BASIC STEPS FOR EVALUATING MAXIMUM NET BENEFITS

Resource Contact: Policy & Planning Section

Effective Date: 1/31/05
Revised: NEW

References: RCW 90.54.020, Ch. 90.82 RCW, Water Resources Policy POL-2025

Purpose: To provide guidance to the Water Resources Program on the procedures to be followed in conjunction with the conduct of maximum net benefits analyses.

Application: This procedure applies only to those water resources actions that are the subject of Water Resources Policy POL-2025. In accordance with RCW 90.54.020(2), the program is required to generally base its allocations of waters among potential uses and users on the securing of the maximum net benefits for the people of the state.

1. The maximum net benefits analysis will provide decision makers with as much information as possible about the potential set of rule options, so that decision makers can identify the rule that generates the maximum estimated present value of net benefits. In developing rules on water allocation, this information will be considered along with other information, such as any proposed or adopted watershed plan which includes a reservation or a quantification of the remaining water available for appropriation in a basin, except for purposes of potable water for domestic use.

2. Ecology will use standard methods of performing cost benefit analysis. The objective will be to maximize net benefits based on available data.

3. Maximizing net benefits treats water as a valuable asset and, within the context of Washington’s present water allocation system, is intended to ensure that Washington citizens, as a whole, get as much value as possible from “the waters of the state.”

4. The total costs and total benefits for all Washington citizens, including the opportunities available to them or lost to them through the allocation of water resources, will be considered. The law constrains how Ecology generally can allocate the water, but constraints regularly apply to maximization in most economic models.

5. Ecology will follow these steps in doing the analysis:
   a. Make an initial determination of the nature and scope of the evaluation;
   b. List the benefits and the costs;

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Footnote:

1 Analyses will consider the values for Washington citizens. Effects outside of Washington can be reported separately but will not be incorporated in the calculation of maximum net benefits. This includes the effects of joint agreements with other states and Canada on water issues. However, care should be taken to explicitly incorporate possible solutions in the analysis. In negotiations with other entities on mutually exclusive use of a public good such as water resources, it is highly likely that a greater net benefit can be achieved by coordinated use, rather than competitive uncoordinated use. Game theory indicates that the latter can produce both stable and unstable outcomes that reduce the gains to all parties. This is important for settings in which major rivers are down-stream from other users.
Basic Steps for Evaluating Maximum Net Benefits

c. Do a preliminary evaluation of the changes to assure that the cost of the analysis is likely to be less than the value of the affected resources;
d. Decide on a level of effort that is in proportion to the size of the reservation, the portion of the water body affected, and the approximate value of the resources affected;
e. Evaluate existing data and collect additional data using the Instructions to Economists Completing the Maximum Net Benefits Analysis;
f. Perform the evaluation using the Instructions to Economists Completing the Maximum Net Benefits Analysis;
g. Make a decision on which option provides the maximum net benefits; and
h. Provide documentation for the analysis.

/s/ Joe Stohr 1/19/05
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