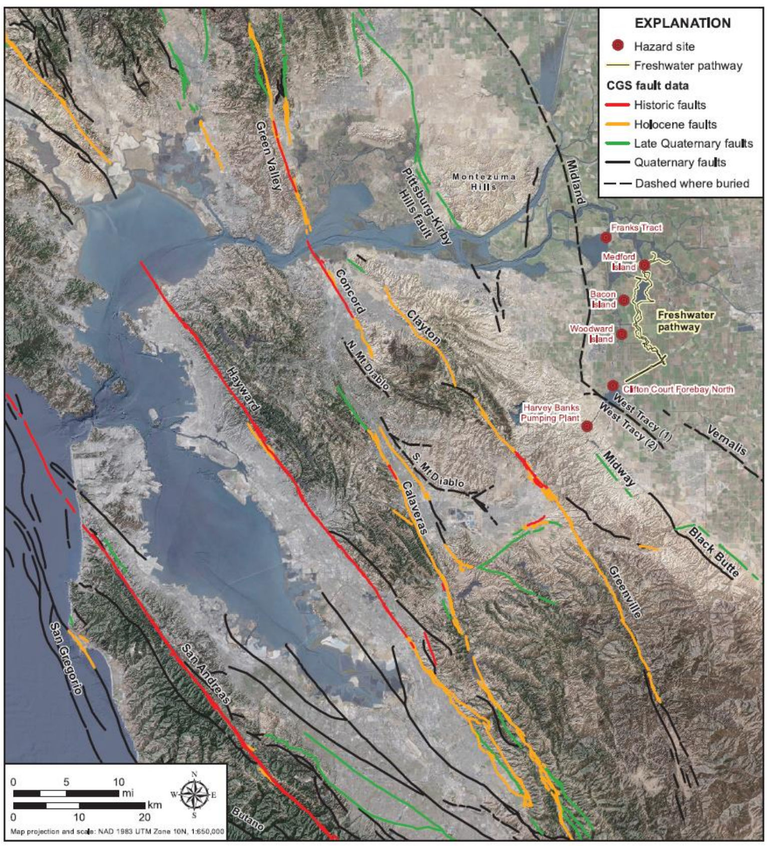
[38] DCP EIR, Chapter 9.

[39] Ibid.

6. Improvements to the Seismic Reliability of the SWP

A key objective of the DCP is to mitigate the impact of seismic events on the Delta's water conveyance infrastructure. By adding redundancy to the current conveyance infrastructure, DCP will help mitigate the impact of seismic events on the quantity and quality of water delivered south of the Delta. Therefore, it would minimize the potential for adverse public health and safety impacts from a major earthquake.

Figure 4: Major Fault Lines near the Delta



Sources and Notes: "Delta Flood Emergency Management Plan – Supplement C, " California Department of Water Resources, October 2018.

There are many active faults surrounding the Delta. Figure 4 displays active faults and historical seismicity near the Delta. The USGS analyzed the earthquake potential of the faults in the Bay Area. The Hayward-Rodgers Creek fault poses the highest probability of generating an earthquake of magnitude 6.7 or greater in the following 30 years, at 27%. The estimates of maximum magnitude range from 6.5 to 7.3. Other than the Hayward-Rodgers Creek fault, there are a couple of smaller faults adjacent to or below the Delta. The West Tracy fault, passing beneath the Clifton Court Forebay at the southwestern part of the Delta, is estimated to have a maximum magnitude of 6.25 to 6.75. The Midland fault that passes beneath the western margin of the Delta has the potential to produce an earthquake of magnitude 7.1. The Greenville fault, the easternmost part of the San Andreas fault system and located southwest of the Banks Pumping Plant, has the potential to generate earthquakes ranging from 6.6 to 7.2.[40]

Active faults, along with land subsidence and poor, highly organic soils that are subject to liquefaction and settlement, make earthquakes the greatest risk associated with flooding. A large earthquake in the San Francisco Bay Area could cause levees in the Delta to breach, leading to an inundation of brackish water in areas where existing SWP and CVP pumping plants operate in the southern Delta. Historically, levee failure and breaches have occurred for various reasons. In the past century, there were 161 breaches of Delta levees. Despite there being few breaches since the 2000s, the Upper Jones Tract levee failure in 2004 demonstrated that there are still significant breach risks.[41]

In any major seismic event with significant brackish water invasion, conveyance through the Delta will most likely be impossible for an extended period. A major seismic event could also damage the SWP and CVP conveyance infrastructure in the Delta. Cessation of conveyance through the Delta for any extended period of time would pose major reliability challenges to State Water Contractors south of the Delta. This could lead to shortages significantly more severe than those posed by dry-year events.

DCP project facilities are designed to withstand at least a 500-year return-period earthquake while maintaining system operational capability. For some more complex or difficult-to-repair facilities, a much higher return period event is assumed for design. Building the DCP serves as an insurance policy that would allow at least some water to continue to be delivered south of the Delta in the event of a major earthquake.

It is difficult to precisely quantify the likelihood and water supply impacts of different seismic events that may occur. These impacts will depend on the location, magnitude, and nature of the seismic event; the number and location of levee failures; and the response to repairing failed levees. Furthermore, the economic costs of water supply interruptions from a major seismic event will also depend on other factors, including the hydrologic and economic conditions that influence the water demand. Rather than attempting to provide a comprehensive analysis of the likelihood and impacts of the full range of hypothetical seismic events that could occur in the Delta region, we instead describe a hypothetical seismic scenario and estimate the impacts and economic costs associated with this scenario.

[40] Wong, Ivan G., Patricia Thomas, Nora Lewandowski, and Dennis Majors. 2021. Seismic Hazard Analyses of the Metropolitan Water District Emergency Freshwater Pathway, California. In *Earthquake Spectra,* Volume 38(2), 981–1020, 2022, DOI: 10.1177/87552930211047608.

[41] California Department of Water Resources. 2018. *Supplement C – Water Project Export Disruptions for Multiple-Island Breach Scenarios Using the Delta Emergency Response Tool.* May 2018.

The Delta Emergency Response Tool (ERT) is used to simulate Delta levee failures and help forecast impacts and develop response mitigation strategies. The ERT allows a user to test various response strategies to each simulated scenario and helps support decision-making. The ERT simulated 11 base scenarios, ranging from four to 20 breached islands, of which Scenario 1 represents a 500-year earthquake. Scenario 1 simulated a 20 island/ 50 breach event, with a total flooded volume of 1,296 TAF.[42] Figure 5 shows the specific breach locations. Export disruption and water quality are modeled under a range of hydrologic conditions, including specific scenarios involving severe flood and drought conditions. Eight different response strategies were simulated in an incremental approach, and for each strategy, ERT modeled the distribution of export disruption time, Delta recovery time, and response cost across 20 hydrologic simulations for each response strategy. Out of the eight responses, the Middle River Corridor Strategy results in a shorter disruption time than the basic strategy and a lower cost compared to the cumulative strategy.[43] The cost of restoring the seismic damage consists of three parts: breach repair cost, island dewatering cost, and barrier repair cost. For the Middle River Corridor Strategy, the costs are $1.4 billion, $35 million, and $31 million, respectively.[44]

The Middle River Corridor Strategy attempts to construct a freshwater pathway from the northern Delta to the pumps in the southern Delta. It accomplishes this by prioritizing the repair of levees along the Middle River and installing channel barriers to isolate the corridor from the rest of the Delta. Without the DCP, under the Middle River Corridor Strategy, the export disruption ranges from six days to 448 days, with an average of 203 days. The Delta recovery time, defined as the time required for the Delta water quality to recover to the level with no breach, ranges from 11 days to 498 days, with an average of 306 days. Under the DCP alternative, we considered two scenarios for analysis: DCP operating at 6,000 cubic feet per second (cfs) capacity and DCP operating at 500 cfs health and safety levels. These scenarios reflect the maximum and minimum balance at which DCP might be able to operate under the seismic event; however, the exact operation is uncertain and affected by other infrastructure.

Table 4 outlines benefits under the DCP alternative for different disruption and DCP operation scenarios. Assuming the DCP operating at the minimum health and safety levels, the average avoided water supply disruption benefits amount to $2.36 billion, and the improved water quality benefits amount to $2.65 million. Assuming the DCP operating at capacity during an earthquake event, the average avoided water supply disruption benefits amount to $28.4 billion, and improved water quality benefits amount to $31.6 million. Assuming a 500-year return period, the net present value of the DCP is estimated to be $1.8 billion when it operates at capacity and $152 million when it operates at health and safety levels. The overall seismic benefit

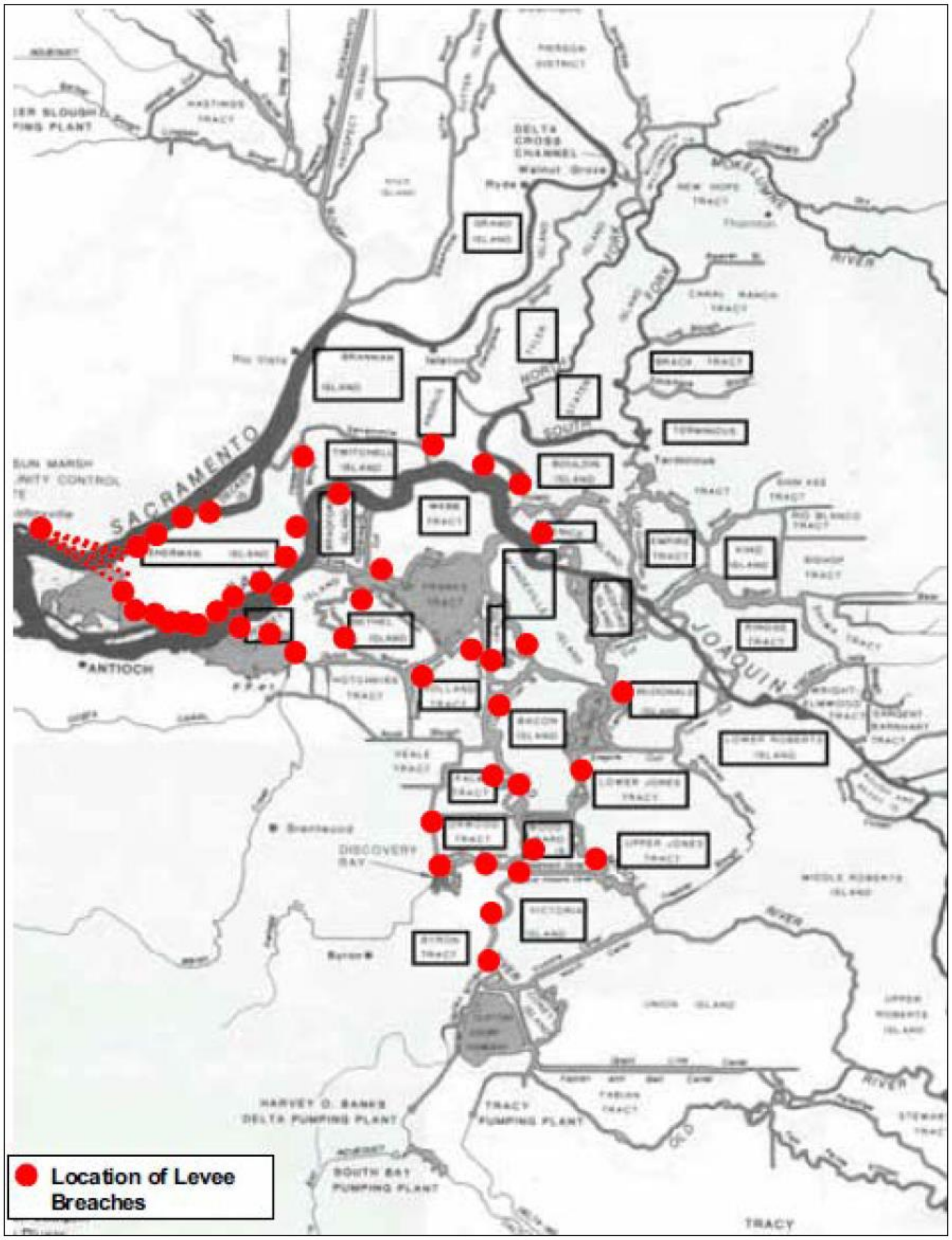
[42] Ibid.

[43] The assumptions of the seismic analysis, based on the ERT, is significantly more conservative compared to an economic analysis this team previously produced for the WaterFix project. The previous analysis assumed more breaches and islands flooded and a significantly more probable earthquake event with a 100-year return period.

[44] Ibid.

estimate takes into account the full range of scenarios by averaging the net present-value estimates under various export disruption, Delta recovery duration, and DCP operating scenarios.

Figure 5: Seismic Scenario Levee Locations



Sources and Notes: Seismic scenario with 50 levee breaches and 20 flooded islands. “Delta Flood Emergency Management Plan – Supplement C, “California Department of Water Resources, October 2018.

Table 4: Benefit Summary under Seismic Disruption Scenarios

			Benefits during Seismic Event		Net Present Value w. 500-year Return Period	
	Export	Delta	$ millions, 2023		$ millions, 2023	
	Disruption	Recovery	Water Supply	Water Quality	Water Supply	Water Quality
Scenario	Days	Days	**Benefits**	**Benefits**	**Benefits**	**Benefits**
DCP Operates at Health & Saftey Levels (500 CFS)						
Minimum Disruption	6	11	$63.3	$0.5	$4.1	$0.2
Average Disruption	203	306	$2,141.3	$5.3	$138.1	$0.3
Maximum Disruption	448	498	$4,725.6	$10.9	$304.9	$0.7
Average			**$2,310.1**	**$5.6**	**$149.0**	**$0.4**
DCP Operates at Capacity (6,000 CFS)						
Minimum Disruption	6	11	$759.5	$6.3	$49.0	$0.4
Average Disruption	203	306	$25,695.7	$63.3	$1,657.8	$4.1
Maximum Disruption	448	498	$56,707.7	$130.4	$3,658.5	$8.4
Average			**$27,721.0**	**$66.7**	**$1,788.4**	**$4.3**

Sources and Notes: Benefits calculated under the 20 island / 50 breach scenario with the Middle River Corridor response strategy.

All benefits valued in millions of 2023 dollars.

7. Other Benefits not Explicitly Valued

The analysis of benefits in the previous four sections concentrates solely on those that can be reliably measured and quantified. However, the DCP is expected to yield additional benefits that are not included in this analysis, primarily because the necessary data to quantify them are unavailable.

- The DCP creates **redundancy in the Delta conveyance** that will enhance short-term operational flexibility in the Delta. At certain times, this additional flexibility may allow short-term actions to be undertaken to either increase SWP deliveries (e.g., Article 21 water) or improve water quality. However, this benefit-cost analysis relies on CalSim 3 modeling that has a monthly time step and therefore lacks the granularity to quantify these short-term operational benefits. Therefore, these benefits are underestimated in our current modeling analysis. For example, if the DCP had been operational between January 1 and March 9, 2024, DWR estimates that an additional 909 TAF of water could have been captured by the DCP due to fishery-related regulatory constraints in the South Delta. These constraints are not reflected in our current modeling, resulting in an understatement of program benefits.[45]
- The costs estimate for the DCP includes a **Community Benefits Program,**[46] which is anticipated to fund a variety of specific local projects such as enhancing public safety, improving water and air quality, and developing educational programs and recreational facilities like parks and walking trails. However, this analysis has not attempted to quantify any benefits arising from these investments.
- The DCP could play a role in the **conservation of groundwater resources** in the Central Valley and other parts of California. The increase in SWP deliveries will be a substitute for groundwater in the SWP service area. To the extent that the DCP leads to a reduction in groundwater demand, it will help agencies achieve the goals under the Sustainable Groundwater Management Act (SGMA). A reduction in groundwater demand could also lead to higher groundwater levels and consequently reduced pumping costs. These benefits have not been quantified in this analysis.

[45] See California Department of Water Resources. 2024. *Missed Opportunity*. March 2024. Available: https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Delta-Conveyance/Public-Information/DCP_Missed-Opportunity.pdf.

[46] California Department of Water Resources. 2022. *Community Benefits Program Overview*. June 2022.

8. Project Costs

The DCA has produced two cost estimates for the DCP. The primary cost estimate, based on the project's specifications outlined in the EIR, projects the total design and construction cost at approximately $20.1 billion in undiscounted 2023 dollars. A secondary estimate, referred to as the "project-wide innovations and savings estimate," considers potential cost reductions through design, construction, and management innovations that do not alter the core project specifications. These innovations lower construction costs by $1.2 billion, bringing the estimate to $18.9 billion. These cost estimates are broken down in Table 5, below.[47]

The cost estimates cover various phases and components of the project. Construction costs, which include major works on tunnels, aqueducts, intakes, and a pumping plant, are detailed in both estimates. For example, in the primary estimate, construction costs include $1.7 billion for two 3,000 cfs intakes, $6.4 billion for tunnels and shafts, and $3.2 billion for the pumping plant and related structures, with a 30% contingency adding another $3.5 billion. The secondary estimate slightly reduces these costs due to the anticipated innovations.

In addition to construction costs, other significant expenses include design, planning, and management, which total $3.3 billion in the primary estimate and $3.1 billion in the secondary cost estimate with project-wide innovations.

Other costs, totaling $1.78 billion, are the same in both the primary and secondary cost estimates. These expenses cover land acquisition, environmental mitigation, power, a settlement agreement with the Contra Costa Water District, and a community benefits program. Further details on the environmental mitigation and community benefits programs are provided in the sections below.

Construction is scheduled to take place between 2029 and 2044, with the highest rate of spending focusing on the tunnels and aqueducts occurring between 2035 and 2040. Before 2029, expenditures are mainly for project design, planning, and land acquisitions. The project's cumulative cost trajectory is displayed in Figure 6 below.

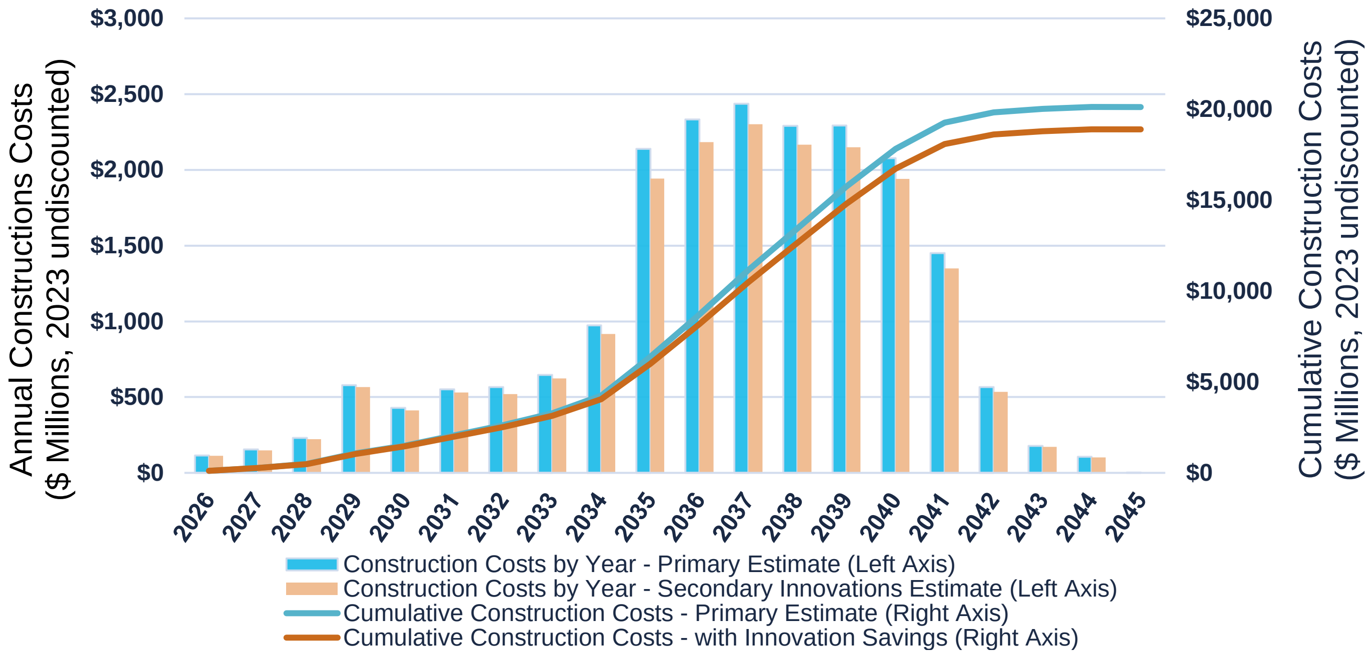
[47] Note that these are undiscounted and not directly comparable to the costs presented in Table 1 and Table 8.

Table 5: Project Construction Costs

Cost Category	Primary Cost Estimate	Costs w. Project-wide Innovations & Savings
Construction	$ Millions, 2023	
Intakes	$1,714	$1,678
Main Tunnels	$6,353	$6,130
Pumping Plant & Surge Basin	$2,536	$2,160
Aqueduct Pipe & Tunnels	$563	$485
Discharge Structure	$99	$58
Access Logistics & Early Works	$253	$234
Communication	$13	$13
Restoration	$17	$17
Construction Subtotal	**$11,548**	**$10,775**
Contingency (30%)	$3,464	$3,233
Total Construction Cost	**$15,012**	**$14,008**
Other Project Costs		
DCO Oversite	$426	$398
Program Management Office	668	$623
Engineering/ Design /Construction Management	$2,167	$2,022
Permitting and Agency Coordination	$67	$63
Total Planning/Design/Construction Management	**$3,328**	**$3,106**
Land	$158	$158
DWR Mitigation	$960	$960
Power	$415	$415
CCWD Settlement Agreement	$ 47	$47
Community Benefits Program	$200	$200
Total Other Costs	**$1,780**	**$1,780**
Grand Total	**$20,120**	**$18,894**

Sources and Notes: Costs measured in millions of undiscounted 2023 dollars and not escalated to the time of construction. For the secondary cost estimate, the planning, design, and construction management costs are assumed to be the same percentage of construction as the primary cost estimate. Cost estimate provided by the DCA.

Figure 6: Construction Costs by Year



Sources and Notes: DCA Cost Estimate, March 2024

8.1 ENVIRONMENTAL MITIGATION COSTS

The design and construction of the DCP incorporate environmental commitments and best management practices to minimize the environmental impacts of the project's construction and operation, as required under the California Environmental Quality Act (CEQA). The project's EIR evaluates its environmental and socio-economic impacts on more than 20 different areas. The report proposes mitigation measures to meet requirements under CEQA (i.e., the project adopts feasible mitigation measures where available to reduce significant impacts to a "less-than-significant" level). The DCA budgets $960 million for proposed mitigation measures to meet these requirements. These costs include items for tribal monitoring, mitigation plan development, habitat mitigation (including compensatory mitigation), and other significant mitigation, as described in the EIR.

For some environmental impacts identified in the EIR, it is not feasible to mitigate impacts to less-than-significant levels. In these cases, compensatory measures and resource specific mitigation are considered.[48] The

[48] DCP EIR.

costs associated with remaining environmental impacts that cannot be mitigated to less-than-significant levels are estimated in Section 10 and Appendix C and incorporated into the benefit-cost analysis.

8.2 COMMUNITY BENEFITS PROGRAM

The proposed DCP includes a $200 million Community Benefits Program to support local communities affected by the project, beyond what's required by CEQA and other laws. This program will collaboratively provide resources to those most affected, including tribal groups, local residents, government agencies, non-governmental organizations, and other Delta stakeholders.[49]

The program consists of two main parts:

- The **Delta Community Fund** aims to finance projects that preserve and enhance the Delta's cultural, historical, recreational, agricultural, and economic aspects through community-led initiatives. It will support projects related to water and air quality, public safety, recreation, habitat conservation, cultural celebrations, economic growth, transport and communication infrastructure, agriculture, education, and levee maintenance.
- The **Economic Development and Integrated Benefits Program** will focus on economic growth by hiring locally and involving businesses in construction of the DCP. It also includes plans to build or repurpose construction features for community use.

[49] EIR, Appendix 3G, California Department of Water Resources.

9. Operation and Maintenance Costs

The DCP's annual operations and maintenance (O&M) costs were estimated by the DCA and DWR to be approximately $52.6 million per year in undiscounted 2023 dollars. This estimate includes DWR's O&M labor, materials, equipment refurbishments and replacements, power, and restoration sites during the first 100-year lifespan of the proposed project.[50] Table 6 breaks down the annual DCP O&M costs for each component listed in the formula above.

The facility O&M cost is calculated with the labor rates of relevant civil engineers, mechanical engineers, electrical engineers, and hydroelectric plant technicians and contractors. The material costs include periodic activities such as sediment removal and disposal, repaving, and sealing roadways and parking lots. The power cost associated with moving water through the DCP system is estimated using CalSim 3 monthly modeling, averaging over all water year types, including critical and dry years. The O&M costs associated with restoration sites, including farmland, levee, channel margin, tidal, and other habitats, consist of ground and vegetation management, access work, monitoring, and other restoration needs.

Table 6: Operation and Maintenance Costs

	Annual O&M Costs
Category	$ Millions, 2023
Water Facility Costs	
Facility O&M	$17.5
Material Cost	$0.5
Power Cost	$2.7
Capital Equipment Refurbishment	$4.8
Capital Equipment Replacement	$18.7
Restoration sites Costs	
Restoration sites O&M Cost	$84
Total Annual O&M Costs	**$52.6**

Sources and Notes: Average annual power cost only includes the energy needed to convey 621,266 AF of water through the tunnel from the North Delta Intake to an average South Delta elevation. It does not include the energy needed to move additional water through the entire SWP system. From DWR's O&M annual cost estimate basis for Bethany reservoir alternative memorandum.

[50] California Department of Water Resources. 2024. *O&M Annual Cost Estimate Basis for Bethany Reservoir Alternative*. April 2024.

10. Remaining Environmental Impacts after Mitigation

This section provides a brief overview of the estimation of the costs associated with environmental impacts identified as being “significant” or “significant and unavoidable” after mitigation in the project’s EIR. Additional details on these impacts and the process for estimating the associated costs is provided in Appendix C. Of the 223 areas for environmental and socio-economic impacts reviewed in the EIR, impacts on eight of these areas are identified as being “significant and unavoidable” after proposed mitigation measures. For four of these areas, aesthetic, cultural, paleontological, and tribal impacts, we do not attempt to assign any costs to the remaining economic impacts because there is not a generally accepted economic best practice for valuing costs of those nature. In four remaining areas, we estimate the costs of remaining environmental impacts following best practices form the economics literature:

- Lost agricultural land in the Delta
- Construction-related air quality impacts
- Construction-related noise impacts
- Construction-related transportation impacts

To ensure our assessment considers all salinity impacts of the DCP, including both benefits and costs, this section also quantifies the costs related to increased salinity for agricultural water users in the Delta, even though the EIR found this increase to be insignificant.

In terms of lost agricultural land, the construction of the DCP will result in both permanent and temporary effects on certain land parcels in the Delta. To value the loss of farmland, we rely on average market or rental prices by county and crop type. In present-value terms, the total cost of the farmland conversion is estimated to be $22.6 million, of which $2.9 million is associated with temporary farmland conversion and the remaining $19.7 million is associated with permanent farmland conversion. Of the permanent impacts, the crop types with the highest value of converted land are alfalfa, grapes, and almonds.

Project construction will increase airborne emissions across three California air districts: Sacramento Metropolitan Air Quality Management District (SMAQMD), San Joaquin Valley Air Pollution Control District (SJVAPCD), and the Bay Area Air Quality Management District (BAAQMD). These increased emissions will impose social costs to affected areas, which we quantify using estimates published by the U.S. Environmental Protection Agency (EPA). Applying these social cost metrics to total estimated pollution emissions attributable to the DCP, we estimate a total social cost of $48.7 million in present-value terms. Note that this section does not estimate the impacts of greenhouse gas emissions associated with construction and operation of the DCP because these emissions will be offset by a proposed mitigation program that is included in the project’s costs.

DCP construction is also expected to create noise nuisance in the local areas surrounding construction sites. The impact of construction noise on residents can best be quantified using the hedonic pricing method. Based on a review of relevant literature, we assume a temporary 14% drop in residential home prices for approximately 800 homes affected by project noise for the duration of the noise impacts.[51] This temporary price drop is applied to average housing values in the relevant property and rental markets. In present-value terms, we estimate a total of $6 million in remaining noise impacts across the construction period after mitigation measures are undertaken. This estimate does not include the cost of the mitigation measures, such as window replacement and temporary relocation, whose costs are accounted for as part of the project's environmental mitigation costs.

Finally, DCP construction will most likely affect 120 road segments. To calculate the economic impact of the travel delays on these road segments, we consider historical traffic data and each roadway's speed limit. Then, by approximating the average speed of travel on a congested roadway, we obtain the increased travel time resulting from DCP construction. Multiplying this by a range of opportunity costs for time lost due to traffic, we estimate the social cost to be $78.8 to $105.3 million, with a midpoint of $84.7 million in present-value terms.

The estimated impact of increased salinity on Delta yields, calculated in present-value terms, is $68.53 million due to the higher demand for irrigation water. Modeling from the EIR indicates this increase to be an average change in EC of 0.008 dS/m across the Delta. Although this change in salinity is deemed "less than significant" in the EIR, these costs are still incorporated into our analysis. Similar to cost discussion in Section 5.2, the costs of increased salinity are based on the additional water requirements to leach soils and manage salinity levels. Using detailed crop coverage data from the USDA, the calculation included the irrigation requirements and leaching fractions necessary to maintain salinity below the thresholds that cause yield loss.

Table 7, below, summarizes the total cost of the remaining environmental costs after mitigation quantified in this report. The total cost of these impacts after mitigation is $248 million in present-value terms, or $167 million in discounted terms.

Table 7: Costs of Remaining Environmental Impacts after Mitigation

Total Costs	$ Millions, 2023
Agriculture	$25.9
Air Quality	$61.3
Noise	$7.7
Transportation	$84.7
Delta Salinity	$68.5
Total	**$248.1**

Sources and Notes: All costs measured in millions of 2023 undiscounted dollars. See Appendix C for cost breakdown within each category.

[51] We use the low end of the 14% to 18% range estimated by a 2016 study on housing price impacts from railroad noise.

11. Benefit-Cost Ratio and Sensitivity Analysis

11.1. BENEFIT-COST RATIO ESTIMATE

Table 1, shown in the executive summary, presents the results from our main benefit-cost scenario. The primary estimate, based on a 2070 median climate scenario with 1.8 feet of sea-level rise, shows an overall benefit of $38.0 billion, measured in discounted 2023 dollars. The majority of this benefit comes from urban water supply, valued at $33.3 billion (87%). Agricultural water supply benefits, the second-largest component, are valued at $2.3 billion. The DCP also significantly enhances water quality, providing $1.3 billion in benefits for urban customers and $90 million for agricultural customers. In addition, by adding redundancy to the existing water supply infrastructure, the expected benefits for a 500-year earthquake include $969 million for reduced water supply disruption and $2 million for improved water quality.

On the cost side, two scenarios are considered: the primary scenario, based on the costs of building the project as currently described in the EIR, and a secondary scenario, incorporating project-wide innovations and savings. When discounted to present values, the total costs in the primary scenario, including construction, other project costs, the Community Benefit Program, environmental mitigation, O&M costs, and the costs of remaining environmental impacts, amount to $17.3 billion. The secondary scenario, with project-wide innovations and savings, the total costs amount to $16.3 billion. The levelized cost of water from the DCP is calculated by discounting the total costs of the project over its lifetime and then dividing this by the discounted total volume of water deliveries. In the primary scenario, this results in a cost of $1,327 per acre-foot, while in the secondary scenario, which includes project-wide innovations and savings, the cost is $1,255 per acre-foot.[52]

The benefit-cost ratio is calculated by dividing the present value of total benefits by the present value of total costs. In the primary scenario, we find a benefit-cost ratio of 2.20, and in the secondary scenario, the ratio is 2.33. This means that for every dollar spent on the DCP, the expected benefits are worth $2.20 in the primary scenario and $2.33 in the secondary scenario. Under either cost estimate, the benefits of the project significantly exceed the costs.

---

[52] Levelized cost of water is calculated with the formula $LCOW = \frac{\sum_{t=1}^{n} \frac{C_t}{(1+r_t)^t}}{\sum_{t=1}^{n} \frac{Q_t}{(1+r_t)^t}}$ where C_t is the cost associated with the DCP at time t, Q_t is the volume of additional SWP deliveries as a result of the DCP at time t, and r_t is the discount rate at time t.

This methodology is described in more detail here:
Fane, Simon, J. Robinson, and S. White. 2003. The Use of Levelized Cost in Comparing Supply and Demand Side Options. In *Water Science and Technology: Water Supply* 3, No. 3 (2003):185–192.

11.2. SENSITIVITY ANALYSES

Table 8 compares the results from the main benefit-cost scenario to five sensitivity scenarios. The primary estimate, as discussed in Section 2.3, is based on a 2070 median climate scenario with 1.8 feet of sea-level rise. The sensitivity analyses compare benefits of the project under various climate, sea-level rise, and adaptation scenarios.

Sensitivity analysis 1, which incorporates adaptation measures into the main scenario, estimates total benefits and a benefit-cost ratio of $38.0 billion and 2.20, respectively. The adaptation assumptions in Scenario 1 include improved SWP operations. However, their impact on contractors is mixed (i.e., relaxed water quality standards and the fallowing policy enhance water supply reliability, while Delta export restrictions diminish it). Overall, benefits still exceed costs, and the net impact of the adaptation assumptions is nearly zero.

Sensitivity analyses 2 and 3 assume an extreme sea-level rise of 3.5 feet and find higher benefits due to the low DCP deliveries and water supply reliability in the no-project scenario. Scenario 2 has benefits of $45.4 billion and a benefit-cost ratio of 2.63. Scenario 3, which adds the adaptation assumptions, has benefits of $42.3 billion and a benefit-cost ratio of 2.45.

Sensitivity analyses 4 and 5 are based on 2040 climate scenarios and therefore reflect less severe climate change and water scarcity. Analysis 4, using a median ensemble of climate models, finds benefits of $30.6 billion and a benefit-cost ratio of 1.78, while Analysis 5, using a CT ensemble, finds benefits of $26.6 billion and a benefit-cost ratio of 1.54.

Across all scenarios, the benefits of the DCP range from $26.5 billion to $45.4 billion, consistently exceeding costs and passing the benefit-cost ratio test. The DCP is economically viable and robust under various future climate scenarios, with the greatest benefits seen in the extreme 2070 median scenario, with a 3.5-foot sea-level rise. Even in the 2040 scenarios, the benefits still outweigh the costs.

Table 8: Sensitivity Analysis

	Main Scenario	Sensitivity Analyses				
		1	2	3	4	5
	2070 Median w. 1.8' SLR	2070 Median w. 1.8' SLR & Adaptation	2070 Median w. 3.5' SLR	2070 Median w. 3.5' SLR & Adaptation	2040 Median w. 1.8' SLR	2040 Central Tendency w. 1.8' SLR
$ Millions, 2023	**Benefits**					
Urban Water Supply and Reliability	$33,300	$33,395	$40,847	$37,729	$25,940	$21,642
Agricultural Water Supply and Reliability	$ 2,268	$ 2,221	$2,211	$2,165	$2,317	$2,520
Urban Water Quality	$ 1,330	$ 1,330	$1,330	$1,330	$1,330	$1,330
Agricultural Water Quality	$ 90	$ 90	$90	$90	$90	$90
Seismic Reliability Benefits (Water Supply)	$969	$969	$969	$969	$969	$969
Seismic Reliability Benefits (Water Quality)	$ 2	$ 2	$2	$2	$2	$2
Total Benefits	$37,960	$38,008	$45,449	$42,285	$30,648	$26,553
	Costs					
Construction Costs	$11,486	$11,486	$11,486	$11,486	$11,486	$11,486
Other Project Costs	$ 3,021	$ 3,021	$3,021	$3,021	$3,021	$3,021
Community Benefit Program	$153	$153	$153	$153	$153	$153
Environmental Mitigation	$735	$735	$735	$735	$735	$735
O&M Costs	$ 1,697	$ 1,697	$1,697	$1,697	$1,697	$1,697
Environmental Impacts after Mitigation	$167	$167	$167	$167	$167	$167
Total Costs	$17,259	$17,259	$17,259	$17,259	$17,259	$17,259
Benefit-Cost Ratio	**2.20**	**2.20**	**2.63**	**2.45**	**1.78**	**1.54**

Sources and Notes: All benefits and costs are measured in millions of discounted 2023 $. A declining discount rate is used from 2% to 1.4%, consistent with guidance from OMB. The primary estimate considers the 2070 median climate with 1.8 feet of sea-level rise. The sensitivity analyses vary in terms of climate assumptions, sea-level rise, adaptation measures introduced to reduce operational risks for the State Water Project

12. Conclusions

This report has conducted a benefit-cost analysis of the proposed DCP. The project's benefits are estimated in terms of water supply reliability and water quality, in light of anticipated climate change, future sea-level rise, and seismic risks. The project's costs are estimated in terms of capital and O&M costs as well as the costs of mitigated and unavoidable environmental impacts. We consider the difference in the total benefits and costs between a scenario in which the proposed project is built and a no-project scenario. We estimate a benefit-cost ratio of 2.20.

In addition to the primary estimate of the benefit-cost ratio, a number of sensitivity analyses are conducted that consider various scenarios for climate and sea-level rise. The additional deliveries under the project scenario relative to the no-project scenario are similar across all sensitivity analyses, and consequently, the benefit-cost ratio remains above 1.5 in all scenarios. The DCP's benefits tend to increase in scenarios with more extreme climate change, assuming the project continues to deliver similar incremental water supplies.

Appendix A: Works Cited

Government Documents

California Department of Transportation. 2016. *Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis*.

California Department of Water Resources. 2018. *Supplement C – Water Project Export Disruptions for Multiple-Island Breach Scenarios Using the Delta Emergency Response Tool.* May 2018.

California Department of Water Resources. 2022. *Community Benefits Program Overview*. June 2022. Available: https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Delta-Conveyance/Public-Information/DCP_CBP_Overview_June2022.pdf.

California Department of Water Resources. 2024. *Missed Opportunity*. March 2024. Available: https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Delta-Conveyance/Public-Information/DCP_Missed-Opportunity.pdf.

California Department of Water Resources. 2024. *O&M Annual Cost Estimate Basis for Bethany Reservoir Alternative*. April 2024.

California Department of Water Resources. n.d. *Bulletin 132, Management of the California State Water Project.* Available: https://water.ca.gov/Programs/State-Water-Project/Management/Bulletin-132. Accessed: September 29, 2023.

California Department of Water Resources. n.d. *CalSim 3 Results for 2070 Climate Change and Sea Level Projections and Sensitivity Analysis.* Available: https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Delta-Conveyance/Public-Information/DWR_DCP_2023_2070Memo_December.pdf. Accessed: December 7, 2023.

California Ocean Protection Council, 2018. *State of California Sea-Level Rise Guidance: 2018 Update*. Sacramento: CA. Available: https://www.opc.ca.gov/webmaster/ftp/pdf/agenda_items/20180314/Item3_Exhibit-A_OPC_SLR_Guidance-rd3.pdf.

Delta Conveyance Design and Construction Authority. 2024. *DCP Total Project Cost Summary*. April 2024.

Delta Conveyance Project. 2023. *Certified Final Environmental Impact Report*. Permits and Regulatory Compliance. Available: https://www.deltaconveyanceproject.com/planning-processes/california-environmental-quality-act/final-eir/final-eir-document. Accessed: April 2024.

Delta Independent Science Board. 2016. *Review of Water Supply Reliability Estimation Related to the Sacramento-San Joaquin Delta*. Report to the Delta Stewardship Council. June. Sacramento, CA. Available: https://deltacouncil.ca.gov/pdf/isb/products/2022-06-16-isb-water-supply-reliability-review.pdf.

Metropolitan Water District of Southern California and Bureau of Reclamation. 1999. *Salinity Management Study, Final Report.* Available: https://documents.deq.utah.gov/water-quality/facilities/colorado-river/DWQ-2017-006741.pdf. Accessed: May 4, 2024.

Metropolitan Water District of Southern California. 2022. *2020 IRP – Regional Needs Assessment*. April 2022.

Nasdaq. 2024. *Nasdaq Veles California Water Index*. Available: https://www.nasdaq.com/solutions/nasdaq-veles-water-index. Accessed: December 8, 2023.

Santa Clara Valley Water. 2021. *2020 Urban Water Management Plan.* June. Available: https://www.valleywater.org/your-water/water-supply-planning/urban-water-management-plan.

The White House. 2023. *Biden-Harris Administration Releases Final Guidance to Improve Regulatory Analysis.* November 9, 2023. Available: https://www.whitehouse.gov/omb/briefing-room/2023/11/09/biden-harris-administration-releases-final-guidance-to-improve-regulatory-analysis/.

U.S. Environmental Protection Agency. n.d. *Basic Information about NO_2.* Available: https://www.epa.gov/no2-pollution/basic-information-about-no2#Effects. Accessed: December 6, 2023.

U.S. Environmental Protection Agency. n.d. *Particulate Matter (PM) Basics.* Available: https://www.epa.gov/pm-pollution/particulate-matter-pm-basics#effects. Accessed: December 6, 2023.

UC Davis Center for Watershed Sciences. n.d. *A Brief Overview of the SWAP Model.* Available: https://watershed.ucdavis.edu/doc/water-economics-and-management-group/brief-overview-swap-model.

UC Davis Center for Watershed Sciences. n.d. *SWAP Model.* Available: https://watershed.ucdavis.edu/project/swap-model.

University of California Salinity Management. 2024. *Crop Salinity Tolerance and Yield Function*. Available: https://ucanr.edu/sites/Salinity/Salinity_Management/Effect_of_soil_salinity_on_crop_growth/Crop_salinity_tolerance_and_yield_function/. Accessed December 8, 2023.

Journal Articles

Arrow, Kenneth J., Maureen L. Cropper, Christian Gollier, Ben Groom, Geoffrey M. Heal, Richard G. Newell, William D. Nordhaus, Robert S. Pindyck, William A. Pizer, Paul R. Portney, Thomas Sterner, Richard S. J. Tol, and Martin L. Weitzman. 2014. Should Governments Use a Declining Discount Rate in Project Analysis? In

Review of Environmental Economics and Policy, Volume 8, No. 2. Available: https://www.journals.uchicago.edu/doi/full/10.1093/reep/reu008. Accessed: December 6, 2023.

Boarnet, Marlon, Wallace Walrod, David L. Sunding, Oliver R. Browne. 2022. *The Economic Impacts of Water Shortages in Orange County.* July 2022.

Brozović, Nicholas, David L. Sunding, and David Zilberman. 2007. Estimating Business and Residential Water Supply Interruption Losses from Catastrophic Events. In *Water Resources Research,* 43, No. 8 (2007).

Buck, S., M. Auffhammer, S. Hamilton, and D. Sunding. 2016. Measuring Welfare Losses from Urban Water Supply Disruptions. In *Journal of the Association of Environmental and Resource Economists*, 3(3), 743–778.

Buck, Steven, Mehdi Nemati, and David Sunding. 2023. Consumer Welfare Consequences of the California Drought Conservation Mandate. In *Applied Economic Perspectives and Policy,* 45, No. 1 (2023):510–533.

California Department of Water Resources. 2008. *Department of Water Resources Economic Analysis Guidebook*.

Chong, Howard, and David Sunding. n.d. Water Markets and Trading. In *Annual Review of Environment and Resources*, 31(1), 239–264. doi:10.1146/annurev.energy.31.020105.100323.

Fane, Simon, J. Robinson, and S. White. The Use of Levelized Cost in Comparing Supply and Demand-Side Options. In *Water Science and Technology: Water Supply,* 3, No. 3 (2003):185–192.

Hecht, Jonathan, and David Sunding. 2013. *Bay Delta Conservation Plan Statewide Economic Impact Report.* Prepared for the California Department of Water Resources. August 2013.

Nemati, Mehdi, Steven Buck, and David Sunding. 2018. Cost of California's 2015 Drought Water Conservation Mandate. In *ARE Update*, 21, No. 4 (2018):9–11.

Sunding, David L. 2018. *Economic Analysis of Stage I of the California WaterFix*. Prepared for the California Department of Water Resources. September 20, 2018.

Walker, Jay. 2016. Silence is Golden: Railroad Noise Pollution and Property Values. In *The Review of Regional Studies*, 45 (2016), 75–89.

Wong, Ivan G., Patricia Thomas, Nora Lewandowski, and Dennis Majors. 2021. Seismic Hazard Analyses of the Metropolitan Water District Emergency Freshwater Pathway, California. In *Earthquake Spectra,* Volume 38(2), 981–1020, 2022, DOI: 10.1177/87552930211047608.

Appendix B: Additional Details on Estimation of Urban Water Supply Reliability Benefits

This appendix provides additional details on the methodology that is used to estimate the urban water supply reliability benefits. These benefits are estimated using a framework that is described in several peer-reviewed academic papers including Brozovic et al. (2007), Buck et al. (2016), and Buck et al. (2023) and the text in this appendix has been closely adapted from those works.[53]

B.1. FRAMEWORK FOR CONSUMER WELFARE LOSS ANALYSIS

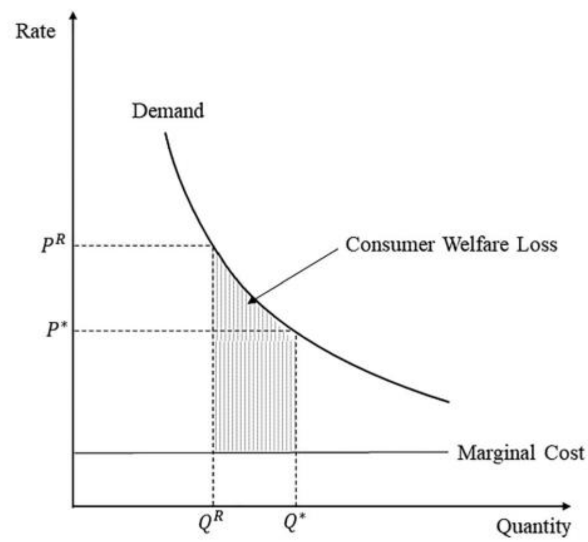
Urban consumers are evaluated using a measure of willingness to pay to avoid observed water supply reductions. This same approach is adopted in other works in the recent peer-reviewed literature including Brozovic et al. (2007), Buck et al. (2016), and Buck et al. (2023). Under this approach, welfare losses are measured as the area under an estimated demand curve and above estimated marginal costs. Figure B-1 shows a visual illustration of this area representing the consumer welfare losses experienced in response to water supply disruptions. The demand curve in Figure B - 1 depicts a constant-elasticity demand curve, a curve in which a one percentage change in water prices leads to a constant percentage change in consumption of water at any baseline level of consumption. In this figure the welfare loss from a reduction in water supply from Q^* to Q^R is equal to the area shaded in grey. This welfare loss has two components: 1) a consumer welfare loss equal to the triangle that is shown with an arrow on the figure and 2) a loss in revenue for the utility that is equal to the square below the triangle or $P^*(Q^* - Q^R)$. The remainder of this sub-section uses economic theory to formalize this approach to estimating consumer welfare losses.

[53] Brozović, Nicholas, David L. Sunding, and David Zilberman. 2007. Estimating Business and Residential Water Supply Interruption Losses from Catastrophic Events. In *Water Resources Research,* 43, No. 8 (2007).

Buck, S., M. Auffhammer, S. Hamilton, and D. Sunding. 2016. Measuring Welfare Losses from Urban Water Supply Disruptions. In *Journal of the Association of Environmental and Resource Economists*, 3(3), 743–778.

Buck, Steven, Mehdi Nemati, and David Sunding. 2023. Consumer Welfare Consequences of the California Drought Conservation Mandate. In *Applied Economic Perspectives and Policy,* 45, No. 1 (2023):510–533.

Figure B - 1: Depiction of Welfare Losses under Demand Curve



Source: Buck, Steven, Mehdi Nemati, and David Sunding. "Consumer Welfare Consequences of the California Drought Conservation Mandate." *Applied Economic Perspectives and Policy* 45, no. 1 (2023): 513.

The severity of the water supply disruption in region i at time t is denoted as $z_{it} \in [0;\ 1]$, where $z_{it} = 0$ corresponds to a complete outage and $z_{it} = 1$ corresponds to the baseline level of service. Let $f_{it}(z_{it})$ represent the probability density function of residential water disruption z_{it} in region i at time t and let $W_i(z_{it})$ denote consumer willingness to pay to avoid a supply disruption z_{it} in region i at time t. For a period of duration T until baseline water service is reestablished, consumer willingness to pay to avoid a cumulative service disruption across sectors I regions and T periods is given by:

$$W = \sum_{t=1}^{T} \sum_{i=1}^{I} \int_0^1 W_i(x) f_{it}(x) dx$$

with x as the variable denoting the values z_{it} can assume. For a given region and time, the computation of $W_i(z_{it})$ involves integrating the area under a demand curve for a supply disruption level of z_{it}. Specifically, willingness to pay to avoid a supply disruption of magnitude z_{it} in region i at time t can be defined as:

$$W_i(z_{it}) = \int_{Q_i(z_{it})}^{Q_i^*} P_i(x) dx,$$

where $P_i(Q_i)$ is the (inverse) demand function for residential water in region i, $Q_i^* = Q_i(z_{it} = 1)$ is the baseline quantity of water delivered to residences in region i prior to a supply disruption, and $Q_i(z_{it})$ is the quantity of supply available after a water supply disruption in region i at time t.

Consumer willingness to pay to avoid a (contemporaneous) water supply disruption of a given magnitude i is calculated for each region by constructing an aggregate demand curve to represent the residential water segment. For utilities with a uniform pricing structure, $P_i^* = P_i(Q_i^*)$ is the volumetric rate paid by residential homeowners under baseline conditions prior to the water supply disruption in region i. For regions with an increasing block pricing (IBP) structure, P_i is the marginal rate paid by a representative residential consumer in region i corresponding to the tier on which the last unit of household water consumption occurred.

Ratepayer welfare losses that result from water supply disruption in a given market are mitigated to the extent that delivering a smaller quantity of water reduces the system-wide cost of water service. The ratepayer welfare loss that occurs in region i following a water supply disruption is therefore the difference between the measure in the first equation and the avoided cost of service. If water service is characterized by constant unit cost at the prevailing baseline price level, P_i, then the avoided cost of service is $P_i^*\left(Q_i^* - Q(z_{it})\right)$, and the ratepayer welfare loss following a water supply disruption of a given magnitude reduces to the usual consumer surplus triangle.

Let $c_i(z_{it})$ denote the avoided unit cost of service in region i at time t. Accordingly, the contemporaneous ratepayer welfare loss in region i of a given magnitude water supply disruption is given by:

$$L_i(z_{it}) = \int_{Q_i(z_{it})}^{Q_i^*} P_i(x) - c_i(x)dx$$

Once again, notice that the contemporaneous welfare loss in this equation corresponds with a consumer surplus measure in the case where $c_i(z_{it}) = P_i^*$. In this case, the equation reduces to:

$$L_i(z_{it}) = \int_{Q_i(z_{it}}^{Q_i^*} P_i(x)dx - P_i^*(Q_i^* - Q(z_{it}))$$

The expression for losses in the above equation is a lower bound on the economic loss experienced by ratepayers and corresponds to the case of marginal cost pricing. For a period of duration T until baseline water service is reestablished, the ratepayer welfare loss in the residential (R) sector resulting from a cumulative service disruption across I regions and T periods is given by:

$$L^R = \sum_{t=1}^{T} \sum_{i=1}^{I} \int_0^1 L_i(x) f_{it}(x)dx$$

where $L_i(z_{it})$ is defined in the previous equation. We note that L^R represents aggregate expected losses across I regions between the current period and period T, which reflects the value of a perfectly reliable supply.

B.2. ECONOMETRIC MODEL OF WATER DEMAND

To operationalize the theory in Section B.1, we need to estimate the function $P_i(Q_i)$. A key parameter in estimating $P_i(Q_i)$ is the price-elasticity of demand. We rely on estimates of demand elasticity produced in Buck et al. (2016).[54] This paper estimates utility-specific demand elasticities from a panel of utility service area level water price and consumption data. The main challenge in this estimation is avoiding simultaneity bias, typically addressed by including year fixed effects and considering utility fixed effects to control for unobserved time-invariant characteristics. The study avoids the endogeneity issue, common with increasing block price schedules, by using the median tier price of each utility's tiered pricing schedule and instrumenting this price with lagged prices. Additionally, the research considers different pricing structures, like uniform pricing and increasing block pricing (IBP), as they may affect the estimated price elasticity of demand. The study addresses the complications introduced by increasing block pricing by using an instrumental variables approach where price tiers are used as instruments for the median price.

The authors estimate a regression consumer demand on water rates using the following equation:

$$\ln(q_{it}) = \beta_1 \widetilde{\ln(p_{it})} + \beta_2 \widetilde{\ln(p_{it})} \ln(y_{it}) + \mu_i + \tau_t + \xi_{it}$$

Where q_{it} is average consumption in utility i at time t. $\widetilde{\ln(p_{it})}$ is an instrumented measure of median rates, y_{it} is median household income within the utility service area, μ_i are utility fixed effects, τ_t are year and month fixed effects and ξ_{it} are controls for weather. Using this approach, the authors produce the regression estimates shown below in Table B - 1.

In the paper, these estimated coefficients are subjected to a number of robustness checks regarding impact of increasing block pricing, drought, and other omitted variables and found to be reliable. Since the data in this paper is dated, in the next section we recalculate utility-specific demand elasticity estimates based off of the most recent data on each utility’s rates, income, and demand.

---

[54] Buck, S., M. Auffhammer, S. Hamilton, and D. Sunding. 2016. Measuring Welfare Losses from Urban Water Supply Disruptions. In *Journal of the Association of Environmental and Resource Economists*, 3(3), 743–778.

Table B - 1: Econometric Estimate of Water Demand from Buck et al. (2016)

	OLS (1)	OLS (2)	IV (3)	OLS (4)	IV (5)
ln(Price)	0.173	-0.100***	-0.143***	-0.591***	-0.637***
	(0.120)	(0.033)	(0.046)	(0.194)	(0.242)
ln(Price) x ln(Income)				0.110**	0.113**
				(0.041)	(0.050)
Observations	453	453	453	453	453
Weather controls	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Utility fixed effects	No	Yes	Yes	Yes	Yes

Note.—Standard errors clustered at the water utility level reported in parentheses.
* p < .10.
** p < .05.
*** p < .01.

Source: Buck, S., Auffhammer, M., Hamilton, S., & Sunding, D. (2016). "Measuring Welfare Losses from Urban Water Supply Disruptions," *Journal of the Association of Environmental and Resource Economists*, 3(3), 743-778.

B.3. ESTIMATION OF WELFARE LOSSES

This subsection describes the derivation of the function that is used to estimate welfare losses from water shortages. This derivation is presented in more detail in Buck et al. (2016). We assume a constant elasticity of demand specification:

$$P_i = A_i Q_i^{1/\varepsilon_i}$$

for $i = 1 \ldots n$, where ε_i is the price elasticity of water demand in region i and A_i is a constant. Let P_i and Q_i, respectively, denote the retail water price and quantity of water consumed by residential households in region i under baseline conditions. For a given water supply disruption with an available level of water given by $Q_i(z_{it}) < Q_i^*$, it is helpful to define the relationship between these quantities in terms of the percentage of water rationed in region i at time t, r_{it}, as

$$Q_i(z_{it}) = (1 - r_{it})Q_i^*.$$

Based on the preceding equations, the welfare loss following a supply disruption of magnitude z_{it} in region i at time t can be calculated as:

$$L_i(z_{it}) = \frac{\varepsilon_i}{1+\varepsilon_i} P_i^* Q_i^* \left[1 - (1-r)^{\frac{1+\varepsilon_i}{\varepsilon_i}}\right] - \int_{Q_i(z_{it})}^{Q_i^*} c_i(x)dx.$$

Under the assumption of a flat marginal cost curve, we can rewrite this equation in terms of average loss per unit of shortage:

$$\frac{L_i}{Q_i^* r_{it}} = \frac{\varepsilon_i}{1+\varepsilon_i} P_i^* \left[1 - (1 - r_{it})^{\frac{1+\varepsilon_i}{\varepsilon_i}}\right] / \, r_{it} - c_i,$$

where c_i is a constant per unit marginal cost. This makes clear that conditioned on a supply disruption r_i, the welfare implications of a supply disruption in a particular region depends on heterogeneity in (i) price elasticities, (ii) initial prices, and (iii) the variable cost of water service, where ii and iii provide insight into the extent to which fixed costs are bundled into volumetric rates.

Using the above equations, we calculate welfare losses from shortages for State Water Contractors and Metropolitan Water District customers under both the project and no-project scenarios. In our calculations, P_i is each districts' median-tier water rate. Where possible we rely on forecast rates for the year 2045 that are produced as part of the district's planning process. Otherwise, current rates are used based on the most recent available data. It is assumed that there is no increase in real rates for the duration of our estimate. Where a State Water Contractor is a wholesaler that serves multiple retailers, a median rate is calculated across all retailers. Baseline Demand, Q_{it}^*, is based on each demand forecast produced by each district as part of their resource planning process. Shortages, r_{it}, are calculated based on district specific reliability modeling. Long-run variable costs for water deliveries, c_i, are calculated based on data reported in the State Water Project's Bulletin 132-19.[55]

Due to the constant elasticity of demand assumption, welfare losses in our model are unbounded as shortages become increasingly large. In the model, we have limited consumer welfare losses at a marginal value of $10,000 per acre-foot, which is approximately equal to the costs of providing emergency water supplies to residential and commercial customers via truck.[56]

[55] California Department of Water Resources. n.d. *Bulletin 132, Management of the California State Water Project.*

[56] Brozović, Nicholas, David L. Sunding, and David Zilberman. 2007. Estimating Business and Residential Water Supply Interruption Losses from Catastrophic Events. In *Water Resources Research*, 43, No. 8 (2007).

Appendix C: Additional Details on Costs of Remaining Environmental Impacts after Mitigation

This appendix provides further details on the estimation of the costs of remaining environmental impacts after mitigation provided in Section 10 of the report. The Environmental Impact Report is a comprehensive study that identifies the significant environmental and social impacts associated with the construction of the Delta Conveyance Project. It assesses impacts in over twenty areas and identifies mitigation measures to offset them. After mitigation, remaining environmental impacts are quantified or identified as 'Less than Significant.' The proposed mitigation project will be financed by the environmental mitigation costs discussed in Section 0 and incorporated into the DCA's cost estimates. Several environmental impacts are still identified as being significant after mitigation efforts, particularly in terms of lost agricultural land in the delta region and construction-related air quality, noise, and transportation impacts.

C.1. LOST AGRICULTURAL LAND IN THE DELTA

The EIR identifies parcels of land that would be affected by construction of DCP and categorizes impacts to them as either permanent or temporary. Permanent impacts are described as "resulting from the physical footprint of project facilities" and as "land that cannot be returned to farmland."[57] Impacts that would last for the duration of construction, but for which there also exists post-construction uncertainty were additionally designated as permanent. Temporary impacts are those which would be "largely limited to the duration of construction activities at a given site but could be returned to active farmland after cessation of construction activities."[58]

To value permanent loss of farmland, we rely on the average market prices for farmland by county and crop type. Temporary loss of farmland is valued using the annual rental price by county and crop type. Non-agricultural land impacted by construction, such as seasonal wetlands and miscellaneous grasses, are excluded from the analysis. To value affected cropland, we rely on appraisal values calculated in the "Trend in Agricultural Land and Lease Values" report provided by the California chapter of the American Society of Farm Managers and Rural Appraiser, the largest professional association for rural property land experts. If an appraisal value was not available for an affected crop type and county, we rely on the average value of Delta farmland. In the case of almond croplands, we rely on the mean value per acre across irrigated and well-watered almond cropland. Appraisal values for relevant croplands are presented in Table C-1 below.

[57] DCP EIR, 15–25.

[58] Ibid.

Table C-1: Value of Cropland in Project Area

Crop Type	County	Low Value ($ per Acre)	High Value ($ per Acre)	Mid Value ($ per Acre)
[A]	[B]	[C]	[D]	[E]
Almonds	San Joaquin, Contra Costa, Sacramento	$19,145	$58,499	$38,822
Rangeland Grazing Only	San Joaquin, Contra Costa, Sacramento	$638	$ 3,191	$1,915
Rangeland (perm plant potential)	San Joaquin, Contra Costa, Sacramento	$5,318	$ 9,573	$7,445
Walnuts	San Joaquin, Contra Costa, Sacramento	$19,145	$37,227	$28,186
Wine Grapes	San Joaquin, Contra Costa, Sacramento	$23,400	$42,545	$32,972
Cherries	San Joaquin, Contra Costa, Sacramento	$26,591	$38,290	$32,440
Delta	San Joaquin, Contra Costa, Sacramento	$15,954	$19,145	$17,550
Row Crops	Santa Clara	$26,591	$63,817	$45,204

Sources and Notes:
[A]: These are the crop types with available information in the 2022 ASFMRA report, and values converted to 2023 dollars.
[B]: Note that ASFMRA combines counties into agricultural regions. San Joaquin, Contra Costa, and Sacramento fall into the Northern San Joaquin region, whereas Alameda County is placed in the Central Coast region.
[C] – [D]: The ASFMRA lists a high and a low value for each type of farmland.
[E]: The mid value is just the average of the high and low values listed in the 2022 ASFMRA report.

To value the cost of temporary impacts, we rely on rent values provided by the United States Department of Food and Agriculture's National Agricultural Statistics Service (NASS). NASS rent values are characterized as irrigated and non-irrigated; we calculate a mean across both types. Rental prices are presented below in Table C-2. We calculate the cost of temporary impacts as the product of rental value per acre and the total temporary affected acreage by county. We assume all temporarily affected fields are affected for the entire duration of construction, thereby potentially overestimating the cost of lost farmland.

Table C - 2: Summary of Rent by County for Irrigated and Non-Irrigated Farmland

County	Irrigated Land Rent ($ per Acre)	Non-Irrigated Land Rent ($ per Acre)	Average Land Rent ($ per Acre)
[A]	[B]	[C]	[D]
Alameda	1,414.62	21.27	717.94
Contra Costa	344.61	19.15	181.88
Sacramento	264.84	40.95	152.90
San Joaquin	447.78	36.69	242.24

Sources and Notes:
All rent measured in 2023 dollars.
[A]: Affected counties as described in DCP EIR.
[B],[C]: From the United States Department of Agriculture National Agricultural Statistics Service.
[D]: ([B] + [C]) / 2.

We assume all permanent impacts begin in the first year of construction. Due to discounting, this assumption yields a relatively high estimate of total costs. Acreage impacted is inclusive of the farmland that will be affected by construction of mitigation measures such as on Bouldin Island and within I-5 Ponds 6, 7, and 8.

Using the mean value for the appraisal of farmland and the average value between the rent prices of irrigated and non-irrigated farmland in the four counties, the total undiscounted cost of the farmland conversion is estimated to be $25.94 million, as shown in Table C-3. Of this total, $3.99 million is associated with temporary farmland conversion and $21.96 million are associated with permanent farmland conversion. Of the permanent impacts, the crop types with the highest value of converted land are alfalfa, grapes, and almonds.

Table C - 3: Summary of Costs Associated with Conversion of Farmland

Construction Year	Cost of Temporary Acres Impacted	Cost of Permanent Acres Impacted	Total Cost
	($ millions, 2023)		
CY1	$0.249	$21.950	$22.199
CY2	$0.249	$0.000	$0.249
CY3	$0.249	$0.000	$0.249
CY4	$0.249	$0.000	$0.249
CY5	$0.249	$0.000	$0.249
CY6	$0.249	$0.000	$0.249
CY7	$0.249	$0.000	$0.249
CY8	$0.249	$0.000	$0.249
CY9	$0.249	$0.000	$0.249
CY10	$0.249	$0.000	$0.249
CY11	$0.249	$0.000	$0.249
CY12	$0.249	$0.000	$0.249
CY13	$0.249	$0.000	$0.249
CY14	$0.249	$0.000	$0.249
CY15	$0.249	$0.000	$0.249
CY16	$0.249	$0.000	$0.249
Total	**$3.991**	**$21.950**	**$25.941**

C.2. CONSTRUCTION-RELATED AIR QUALITY IMPACTS

This section evaluates the social cost of construction with respect to four pollutants: reactive organic gases (ROG), nitrogen oxides (NO_X), particulate matter less than 10 microns in diameter (PM_{10}), and particulate matter less than 2.5 microns in diameter ($PM_{2.5}$). Project construction will increase emissions across three districts: Sacramento Metropolitan Air Quality Management District (SMAQMD), San Joaquin Valley Air Pollution Control District (SJVAPCD), and the Bay Area Air Quality Management District (BAAQMD). In particular, construction will increase PM_{10} in excess of SMAQMD and SJVAPCD thresholds and increase NO_X emissions above thresholds set in all three districts. Note that this section does not estimate the impacts of greenhouse gas emissions associated with the construction and operation of the DCP because these emissions will be offset by a proposed mitigation programs that are included in the project’s costs.

Both nitrogen oxides and particulate matter are associated with negative impacts on human health. Short-term NO_x exposure is associated with respiratory symptoms, especially in people with asthma. Longer-term exposure is associated with development of asthma.[59] In addition to its health effects, NO_x is associated with acid rain, global warming, and nutrient overload. Particulate matter refers to microscopic solids or liquid droplets which are small enough to be inhaled. Particulates less than 10 micrometers in diameter can be inhaled deep in the lungs and absorbed into the bloodstream.[60] Because smaller particulates can be absorbed more deeply into the lungs and bloodstream, $PM_{2.5}$ poses a greater health risk than PM_{10}.

Due to the health risks posed by air pollutants, the DCP incorporates mitigation plans to reduce the impact of project-related emissions. DWR will enter into agreements with the affected air districts to provide offset fees. DWR will establish programs to fund emissions reduction projects which include but are not limited to alternative fuel school busses and transit public vehicles, diesel engine retrofits, electric vehicle rebates, and video-teleconferencing systems and telecommuting start-up costs for local businesses. DWR will additionally fund compensatory mitigation plans which restore wetlands and tidal habitats on Bouldin Island and in the North Delta Arc. A more complete discussion of mitigation plans is found in Chapter 23 of the EIR.

Table C - 4 presents baseline levels of annual pollution and the expected increase across the four studied air quality districts. Project-related pollution constitutes less than a 1% increase in pollution levels in all pollutants and counties except for a 2.2% increase in NO_X emissions in SMAQMD. No significant changes in pollution levels are predicted in Yolo-Solano Air Quality Management District for any of the studied pollutants.

[59] U.S. Environmental Protection Agency. n.d. *Basic Information about NO_2*. Available: https://www.epa.gov/no2-pollution/basic-information-about-no2#Effects. Accessed: December 6, 2023.

[60] U.S. Environmental Protection Agency. n.d. *Particulate Matter (PM) Basics.* Available: https://www.epa.gov/pm-pollution/particulate-matter-pm-basics#effects. Accessed: December 6, 2023.

Table C - 4: Annual Air Quality Changes between no project and project scenarios (Tons/Year)

		ROG	NOX	CO	PM 10 Total	PM2.5 Total	SO2
Sacramento Metropolitan Air Quality 1 Management District							
Baseline Emissions	[1]	18,849	12,676	75,887	11,779	3,927	303
Increased Emissions	[2]	21	278	603	108	24	0
Percent Increase	[3]	0.1%	2.2%	0.8%	0.9%	0.6%	0.0%
Yolo-Solano Air Quality Management District							
Baseline Emissions	[1]	8,329	6,453	21,864	12,136	2,508	164
Increased Emissions	[2]	0	0	4	0	0	0
Percent Increase	[3]	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bay Area Air Quality Management District							
Baseline Emissions	[1]	89,976	81,997	331,062	32,730	13,600	8,424
Increased Emissions	[2]	14	147	505	220	34	0
Percent Increase	[3]	0.0%	0.2%	0.2%	0.7%	0.3%	0.0%
San Joaquin Valley Air Pollution Control District							
Baseline Emissions	[1]	117,136	83,384	248,244	97,495	25,130	2,347
Increased Emissions	[2]	15	153	255	120	22	0
Percent Increase	[3]	0.0%	0.2%	0.1%	0.1%	0.1%	0.0%
Total							
Baseline Emissions	**[1]**	**234,290**	**184,511**	**677,057**	**154,140**	**45,165**	**11,238**
Increased Emissions	**[2]**	**50**	**578**	**1,367**	**448**	**80**	**0**
Percent Increase	**[3]**	**0.0%**	**0.3%**	**0.2%**	**0.3%**	**0.2%**	**0.0%**

Sources and Notes:
[1]: California Air Resources Board, "Emissions by Air District," accessed September 2022.
[2]: Environmental Impact Report for the Delta Conveyance Project, Chapter 23B, Table 23-22.
[3]: [2] / [1].

To quantify the social cost of increased pollutants, we apply EPA estimates of social cost per ton. The EPA estimates the social costs of air pollution using BenMAP-CE. The BenMAP-CE model first estimates health impacts using inputs from the published epidemiological literature: air quality changes, population levels, baseline incidence rates, and health effect estimates. The model calculates economic values from these estimates using cost-of-illness and willingness-to-pay metrics. Cost-of-illness reflects expenses associated with pollution-related illness, while willingness-to-pay reflects the more comprehensive toll of pollution related illness, incorporating individuals' reduction in quality of life beyond medical expenses. This analysis relies specifically on BenMAP social cost estimates in the refineries sector: values in 2023 dollars per ton are presented in Table C - 5 below.

Table C - 5: Social Cost of Pollutants

		Social Cost ($ / ton)
ROG	[1]	$14,556
NOX	[2]	$102,016
PM 10	[3]	$12,315
PM2.5	[4]	$465,781
SO2	[5]	$64,425

Sources and Notes:
Social cost reported in 2023 $/ton.
[1], [2], [4], [5]: EPA BenMAP Emissions by Sector.
[3]: Regulatory Impact Analysis of the Proposed Reciprocating Internal Combustion Engines NESHAP.
[3], [4]: For PM10 and PM2.5, social costs are determined using values reported for exhaust.

Applying these social cost metrics to total estimated pollution emissions attributable to the DCP, we estimate a total social cost of $61.29 million.[61] Annual social costs are presented in Table C - 6 below. This estimate is likely an upper bound for two reasons. First, the DCP EIR evaluates its emissions estimates to be an upper bound on expected emissions; if actual increased emissions are lower, then the corresponding social cost will be closer to zero. Second, EPA BenMAP social cost estimates have increased in recent years to reflect a more comprehensive account of social costs. Past EPA estimates have been only looking at the social costs of $PM_{2.5}$ precursors, while the current estimates use both $PM_{2.5}$ precursors and ozone precursors. This causes an increase in social costs of NO_x and ROGs. In a comparable analysis conducted for an earlier version of the project in 2013, the social cost of NO_x was estimated to be $13,691; the current social cost is more than seven times this amount.[62] Because the total costs are driven primarily by increases in NO_x emissions, the change in estimated cost/ton explains 81% of the total social cost of increased air pollution; using the values in the 2013 report, we find a total social cost of $7.1 million.[63] This comparison is not intended to trivialize the impact of air pollutants in the project air districts, but rather to give context to the magnitude of the estimated social cost.

[61] Measured in undiscounted 2023 dollars and assuming preliminary field investigation year (PFIY 1) will begin 2 years from the time of this analysis.

[62] The original input was $11,000; the value in text is adjusted to 2023 dollars.

[63] The 2013 values for social cost are adjusted for inflation. As in the main analysis, we assume a 2% discount rate and that the preliminary field investigation year (PFIY 1) will begin 2 years from the time of this analysis.

Table C - 6: Total Annual Social Cost of Project-Related Air Pollution

Construction Year	Total Social Cost ($ Millions, 2023)
PFIY1	$0.64
PFIY2	$0.64
PFIY3	$0.64
CY1	$1.22
CY2	$0.73
CY3	$1.14
CY4	$4.23
CY5	$9.40
CY6	$10.59
CY7	$8.86
CY8	$6.60
CY9	$6.59
CY10	$6.38
CY11	$2.80
CY12	$0.61
CY13	$0.22
CY14	$0.00
Total	**$61.29**

Notes:
Costs are reported in millions of undiscounted 2023 $. PFIY 1 is assumed to begin two years from the time of this analysis.

C.3. CONSTRUCTION-RELATED NOISE IMPACTS

Construction of the Delta Conveyance Project is expected to increase noise in the local areas surrounding construction sites. The project will primarily impose noise nuisances during the construction of permanent project features over a period of 12 to 14 years. Heavy equipment noise will occur at project sites, and construction of levee improvements, bridges, and other project developments will also generate localized noise disruptions. A more complete description of expected noise impacts can be found in Chapter 24 of the EIR.

Excess noise is a nuisance to local residents. In addition to quality-of-life impacts, excess noise may incur economic costs if, for example, work from home is disrupted or outdoor recreation businesses are negatively affected. The economic value of this nuisance is challenging to quantify; two individuals may experience different burdens from the same level of noise, and the ultimate noise impact itself can depend on factors such as home insulation. To quantify the overall burden of excess noise on a locality, we depend on an econometric method called hedonic pricing. The hedonic pricing method uses the value of related market goods to estimate the value of non-market goods. More specifically, the hedonic pricing method uses statistical techniques to infer the value of environmental attributes, such as noise levels, by comparing values of properties that have a given environmental attribute and those that do not. If houses are comparable across characteristics other than the attribute of interest (in this case, noise), then differences in the market price can be attributed to differences across this attribute.

Common sources of disruptive noise levels include roadways, general construction, airports, railroads, and industrial activity. Roadways are not a close comparison point because they primarily impose ambient noise. Typical construction projects may also be an inappropriate comparison point because the longevity of the DCP construction imposes higher costs than would short-term construction projects. While a perfect comparison is elusive, noise from railroad activity is analogous to DCP construction-related noise because both impose irregular noise impacts and are long-term nuisances. For this analysis, we thus rely on hedonic values derived from a study of housing price differences attributable to railroad proximity. Walker (2016) finds a 14% to 18% decline in residential property values in Memphis, Tennessee, if the property is exposed to sixty-five decibels or greater of railroad noise.[64] The study finds no impact on commercial property values.

Relying on this study, we assume a 14% impact on housing values due to increased noise. We apply this cost metric to average California housing values in both the property and rental markets.[65] The duration of noise disruption varies by location. Of the seventeen locations discussed in the EIR, five experience disruptions lasting five hours to one week, and an additional three locations are not located near any residences. These eight locations are excluded from the social cost analysis. Of the remaining nine locations, five experience disruptions lasting one month to 3.5 years. For these locations, we apply the cost metric to an estimated average California monthly rental price for the duration of the disruption. For the four locations experiencing nine or more years of disruptions, we apply the cost metric to the full property value.

The results of the analysis are presented in Table C - 7 below. We estimate an undiscounted cost of $8.7 million in noise impacts. These estimates assume that disruptive noise begins in the first year of construction. Note that the EIR finds that if all eligible property owners participate in the proposed the Noise Control Plan proposed in the EIR, the impacts would be less than significant.

---

[64] Walker, Jay. 2016. Silence is Golden: Railroad Noise Pollution and Property Values. In *The Review of Regional Studies*, 45 (2016), 75–89.

[65] Local housing prices in the affected areas are lower than average California housing values. To conduct a socially equitable analysis, we rely on statewide averages. We assume a home value of $788,679 and a rental value of $7,886.79, or 1% of a home's value.

Table C - 7: Social Cost of Project-Related Noise

Location/ Site	Construction Activity	Duration	Number of Residences Daytime	Damages with Local Average House Values ($ millions, 2023)
Intakes Construction	Pile Driving	42 Months	117	$3.21
	Nighttime concrete pours	2 Months	147	$0.19
	Heavy Equipment	12 years	9	$0.59
Tunnel Shaft Construction	Lower Roberts Island Levee Improvements	1 month	19	$0.01
	Lower Roberts Island RTM Stockpile	9 years	5	$0.33
	Upper Jones Tract Maintenance Shaft Buildout	9 years	1	$0.09
Bethany River Complex Construction	Bethany Reservoir Pumping Plant, Surge Basin and Aqueduct Buildout	13 years	12	$1.70
	Bethany Reservoir Pumping Plant, Surge Basin and Aqueduct night concrete pours	2 months	0	$0.07
Bridges, New Access Roads, Road Improvements, and Park-and-Ride Lots	Construction	1.5 months	450	$0.79
Total				**$6.97**

Notes:
Costs are reported in millions of undiscounted 2023$. The number of residences includes both daytime and nighttime residences. Twin cities complex is shown in this table as there are no adjacent residences that might experience noise impacts.

C.4. CONSTRUCTION-RELATED TRANSPORTATION IMPACTS

This section estimates the costs associated with construction induced traffic delays associated with the construction of the DCP. The costs as estimated based on total time delays estimated in the EIR and U.S. Department of Transportation (DOT) estimates of the opportunity cost of such delays to road users.

The EIR identifies 120 road segments, ranging from local roads to interstate highways, which are likely to be impacted by DCP construction based on the regional and local travel routes of construction workers and estimated truck traffic delivering project materials to and from project features.[66]

[66] Not all segments would be included in the adopted EIR project. For this project, construction access would not be allowed along SR 160 and River Road or along SR 4 between Old River and Middle River. See DCP, Appendix 20A 20A-1.

For each segment, baseline roadway traffic estimates from 6 AM to 7 PM for 2020 were developed using data collected from 2015 to 2019 and adjusted upward to estimate 2020 traffic absent Covid-19 impacts.[67] Within a road segment's range of traffic flows, we assume the upper end during rush hour (7AM to 10 AM and 4 PM to 7 PM) and the lower end during non-rush hour periods.

To estimate the economic impact of travel delays resulting from the construction of the Delta Conveyance Project, we first calculate the speed at which vehicles travel on a congested roadway using the following equation (Singh 1999):

$$Congested\ Speed = \frac{Free\ Flow\ Speed}{1 + 0.20[(\frac{Volume}{Capacity})^{10}]}$$

We assume free flow speed to be the roadway's speed limit. We assume capacity corresponds to a LOS E grade.[68] We estimate baseline volume using the EIR volume estimates discussed above. Average time to traverse the segment in each hour of the day is estimated using the congested speed and length of the segment.[69] Finally, the cumulative time spent across drivers on a given segment is calculated using average time to traverse and the total estimated volume of traffic on the segment during that hour.

The EIR identifies two segments that will deteriorate below acceptable LOS standards during morning and evening commute periods because of construction in listed years. For these segments during these hours, the traffic volume increases to the threshold of LOS E. This assumption constitutes an extreme upper bound, as we assign traffic impacts to the entire year, whereas the EIR expects the maximum volume to be reached only one to two weeks per year. To account for traffic increases which do not result in deterioration below LOS acceptable standards, remaining DCP-related trips are assumed to be distributed across road segments proportionally to the share of baseline traffic on each road segment.

Using the distribution of DCP-related trips across segments and hours, we calculate congested speed with project construction and compare this value to that under the baseline scenario to find the increased travel time resulting from the construction of the Delta Conveyance Project.

---

[67] DCP, Appendix 20A 20A-16.

[68] The certified final EIR conducts a level-of-service (LOS) analysis to qualitatively evaluate the level of comfort and convenience associated with driving on a segment at a given time. Segments are assigned a letter grade, wherein LOS A reflects free-flow conditions and LOS F reflects stop-and-go conditions.

[69] To illustrate, if the congested speed is 60 mph and the segment is 60 miles long, then average time to traverse is one hour. This step implicitly assumes that each vehicle will be on the roadway segment for the entire length of the segment. Although this assumption might result in an overestimation of time spent on congested roadways, data are not available on how long each vehicle remains on each roadway segment. Because most segments are freeways and highways, and the average segment is relatively short (3.07 miles), this assumption is reasonable.

To estimate the economic value of increased local travel time under DCP construction, we rely on an opportunity cost methodology. The opportunity cost of a travel delay is the value of the time lost because of additional time spent in traffic. The value of this time differs depending on what the time would have been used for had it not been spent in traffic. As construction will affect both business and personal travel, the value chosen for the opportunity cost of time spent in traffic is representative of both leisure and work. The total delay time is multiplied by estimates of the opportunity cost of a traveler’s time used by DOT to assign a monetary value to delay times in regulatory analyses. DOT develops and periodically updates the value of travel time to be used in analyses of proposed regulations. This value is widely used by transportation agencies to estimate the time burden of proposed regulations, including those promulgated by DOT, the Transportation Security Administration, and the U.S. Coast Guard. DOT’s ‘all purpose’ estimate of the value of time is used in the calculation, which is a weighted average of the value of time for both business and leisure trips based on historical rates of each type of trip. DOT estimates an intercity low value of $26.52 and a high value of $35.45.[70]

Using a high and low price for the opportunity cost of time lost in traffic, we develop a range for the total cost associated with the traffic impacts of construction. These results are presented in Table C-8 below. The additional traffic caused by construction incurs an undiscounted social cost of $78.9 million to $105.4 million incurred between 2024 and 2035. Annual costs stemming from traffic delays peak during year six of construction and taper off afterward due to discounting and decreased construction activity.

The estimates presented here constitute an upper bound of total transportation costs. 86.5% of the total time lost in traffic because of construction occurs on the five segments which the EIR states will experience LOS E conditions because of the project during morning and evening commute periods. We assume that these segments will experience LOS E conditions on every construction day of the affected years, but segments are likely to only be affected for a few weeks of the year.

[70] California Department of Transportation. 2016. *Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis*. Values are converted from 2016 dollars to 2023 dollars.

Table C - 8: Costs Associated with Traffic Impacts

Construction Year	Traffic Impact, Day of Construction (hours / day)	Construction Time (days)	Yearly Traffic Impact (hours)	DOT Value of Travel Time Savings ($ / hour)			Yearly Traffic Impact ($ millions, 2023)		
				Low	Mid	High	Low	Mid	High
[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
1	23.11	325	7,517.66	$26.52	$28.47	$35.45	$0.20	$0.21	$0.27
2	23.11	325	7,517.66	$26.52	$28.47	$35.45	$0.20	$0.21	$0.27
3	115.64	325	37,613.03	$26.52	$28.47	$35.45	$1.00	$1.07	$1.33
4	161.95	325	52,675.62	$26.52	$28.47	$35.45	$1.40	$1.50	$1.87
5	2,394.28	325	778,740.48	$26.52	$28.47	$35.45	$20.65	$22.17	$27.60
6	2,451.04	325	797,200.68	$26.52	$28.47	$35.45	$21.14	$22.70	$28.26
7	2,394.28	325	778,740.48	$26.52	$28.47	$35.45	$20.65	$22.17	$27.60
8	1,348.98	325	438,754.71	$26.52	$28.47	$35.45	$11.63	$12.49	$15.55
9	104.07	325	33,848.93	$26.52	$28.47	$35.45	$0.90	$0.96	$1.20
10	80.93	325	26,322.62	$26.52	$28.47	$35.45	$0.70	$0.75	$0.93
11	23.11	325	7,517.66	$26.52	$28.47	$35.45	$0.20	$0.21	$0.27
12	23.11	325	7,517.66	$26.52	$28.47	$35.45	$0.20	$0.21	$0.27
						Total	**$78.86**	**$84.67**	**$105.42**

Sources and Notes:

All Yearly Traffic Impact costs measured in millions of undiscounted 2023 $.

[A]: From DCP EIR Appendix 20A Figure 20A-11. Vehicle Trips per Day for DCP project alternative.

[B]: From Total Daily Time lost in Traffic by Year for each Impacted Segment.

[C]: From DCP EIR Appendix 20A, p. 30.

[D]: [B] x [C].

[E] – [G]: From Department of Transportation's 2016 Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis.

[H]: [D] x [E].

[I]: [D] x [F].

[J]: [D] x [G].

[K]: [H] / (1.02 ^ ([A] + 1)).

[L]: [I] / (1.02 ^ ([A] + 1)).

[M]: [J] / (1.02 ^ ([A] + 1)).

C.5. OTHER IMPACTS

The DCP's EIR provides a comprehensive assessment of the impacts of the construction and operation of the project on over twenty different resources. Some of these impacts are identified in the EIR as being less than significant without any mitigation measures.[71] Other resources are identified having impacts from the DCP; however, these impacts are less than significant after the adoption of mitigation measures.[72] Impacts on the following resources are identified in the EIR as being less than significant after the adoption of mitigation measures.[73]

The following impacts are identified in the EIR as being significant and unavoidable, however they are not quantified in this report because there are not appropriate economic tools to estimate a monetary value of their impacts:

- Aesthetic and Visual Resources (Chapter 16)
- Cultural Resources (Chapter 19)
- Paleontological Resources (Chapter 29)
- Tribal and Cultural Resources (Chapter 32)

---

[71] Specifically, these resources and their respective chapters in the EIR are:
Groundwater, Ch.8; Water Quality, Ch.9; Geology and Seismicity, Ch.10; Land Use, Ch.14; Recreation, Ch.16; Public Utilities and Services, Ch.21; Energy, Ch.22; Mineral Resources, Ch.27.

[72] Groundwater, Ch.8 ; Water Quality, Ch.9; Geology and Seismicity, Ch.10; Land Use, Ch.14; Recreation, Ch.16; Public Utilities and Services, Ch.21; Energy, Ch.22; Mineral Resources, Ch.27.

[73] Flood Protection, Ch.7; Soils, Ch.11; Fish and Aquatic Resources, Ch.12; Terrestrial Biological Resources, Ch.13; Hazards, Hazardous Materials, and Wildfire, Ch.25; Public Health, Ch.26.