

February 10, 2014

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Dear Mr. Buschatzke, Ms. O'Connell, and Mr. McCann:

Attached, for your information and review, is a document titled "Inter-AMA Water Storage and Firming Concepts." These concepts were developed jointly by the Arizona Municipal Water Users Association (AMWUA) and the Southern Arizona Water Users Association (SAWUA).

We believe that successful implementation of these concepts will result in additional water management flexibility for CAP M&I subcontractors in both the Phoenix and Tucson Active Management Areas who elect to participate in the proposed program. Clearly, however, the Arizona Department of Water Resources, the Arizona Water Banking Authority, and the Central Arizona Water Conservation District also have critical roles to play in ensuring the future viability of a successful program.

Those subcontractors interested in participating in the Phase 1 Pilot Program described in the document will be contacting you directly to discuss future actions required to implement the proposed pilot program.

Sincerely,



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INTER-AMA WATER STORAGE AND FIRING CONCEPTS
February 7, 2014

I. GOALS

1. Provide CAP M&I subcontractors located in Maricopa County with the ability to store water in Pima county and obtain long term storage credits for the stored water.
2. Increase AWBA's ability and flexibility to store more water for use by M&I subcontractors in times of shortages of CAP water.

II. WATER STORAGE

1. Phase 1 Pilot Program

Phase 1 would be a pilot program that would recharge up to 5,000 AF in one year using the existing infrastructure located in the Tucson AMA. A Maricopa County M&I subcontractor(s) that is not using its entire CAP entitlement would have water delivered for storage in Pima County, and then call for the recovery of that stored water after DWR notification that the credits have been accrued. Participating Pima County M&I subcontractors would accept storage credits for direct delivery in-lieu of CAP water. In exchange, CAP water would be directly delivered to Maricopa County M&I subcontractors via the CAP canal.

The intent of the pilot program is to determine how or if a Phase 2 program consisting of larger volumes of water should be implemented. DWR and the CAWCD would need to agree that any unused entitlement could be delivered, stored and later recovered.

2. Phase 2 Program

- a. Based on the successful operation of the pilot program, including both storage and recovery, a second phase would be implemented. Phase 2 would be directed to providing a Maricopa County M&I subcontractor(s) that is not using its entire CAP entitlement with the ability to have a total of 50,000 af/yr for up to 20 years delivered for storage in Pima County, and then call for delivery of any stored water at any time after DWR notification that the credits have been accrued.
- b. In any year, when a participating Maricopa County subcontractor wanted to call on water stored in Pima County, participating Pima County subcontractors would agree to accept the credits in lieu of a like amount of CAP water they would have otherwise been entitled to receive in that year, and the CAWCD would deliver that amount of CAP water to the participating Maricopa County subcontractor.

- c. Payment for, and ownership and maintenance of, any delivery and storage facilities located in Pima County, and the procedures for the delivery of water for storage in Pima County and the delivery of forborn water in Maricopa County, would be based on terms and conditions agreed to by the participating Maricopa County and Pima County subcontractors and the CAWCD.

III. M&I FIRING

AWBA may participate in the Phase 2 program for the purposes of shortage year and emergency operation firming.

1. Expansion Facilities

- a. At AWBA's direction, CAWCD would use monies collected from the four-cent water storage tax in Maricopa County to fund the construction of needed infrastructure as an expansion of capacity at Tucson Water's existing SAVSARP and the Metro Water District's (Metro) recharge facilities (Expansion).
- b. CAWCD would own the Expansion infrastructure, but Tucson Water would operate and maintain it in conjunction with the existing capacity at SAVSARP, and Metro would maintain and operate its portion of the Expansion infrastructure in conjunction with its recharge facility.
- c. CAWCD would hold a priority right to use the storage capacity created in the Expansion. (If others participate in the funding of the Expansion, they would have a pro-rated joint ownership and an equal priority-right to store water at the facility.) Tucson Water and Metro, in consultation with CAWCD, would establish and collect storage fees required to cover the cost of operating and maintaining the Expansion.
- d. AWBA would have the first priority to use CAWCD's share of the Expansion to store water in the Expansion on behalf of M&I subcontractors in Maricopa County.
- e. To the extent AWBA cannot use the available Extension storage capacity in any year, any Maricopa County M&I subcontractor could enter into an agreement to store water in the Expansion under CAWCD's recharge priority policy, similar to a state demonstration project.
- f. As an alternative to expending monies collected from the four-cent water storage tax in Maricopa County on expanded facilities, Tucson Water and Metro could expand the facilities and charge as appropriate for the expansion and

storage in the facilities. AWBA would then use the tax monies to pay the appropriate charges as storage occurs.

2. AWBA Storage at the Expansion

- a. AWBA may use monies collected from the four-cent water storage tax in Maricopa County to store water in the Expansion for the benefit of M&I subcontractors in the Phoenix AMA. It is expected that there is a significant benefit to Maricopa County subcontractors by virtue of ensuring the continued delivery of water to water treatment plants constructed and operated in Maricopa County that would otherwise not be operated in whole or in part during a shortage year or during an emergency shortage. It is also anticipated that there would be a deferral or avoidance of significant capital costs in Maricopa County for the construction of recovery infrastructure.
- b. AWBA will use its best efforts to accrue at least _____ AF of credits at the Expansion between 2014 and 2023.

3. Recovery of Water Stored by AWBA at the Expansion

- a. During years of shortages to CAP M&I subcontract water or during extraordinary CAP system outages, AWBA may call on Maricopa county credits stored in the Expansion to offset reductions in water deliveries to Maricopa County M&I subcontractors.
- b. In such case, participating Pima County M&I subcontractors would agree to accept those credits in lieu of a like amount of CAP water that the Pima County subcontractors would otherwise have been entitled to receive in that year, and the water forborn by the Pima County subcontractors would be delivered by the CAWCD to Maricopa County subcontractors.

4. Other Provisions

- a. Any exchange/forebearance in any CAP shortage year shall not change the pro-rated share of the shortage between the Phoenix and Tucson AMAs in that year.
- b. Agreements will be necessary among the parties to ensure that all parties are fully protected.

BACKGROUND - AWBA TEN-YEAR PLAN PROJECTIONS

PHOENIX AMA

- 334,590 AF stored in Phoenix AMA with 4-cent tax revenues from 2014-2023
- 1,671,505 AF stored for M&I firming through 2023 using 4-cent tax revenues
- Excess of 105,505 AF above M&I firming target at the end of 2023
- \$75M (approximately) of Maricopa County 4-cent tax money remains in CAWCD's account at the end of 2023

TUCSON AMA

- 96,442 AF stored in Tucson AMA with 4-cent tax revenues from 2014-2023
- 17,489 AF stored in Tucson AMA with GW W/D fee revenues from 2014-2023
- 603,100 AF stored for M&I firming through 2023 using both 4-cent tax and GW W/D fee revenues
- Shortfall of 260,900 AF below M&I firming target at the end of 2023
- \$0 of Pima County 4-cent tax money remains in CAWCD's account at the end of 2023