

ADD Water Program Proposal

Prepared by CAWCD Staff

Summary for AWBA

December 8, 2010

Background

- Stakeholder process produced Summary of Emerging Consensus (SEC)
- Task teams raised questions about how various elements of the SEC fit together
- CAWCD Board directed staff to prepare a comprehensive ADD Water proposal
- Intent is to integrate SEC principles into a cohesive package that can be implemented

Water Supply

Core Principles

- Promote confidence that water will be available when needed over coming decades
- Provide certainty on types of water supply that will be acquired
- Create flexibility in assembling an ADD Water supply portfolio
- Minimize and spread risk across program
- Facilitate program implementation and administration

Water Supply

Phased Approach

- Phase 1 launch = 2015 (i.e. CAWCD begins deliveries in 2015)
- New phase launches every five years thereafter (2020, 2025, 2030, etc.)
- CAWCD will acquire/develop up to 50,000 AF of new supplies for each phase
- Phases continue until target volume of 300,000 AF reached or until no additional water supplies are available, whichever occurs first

Contracts

Core Principles

- Develop equitable method of “allocating” available water in each phase
- Discourage hoarding and speculation
- Encourage partnering among eligible entities
- Provide flexibility to contractors
- Simplify contracting and program administration

Contracts

Market-Based Allocation

- ADD Water entitlements available during each phase will be distributed among potential contractors using an auction process
- Each participant will determine its own need, based on its evaluation of current and future demand, cost, other supply options (including conservation) and its own projections as to the price of contracts in future phases

Contracts

Market-Based Allocation

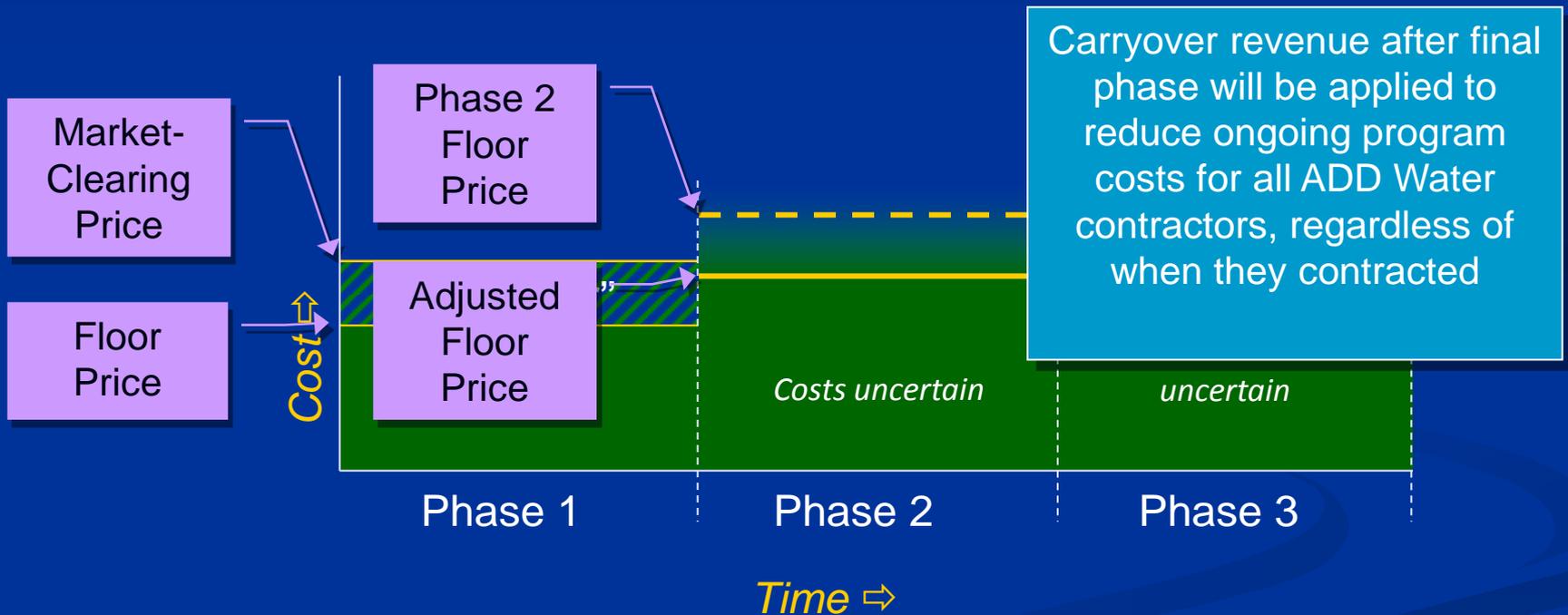
- Bids are for a desired contract volume, at the price for the particular round
- Round 1 is at the “floor price”
- Price escalates in subsequent rounds, until “market-clearing” price is established
- All successful bidders pay the same final price



Contracts

Market-Based Allocation

- To discourage speculative activity, revenue above floor price in a phase is applied to the next phase



Core Principles

- Avoid harm to CAP contractors and finances
- Develop a self-sufficient, financially viable, sustainable program
- Avoid financial risk to CAWCD and ADD Water contractors
- Kick start program as quickly as possible

Funding Pre-Launch Costs

- Funding to cover pre-launch costs may be obtained in one or more of the following ways:
 - Revolving fund established using existing, but currently unused, taxing authority
 - Borrowing from:
 - CAWCD reserves in excess of reserve targets
 - Third-parties (potential ADD Water contractors, commercial lenders, private investors)
 - Self-funding from ADD Water reserves
 - Other funding mechanisms

Water Acquisition Costs

- For Phase 1, ADD Water contractors will be required to provide 100% of the market clearing price at the time of contracting
 - Contractors responsible for own financing
- Other options may be available in later phases
- In all cases, the amount CAWCD receives each year from ADD Water contractors must equal or exceed the amount that CAWCD must pay for water supply acquisition in that year

Core Principles

- Continuing the present CAGR program poses unacceptable financial/legal risk to CAWCD
- ADD Water offers a viable alternative
- Responsibility for securing water supplies should shift to those seeking CAGR services
- Member land and member service area obligations will vary based on whether member is “pre-ADD” or “post-ADD”

“Pre-ADD” Obligations

- CAGRD remains responsible for acquiring water supplies to meet its pre-ADD obligations
- CAGRD may use an ADD water contract
- CAGRD may acquire non-ADD Water supplies
 - Effluent
 - Project water—e.g., CAP Indian lease
 - Non-Project water that does not meet ADD Water requirements

“Post-ADD” Obligations

- **CAGRD will not be responsible for acquiring water supplies to meet post-ADD obligations**
- **Member Lands and Member Service Areas must provide CAGRD a permanent water supply to meet their post-ADD obligations**
 - **Condition of enrollment**
 - **Water supply must be sufficient and acceptable**
 - **Could be ADD Water contract**

Core Principles

- **Provide benefit of collective acquisition to areas outside the CAP service area**
- **Eliminate perceptions of inequity and competition between central and “rural” Arizona**
- **Avoid financial risk to CAWCD**
- **Limit CAWCD’s role to water acquisition**
- **Let “rural” water users decide how Just Water is distributed, used and paid for**

Overview

- CAWCD will only be acquisition agent on behalf of Just Water Program
- CAWCD will not make any allocation decisions
- Water supply costs to ADD Water and Just Water Programs will be same in each phase
- Just Water Program is responsible for appropriate share of all costs, including pre-launch costs

Questions?