

California Water Plan Update 2009  
Resource Management Strategy Workshops: Economic Incentives  
August 26, 2008

## **Economic Incentives/Economic Incentives in California**

- **add:** Prop 218 restricts economic incentives that can be used, should go in the background (this is already addressed in a later draft)
- **add:** written with the framework that all incentives are good and we have good objectives, but does not reflect majority of how State and Federal incentives are working – which may be contrary to our objectives, so there should be some indication of how the incentives are currently being used and may work to lower water prices, promoting surface water projects that have single purpose benefits, etc. (and also produce unintended consequences)
  - should include use but also efficiency and other goals
  - **add:** for purpose of providing context, provide a matrix of existing incentives that is systematic and clarifies what the objectives were of the CVP etc, and associated mechanisms, and then positive things we’re trying to promote and how those mechanisms fit, Rich Mills offered to assist with this
  - Tracie Billington will provide info on debt service and impact on disadvantaged communities produced by Environmental Justice Coalition for Water
- **add:** municipal areas are starting to levy fines, so these are another category of incentives, along with a cap and trade system for salinity, internal water banks (e.g., within a district), and capacity building in the sense of getting past a threshold of cost-effectiveness
  - for water the cap and trade system right now is just being put together, but the people at the Air Resources Board are talking to water people about how to get water into such a system – renewables market, improving efficiency and reducing greenhouse gasses, though not clear whether it would be the primary substance that is capped or only secondarily through the greenhouse gas emissions cap
- **clarify:** whether CALFED is still active relevant piece
- **clarify:** second paragraph on economic incentives in California disparages agriculture, and should be less editorial in nature and explain historical value and broad social benefits; the language needs to be neutral
  - Mike Wade will submit written comments to improve this language
- **add:** incentives can be used to cover external or program costs associated with expanding infrastructure or doing more efficiency; mechanisms can be used to achieve policy goals and objectives that may not have been achievable in past, like pricing water more accurately to reflect its treatment costs
- **add:** wherever fines are added, under Clean Water Act, we have to certify that users are getting water from a state certified provider, otherwise there’s a \$25,000 fine per day
- **clarify:** “some agencies” (paragraph 3) this needs to be defined so that the point is clear
- **add:** definitions for “recover costs” and “subsidy” – the latter has a disciplinary meaning which is different than some common sense understandings, so can be defined for clarity

- **clarify:** page 2 first bullet: change to undertake efficiency measures on a long-term basis – in the Salton Sea case, this is not on an annual basis
- **add:** page 1 first bullet: add water quality to target of grants, and water measurement & monitoring
- **clarify:** p1 2<sup>nd</sup> bullet: need to check whether this is still legal – the water stewardship charge
- **clarify:** Placeholder Box #-x: center of paragraph: more accurate is “most agricultural agencies have adopted tiered structures”
  - Mike Wade will provide a reference and statistics on this
- **clarify:** in the document there’s an assumption that there’s a willing seller, but in some cases (Imperial) sales are forced, so can clarify the context of this paper – an economic analysis assumes there is no coercion and there are willing participants

### **Potential Benefits of Economic Incentives**

- **clarify:** costs and benefits are mentioned in first two paragraphs, should be parallel
- **add:** major purpose is to “improve efficiency” – language needs to be broadened
- **add:** include local landscaping/xeriscaping at end of paragraph 1, or perhaps a sentence about residential landscaping vs agriculture
- **structural suggestion:** top of page 3: marginal cost pricing is a strategy not a benefit so should go up front (Lorraine notes that this is debatable – if people see the costs of their water then it’s put to most efficient use, and Kamyar suggests that this purpose be flagged as the benefit (so introduce strategy first, then later explain benefit))

### **Potential Costs of Economic Incentives Policies**

- **clarify:** page 3: separate rate structure-type incentives and grant/subsidy incentives because there are additional financial costs for grants like bond repayment and things along those lines, which are different from rate structures
- **clarify:** tension between reading incentives as trying to reduce water use, versus other benefits like alternative types of water management (e.g., IRWM), so need to write in a way that incentives are understood as extending beyond just water use – getting people to do things that are aligned with public policy, particularly the strategies in the CWP
  - suggested to give boxes with examples of incentive program objectives and outcomes
  - if neutral language is used, half of comments would go away

## **Major Issues and Considerations Facing Additional Economic Incentives**

- **add:** there are situations where economic incentives are chosen under duress (i.e., a legal mandate), clarity on these need to be provided
- **add:** state funding for California Native American tribes – bonds and contracts written in a way that does not make it easy for them to access funds
- **add:** Prop 218 – interpretation may be limiting pricing capabilities, dealt with on a case by case basis; intra-agency incongruity on the intention of incentives
- **add:** look to combining rates and getting leverage
- **add:** under Social Considerations: need administrative and technical capacity to apply for grants
- **add:** capacity building in the sense of getting past a threshold of cost-effectiveness – in some situations this may be critical

## **Recommendations to Help Promote Economic Incentives**

- **add:** a way to restore flexibility for water pricing by local agencies (Prop 218) issue
- **clarify:** bullets: would like to see sustainable use of all water, gets to concern about groundwater overdraft, possibly language is “institute surface water pricing incentives that encourage sustainable use of groundwater and conjunctive use” – but need to go back and make sure there’s an issue here
- **add:** #5: State should also provide financial incentives for smaller-scale incentives that it cannot administer directly – but re-granting is disallowed, even though may be useful
  - funding for profit entities: PUC used to now allow purveyor to get rate of return on investments provided by state or federal agency – could be used for context
- **add:** #1 define what we’re talking about as appropriate water measurement – source is 2003 CALFED report on Appropriate Measurement
- **add:** #6 says maximize economic efficiency – point of this is unclear, can restate that aim is marginal value provided by water equals marginal cost

## **Attendance**

### **In Room:**

Lisa Beutler, CCP  
Tracie Billington, DWR  
Megan Fidell, DWR  
Dorian Fougères, CCP  
Justin Frederickson, CFBF  
Kamyar Guivetchi, DWR  
Bruce Gwynne, DOC-DLRP  
Ray Hoagland, DWR  
Gerry Horner, SWRCB  
Rebecca Kanegawa, Montgomery-Watson

Harza

Jennifer Kofoed, DWR  
Lorraine Marsh, DWR  
Rich Mills, SWRCB  
Lew Moeller, DWR  
Fran Spivy-Weber, SWRCB  
Betty Yee, CVRWQCB

### **On Phone/GoToMeeting:**

Anisa Divine, Imperial Irrigation District  
Jose Faria, DWR

*internal working document, not for distribution*

Luana Kiger, NRCS

Allison Lechowicz, no affiliation given

Fred Lee, Fred Lee & Associates

Rafael Maestu, CEC

Melanie Powers, CABY

Mike Wade, Agricultural Water Mgmt.

Council

Lorraine White, CEC