

ARIZONA WATER BANKING AUTHORITY

Wednesday, September 26, 2001

No.	NAME (Please print)	Phone No.
1	Gray G. Small	480-517-9050
2	JIM PETERSON	520-297-2771
3	Gay Brothers	702-258-3176
4	Susan Selby	702-258-3214
5	Jim Davenport	702-486-2689
6	Elizabeth Stow	623-386-4066
7	ALAN P. KLEINMAN	480-962-0885
8	Harry Kuzgenian	213 217 6082
9	LARRY COOPER	480 945 3189
10	Mark Myers	520-742-0416
11	Sharon B. Magdel	520-326-4789
12	DEANNE RUMAKES	775-885-5000
13	DAVE MERRILL	775-885-5000
14	TIMOTHY L. RECHT (IEOA)	602-254-5908
15	DONOTLY PALMER	775-885-5000
16	Mike Brophy	602-440-4811
17	George Fletcher	602-258-0234
18	DAVE NEWKIRK	623-832-1909
19	Rich Siegel (SRP)	on file
20	Jim Neuman CAP	623 869 2338
21	DAVE CROCKETT FWID	520 887 4192
22	Brian Hennings CAP	623-869-2567
23	John Y. Moulal CAP	623-869-2565
24	Juliana Herrington	602-258-0234

No.	NAME (Please Print)	Phone No.
25	CLIFF NEAL	623-869-2672
26	Tom Harbour	869-2107
27	Harold Goodman	623-930-2588
28	J-John Mihalik	602-224-0711
29	Bob Mc	on file
30	Mary Reece	602-216-3884
31	BING WONG	520-682-2516
32	DANE IWANSKI	602-728-0475
33	Jamie Sturgess	602-707-9410
34	Kathryn Sorensen	480-644-2947
35	PAUL OPME	623-465-0445
36	Kathi Knox	602-542-5480
37	Doug Toy	480-782-3586
38	Beth Miller	480-312-5009
39	RON WONG	(520)682-2516
40	Arb Dishy	417-2440
41		
42		
43		
44		



Arizona Water Banking Authority
500 North Third Street, Phoenix, Arizona 85004
Telephone 602-417-2418
Fax 602-417-2401
Web Page: www.awba.state.az.us

PLEASE POST

NOTICE OF PUBLIC MEETING

Pursuant to A.R.S. § 38-431.02, notice is hereby given that there will be a meeting of the Arizona Water Banking Authority Commission on September 26, 2001 at 10:00 a.m. at the Arizona Department of Water Resources, 500 North Third Street, Phoenix, Arizona 85004, third floor conference room. The meeting is open to the general public. A copy of the agenda for the meeting is posted below.

Dated this 25th day of September, 2001

FINAL AGENDA

Arizona Water Banking Authority Commission Meeting

- I. Welcome/Opening Remarks
- II. Approval of Minutes of June 27 Meeting
- III. Water Banking Staff Activities
 - Deliveries
- IV. 2001 Annual Plan of Operation
 - Discussion and Approval of Amending Plan to Include Storage at Vidler Water Co.
- V. Discussion Regarding Issues Arising from Governor's Water Management Commission
- VI. Storage Facility Agreements
 - Discussion and Approval of Agua Fria Agreement
 - Avra Valley and Granite Reef Underground Storage Project
 - Groundwater Savings Facilities
- VII. Update on Status of Interstate Discussions
- VIII. 2002 Annual Plan of Operation
 - Partner meetings
 - Public meetings
 - Kai/Avra Valley and Vidler Water Co.

Page 2
Draft Agenda
September 26, 2001

IX. Call to the Public

Future Meeting Date:
Wednesday, December 19, 2001

Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting Nan Flores at (602) 417-2418. Requests should be made as early as possible to allow time to arrange the accommodation.

**ARIZONA WATER BANKING AUTHORITY
Draft Minutes**

**June 27, 2001
Arizona Department of Water Resources**



AUTHORITY MEMBERS
Joseph C. Smith, Chairman
Tom Griffin, Vice-Chairman
Bill Chase, Secretary
George R. Renner
Richard S. Walden

EX OFFICIO MEMBERS
Representative Mike Gleason
Senator Ken Bennett

Welcome/Opening Remarks

All members of the Authority were present with Senator Ken Bennett present by teleconference. Chairman Joseph C. Smith introduced himself as former Chairman Rita Pearson Maguire's replacement due to his recent appointment as the new Director of the Arizona Department of Water Resources.

Minutes

The Authority approved the minutes from the March 21 and April 9, 2001 meetings.

Water Banking Staff Activities

Tim Henley, manager of the AWBA, reviewed the current deliveries. Mr. Henley stated that deliveries were behind early in the year, but that actual deliveries are catching up to projected deliveries. The Tucson AMA has actual deliveries in excess of planned deliveries. In his opinion, deliveries should continue at projected levels. William Chase stated that the decrease in deliveries in the Phoenix AMA was primarily due to lower than projected deliveries to the New Magma Irrigation and Drainage District. He questioned why. Mr. Henley stated that the irrigation districts must use their pool water first and often take Authority water last. Weather conditions can also impact how much water they take. Mr. Chase observed that the 2001 Plan of Operation planned for deliveries to the Agua Fria facility to initiate in August and he wondered if that date would be met. Tom Harbor, hydrologist for the CAP, stated that they plan on having the managed portion operational in September and the constructed portion operational next March. He also informed the Authority that the CAGRDR plans on storing 4,000 acre feet at the facility so the capacity available to the Authority may be decreased.

Mr. Henley stated that the May edition of the newsletter had been distributed.

Mr. Henley informed the Authority that he had received a letter from West Maricopa Combine, Inc. (WMC) stating that they wished to begin discussing the possibility of a partnership. The WMC is a managed underground storage facility located in the west valley. Mr. Henley stated that the facility has some issues with local landowners and that there is some question whether the facility permit is fully negotiable due to on-going litigation between WMC and the ADWR.

Mr. Henley informed the Authority that an exchange agreement will be utilized to allow deliveries to GRUSP in November and December 2001. There is an exchange agreement between the Authority and SRP but that agreement will not be utilized. The water will be delivered under an exchange agreement between the CAP and SRP and SRP will take the CAP deliveries up front.

Mr. Henley informed the Authority that he had reviewed a draft letter from the Metropolitan Water District of Southern California (MWD). The draft letter detailed their status under the interim surplus guidelines and their desire to begin discussing the possibility of interstate banking for California with the Authority. Mr. Henley stated that he anticipates receipt of a letter under the signature of Dennis Underwood within the next month.

Continuation of Discussions on City of Goodyear Agreement

At the April 9, 2001 meeting, the Authority approved an agreement for loaning of credits to the City of Goodyear and set a deadline to obtain signatures. Since then, there has been significant discussion with ADWR regarding Goodyear's needs and the city has recognized that the loaning of credits doesn't resolve their current issues. Mr. Henley recommended that the Authority rescind their approval of the agreement. He stated that the Authority should recognize that this was not wasted effort because a template water banking services agreement had now been drafted and the city will probably be requesting the Authority's assistance at a later date. Bill Allen, a representative of the City of Goodyear, thanked the Authority for their efforts and stated that the loaning of credits would not be helpful to the city at this time. He stated that they may be returning to the Authority in September. George Renner moved to authorize withdrawal of approval of the April 9, 2001 agreement. The motion was adopted.

Update on Groundwater Management Commission Activities

Mr. Henley introduced Jim Holway, Assistant Director of the Groundwater Management Division, to update the Authority. Mr. Holway provided the Authority members with interim report excerpts that present the issues current through the April/May retreat. He stated that the Commission anticipates a final report to the governor on December 1, 2001. He informed the Authority that there were some Commission recommendations related to the Authority that did not come out of the retreat. One is the idea that Authority credits could be used for environmental purposes.

Another is that the credits held by the Authority for M&I firming be transferred to and held by the CAWCD. The Commission discussed groundwater withdrawal fees and proposals that the fees be redirected for conservation purposes and/or decreased for some users. The role of the CAGR is also being discussed by the Commission. Specifically, the CAGR having firmer supplies and how they could develop replenishment reserves with a goal of 1.0-1.5 MAF in the ground. Mr. Holway stated that the concepts were well supported but funding was under discussion. Another item under discussion by the Commission was how well impact rules could be changed to provide environmental and M&I protection. Mr. Henley stated that changes in replenishment could impact the Authority because the Authority has the last priority for water.

Also, legislative changes regarding transfer of credits to CAP could impact the Authority's ability to loan credits.

Discussion and Approval of Agua Fria Recharge Project Agreement

Mr. Henley informed the Authority that the agreement was not at the approval stage. The content is similar to other agreements between the CAWCD and the Authority but a cost issue needs more discussion. He thought the issue would be easily resolved. He also stated that it may be necessary to have a special meeting, perhaps via teleconference, to gain approval prior to the August CAWCD board meeting. Mr. Henley stated that the Authority already holds a water storage permit for the facility.

2000 Annual Report

Mr. Henley stated that the report is for the previous calendar year, consequently, it would be transmitted to the governor and speaker of the house and president of the senate under Rita Pearson Maguire's signature. Mr. Henley briefly reviewed the highlights of the report. Authority members provided the following comments regarding the report: (1) remove a column for California from the ten year plan table, (2) specifically include the new recharge facilities planned by CAWCD (Hieroglyphics Mtns., Queen Creek, and Northwest Salt River Valley), (3) use a CAP delivery schedule (Appendix B) consistent with the one used by CAP, (4) do not show storage at Vidler Water Co. (Appendix C) because identifies a specific facility for interstate banking, (5) add middle initial "R" to George Renner's name, (6) do not use the word "perceived" in the text,

(7) provide some explanation about increasing cost per acre foot of long-term storage credit, and (8) provide a footnote discussion regarding 2001 interstate water banking events. Mr. Chase also had some other questions regarding the report that were answered by Mr. Henley. Mr. Smith asked if the Authority members were comfortable with staff making the suggested changes and then transmitting the final report. Mr. Renner moved that the Authority approve the report with the changes discussed and transmit the report to the required entities. The motion was adopted. Mr. Henley informed Authority members suggesting changes that he would allow them an opportunity to review the report before its transmittal.

Senator Bennett excused himself from the remaining portion of the meeting.

FY 2002 Operating Budget

Mr. Henley reviewed the budget stating that for 2002 there was a summary sheet and back-up sheets with additional information. The numbers are an average between 2001 and 2002 because the Authority operates on a calendar year for water deliveries, etc. Estimates for 2003 were also provided. Mr. Henley informed the Authority that there is no interstate component in the budget because all costs associated with interstate banking are passed through to Nevada and the Authority does not make money in the process. The Authority approved the fiscal year 2002 operating budget.

Discussion Regarding USBR Utilization of AWBA to Store Excess Water

Mr. Henley introduced Bob Johnson, Regional Director of the Lower Colorado River Region, to initiate this discussion. Mr. Johnson provided the Authority with background information regarding the USBR's needs and possible alternatives and stated that the USBR would like to utilize water banking as part of a solution for replacing bypass flows. Authority members had questions regarding possible impacts to Arizona, quantity of water to be banked, how the water would be recovered and when the USBR would like to initiate this activity. Mr. Henley stated that at this time he was asking the Authority for staff authorization to begin discussions with the USBR. Mr. Renner moved to authorize staff to continue the discussions regarding the Authority's role in the process. The motion was adopted. Mr. Smith informed AWBA staff that he would like periodic updates on the discussions.

Update on Status of Interstate Discussions

Mr. Henley reported that the Southern Nevada Water Authority and the Colorado River Commission of Nevada had approved the Agreement for Interstate Water Banking on June 12, 2001 and that an official signing ceremony was scheduled for July 3, 2001. Mr. Smith would sign the agreement at that time but it would not be considered executed until attested to by AWBA secretary Bill Chase.

Mike Pearce, chief counsel for ADWR and member of the interstate negotiating team, reviewed the Storage and Interstate Release Agreement (SIRA) for the Authority. He stated that the concepts presented in the first draft of the agreement hadn't changed, but they had been fleshed out. He specifically noted (1) the agreement was refined to reflect components of Agreement for Interstate Water Banking (AIWB), (2) recitals and definitions similar to AIWB, (3) in article 2, the water stored is the number of long-term storage credits and the limit is 1.2 million acre feet, (4) discussions regarding limiting annual storage to 200,000 acre feet due to environmental compliance issues, (5) transfer of 50,000 acre feet needs to be addressed, (6) article 3 addresses facilities, (7) article 4 describes development and verification of intentionally created unused apportionment, and (8) article 5 addresses the release of ICUA, some issues regarding this are still under negotiation. Dick Walden questioned Mr. Pearce about what happens if the USBR fails to act. Mr. Pearce replied that the concern was also one held by Nevada, however,

Arizona doesn't want to set precedence under the Law of the River for water to move due to inaction. Water should only move through proper execution of the decree. Mr. Walden questioned whether Arizona would be negatively impacted by USBR inaction and Mr. Pearce replied that Nevada would be the only party harmed.

Mr. Henley reported to the Authority that at the next meeting, the AIWB would likely have been signed and executed, the SIRA would probably be ready for approval and the Agreement for the Development of Intentionally Created Unused Apportionment would be in draft for review.

Call to the Public

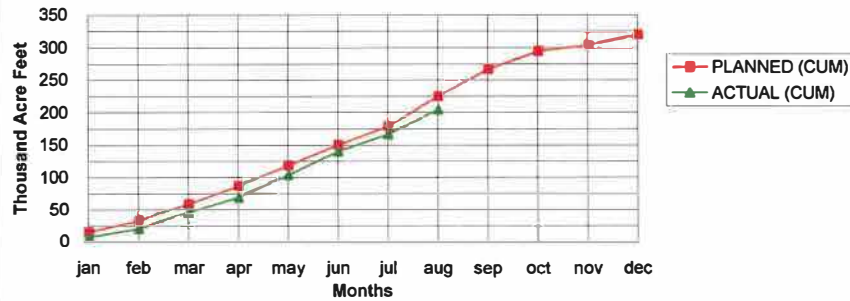
There was no public comment.

The next AWBA meeting is scheduled for Wednesday, September 19,2001.

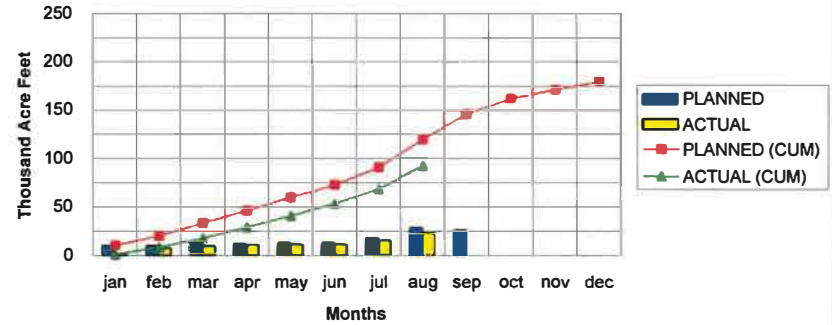
The meeting concluded at 11:55 a.m.

2001 Plan of Operation

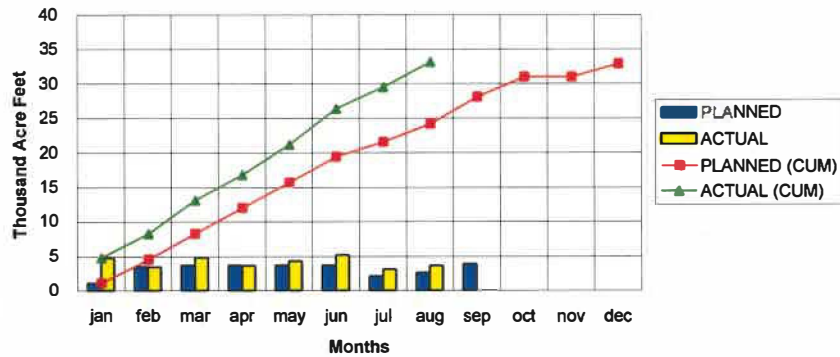
2001 DELIVERIES (by Month)
Planned vs. Actual



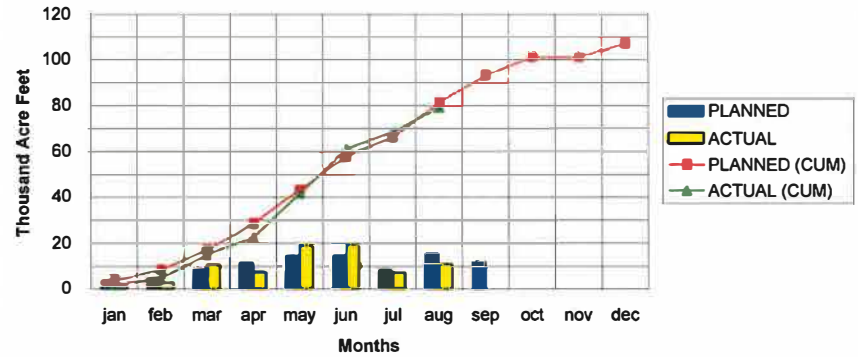
Phoenix AMA (by Month)
Planned vs. Actual



Tucson AMA (by Month)
Planned vs. Actual



Pinal AMA (by Month)
Planned vs. Actual



Actual deliveries updated
Plan of Operation

20-Sep-01
1-Jan-01

	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	total
Phoenix AMA													
GRUSP	91	5,376	6,898	7,242	6,520	7,426	7,096	4,898					45,547
	7,920	7,920	7,920	7,920	7,920	7,920	7,920	7,920	7,920	7,920	3,000	3,000	85,200
AGUA FRIA	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	1,560	1,450	1,410	3,750	3,750	11,920
CHCID	0	100	0	0	18	0	70	67					255
	50	100	50	100	100	151	125	125	125	191	0	0	1,117
NMIDD	615	1,738	767	1,896	3,000	2,873	5,696	12,595					29,180
	2,000	2,000	3,200	2,500	3,000	3,500	4,700	10,200	10,600	5,500	0	0	47,200
QCID	0	0	0	0	0	0	958	4,255					5,213
	0	0	0	0	0	0	2,967	6,642	4,124	1,682	200	500	16,115
MWD	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	0	0	0	0	0	0
TID	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	0	0	0	2,000	1,000	3,000
SRP	0	0	2,122	2,125	2,120	2,076	1,707	1,581					11,731
	0	0	2,120	2,120	2,120	2,120	2,120	2,120	2,120	0	0	0	14,840
VIDLER MBT	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	706	7,214	9,787	11,263	11,658	12,375	15,527	23,396	0	0	0	0	91,926
Total to date	706	7,920	17,707	28,970	40,628	53,003	68,530	91,926	91,926	91,926	91,926	91,926	91,926
<i>Projected total to date</i>	<i>9,970</i>	<i>19,990</i>	<i>33,280</i>	<i>45,920</i>	<i>59,060</i>	<i>72,751</i>	<i>90,583</i>	<i>119,150</i>	<i>145,489</i>	<i>162,192</i>	<i>171,142</i>	<i>179,392</i>	<i>179,392</i>
Pinal AMA													
CAIDD	0	0	0	0	0	0	0	889					889
	0	0	0	0	0	0	0	4,195	6,700	2,500	0	1,605	15,000
MSIDD	429	521	4,086	830	8,798	11,326	3,530	2,178					31,698
	1,750	1,860	2,170	4,150	5,590	7,250	3,220	3,530	1,830	3,280	0	2,960	37,590
HIDD	1,088	2,259	6,598	6,761	10,151	7,955	3,789	7,886					46,487
	2,000	2,800	6,400	7,500	9,000	7,200	5,000	7,600	3,500	2,000	0	1,500	54,500
Subtotal	1,517	2,780	10,684	7,591	18,949	19,281	7,319	10,953	0	0	0	0	79,074
Total to date	1,517	4,297	14,981	22,572	41,521	60,802	68,121	79,074	79,074	79,074	79,074	79,074	79,074
<i>Projected total to date</i>	<i>3,750</i>	<i>8,410</i>	<i>16,980</i>	<i>28,630</i>	<i>43,220</i>	<i>57,670</i>	<i>65,890</i>	<i>81,215</i>	<i>93,245</i>	<i>101,025</i>	<i>101,025</i>	<i>107,090</i>	<i>107,090</i>
Tucson AMA													
Avra Valley	634	306	459	566	528	694	632	563					4,382
	570	570	570	570	570	570	570	570	570	570	0	300	6,000
CAVSARP	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Pima Mine	1,548	545	1,205	1,493	1,436	1,470	1,597	1,285					10,579
	0	937	1,140	1,140	1,140	1,140	1,140	1,140	1,140	808	0	600	10,325
Lower Santa Cruz	2,621	2,621	3,177	1,613	2,354	3,051	908	1,796					18,141
	492	2,000	2,000	2,000	2,000	2,000	400	400	1,200	1,011	0	1,000	14,503
Kai/Avra	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Kai/Red Rock	0	0	0	0	0	0	0	0					0
	0	0	0	0	0	0	0	500	1,000	500	0	0	2,000
Subtotal	4,803	3,472	4,841	3,672	4,318	5,215	3,137	3,644	0	0	0	0	33,102
Total to date	4,803	8,275	13,116	16,788	21,106	26,321	29,458	33,102	33,102	33,102	33,102	33,102	33,102
<i>Projected total to date</i>	<i>1,062</i>	<i>4,569</i>	<i>8,279</i>	<i>11,989</i>	<i>15,699</i>	<i>19,409</i>	<i>21,519</i>	<i>24,129</i>	<i>28,039</i>	<i>30,928</i>	<i>30,928</i>	<i>32,828</i>	<i>32,828</i>
TOTAL													
Total to date	7,026	13,466	25,312	22,526	34,925	36,871	25,983	37,993	0	0	0	0	204,102
<i>Projected total to date</i>	<i>14,782</i>	<i>32,969</i>	<i>58,539</i>	<i>86,539</i>	<i>117,979</i>	<i>149,830</i>	<i>177,992</i>	<i>224,494</i>	<i>266,773</i>	<i>294,145</i>	<i>303,095</i>	<i>319,310</i>	<i>319,310</i>

Issues Relating to the Governor's Water Management Committee

Transfer of AWBA Long-term Storage Credits Earned via the 4¢ *ad valorem* Tax to CAWCD

Problem Statement:

CAWCD is the entity responsible for delivering CAP water to its subcontractors. The Arizona Water Banking Authority (AWBA) develops long-term storage credits for the benefit of municipal and industrial (M&I) CAP subcontractors and others, using a 4¢ *ad valorem* tax collected in Maricopa, Pinal, and Pima counties. These credits are to be "distributed" to CAWCD to meet the demands of CAP M&I subcontractors during times of Colorado River shortages or CAP system outage. Some M&I CAP sub-contractors believe that it is important that the storage credits earned from these funds be transferred to CAWCD on an annual basis to ensure that the credits will be available when needed for their intended purposes. Others believe that the language currently in statute ensures that this will occur, however, they are willing to clarify the statute.

Proposal:

The Commission recommends that the statutes be revised to clarify that the CAWCD, after consultation with the Director of ADWR, determines the amount of long-term storage credits stored using the 4¢ *ad valorem* tax that shall be distributed to the CAWCD by the AWBA. This proposal would not require the AWBA to distribute long-term storage credits to CAWCD in an amount greater than 20% of the total municipal and industrial water subcontracts.

Potential Language:

§ 45-854.01. Assignability of long-term storage credits

- A. Except as provided in § 45-855.01, subsection C, the holder of long-term storage credits may assign by grant, gift, sale, lease or exchange all or part of the holder's long-term storage credits.
- B. Except as provided in subsection C of this section, an assignment of long-term storage credits from one person to another is valid on receipt by the director of notification of the assignment in writing on a form that is provided by the director and that has been signed by both the assignor and assignee.
- C. EXCEPT FOR THE ASSIGNMENT OF LONG-TERM STORAGE CREDITS BY THE ARIZONA WATER BANKING AUTHORITY IN ACCORDANCE WITH SECTION 45-2457(B)(7) AND (8), THE director may reject and invalidate any assignment of long-term storage credits in which the stored water would not have

met the requirements for long-term storage credits as prescribed by § 45-852.01 if the assignee had stored the water.

§ 45-2457. Accounting; rules of operation

B. The authority shall operate in accordance with all of the following rules of operation:

7. The authority shall distribute long-term storage credits accrued with monies deposited in the fund in accordance with § 48-3715.03, subsection B only for the benefit of the county in which the monies were collected. AFTER CONSULTATION WITH THE DIRECTOR, the authority shall distribute these long-term storage credits to CAWCD to the extent necessary, AS DETERMINED BY CAWCD, to meet the demands of CAWCD's municipal and industrial subcontractors during times in which CAWCD's diversions from the Colorado river have been or will be disrupted by shortages on the Colorado river or by disruptions in operation of the central Arizona project. NOTHING IN THIS PARAGRAPH SHALL REQUIRE THE AUTHORITY TO DISTRIBUTE LONG-TERM STORAGE CREDITS TO CAWCD IN AN AMOUNT GREATER THAN TWENTY PER CENT OF THE TOTAL MUNICIPAL AND INDUSTRIAL WATER SUBCONTRACTS.

Recommendation Regarding Priority of CAGRDR Replenishment Reserve

Problem Statement:

The proposed replenishment reserve program will likely result in increased demands for excess CAP water. The Arizona Water Banking Authority (AWBA) has been tasked with using excess CAP water to firm existing CAP M&I subcontracts. Because the AWBA statutes clearly state that the AWBA shall not store Colorado River water that would otherwise have been used within the state (ARS 45-2427.B.), concerns have raised that a requirement for the CAGRDR to establish a replenishment reserve could supersede the AWBA's use of excess CAP water for M&I firming purposes. This is not the Commission's intent.

Proposal:

The Commission makes the following additional recommendations:

1. CAWCD and AWBA should jointly develop an annual plan that projects AWBA's and CAGRDR's available funding, needs for excess CAP water, and needs for recharge capacity over the subsequent ten-year period; and
2. CAWCD, which maintains exclusive rights to market excess CAP water by virtue of its CAP repayment contract with the United States, should adopt a

policy stating that it will establish categories and availability of excess CAP water in accordance with the ten-year plan; and

3. The Arizona Department of Water Resources should adopt a policy stating that it will only recommend approval of new contracts for Colorado River water delivered under Arizona's entitlement that clearly state that the new contract entitlement is junior in priority to all other CAP uses, including use by AWBA and CAGR, but not including use for interstate banking.

Potential Language:

The following language should be included in the statutes requiring CAGR to establish and maintain a replenishment reserve:

FOR PURPOSES OF ESTABLISHING AND MAINTAINING THE REPLENISHMENT RESERVE, THE DISTRICT SHALL HAVE THE SAME ACCESS TO EXCESS CENTRAL ARIZONA PROJECT WATER AS THE ARIZONA WATER BANKING AUTHORITY HAS FOR THE PURPOSES SPECIFIED IN § 45-2401(H)(2).

Clarify the statutes authorizing the Arizona Water Banking Authority to use Colorado River water as follows:

45-2427. Limitation on powers

B. The authority shall not store FOR INTERSTATE WATER BANKING PURPOSES Colorado River water that would otherwise have been used in this state. The authority shall not store FOR ANY OTHER PURPOSE Colorado river water that would otherwise have been used in this state PURSUANT TO A CONTRACT ENTERED INTO BEFORE SEPTEMBER 1, 2002.

**AGREEMENT FOR STORAGE OF WATER
AT THE
AGUA FRIA RECHARGE PROJECT**

PARTIES:

This Agreement is made and entered into the _____ day of _____ 2001, by and between the CENTRAL ARIZONA WATER CONSERVATION DISTRICT, hereinafter referred to as "CAWCD", and the ARIZONA WATER BANKING AUTHORITY, hereinafter referred to as the "Authority".

2. RECITALS:

- 2.1 CAWCD is responsible for constructing and operating the Agua Fria Recharge Project (the "AFRP"), an underground storage facility that is located in the Phoenix Active Management Area, within the floodplain of the Agua Fria River. The AFRP is unique because it consists of two components: (a) an in-channel component, known and regulated as the managed underground storage facility pursuant to ADWR permit no. 71-569775.0001, where CAP water is released from the Agua Fria Siphon Blowoff Structure into the channel of the Agua Fria River for underground storage and/or in-channel conveyance to the constructed underground storage facility; and (b) a constructed component, known and regulated as the constructed underground storage facility pursuant to ADWR permit no. 71-569776.0001, consisting of an in-channel diversion dam and headworks structure, which divert water from the channel into a conveyance canal for delivery to approximately 115 acres of spreading basins.
- 2.2 ADWR has issued CAWCD a Constructed Underground Storage Facility Permit and a Managed Underground Storage Permit for the AFRP. The Permits together authorize the underground storage of a combined maximum of 100,000 acre-feet of water per year at the AFRP. The AFRP is a State Demonstration Recharge Project pursuant to A.R.S. § 45-891 .01 et seq.

- 2.3 The Arizona Legislature has declared that it is the public policy of the State of Arizona to use the Central Arizona Project to deliver Colorado River water that would otherwise be unused in Arizona for purposes specified in A.R.S. Section 45-2401.
- 2.4 The Arizona legislature has created the Authority to implement this policy.
- 2.5 CAWCD, the Authority and ADWR have entered into an intergovernmental agreement providing for, among other things, the purchase of excess CAP water by the Authority for storage at permitted underground storage facilities.
- 2.6 The Authority desires to store excess CAP water at the AFRP and CAWCD agrees to make available unused storage capacity at the AFRP for such storage, in accordance with the provisions of this Agreement.

NOW THEREFORE, in consideration of the foregoing, the payments to be paid by the Authority, and the covenants and agreements contained in this Agreement, and other good and valuable consideration, CAWCD and the Authority agree as follows:

3. **DEFINITIONS:**

- 3.1 ADWR: The Arizona Department of Water Resources
- 3.2 AFRP: The combined constructed underground storage facility and managed underground storage facility, constructed and operated by CAWCD pursuant to the Permits, which is located in portions of Sections 17, 20, 29, 31 and 32, Township 5N, Range 1E, and Section 6, Township 4N, Range 1E, GSRB&M, Maricopa County, Arizona.
- 3.3 AGUA FRIA SIPHON BLOWOFF STRUCTURE: The point at which Authority Water is diverted from the CAP canal for delivery into the AFRP.
- 3.4 AUTHORITY WATER: Excess CAP water made available by CAWCD to the Authority for underground storage, which water would not otherwise have been used within Arizona.
- 3.5 CENTRAL ARIZONA PROJECT (CAP): The water delivery works of the CAP including, but not limited to, the CAP canal, its turnout structures and associated measuring devices.
- 3.6 INTERGOVERNMENTAL AGREEMENT: The Intergovernmental Agreement among the Authority, the ADWR and CAWCD and any amendments or supplements thereto.
- 3.7 PARTY/PARTIES: Either one or both of the parties to this Agreement.

3.8 **PERMITS:** The Constructed Underground Storage Facility Permit issued by the ADWR for the AFRP, permit no. 71- 569776.0001, and the Managed Underground Storage Facility Permit issued by the ADWR for the AFRP, permit no. 71- 569775.0001.

4. **THE INTERGOVERNMENTAL AGREEMENT:**

The Intergovernmental Agreement is incorporated into and made a part of this Agreement.

5. **SCOPE OF SERVICES:**

This Agreement is limited to the diversion of water at the Agua Fria Siphon Blowoff Structure into the AFRP and the storage of such water at the AFRP by CAWCD for the benefit of the Authority. CAWCD shall deliver Authority Water, which is scheduled by the Authority for storage at the AFRP in accordance with the IGA, to the Agua Fria Siphon Blowoff Structure, and CAWCD shall store such water underground at the AFRP for the benefit of the Authority.

6. **TERM OF AGREEMENT:**

This Agreement shall become effective when executed by both Parties and shall remain in effect for five years unless the Parties agree in writing to extend the term or unless it is sooner terminated or canceled in accordance with the terms of this Agreement.

7. **CONDITIONS RELATING TO STORAGE:**

7.1 All storage of Authority Water at the AFRP shall be consistent with Arizona law.

7.2 The Authority shall obtain water storage permits from ADWR authorizing it to store Authority Water at the AFRP.

7.3 CAWCD's storage of Authority Water at the AFRP shall, at all times, comply with the Permits. CAWCD shall be responsible for filing annual reports as required by the Permits. If one or both of the Permits are canceled or expire for any reason, the Authority may terminate this Agreement.

8. **PROCEDURE FOR SCHEDULING STORAGE CAPACITY**

8.1 Within 60 days after the date of execution of this Agreement, the Authority shall submit to CAWCD a proposed schedule indicating the amount of AFRP storage capacity it desires to use during the year in

which this Agreement is executed and during the first full year following the year in which this Agreement is executed. Thereafter, on or before October 1 of each year during the term of this Agreement, the Authority shall submit to CAWCD a proposed schedule indicating the amount of AFRP storage capacity the Authority desires to use during the following year.

- 8.2 As soon as practicable after receipt of the Authority's proposed schedule following the execution of this Agreement, CAWCD shall return to the Authority the schedule, as adjusted by and acceptable to CAWCD, indicating the amount of AFRP storage capacity that is available to the Authority for the year in which this Agreement is executed. Thereafter, on or before November 15 of each year during the term of this Agreement, CAWCD shall return to the Authority the schedule, as adjusted by and acceptable to CAWCD, indicating the amount of AFRP storage capacity that is available to the Authority for the following year.

9. **WATER STORAGE RATE:**

- 9.1 The rate for water storage at the AFRP includes charges for the managed and constructed facilities. During calendar year 2001, only the managed facility will be operational. The estimated rate for the managed facility for 2001 is \$1.90 per acre-foot. During calendar year 2002, both the managed and constructed facilities will be operational. The estimated rate for the constructed and managed facilities during 2002 will be set by the CAWCD Board of Directors in November 2001. The water storage rate will consist of the costs of operating, maintaining and monitoring the facility, including, but not limited to, basin maintenance, vegetation management, miscellaneous berm and facility repairs, water level monitoring, water quality sampling and lab analysis costs, and data management and reporting. In any year, because the water storage rate is estimated, the actual rate may be higher or lower. At the end of 2001 and, if necessary, each year thereafter during the term of this Agreement, CAWCD will compute the actual rate for water storage at the AFRP for the previous 12-month period. If the actual rate is higher than the estimated rate, CAWCD will bill the Authority for the difference in proportion to the amount of the AFRP storage capacity utilized by the Authority during the year. The Authority shall pay CAWCD within 30 days of receipt of such bill. If the actual rate is lower than the estimated rate,

CAWCD will either, at the Authority's election, pay the Authority the difference in proportion to the amount of the AFRP capacity utilized by the Authority during the year, or credit such amount to the Authority's account for the following year.

9.2 The rate for water storage at the AFRP may be adjusted annually by CAWCD. Notice of the adjusted rate shall be provided to the Authority by November 15 of the then current year. Such rate shall be effective January 1 of the following year and remain in effect until next adjusted.

9.3 The Authority shall pay the rate for water storage, as described in Section 9.1, for each acre-foot of Authority Water delivered to the AFRP, as measured at the Agua Fria Siphon Blowoff Structure. Payment of the rate for water storage, as described in Section 9.1 is not related to and is not contingent on the Authority's accrual of long-term storage credits from water stored at the AFRP.

9.4 If storage capacity becomes available at the AFRP in any year during the term of this Agreement because a lessee decides not to store the full amount of water it had scheduled for storage during such year, and if the Authority desires to utilize this additional storage capacity, CAWCD shall use its best efforts to deliver Authority Water to the AFRP during such year so that the Authority may utilize this additional storage capacity.

10. OPERATING AGENT:

10.1 CAWCD shall be responsible for operating the AFRP.

10.2 CAWCD shall retain sole responsibility and authority for decisions relating to the AFRP operating and maintenance practices, including maintenance scheduling and the selection of periods when maintenance will be done.

10.3 Whenever practicable, CAWCD shall inform the Authority ninety (90) days in advance of any matter which may substantially affect the AFRP or the rights of the Authority.

11. DESTRUCTION/RECONSTRUCTION OF THE AFRP:

In the event of destruction of all or part of the AFRP, CAWCD may repair or reconstruct the AFRP, but CAWCD shall not be obligated to do so.

12. WATER MEASUREMENT AND ACCOUNTING:

12.1 CAWCD shall base its accounting for water delivered to the AFRP on actual measurements, methods required by the Permits and/or generally accepted accounting and engineering practices.

- 12.2 CAWCD shall install and maintain a flow measurement system in the Agua Fria Siphon Blowoff Structure to measure the amount of water diverted from the CAP into the AFRP. CAWCD shall test and maintain the accuracy of this system in accordance with the requirements of the Permits.
- 12.3 CAWCD shall determine evaporation losses representative of the conditions at or near the AFRP using the method indicated in the Permits or using actual measurements, when available. Any other losses in the AFRP shall be calculated using generally accepted engineering practices.
- 12.4 All losses that occur at the AFRP, other than by evaporation, will be calculated using generally accepted engineering practices and water-level readings from the gages in the basins.
- 12.5 CAWCD shall prepare a monthly water accounting report of water stored at the AFRP for the Authority. The report shall include the daily amount of water stored and the losses calculated as described in this Section.
- 12.6 CAWCD shall provide the ADWR with water accounting reports for the AFRP as required by the Permits.
- 12.7 The water accounting reports prepared pursuant to this Section shall be sent to the Authority monthly and shall be retained by CAWCD for at least three years.

13. **WATER QUALITY:**

The Authority shall indemnify and hold harmless CAWCD against all losses to third parties resulting from water quality degradation or harm to property caused by the Authority's use of the AFRP, due to the commingling of the Authority's infiltrating water with the groundwater or water flowing above or below the surface of the Agua Fria riverbed. Further, the Authority waives any claim on its own behalf against CAWCD for water quality degradation or harm to property arising from such commingling, unless such claim is intended to enforce the indemnification provision of this Section; provided, however, that the Authority shall indemnify and hold harmless CAWCD only to the extent that indemnification is not provided to CAWCD by the State of Arizona pursuant to A.R.S. Section 45-898.01; and provided, further, however, that the Authority's indemnification shall only extend to the percentage of degradation attributable to the water stored on behalf of the Authority at the AFRP under the terms of this Agreement. The Authority retains the right to claim over against any other entity, including CAWCD, storing water in the AFRP in the amount proportionate to

such amount stored by those other entities. In no event shall CAWCD assume liability for water quality degradation resulting from the storage of water in the AFRP, solely due to its performance of obligations as the operating agent under this Agreement.

14. BILLING AND PAYMENTS:

14.1 On or before the 15th day of each month, CAWCD will submit a bill to the Authority for water storage fees for AFRP storage capacity used by the Authority during the previous month. The Authority shall pay CAWCD within thirty (30) days of receipt of such bill.

14.2 If payment due under this Agreement remains unpaid more than sixty (60) days after its due date, CAWCD may terminate this Agreement effective upon written notice to the Authority. In the event CAWCD terminates this balance.

15. AUTHORIZATIONS AND APPROVALS:

The Authority shall be responsible for obtaining, at its own expense, any permits, authorizations and approvals required for the underground storage and recovery of water in the AFRP or for the Authority's performance under this Agreement. The Authority shall keep CAWCD informed of its applications for such permits and authorizations. CAWCD will share information with the Authority to assist the Authority in its permit application. The Authority shall also be responsible for filing any annual reports or other documents necessary to maintain its right to store water at the AFRP.

16. LIABILITY:

16.1 Each Party shall assume liability for its own negligence and shall indemnify the other against any damages the non-negligent party incurs as a result of the negligent Party's action or inaction.

16.2 CAWCD shall assume no liability to the Authority for claims of damage resulting from CAWCD's decision to curtail or stop water flows to the AFRP site during storm or emergency conditions.

16.3 CAWCD shall assume no liability to the Authority for quantities of recoverable or unrecoverable water stored underground or removed from underground storage; nor to replace water lost, unintentionally misdirected or otherwise failing to reach the underlying aquifer for any reason except an intentional act by CAWCD. CAWCD, the Authority and any lessee(s) shall share in any deficiency resulting from such lost,

unintentionally misdirected or otherwise unintentionally unstored water in proportion to the amount of the AFRP capacity it used at the time the deficiency accrued.

16.4 Liability, as described in Section 13 related to water stored in the AFRP by the Authority prior to termination of this Agreement, shall remain with the Authority after termination of this Agreement. This Section 16.4 shall survive expiration or termination of this Agreement, and remain in full force and effect.

16.5 In the event any third party institutes an action against CAWCD, the Authority or other lessees for claims arising from the activities undertaken pursuant to the Agreement, the parties named in the action shall meet to determine the procurement of legal counsel and the steps to take to defend against the action.

17. DEFAULT:

17.1 The Authority and CAWCD shall pay all monies and carry out all other performances, duties and obligations agreed to be paid and/or performed by them pursuant to this Agreement. A default by the Authority or CAWCD in the covenants and obligations to be kept and performed by it shall be an act of default under this Agreement.

17.2 In the event of a default by the Authority or CAWCD, then, within thirty (30) days following notice of such default by the non-defaulting Party, the defaulting Party shall remedy such default either by advancing the necessary funds and/or rendering the necessary performance. Such notice shall specify the existence and nature of such default. If such default is not remedied within the time specified, the non-defaulting Party may terminate this Agreement upon 24 hours written notice.

18. UNCONTROLLABLE FORCES:

Neither Party to this Agreement shall be considered in default in the performance of any of its obligations under this Agreement (other than obligations of the Authority to pay costs and expenses) when a failure of performance is due to uncontrollable forces. The term "uncontrollable forces" shall mean any cause beyond the control of the Party unable to perform such obligation, including, but not limited to, failure of or threat of failure of facilities, flood, earthquake, storm, fire, lightning, and other natural catastrophes, epidemic, war, riot, civil disturbance or disobedience, strike, labor dispute, labor

or material shortage, sabotage, government priorities and restraint by court order or public authority, and action or non-action by, or failure to obtain the necessary authorizations or approvals from any governmental agency or authority, which by exercise of due diligence such Party could not reasonably have been expected to avoid and which by exercise of due diligence it shall be unable to overcome.

19. RESOLUTION OF DISPUTES:

19.1 A Party having a dispute under this Agreement that cannot be resolved by the Parties, may submit the dispute to arbitration. Arbitration shall be subject to the following provisions:

19.1.1 Arbitration shall be binding only upon the consent of the Parties.

19.1.2 A Party wishing to submit a dispute to arbitration shall provide thirty (30) days written notice to the other Party of its intent to pursue arbitration and shall name one arbitrator at that time. Within fifteen (15) days of receiving this notice, the other Party to the dispute shall name one arbitrator and give written notice to the other Party of its selection. The two selected arbitrators shall, within five (5) days of selection of the second arbitrator, jointly select a third arbitrator.

19.1.3 Within thirty (30) days from the selection of the third arbitrator, the arbitrators shall hold a hearing. Within thirty (30) days from the conclusion of the hearing the arbitrators shall render a decision on the dispute.

19.1.4 Arbitration shall be subject to the Arizona Arbitration Act, Arizona Revised Statutes, Title 12, Chapter 9, Article 1. In the event of a conflict between this Agreement and the Act, the provisions of this Agreement shall prevail.

19.2 A Party that is dissatisfied with the results of non-binding arbitration may pursue any other legal or equitable remedy not expressly provided for in this Section 19 an available to resolve the dispute.

20. ACTION PENDING RESOLUTION OF DISPUTES:

Pending the resolution of a dispute pursuant to Section 19, each Party shall proceed, to the extent legally permissible, in a manner consistent with this Agreement, and shall make payments required in accordance with the applicable provisions of this Agreement. Any amount paid by a Party pursuant

to this Section 20 during the pendency of such dispute shall be subject to refund and adjustment upon a final resolution of any dispute involving an amount due.

21. GOVERNING LAW:

This Agreement shall be governed by the laws of the State of Arizona.

22. BINDING OBLIGATIONS:

All of the obligations set forth in this Agreement shall bind CAWCD and its successors and assigns. This Agreement shall not be assigned by the Authority or accrue to the Authority's successor, nor shall the AFRP capacity use rights hereunder of the Authority be used by another party. This Agreement shall not be assigned by CAWCD or accrue to CAWCD's successor without the express written consent of the Authority.

23. NOTICES:

23.1 Notice, demand or request provided for in this Agreement shall be in writing and shall be deemed properly served, given or made if delivered in person or sent by registered or certified mail, postage prepaid, to the persons specified below:

Central Arizona Water Conservation District
c/o General Manager
P.O. Box 43020
Phoenix, AZ 85080-3020

Arizona Water Banking Authority
c/o Manager
500 N. Third Street
Phoenix, AZ 85004-3903

23.2 A party may, at any time, by notice to the other party, designate different or additional persons or different addresses for the giving of notices hereunder.

24. THIRD PARTY BENEFICIARIES:

This Agreement shall not be construed to create rights in, or to grant remedies to, any third party as a beneficiary of this Agreement or of any duty, obligation or undertaking established herein.

25. **WAIVER:**

The waiver by either Party of a breach of any term, covenant or condition in this Agreement shall not be deemed a waiver of any other term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition of this Agreement.

26. **HEADINGS:**

Title and paragraph headings are for reference only and are not part of this Agreement.

27. **ENTIRE AGREEMENT:**

The terms, covenants and conditions of this Agreement constitute the entire Agreement between the Parties relative to the leasing of AFRP capacity, and no understandings or agreements not herein expressly set forth shall be binding upon them. This Agreement may not be modified or amended in any manner unless in writing and signed by the Parties.

IN WITNESS WHEREOF, this Agreement is executed by the Parties hereto.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

By: _____
George Renner, President

Attest: _____
Secretary

ARIZONA WATER BANKING AUTHORITY

By: _____
Joseph C. Smith, Chairman

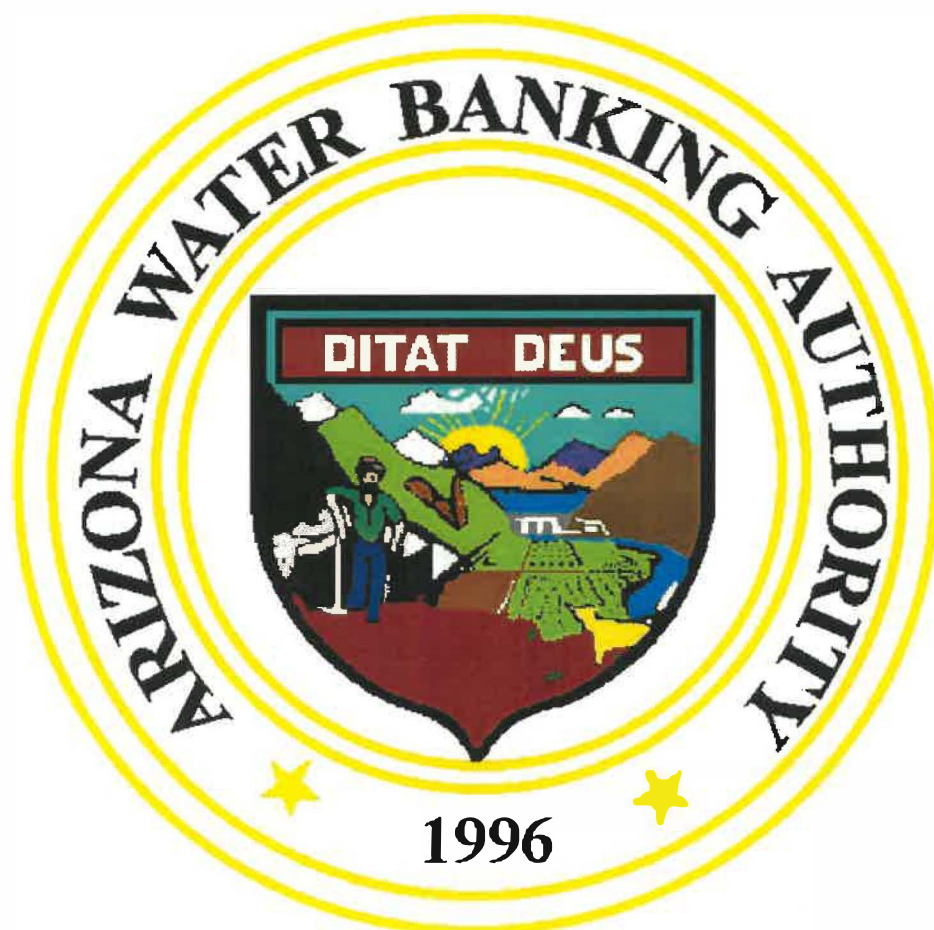
Attest: _____
Secretary

DRAFT

ARIZONA WATER BANKING AUTHORITY

ANNUAL PLAN OF OPERATION

2002



Joseph C. Smith, Chairman

December 2001

DRAFT

INTRODUCTION

The Arizona Water Banking Authority (AWBA) was created to store Arizona's unused Colorado River water entitlement in western, central and southern Arizona to develop long-term storage credits to: (1) firm existing water supplies for municipal and industrial users during Colorado River shortages or Central Arizona Project (CAP) service interruptions; (2) help meet the water management objectives of the Arizona Groundwater Code; and (3) assist in the settlement of American Indian water rights claims. Changes in the AWBA's enabling legislation in 1999 authorized the AWBA to participate in other water banking activities, however, no new water banking activities are included in this annual Plan of Operation.

The AWBA's storage (or banking) of water is accomplished through the Underground Water Storage, Savings and Replenishment Act (UWS) enacted by the Arizona legislature in 1994 and administered by the Arizona Department of Water Resources (ADWR). Through this program, the AWBA stores renewable water that currently has no immediate, direct use in either underground storage (USF) or groundwater savings (GSF) facilities. A USF is a facility that allows water to physically be added to an aquifer. A GSF is a facility where the renewable water is used in place of groundwater, creating a groundwater savings. The UWS program mandates the accounting of the renewable water stored and the development of long-term storage credits. The long-term storage credits developed by the AWBA will then be utilized by the AWBA when future conditions warrant. The use of credits for the three objectives listed above may differ and is dependent on the source of funds utilized to develop them.

The AWBA is required by statute to approve an annual Plan of Operation (Plan) by January 1 of each year. Prior to approval of the final Plan, the AWBA is required to solicit public comment. This is achieved by presenting a draft of the Plan to the Groundwater Users Advisory Councils (GUAC) for the Phoenix, Pinal and Tucson Active Management Areas (AMA) and to the county board of supervisors for counties outside of the AMA's if water storage is proposed there within the Plan. Presentation of the draft Plan must be made at publicly noticed open meetings at which members of the public are permitted to provide comment.

While an approved Plan may include an interstate water banking component, pursuant to the provisions of the Agreement for Interstate Water Banking, the draft Plan will not. This allows the AWBA to insure that Arizona's water banking interests have been met prior to inclusion of an interstate banking component. On or before November 1, the AWBA will advise the Nevada entities of any opportunity for interstate water banking. They will, in turn, advise the AWBA of their desire to accept or decline the amount offered. Consequently, absence of an interstate component in a draft Plan does not indicate that interstate water banking will not occur.

The Plan is intended to govern the operations of the AWBA over the course of the entire calendar year. During the course of the year, changing circumstances may present limitations or provide new opportunities not contemplated in the adopted Plan, which could affect the overall delivery projections. In such circumstances, the AWBA may choose to modify its adopted Plan. If such modifications are required, the

DRAFT

proposed modifications will be discussed and, if acceptable, approved at a public meeting of the AWBA.

The AWBA recognizes that day-to-day adjustments in the normal operations of the CAP or the individual storage facilities caused by maintenance and fluctuations in the weather may affect the actual monthly deliveries made on behalf of the AWBA. If the adjustments do not impact the overall annual delivery projections contained in the Plan, they will not be deemed modifications to the Plan and will be addressed by staff and reported to the AWBA members on an as-needed basis.

DRAFT

2001 PLAN OF OPERATION

In 2001, the AWBA's fifth full year of operation, the AWBA recharged almost 294,000 acre feet of Colorado River water, bringing Arizona's total use of Colorado River water close to its normal year entitlement of 2.8 million acre feet (see Figure 1).

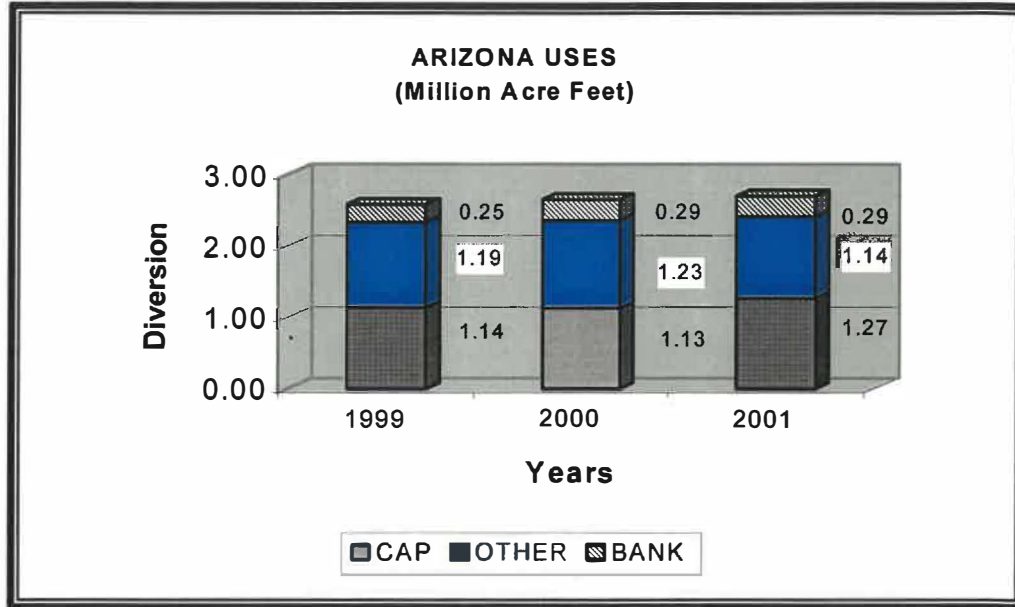


Figure 1

Because the Secretary of the Interior declared that the Colorado River was in limited surplus in 2001, increased use by Arizona did not impact the other Lower Basin states' uses. Total use of Colorado River water in the Lower Basin is estimated to be approximately 8.0 million acre feet in 2001 (see Figure 2).

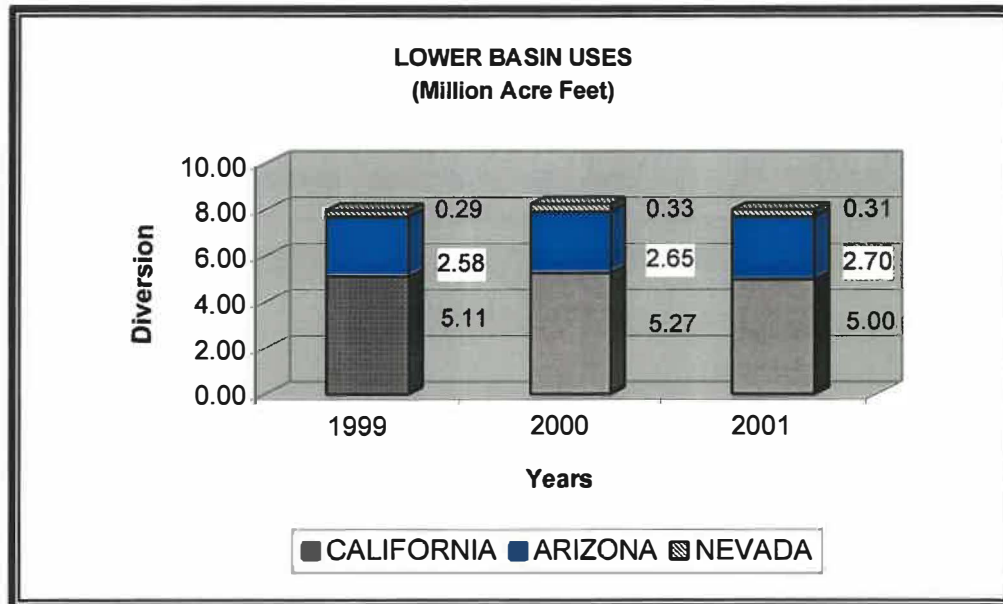


Figure 2

DRAFT

The AWBA recharged water at both USFs and GSFs in 2001. Table 1 lists the AWBA's recharge partners for 2001, the amount of water that can be stored under each AWBA water storage permit, and the amount estimated to be recharged by the AWBA at each facility in 2001. Final figures generally become available in the middle of the following year following review of the annual reports filed with the ADWR. The amount of water stored is always greater than the amount of long-term storage credits earned by the AWBA because credits are computed by subtracting approximately 3-5% for losses and 5% for a "cut to the aquifer" from the total annual deliveries.

Table 1

AMA	Facility	Type	Permit Capacity	Amount Recharged
Phoenix	GRUSP	USF	200,000 AF	67,387 AF
	Agua Fria	USF	100,000 AF	8,910 AF
	Chandler Hts Citrus ID	GSF	3,000 AF	571 AF
	Queen Creek ID	GSF	28,000 AF	11,719 AF
	New Magma IDD	GSF	54,000 AF	46,280 AF
	SRP	GSF	200,000 AF	13,851 AF
Pinal	MSIDD	GSF	120,000 AF	39,768 AF
	CAIDD	GSF	110,000 AF	11,694 AF
	Hohokam ID	GSF	55,000 AF	53,487 AF
Tucson	Avra Valley (CAP)	USF	11,000 AF	5,822 AF
	Lower Santa Cruz (CAP)	USF	30,000 AF	21,352 AF
	Pima Mine Road (CAP)	USF	30,000 AF	13,127 AF
Total			941,000 AF	293,968 AF

The 2001 Plan scheduled more than 319,000 acre feet of water to be recharged around the state. The amount of water recharged amounted to almost 294,000 acre feet. Figure 3 shows the acre foot break down between GSFs and USFs for 2001 and a comparison between 2001 and previous years.

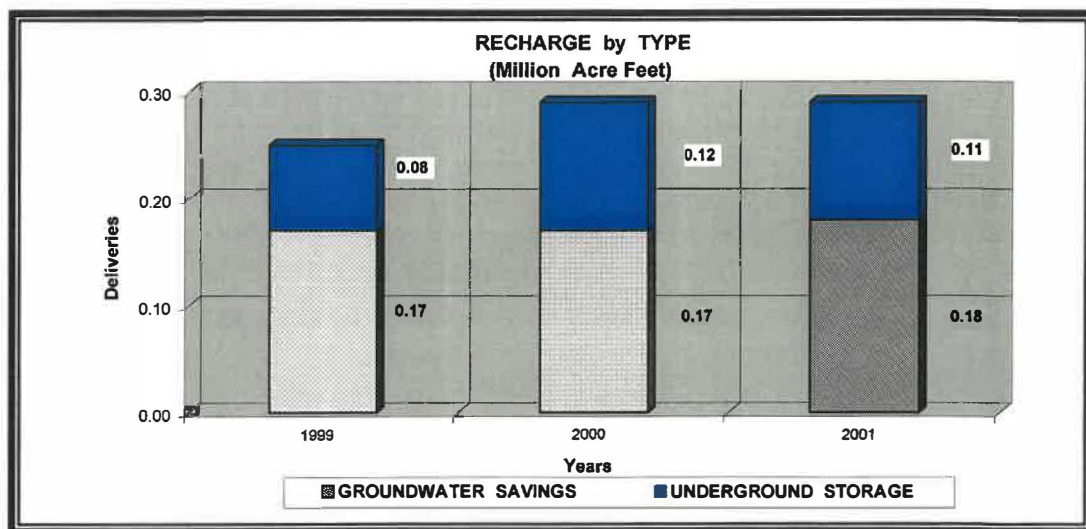


Figure 3

DRAFT

2002 PLAN OF OPERATION

When developing the 2002 Plan, the AWBA evaluated four critical factors: (1) the amount of unused water available to the AWBA for delivery, (2) the CAP capacity available to the AWBA for the delivery of unused water, (3) the funds available and the costs required to deliver the unused water, and (4) the capacity available for use by the AWBA at the various recharge facilities.

The Bureau of Reclamation has not yet signed the Annual Operating Plan for water year 2002. However, the most current draft identifies that a full domestic surplus condition will govern releases from Lake Mead for the Lower Basin states in 2002. This surplus condition is described in the Interim Surplus Guidelines that became effective on February 26, 2001. Based on this declaration and proposed uses, the overall Lower Basin use is projected to be X.XX million acre feet (see Figure 4).



Figure 4

Arizona's use of Colorado River water in 2002 will be X.X million acre feet (see Figure 5). Signing of the Annual Operating Plan is anticipated before XXXX, 2001.

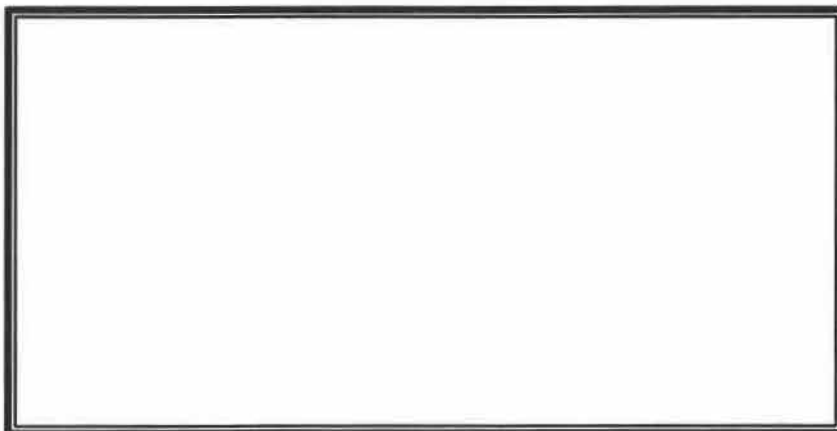


Figure 5

DRAFT

The CAP 2002 Operating Plan anticipates the delivery of approximately 1.51 million acre feet of water. CAP's plan delivers approximately 1.15 million acre feet to its subcontractors. As the Bureau has projected CAP's Colorado River diversions to be in excess of X.XX million acre feet, the CAP's operations will not be a limiting factor for the AWBA in 2002.

The funding available to the AWBA from its three sources (county *ad valorem* property tax revenues, groundwater pumping fees, and general funds) to pay for the delivery of water in 2002 will be approximately \$54 million including the carryover from previous years. Given the costs associated with the delivery of water and the continued policy of GSF operators paying \$21 of the water delivery costs to their facilities, the \$54 million is adequate to fund the Plan and is not a limiting factor in 2002. For more information about the cost of the Plan, please refer to the pricing section.

To assist in developing the 2002 Plan, each facility operator submitted an annual delivery schedule to the CAP. The CAP schedules the AWBA's deliveries for those USFs it will be operating. The CAP staff utilized the facility operator's schedules to compile an annual schedule for the CAP, including municipal and industrial (M&I) water, water for Indian tribes, incentive recharge water, agricultural pool water, and AWBA water.

Concurrently, the AWBA staff met with the facility operators to discuss their delivery schedules and development of new facility agreements as appropriate and confirm their continued interest in participating with the AWBA. These discussions confirmed the availability of substantial permitted recharge capacity but also that not all of the existing capacity is available to the AWBA. Some of the GSF availability was limited by delivery cost. Operational constraints or previous commitments to other partners limited the availability of both the GSFs and the USFs to the AWBA. Figure 6 shows the break down between GSF and USF water storage for the 2002 Plan. For the first year since the AWBA's inception, storage at USFs and GSFs will be approximately equal.

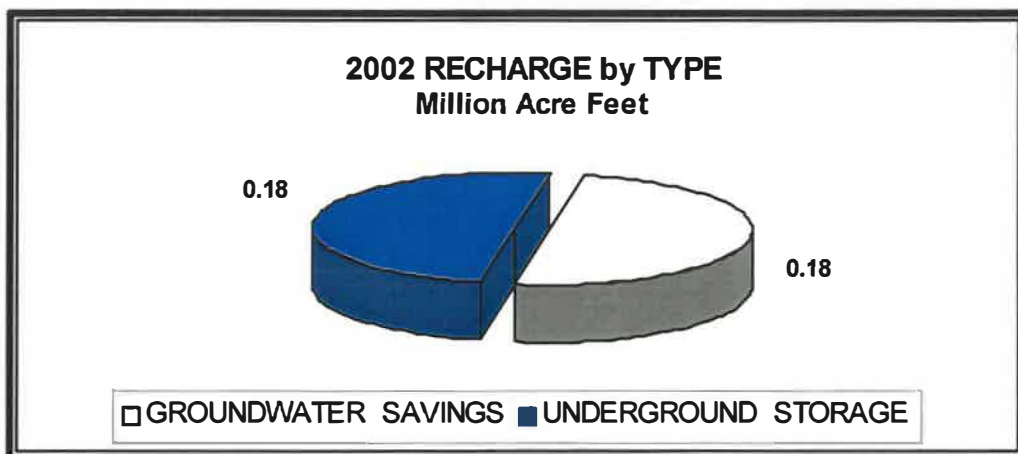


Figure 6

DRAFT

Based on its adopted Plan, the AWBA anticipates recharging more than 362,000 acre feet of Colorado River water in 2002. The Plan was developed utilizing permitted facilities located in Maricopa, Pinal and Pima Counties. The Plan attempts to optimize, on a monthly basis, the delivery of Colorado River water to meet the AWBA's objectives. The Plan is flexible and if additional recharge capacity can be identified and funding remains available it can be modified in the future to include additional facilities.

The CAP water that the AWBA purchases from CAWCD can be viewed as having two components, cost and availability. The pricing aspect of the water deliveries is discussed further in the pricing section of this document. With regard to availability of water, the AWBA purchases water from the category that is termed excess water. Excess water is generally recognized to be all water available for delivery through the CAP, regardless of Secretarial declaration of condition, that exceeds the quantities scheduled under long-term contracts and subcontracts. The availability of excess water is determined on an annual basis. In 2002, and until 2004, there are no pools associated with excess water and the AWBA has available to it any water not requested by another entity within Arizona. In light of the Repayment Settlement Stipulation with the federal government, the CAWCD has proposed a new policy for excess water that will become effective in 2004 and continue until 2030. This policy establishes eligibility criteria, priority and price for each pool or category. The AWBA category is established exclusively for the AWBA's intrastate storage purposes. Size and price of the pool will be established by the CAWCD Board; a priority was not established for this pool. This policy also establishes an Interstate Storage category for the AWBA's interstate storage purposes. The price for water delivered for interstate banking will be established according to statute. This pool strategy has been discussed in numerous CAWCD Board meetings but has not yet been officially adopted as Board policy.

Table 2 shows the AWBA's 2002 delivery schedule. Line One of this table provides estimates of the CAP's monthly deliveries to its M&I, agricultural, incentive recharge, and Indian customers. These deliveries have a scheduling priority over the AWBA's deliveries. These estimates do not include deliveries to New Waddell Dam.

Line Two shows the operational capacity available of the CAP after it makes its priority deliveries and its deliveries to New Waddell Dam. Although the CAP is capable of delivering approximately 180,000 acre feet per month, the available capacity does not always total that because of unique situations. These can include the filling of Lake Pleasant in the winter months, deliveries to the western portion of the aqueduct, New Waddell Dam releases to the aqueduct in the summer months and scheduled maintenance and outages. During the fall and winter months, the capacity available to the AWBA is constrained because the CAP is making deliveries to Lake Pleasant.

Lines Three through Twenty represent the AWBA's 2002 Plan of Operation. This section identifies the AWBA's partners for 2002 and the amount of water scheduled to be recharged. The second column in this section identifies the AWBA's water storage permit capacities for each facility based on the facility permits and the amount of that capacity that is available to the AWBA in 2002. The capacity available does not always equal the storage permit capacity because the storage facility operators may have agreements with other storage partners.

DRAFT

Table 2 ARIZONA WATER BANKING AUTHORITY Water Delivery Schedule Calendar Year 2002 (ACRE-FEET)																	2001 Deliveries (AF)
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total			
1	Estimated CAP Deliveries + Losses : (M&I, Indian, Ag Pools 1, 2 & 3, Incentive Recharge)	39,000	44,000	97,000	131,000	141,000	175,150	188,000	145,000	65,000	56,000	34,000	34,000	1,149,150			
2	Available Excess CAP Capacity for AWBA :	17,000	27,000	36,000	37,000	41,000	44,850	37,000	61,000	55,000	72,000	44,000	35,000	506,850			
AWBA -- Recharge Sites :		Permitted Capacity (AF)	Requested Capacity (AF)														
LA PAZ COUNTY :																	
3	USF VIDLER WATER / MBT	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
P H O E N I X A M A :																	
4	USF GRUSP	200,000	57,600	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	57,600	67,387
5	HIEROGLYPHIC MTN.	35,000	6,000	0	0	0	0	0	0	0	0	0	0	3,000	3,000	6,000	0
6	AGUA FRIA	100,000	62,979	2,033	2,034	2,033	5,100	5,600	7,100	7,100	7,100	7,100	5,100	5,579	7,100	62,979	8,910
7	GSF CHCID	3,000	1,117	50	100	50	100	100	151	125	125	125	191	0	0	1,117	571
8	MWD	18,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	NEW MAGMA	54,000	47,200	2,000	2,000	3,200	2,500	3,000	3,500	3,700	9,700	9,600	3,500	2,500	2,000	47,200	46,280
10	QUEEN CREEK	28,000	15,567	0	0	0	0	0	0	2,067	5,711	3,182	1,682	1,202	1,723	15,567	11,719
11	SRP	200,000	11,200	0	0	1,600	1,600	1,600	1,600	1,600	1,600	1,600	0	0	0	11,200	13,851
12	TONOPAHO ID	15,000	3,000	0	0	0	0	0	0	0	0	0	0	2,000	1,000	3,000	0
P I N A L A M A :																	
13	GSF CAIDD	110,000	15,000	0	0	0	0	0	0	4,195	6,700	2,500	1,000	605	15,000	11,964	
14	HOHOKAM	55,000	54,500	1,500	2,500	6,400	6,500	10,000	8,000	4,000	7,600	3,500	2,000	1,000	1,500	54,500	53,487
15	MSIDD	120,000	30,006	868	978	1,288	3,268	4,708	6,368	2,338	2,648	948	2,398	2,118	2,078	30,006	39,768
T U C S O N A M A :																	
16	USF AVRA VALLEY	11,000	6,500	570	570	570	570	570	570	570	570	230	570	570	6,500	5,822	
17	PIMA MINE ROAD	30,000	25,431	2,100	2,600	2,600	2,100	2,600	2,600	2,100	2,600	2,000	400	1,131	2,600	25,431	13,127
18	LOWER SANTA CRUZ	30,000	24,572	428	0	2,372	2,600	2,600	2,600	2,600	2,600	972	2,600	2,600	24,572	21,352	
19	GSF KAI - AVRA VALLEY	12,513	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
20	KAI - RED ROCK	11,231	2,000	0	0	0	0	0	0	0	500	1,000	500	0	2,000	0	
21	T O T A L (USF + GSF) :		362,672	14,349	15,582	24,913	29,138	38,078	39,789	33,500	52,249	46,225	26,773	30,000	32,076	362,672	293,968
22	Remaining CAP Capacity :	2,651	11,418	11,087	7,862	2,922	5,061	3,500	8,751	8,775	45,227	14,000	2,924	144,178			

The Hieroglyphic Mountain Recharge Project has not yet been permitted. The application was for 35,000 acre feet per annum and it is anticipated that the AWBA will apply for a water storage permit in the same amount.

DRAFT

Line Twenty-one lists the total amount of AWBA storage scheduled for the year 2002.

Line Twenty-two lists the CAP capacity remaining after the AWBA's deliveries are scheduled. The CAP has shown in the past that there is some operational flexibility to help meet deliveries in any given month. The AWBA staff will work closely with the CAP staff and our partners in an attempt to meet all scheduled deliveries.

No recovery is anticipated in 2002. The AWBA is incorporating recovery components in all of the new water storage agreements being drafted and will continue to pursue recovery concepts in 2002 and beyond.

NEW FACILITIES

In 2002, the Plan anticipates recharging water at only one new facility, the Hieroglyphic Mountains Recharge Project (HMRP). CAWCD is developing the HMRP as a Maricopa County State Demonstration Project. The HMRP is located near 163rd Avenue and Dixileta Road within the Phoenix Active Management Area. As proposed, it will include three infiltration basins covering 50 acres with a storage capacity of 35,000 acre feet per annum. The recharge project is uniquely located adjacent to the CAP canal and upstream of the Waddell Canal. The HMRP has not yet obtained a facility permit from the ADWR, however, the public notice of the application has been completed. CAWCD projects facility construction to begin in February 2002 with recharge activity commencing in October 2002.

INTERSTATE WATER BANKING

July 17, 2000 marked the first formally authorized negotiation meeting between Arizona and Nevada. It was decided at that meeting that the initial point of focus would be preparation of the agreement between Nevada and the AWBA. That agreement, titled the Agreement for Interstate Water Banking (AIWB), describes the financial, operational and legal requirements of the authorized entities. The other two agreements necessary to initiate interstate water banking are the Storage and Interstate Release Agreement (SIRA) and the Agreement for the Development of Intentionally Created Unused Apportionment (ADICUA). Those agreements would be developed on the basis of concepts agreed upon in the AIWB, with the SIRA being the next agreement of focus. The negotiating team continues to work on the SIRA in conjunction with Nevada and representatives of the Bureau of Reclamation.

An Interstate Water Banking Subcommittee (IWBS) was formed concurrent with authorization to initiate negotiations. It was decided that interstate water banking issues would be discussed in the IWBS that would meet more frequently than the quarterly AWBA meetings. However, approvals of agreements and other important action items would be referred to and acted upon by the AWBA at either regularly scheduled or special meetings.

The negotiating team and the IWBS met several times between July 2000 and early 2001. The IWBS concluded meetings following the January 24, 2001 meeting when

DRAFT

they recommended that the AIWB be brought to the AWBA for review and possible approval. On March 21, 2001, the AWBA approved the form of the agreement and authorized the chairman to sign and the secretary to attest after the appropriate Nevada signatures were obtained. On July 3, 2001 the final AIWB was signed by both Arizona and Nevada at a formal signing ceremony in Las Vegas. While this agreement was fully executed, the AWBA is not required to store water for Nevada until the other two agreements are also executed.

PRICING

On June 21, 2001, the CAWCD board adopted final water delivery rates for 2002. The rate for AWBA and other M&I Incentive recharge will be \$55 per acre foot. The delivery rate is the pumping energy rate 2 component (\$49 per acre foot) plus 10 percent of the fixed OM&R charge (\$3.30 per acre foot) plus a component to recover lost revenues from federal deliveries (\$2.24 per acre foot). The components of the rate are the same as those in the 2000 and 2001 rates. For 2002, the pumping energy rate 2 was calculated using the average of the above threshold energy rates for the previous three years.

The AWBA's policy of recovering \$21 from its groundwater savings facility partners will continue for 2002. Table 3 reflects the water delivery rate the CAP will charge the AWBA, the rate the GSF operators will pay for use of the AWBA's water and the various rates the AWBA will be charged to utilize the different USFs.

Table 3

2002 Water and Facility Rates - Intrastate	
CAP's delivery rate to AWBA	\$55 per acre foot
Groundwater Savings Facility operator portion of delivery rate	\$21 per acre foot ¹
Underground Storage Facility rate paid by AWBA	
GRUSP (SRP)	\$17.52 per acre foot
Avra Valley (CAP)	\$23.54 per acre foot
Hieroglyphic Mtns. (CAP)	\$7.90 per acre foot
Pima Mine Road (CAP)	\$5.97 per acre foot
Lower Santa Cruz (CAP/Pima County)	\$12.44 per acre foot
Agua Fria Recharge Project (CAP)	\$3.68 per acre foot

¹ This rate is paid directly to CAP by the GSF operators and is not available as revenue to the AWBA. The AWBA's rate for delivery of in lieu water is thus reduced to \$34/af.

The individual USF agreements determine the cost components paid by the AWBA. For GRUSP, the cost is comprised of an annual administration component, a component for use of the SRP interconnection facility, a transportation component and

DRAFT

a general facility component. The other five USFs utilized in the Plan are operated by the CAP and were constructed using state demonstration project funds. Therefore, there is no administration cost component because the AWBA already pays the CAP an administrative cost component on an annual basis for utilization of CAP staff. The CAP also does not charge the AWBA a capital cost component for the facilities. The Avra Valley facility has an operation and maintenance (O&M) component, a land lease charge component and a wheeling component for use of the BKW water delivery system. The Lower Santa Cruz has an O&M component and a wheeling component for use of the same system. The Pima Mine Road and Agua Fria facilities have O&M components. The Hieroglyphic Mountains facility charge is only an estimate as there is currently no agreement for storage at the facility. The CAP facility O&M component typically includes facility maintenance and repair, monitoring, water quality sampling and data management and reporting.

The estimated total cost of the AWBA's 2002 Plan of Operation is approximately \$18 million which includes the USF use fees and the CAP delivery rate minus cost recovery from the GSF operator by the CAWCD.

DRAFT

ACCOUNTING

The AWBA's enabling legislation required the development of an accounting system that allows the tracking of all long-term storage credits accrued by the AWBA and the funding sources from which they were developed. The ADWR has established accounts that track both credits and funds.

Table 4 provides estimates of the funds available including funds carried over from previous years, the funds to be expended, and the credits that will accrue to those accounts based on the 2002 Plan.

Table 4

2002 PLAN OF OPERATION				
	FUNDING¹		CREDITS²	
	AVAILABLE	EXPENDED	AMOUNT	LOCATION
Withdrawal Fee				
Phoenix AMA	\$17,455,676	\$0	0	Phoenix AMA
Tucson AMA	\$3,481,180	\$0	0	Tucson AMA
Pinal AMA	\$1,795,201	\$1,768,000	47,000	Pinal AMA
Four Cent Tax				
Maricopa County	\$22,955,676	\$10,857,618	184,000 AF	Phoenix AMA
Pima County	\$6,433,201	\$3,239,254	44,000 AF	Tucson AMA
Pinal County	\$280,000	\$280,000	7,000 AF	Pinal AMA
Other				
General Fund	\$2,000,000	\$1,924,124	43,000 AF	
		\$0	0 AF	Phoenix AMA
		\$588,920	8,000 AF	Tucson AMA
		\$1,35,204	35,000 AF	Pinal AMA
California	(not applicable)			
Nevada	(not applicable)			
TOTAL	\$54,400,933	\$18,068,995	325,000 AF	

¹ Does not include groundwater savings facility partners' payment. The AWBA's partners make payments directly to the CAWCD.

² Estimate based on 89.78% of the deliveries.

DRAFT

Table 5 provides an estimate of the funds expended and the credits that will accrue to various accounts based on the AWBA's recharge activities since its inception.

Table 5

CUMULATIVE TOTALS			
1997-2001			
	EXPENDED	AMOUNT	CREDITS¹
			LOCATION
Withdrawal Fee			
Phoenix AMA	\$0	0	Phoenix AMA
Tucson AMA	\$0	0	Tucson AMA
Pinal AMA	\$3,504,458	135,231	Pinal AMA
Four Cent Tax			
Maricopa County	\$24,563,444	620,692 AF	Phoenix AMA
Pima County	\$3,268,398	55,179 AF	Tucson AMA
Pinal County	\$1,390,893	64,002 AF	Pinal AMA
Other			
General Fund	\$10,695,000	375,773 AF	
	\$2,130,649	58,173 AF	Phoenix AMA
	\$5,361,381	265,209 AF	Pinal AMA
	\$3,202,970	52,391	Tucson AMA
California			
Nevada			
TOTAL	\$43,422,192	1,250,877 AF	

¹ Actual credits used for 1997, 1998, 1999 and 2000; credits estimated for 2001

PUBLIC REVIEW AND COMMENT

Schedule of Public Meetings for 2002 Annual Plan of Operation

Group: Groundwater Users Advisory Council, Pinal AMA
Location: Arizona Dept. of Water Resources - Pinal AMA Office
1000 East Racine Casa Grande, AZ
Date: October 18, 2001
Time: 9:00 a.m.

Group: Groundwater Users Advisory Council, Tucson AMA
Location: Arizona Dept. of Water Resources - Tucson AMA Office
400 W. Congress, Suite 518 Tucson, AZ
Date: October 30, 2001
Time: 10:00 a.m.

Group: Groundwater Users Advisory Council, Phoenix AMA
Location: Arizona Dept. of Water Resources
500 N. 3rd Street Phoenix, AZ
Date: November 7, 2001 (tentative)
Time: 9:30 a.m.