

Discussion Paper for Use of Credits Accrued from Monies Made Available Under the Arizona-Nevada Shortage-Sharing Agreement

As part of the Basin States proposal Arizona and Nevada agreed on how the reduction caused by the shortage criteria identified in the proposal would be shared between their states. Nevada's interpretation of the Basin Project Act for sharing shortage was that their state had minimal exposure to shortages. Arizona's interpretation was that Nevada would suffer 7.4 percent of the reduction apportioned to the two states when a shortage was declared. Arizona and Nevada ultimately agreed that Nevada's share of the shortage would be a set volume as established for the three shortage levels. Nevada also agreed to provide \$8 million to help mitigate any impact that might be caused to Arizona's water users for accepting this reduced share.

The \$8 million was made available to the AWBA. The AWBA was also given the responsibility of determining how the \$8 million would be spent to help mitigate impacts to Arizona's water users caused by the Arizona-Nevada Shortage-Sharing Agreement. Specifically the agreement says:

5. Shortage Assistance. For the purpose of assisting Arizona in offsetting impacts from shortages that may occur during the Interim Period, SNWA agrees to provide to the Arizona Water Banking Authority the sum of \$8,000,000.00 (Eight Million Dollars) ("the Funds"). The Arizona Water Banking Authority will use the Funds to purchase and/or store water supplies. This sum shall be paid to Arizona within 60 days of the date the Secretary issues a Record of Decision, unless otherwise agreed in writing by the SNWA and Arizona. Neither the payment nor the use of the Funds are conditioned on the occurrence of a shortage during the Interim Period, and the Funds shall be nonrefundable.

In 2008, after reviewing several options for utilizing these funds, the AWBA made the decision to use them to purchase and store water to accrue long-term storage credits (credits) within the Phoenix, Pinal and Tucson Active Management Areas (AMA). Through 2013, the AWBA has accrued 91,221 acre-feet of credits, at a cost of \$4.5 million. Of this amount, 20,642 acre-feet of credits are located in the Phoenix AMA, 60,507 acre-feet are in the Pinal AMA, and 10,072 acre-feet are in the Tucson AMA. Expenditure of the remaining \$3.5 million is planned for the Tucson AMA and is estimated to accrue 17,140 acre-feet of credits, bringing the total credits accrued in that AMA to 27,212 acre-feet and the total credits overall to 108,361 acre-feet.

In 2008, however, the AWBA stopped short of deciding how those credits would be used to mitigate impacts during the Interim Period (through 2026). According to the Joint Recovery Plan, the maximum recovery projected between now and 2023 is 17,000 acre-feet with a 36% probability of a recovery event. Such events would only impact on-River users and Indian NIA obligations. During the period 2024 and 2034, the probability of a

recovery event is 55% and the total project recovery volume is 38,200 acre-feet. Again, the Joint Recovery Plan only projects impacts to on-River users and Indian NIA users. After 2034, the projected maximum recovery is 85,700 acre-feet and the probability of a recovery event is 17%. In this last period, all firming intrastate categories are expected to be impacted.

As part of its action planning process and Ten-Year Planning process, staff was asked to establish a policy on the use of shortage reparation credits. Accordingly, staff is seeking direction from the Commission on the following policy question:

How should credits that were developed using shortage reparation monies be used?

Many of the constructs established when the AWBA last discussed the use of shortage reparation credits are still applicable:

- Credits should be used to mitigate shortage impacts to Arizona caused by the Arizona-Nevada Shortage Sharing Agreement.
- Credits do not need to be paid back.
- Credits are available to categories for which the AWBA is authorized to firm supplies including on-River Priority 4 M&I users, CAP M&I Priority users and AWBA Indian NIA obligations.

Staff has identified a spectrum for the AWBA to consider as a tool to answer the policy question.



Along the spectrum, there are many variations that can be discussed. Based on direction from the AWBA on this policy question, staff will prepare alternatives for the AWBA to consider at its next meeting. We anticipate this work may ultimately result in a resolution answering the policy question.