

Basic Conceptual Structure for the Assessment of the Natural Services Provided by Hydroelectricity Projects

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Abstract: This paper presents and defines a method for standardizing ecosystem services in the context of hydropower projects and demonstrates its applicability through the Folsom hydropower plant in California. In particular, this paper uses the Final Ecosystem Goods and Services Classification System (FEGS-CS) to provide a structured framework for identifying ecosystems, the potential services they provide, and their beneficiaries. In this paper, the benefit transfer technique is used for estimating non-market values for new policy contexts. The total value of this case study is about USD 169 million per year for the Folsom hydropower plant in California. The advantage of the proposed framework lies in its ability to be imported and applied to any other hydropower facility, and it can be extensively used both for new and existing power plants.

Keywords: conceptual structure; natural services; hydroelectricity projects; ecosystem valuation

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1. Introduction

In many modern societies, valuation processes are carried out through monetary measurement [1]. As a consequence, it is usual that those elements considered to be less tangible are omitted from the reference frameworks traditionally used for ecosystem valuation [1]. Considering this approach, when the true value of ecosystem services is included, the valuation resulting from the use of traditional reference frameworks may become unacceptable [2]. Many services provided by ecosystems are not traded in markets and cannot easily be accounted and, as a consequence, many of them have no price assigned to them [3]. The limitations of monetary valuation are especially important when ecosystem change is irreversible or only reversible at prohibitive cost [4].

The services provided by ecosystems were not evaluated from an ecological and economic perspective until the 1960s [5]. That said, it was not until the 1990s that an international reference framework to evaluate such services was proposed [6]. In fact, it was precisely the proposal of such frameworks that led to greater acceptance of these services by the scientific community [6]. In their 1997 study, Costanza et al. presented for the first time a monetary valuation of all of the Earth's ecosystems [7]. The value of the services provided by ecosystems globally was estimated at about USD 33 trillion per year (considering 1995 USD) [7]. This figure was significantly higher than the global gross domestic product (GDP) at the time and, therefore, depicts the lack of a consistent method to evaluate the whole value [8]. The results presented in that research article [8] had a great impact and were widely cited by scientists and environmentalists [9]. However, most economists have been suspicious about it, both conceptually and methodologically [9] because, in essence, it would be a "serious underestimate of infinity" [10].

Although the monetary valuation of ecosystems has been used since the 1960s, such studies increased considerably in the 1990s [11]. This change was due to the fact that a growing number of scientists recognized the attractiveness for policy makers of assigning an economic value to ecological problems [11]. Particularized to the case of ecosystem services, reference frameworks are tools capable of illustrating the trade-offs inherent in stakeholder decision making [12] and of calculating the change in the value of such services between alternative scenarios and their related impacts [13]. There is a general drawback of the monetary valuation method that is that some people may oppose its use on ethical grounds by, for example, considering it inappropriate to assign a monetary value to human life or biodiversity [14].

On the other hand, it should be mentioned that there is an undervaluation of the contributions of ecosystem services [11]. This is partly explained by the fact that such systems are not adequately quantified in terms comparable to other “classical” services or to manufactured capital [11]. While it is recognized that it will be a long-term challenge to account for all impacts related to ecosystem services [3], the valuation of such services is a valuable tool for economic analysis and should not be discarded because of disagreements with certain economists’ assumptions about sustainability, fairness, and efficiency [15]. In general, the multicriteria analysis method has been recognized as a useful tool for the evaluation of environmental services [16].

Despite the difficulties involved in transferring approaches and results between different regions of the world [17], benefit transfer can be a practical and inexpensive way to obtain an estimate of the value of local ecosystems, especially when the objective is to assess a large number of diverse ecosystems [17]. Further, benefit transfer may be appropriate when the good or service to be valued has not yet been created (e.g., a proposal to create a new national park–nature–tourism destination), and there are no actual users to survey [18]. Benefit transfer is not a methodology per se but refers to the use of estimates obtained using any current method in one context to estimate values in a different context [18].

Existing models for valuing ecosystem services usually suffer from a lack of replicability in different locations (portability) because quite often a modeling framework developed for one location cannot be imported and applied to another. This aspect limits the replicability of previous research and difficult incremental research. Moreover, benefit estimates are often fragmentary, incomplete, and not comparable with heterogeneous metrics, making it impossible to arrive at a comprehensive assessment. For the particular context of hydropower, the cost/benefit ratio analysis is often incomplete because non-commercial benefits are excluded and, as a consequence, hydropower projects lack standard methodology that considers all aspects to evaluate the global impact of hydro energy. At present, there is no approach that allows for consistent and standardized hydropower benefit and cost analyses. To improve knowledge of the services provided by ecosystems, this article proposes a flexible approach that, even with limited economic resources, is able to reflect the characteristics of the site [19–22] and to value the ecosystem goods and services associated with hydropower projects. For this purpose, the paper presented here will use the procedure known as “benefit transfer” [23].

This first section briefly introduced the concept of ecosystem hydropower services; in the second section, the theoretical background of the communication paper will be shown; in the third section, an economic and environmental assessment will be presented and discussed; finally, in the fourth section, conclusions will be presented.

2. Theoretical Background

Although initially praised and considered a green and clean energy [24], since the 1960s, the development of hydropower became controversial due to its widespread environmental impact [25,26]. However, hydropower has recently received favorable consideration due to its potential to mitigate climate change [27]. The potential benefits of hydropower (improved grid reliability and resilience, economic development, energy

independence, and flexibility [28,29]) are real, but are too often overlooked in the assumptions used by planners, investors, and researchers when evaluating hydropower-related projects [30]. In fact, hydropower development brings not only economic benefits but also a wide range of environmental, social, and recreational effects [29,31]. As a consequence of the above, the development of a framework capable of assessing such benefits is necessary and is likely to mobilize additional sources of funding to support their adoption [32].

In the scientific literature, it is possible to find a large number of research papers exploring how to value services provided by hydroelectric energy generation. Among the most notable are those carried out by Yang et al., who established a non-monetary accounting framework for ecosystem service valuation [33]; Wang et al., who proposed a framework to evaluate and value the effects on watershed ecosystem services caused by hydropower development [34]; Liang et al., who proposed a framework of the ecological benefit–loss evaluation for hydropower projects [35]; Mishra et al., who, in order to quantify the effect of climate changes on hydropower and fisheries, developed a framework that links biophysical models and economic models [36]; and the investigation conducted by Amjath-Babu, who constructed a hydro-economic model by soft coupling hydrological and crop growth simulation models to an economic optimization model [37].

However, the development of a comprehensive framework that categorizes all associated ecosystem services through a metric capable of assigning a price to these services has not been given the same attention, so a study that addresses this is necessary. From a deep survey of the gray literature and updated literature related to the topic addressed here [38–43], it was possible to find that even though there are many different approaches, this paper contributes to the pool of existing knowledge proposing an approach to evaluate the whole scope of hydropower energy.

Final Ecosystem Goods and Services (FEGS) are a way to include and measure the benefits associated with natural ecosystems [44] while providing a means to standardize their classification [45]. FEGS represent ecosystems in terms of the goods or services they produce [46] and are useful for communicating to stakeholders and policy makers how people derive specific benefits from ecosystems [47]. Yee et al. [48] applied the concept of final ecosystem goods and services to review the broad suite of ecosystem services and their beneficiaries relevant to the management of two federal programs for estuary management. Following [48], this paper uses the Final Ecosystem Goods and Services Classification System (FEGS-CS) to provide a structured framework for identifying ecosystems, the potential services they provide, and their beneficiaries.

For the identification of services associated with ecosystems, this article uses, in addition to the Final Ecosystem Goods and Services (FEGS) [45], a list derived from a gray literature review [49–53] and research articles [54]. Table 1 presents a matrix summary of the final ecosystem goods and services identified for each environmental sub-class. For the preparation of Table 1, it was necessary to take into account three main aspects:

1. the environmental engineering literature to identify the most significant impacts associated with the construction and operation of hydropower projects,
2. the environmental economics literature to identify the economic benefits of such projects, as well as
3. the Final Ecosystem Goods and Services, other gray literature, and research articles in order to associate the services provided by ecosystems with their respective beneficiaries.

Table 1. Matrix A: The description and importance of beneficiary categories and subcategories. Source: Information selected and transcribed from the U.S. EPA. Final Ecosystem Goods and Services Classification System (FECS-CS) [45].

Beneficiary Categories and Sub-Categories	General Beneficiary Description	Ecosystem Goods and Services	Importance to the Beneficiary
AGRICULTURAL			
Irrigators	<i>Irrigators interact with aquatic environments, as they consume water from aquatic environments for maintaining crops, often moving water through ditches and canals. Note that farmers and irrigators are different beneficiaries</i>	Water	Water for growing and maintaining crops
Concentrated animal feeding operation Operators	<i>This beneficiary raises large, dense populations of livestock in a confined area (whether indoors or outdoors)</i>	Water	Water for livestock consumption
Livestock Grazers	<i>This beneficiary uses the environment to graze livestock. Cultivated vegetation is NOT considered an ecosystem good and service. For agroecosystems, “planted” pastures only provide space and opportunity to grow feed (not the vegetation itself).</i>	<ul style="list-style-type: none"> • Water • Flora 	<ul style="list-style-type: none"> • Water suitable for livestock consumption • Non-cultivated vegetation for livestock consumption
COMMERCIAL/INDUSTRIAL			
Electric and other Energy Generators	<i>This beneficiary relies on the environment for the energy or placement of power generation structures, including dams, wind, water, or wave turbines, solar panels, geothermal systems, etc.</i>	<ul style="list-style-type: none"> • The presence of the environment • Water 	<ul style="list-style-type: none"> • Opportunity to install power generation structures, such as dams and water turbines • Flowing water that can be used for energy generation
GOVERNMENT, MUNICIPAL, AND RESIDENTIAL			
Municipal Drinking Water Plant Operators	<i>This beneficiary is responsible for providing water to a community and may do so by collecting water from rivers, reservoirs, lakes, wells, bays, or estuaries. Water is treated and distributed. Direct precipitation is not generally used as a water source.</i>	Water	Water suitable for processing by a municipal drinking water plant
Waste Water Treatment Plant Operators	<i>This beneficiary uses the environment [only] for discharging treated water</i>	Water	Medium for discharging [treated municipal wastewater] into the environment
Residential Property Owners	<i>While changes in property value are not an FECS, residential property owners are affected by the environment in which their property resides.</i>	The presence of the environment	Opportunity for the placement of infrastructure and reduced/increased risk of flooding, erosion, and pest infestation on the property
Military / Coast Guard	<i>The Military/Coast Guard relies on the environment for the placement of infrastructure (e.g., ports, bases, etc.) or conditions for training activities</i>	<ul style="list-style-type: none"> • The presence of the environment • Open space 	<ul style="list-style-type: none"> • Opportunity for the placement of infrastructure • Suitable conditions for training activities
COMMERCIAL/MILITARY TRANSPORTATION			
Transporters of Goods	<i>This beneficiary uses the environment as a medium to transport goods—specifically, via</i>	<ul style="list-style-type: none"> • The presence of the environment • Water 	Opportunity for the transportation of goods

	<i>boats (e.g., barges), airplanes, and overland/off-road vehicles (e.g., quads).</i>		<ul style="list-style-type: none"> • Medium for and conditions that support the transportation of goods
Transporters of People	<i>This beneficiary uses the environment as a medium to transport people—specifically, via boats (e.g., cruise liners, ferries, tour boats), airplanes, and overland/offroad vehicles.</i>	<ul style="list-style-type: none"> • The presence of the environment • water 	<ul style="list-style-type: none"> • Opportunity for the transportation of people • Medium for and conditions that support the transportation of people
SUBSISTENCE			
Water Subsisters	<i>Water subsisters rely on a natural source for drinking water and may use wells or cisterns for storage (i.e., they do not receive municipal drinking water). Water purity is important, as water is not or only minimally treated.</i>	Water	<i>Water suitable for drinking (i.e., human consumption)</i>
Food Subsisters	<i>Food subsisters use the natural abundance of [edible] flora, fungi, and fauna whether collecting, hunting, or fishing as a major supplement to their existence.</i>	<ul style="list-style-type: none"> • Flora • Fauna 	<ul style="list-style-type: none"> • Edible organisms (i.e., flowers, plants, etc.) or associated products (i.e., fruit, greens, tubers, berries, sap) that are gathered for personal use (i.e., not for sale) • Edible organisms (i.e., birds, mammals, reptiles, etc.) that are hunted for personal use (i.e., not for sale)
Timber, Fiber, and Fur/Hide Subsisters	<i>This beneficiary relies on the natural abundance of timber, fiber, and [fauna for] fur/hide for survival. Timber, fiber, and fur/hide used for building material are accounted for in this category</i>	<ul style="list-style-type: none"> • Fiber • Fauna 	<ul style="list-style-type: none"> • Fiber used for clothing/warmth, infrastructure, housing, roofing, and/or fuel for personal use (i.e., not for sale) • Organisms (i.e., mammals and reptiles) that provide fur or hides used for clothing/warmth, infrastructure, housing, roofing, and/or fuel for personal use (i.e., not for sale)
RECREATIONAL			
Waders, Swimmers, and Divers	<i>This beneficiary recreates in or under the water by either wading, swimming, or diving (i.e., snorkeling, scuba diving). By definition, this beneficiary has contact with water.</i>	Presence of the environment	<i>Opportunity and conditions for wading, swimming, and/or diving</i>
Experiencers and Viewers	<i>This beneficiary views and experiences the environment via an activity, such as scenery gazing, hiking, bird watching, botanizing, ice skating, rock climbing, flying kites, etc. This beneficiary does not have physical contact with water.</i>	<ul style="list-style-type: none"> • The presence of the environment • Viewscapes • Flora • Fauna • Fungi 	<ul style="list-style-type: none"> • Opportunity to view the environment and organisms within it • Landscape that provides a sensory experience

- Sounds and scents
- Organisms (i.e., flowers, plants, etc.) that can be viewed
- Organisms (i.e., birds, mammals, reptiles, etc.) that can be viewed
- Organisms (i.e., mushrooms, shelf fungus, puffballs, etc.) that can be viewed
- Sounds and scents that provide a sensory experience

The interaction between the four drivers contributing to human well-being: (i) social capital, (ii) built capital, (iii) human capital, and (iv) natural capital, and contributing to social and human well-being is shown in Figure 1. These elements constitute the well-known “four capitals” and are intertwined to build a robust economy and promote people’s well-being [55]. Any study valuing a hydropower project can refer to the summary matrix of identified ecosystem goods and services, a general description of the beneficiary, and the importance of those goods and services to the beneficiary. The whole scope of benefits can be evaluated using the evaluation matrix A (Table 1). In short, the evaluation matrix A (matrix of identified ecosystem goods and services to value a specific hydropower project) can be easily adapted to a specific case study and therefore represents an approach for these projects.

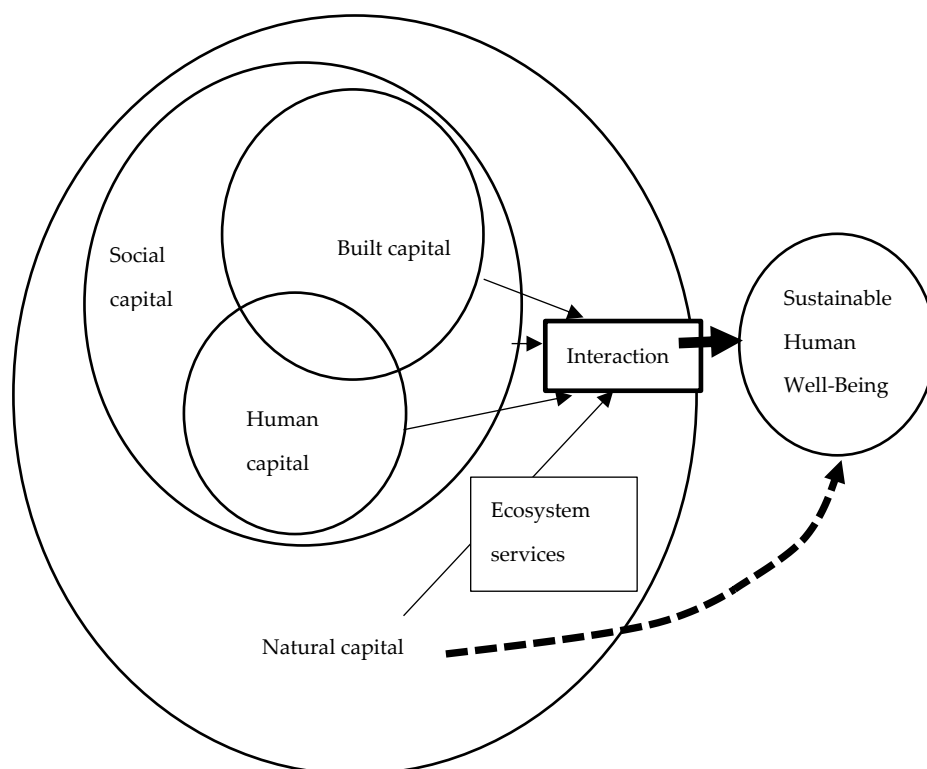


Figure 1. Interaction between social capital, built capital, human capital, and natural capital to contribute to social and human well-being. Source: Adapted from [56].

3. Economic and Environmental Assessment

This section analyzes how to use the matrix of identified ecosystem goods and services to value a specific hydropower project, particularizing it to the case of Folsom

operation Operators								
Livestock Grazers	X	X						
COMMERCIAL/INDUSTRIAL								
Electric and other Energy Generators	X		X					
GOVERNMENT, MUNICIPAL, AND RESIDENTIAL								
Municipal Drinking Water Plant Operators	X							
Waste Water Treatment Plant Operators	X							
Residential Property Owners			X					
Military/Coast Guard			X	X				
COMMERCIAL/MILITARY TRANSPORTATION								
Transporters of Goods	X		X					
Transporters of People	X		X					
SUBSISTENCE								
Water Subsisters	X							
Food Subsisters		X			X			
Timber, Fiber, and Fur/Hide Subsisters					X	X		
RECREATIONAL								
Waders, Swimmers, and Divers			X					
Experiencers and Viewers		X	X		X	X	X	X

To properly evaluate the impact associated with the Folsom hydroelectric power plant project using the benefit transfer technique, beneficiary categories and sub-categories presented in matrix A and B (selected from the U.S. EPA. Final Ecosystem Goods and Services Classification System FEGS-CS) are to be “translated” into an asset category and an asset type that could be easily evaluated through a unit value and its amount. To conduct this, Table 3 is presented. This “translation” from beneficiary categories and sub-categories into asset categories and asset types effectively offers an approach that allows a uniform and standardized analysis of the costs and benefits of hydropower projects. Benefit transfer is a technique that can be used to apply existing

value estimates to new contexts [69] in a relatively easy and inexpensive way if used appropriately [70]. Most of the valuation approaches shown in Table 3 can be applied using the benefit transfer technique. Table 3 presents a list of elements, ecosystem and economic metrics, and valuation approaches considered in the assessment. The valuation of goods and services that are not directly defined by market prices (i.e., their value through revealed preference methods or hypothetical markets) could likewise be added to the evaluation and, in particular, Table 3 shows the data used to assess the impact associated with the Folsom hydroelectric plant project. For this purpose, this impact has been divided into three main elements, namely, “Energy”, “Externalities”, and “Recreation”.

Table 3. Data used to assess the impact associated with the Folsom hydroelectric power plant project.

Asset Category	Asset Type	Unit Value	Amount	Benefit Value
Energy	Electricity generation	56.90 USD/MWh * [67]	691,358 MWh [68,71]	USD 39,338,270
	Rate to rent cropland	−133.95 USD/ha [72]	4830 ha [58,73]	USD −646,983
	Emissions	50 USD/ton CO ₂ [74]	28,806 tons CO ₂ [75]	USD −1,440,300
Externalities	Municipal and industrial water use	100 hm ³ [65,76]	0.33 \$/m ³ [77–79]	33,000,000
	Agricultural water use	516 hm ³ [65,76]	0.066 USD/m ³ [76,77,80]	USD 34,056,000
	Day use	USD 12 [81]	2,500,000 [60–65,82]	USD 30,000,000
Recreation	Camping fees	USD 33 [81]	640,000 [60–65,82]	USD 21,120,000
	Boat Launching—Power Boat	USD 10 [81]	1,332,500 [60–65,82]	USD 13,325,000
TOTAL				USD 168,661,987

* Average value of the wholesale price during the year 2021 for the California Independent System Operator CAISO SP15 EZ.

The generators at the Folsom power plant were built in 1956 [83] and have a combined capacity of 198 megawatts [68,83]. On average, the plant produces about 10% of the power used in Sacramento each year [83]. Since the 1950s, more than 90% of hydroelectric power plants have been developed under conditions where revenue security was provided through power purchase guarantees or long-term contracts [84]. Today, in competitive areas, hydropower generators produce electricity that will be sold on the wholesale market [85]. In the paper presented here, it will be assumed that the value associated with the generated energy is the revenue received from the sale of energy in the wholesale market. The ultimate purpose of the “Rate to Rent Cropland” externality is to assess the impact resulting from the flooding of land that, had the Folsom Reservoir not been built, would have been used on farms. This externality is evaluated in dollars per hectare, using information available from the California Department of Parks and Recreation [58] and the U.S. Department of Agriculture [72].

CO₂ emissions are calculated as a precursor externality to global warming [86]. Emissions related to the construction and operation of a hydroelectric power plant vary depending on its type, size, and location [75]. With the use of the estimated average

intensity of greenhouse gas emissions associated with hydropower [75] and the social cost of carbon dioxide emissions [74], the externality resulting from CO₂ emissions has been calculated.

The dam also provides usable water for municipal, industrial, and agricultural uses. The amount of water withdrawn is provided in cubic hectometers, using information provided by the Central Valley Flood Protection Board [65] and the U.S. Department of the Interior Bureau of Reclamation Mid-Pacific Region [76]. The agricultural water value was obtained from the U.S. Department of the Interior Bureau of Reclamation Mid-Pacific Region [76] and the San Juan Water District [77]. Following [65,76], about 100 hm³ are withdrawn annually from Folsom Dam for municipal and industrial water use. Assuming a municipal water cost of USD 0.33/m³ before treatment and distribution (i.e., the value at the source) [77–79], the resulting benefits from this concept would amount to USD 33,000,000. One of the main revenues resulting from the operation of the Folsom Reservoir hydroelectric project is the benefits associated with its recreational supply. The Folsom Dam area has about 2,500,000 visitors per year who come for swimming, boating, hiking, camping, etc. [60–65,82]. The construction of this reservoir provides a variety of recreational activities that would not be available without it. The number of visitors participating in each activity is combined with park fees provided by the California Department of Parks and Recreation [81] to obtain the total value of recreational activities.

The sum of all of the values listed above gives us the total economic value of this dam. This value can be compared to the construction cost of the dam to determine if the project is economically viable. The total value of this case study is about USD 169 million per year. The largest percentages come from water use, recreation, and electricity generation. It is also possible to use these values to conduct a stakeholder-specific cost–benefit analysis. The economic values can be separated by stakeholder, and these values can be used to determine whether the project is economically viable. From a public policy standpoint, it is valuable to evaluate the positive and negative impacts of activities and to obtain an instructive comparison of benefits and costs [87]. In the case of hydropower projects, this can be done through a cost–benefit analysis for each stakeholder using a framework similar to the one proposed in this paper.

4. Conclusions

Despite the extensive development of hydropower energy worldwide, the existing models for valuing ecosystem services lack the required replicability in different locations (portability), and often a modeling framework developed for one location cannot be applied to another. This aspect is a limitation for the replicability of previous research, as benefit estimates are often incomplete and not comparable. This paper evaluated the particular context of hydropower, a sector in which cost/benefit ratio analysis is often incomplete because non-commercial benefits are excluded due to the lack of standard methodology that considers all aspects to evaluate the global impact of hydro energy. This paper proposes a framework for the valuation of hydropower projects that can be applied to any site as long as its specific characteristics are taken into account. In particular, this paper demonstrates the applicability of the methodology through the Folsom hydropower plant in California, for which ecosystem services are valued as USD 168,661,987/year. The main limitation of the proposed approach is the large amount of data required, as to properly assess each type of benefit, publicly available data are necessary. The proposed valuation framework is particularly advantageous for those assessments that do not have the necessary funding to determine all of the benefits associated with the hydropower project in situ. Despite these limitations, the proposed approach to valuing hydropower projects enables energy policy analysis while providing insight into the distributional consequences at the individual stakeholder level and can be extensively used both for new and existing power plants.

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Nomenclature

CAISO	California Independent System Operator
CO ₂	Carbon dioxide
FEGS	Final Ecosystem Goods and Services
GDP	Gross domestic product

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