ARIZONA WATER COMPANY

3805 N. BLACK CANYON HIGHWAY, PHOENIX, AZ 85015-5351 • P.O. BOX 29006, PHOENIX, AZ 85038-9006
PHONE: (602) 240-6860 • FAX: (602) 240-6874 • TOLL FREE: (800) 533-6023 • www.azwater.com

May 9, 2023

Arizona Water Banking Authority
Attn. Ms. Rebecca Bernat
1110 W Washington Street, Ste. 310
Phoenix, AZ 85007

Re: Distribution of AWBA Long-Term Storage Credits (LTSC) For Firming Central Arizona Project (CAP) Municipal & Industrial (M&I) Priority Subcontract Supplies Stakeholder Meeting #2

Dear Ms. Bernat:

Thank you for another opportunity to offer comments and suggestions to the AWBA's request to reconsider the 2019 policy to meet all reductions to scheduled CAP M&I Priority Water due to a Shortage Conditions or required Drought Contingency Plan (DCP) contributions ("Firming Policy"). Based on the Commission's request in December of 2022, the AWBA prepared a presentation of alternative scenarios for the first stakeholder meeting in April 2023. As requested, stakeholders responded with comments and suggestions regarding the various scenarios. At the most recent May 2, 2023 stakeholder meeting, the AWBA reviewed the stakeholder comments at a high level, but the AWBA was unable to affirm whether the AWBA intends to make a recommendation to its Commission regarding plans for using its firming credits[1] during the interim period.

In its first comment letter, Arizona Water Company (AWC) recommended the AWBA rescind the existing Firming Policy. Based on comments provided by others, AWC agrees that during the interim period, through December 31, 2026, the Firming Policy should provide for the AWBA to use its firming credits to offset up to 20% of an M&I Subcontractor's scheduled volume during shortage operations on the Colorado River. Capping firming credits at 20% of scheduled volumes, for the balance of the interim period, allows the AWBA to use firming credits in a manner that is consistent with the historic planning assumptions while still preserving the majority of the firming credits over a longer period. Because the existing policy did not envision a shortage declaration beyond Tier 2, consistent with the DCP, such a change would be more generous than

[1] AWC uses the term "firming credits" to describe the LTSCs developed by the AWBA to offset shortages at the M&I pool level. AWC uses this term to clearly delineate that these credits should not be considered a water supply that can be distributed to others as a LTSC could be. Firming credits are unique to the AWBA, and they can be used by water providers who could not ordinarily use LTSCs like AWC. Firming credits should not be viewed in the same manner as LTSC.

originally provided. But now that the M&I Pool is faced with the potential of deeper cuts during the interim period, AWC recommends the AWBA amend the existing policy to cap the use of firming credits at up to 20%, consistent with historic planning assumptions, but still providing this benefit only during the interim period.

Arizona Water Company believes the AWBA's mission is to mitigate shortages to the entire M&I Pool, rather than firming any and all shortages to individual M&I Subcontractors. By amending the existing policy with a recommended policy of firming up to 20% of scheduled M&I Priority CAP water, during the balance of the interim period, the pressure to allocate firming credits during this shortage is removed. From AWC's perspective, the Arizona Department of Water Resources (ADWR), the Central Arizona Water Conservation District (CAWCD), and the AWBA should now focus on addressing how and to whom wet water shall be delivered during times of shortage on the CAP system.

While no one knows exactly what the post-2026 guidelines for the operation of Lake Powell, Lake Mead and the Colorado River will be, now is the time to make difficult decisions about how to prioritize wet water deliveries at the M&I Subcontract pool level. The pro-rata approach to M&I Subcontractor shortage sharing, and mitigation based on individual schedules and allocations, fails to recognize the purpose of the firming credits which is to address the issue of less physical water in the CAP system for the M&I Pool and, instead, continues to focus attention on the allocation of the firming credits, reducing them to a water supply. ADWR and CAWCD should begin to develop a system of priority within the M&I Subcontract Pool with the fundamental principle being that surface water treatment plants within the CAP service area are critical infrastructure and wet water delivery to those treatment plants is the number one priority on the CAP system during a shortage at the M&I Pool level.

AWC understands how difficult this task of developing a priority use system is, however, it must be done. To support the overall health of a water system or service area, water utilities must address the fact that some end uses of have a higher priority than others. AWC, for example, developed its CAP Water Shortage Tariff that explains which priority of end use will be cut first, second, third, fourth and fifth and, cut by how much during times of shortage on the CAP system. Likewise, ADWR and CAWCD must develop a priority system that focuses on actual physical delivery of a limited water supply within the M&I Pool to maintain the overall health of the CAP service area during shortage operations instead of a complicated LTSC distribution scheme that simply moves LTSCs from the AWBA storage accounts to M&I Subcontractor individual storage accounts. When those difficult priority decisions are made and a policy is clarified, then the question of how many firming credits should be used and by whom will be much more straightforward and clearer for the AWBA to administer.

Along with a framework for prioritizing use, the issue of wet water must stay at the forefront of the discussion. Firming credits stored at Tonopah Desert Recharge Project (TDRP) are different from firming credits stored elsewhere due to the investment in new recovery wells and treatment facility infrastructure required to recover the credits. Ken Seasholes described a recovery system at TDRP with a capacity of 15,000 acre-feet per annum (AFA). Recovery at TDRP is really an engineering project that needs to balance affordability with the life span of the recovery system against the volume of credits stored (480,000 AF according to Ken). If one assumes the recovery system has a lifespan of 50 years, then the recovery project should be built to accommodate 9,600 acre-feet per annum (AFA), which is roughly 6,000 gallons per minute (gpm) which is around 7-8 wells that can produce roughly 800 gpm per well. A system like this cannot be operated only when it is needed. It really needs to be operated as a baseload and more like a reservoir to the entire CAP system. It would probably be better for CAP to operate it as additional storage and for every acre-foot recovered, CAWCD would make LTSCs held by CAWCD inside its service area available to the AWBA for future firming credits. Direct recovery can occur in a wide variety of locations in the CAP service area. TDRP is only one option for direct recovery, but it is unique and requires a more creative approach than say recovery well permits on existing wells located in the Roosevelt Water Conservation District.

CAWCD has relied too heavily on the distribution of AWBA firming credits to address shortages on the CAP system. As was discussed earlier, the main priority is to maintain wet water deliveries to critical infrastructure such as surface water treatment plants. Given the real possibility of cuts to CAP putting critical infrastructure in the CAP service area at risk, CAWCD needs to take clearer action to protect critical water infrastructure. Any additional recovery infrastructure needs to be actively and quickly developed. The planning stage must end, and the construction phase must begin. By not focusing on a recovery system that provides for wet water deliveries through the CAP system, CAWCD keeps the policy focus on the distribution of firming credits. This puts the AWBA in the position of developing increasingly more complicated firming credit policies that will never actually address the issue of delivering wet water in times of limited physical supply. CAWCD must develop agreements with M&I Subcontractors who need wet water to meet critical demands during shortages on the Colorado River. The agreements must address the applicable costs of directly delivering recovered water to the recipients. In addition, the agreements must consider the impact of others who are absorbing the shortage on behalf of the recipient.

To quell the unending drum beat of credit distribution and to create a space to prioritize deliveries to the M&I Pool, the AWBA should amend its current firming policy and replace it with a policy capping the distribution of firming credits at 20% of scheduled delivery volumes for the M&I Subcontractors during the interim period ending on December 31, 2026. ADWR and CAWCD should immediately develop a policy prioritizing uses of CAP water within the M&I Pool during shortages. CAWCD must also move faster and with purpose to develop a working physical recovery system so that as much wet water as possible can be delivered to protect critical infrastructure like surface water treatment plants. Finally, M&I Subcontractors must use all their water supply sources in the most efficient ways possible and leverage other water supplies available to them, including their own LTSCs. In the long term, the AWBA can then develop a rational M&I firming policy consistent with the priority system established for wet water. By doing this, everyone bears the burden of mitigating CAP water shortages, not just the AWBA and its firming credits.

In closing, Arizona Water Company appreciates the opportunity to provide comments and recommendations to the AWBA. We strongly believe that the firming credits the AWBA has developed over 25 years of storing CAP water for Arizona should be extended for as long as possible. By prioritizing firming credits to keep critical infrastructure wet during true emergencies, we can make these credits available for the next one hundred years.

Sincerely,

for Terri Sue Rossi
Vice President, Water Resources
tsrossi@azwater.com

mw