

# ARIZONA MINING ASSOCIATION

5150 N. 16<sup>th</sup> Street, Suite B-134

Phoenix, AZ 85016

(602) 266-4416; FAX (602) 357-3381

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September 1, 2011

Thomas W. McCann  
Assistant General Manager Operations, Planning & Engineering  
Central Arizona Project  
23636 N. Seventh St.  
Phoenix, AZ 85024

Re: Comments ADD Water Program Proposal dated July 14, 2011

Dear Tom:

On behalf of the Arizona Mining Association (AMA), we appreciate the opportunity to provide comments to the July 14<sup>th</sup> ADD Water Program Proposal distributed by CAP Staff (the "July 14<sup>th</sup> Proposal"). We recognize that the July 14<sup>th</sup> Proposal is still a work in progress, but are encouraged by the headway made by the stakeholders on a number of issues. All parties to this process have recognized the enormous amount of work that has transpired to date to develop an ADD Water program. We continue to be optimistic that a workable program is on the horizon and that the stakeholders can and will coalesce around a final effective alternative. While there are challenges in reaching that goal, a successful ADD Water program is essential to the economic success of Arizona's industries in the three county area and the State as a whole. We remain committed to the process, and encourage CAP to continue to support it.

Stakeholders have reached consensus on a wide variety of issues, including the use of large phases to acquire supplies primarily for municipal needs, the requirement that ADD Water program pay for itself, and that ADD Water users pay for canal expansion as needed. Stakeholders generally agree that the operation of the ADD Water program will not be detrimental to existing CAP subcontract holders (which include many AMA members). On a number of other issues, such as the size of phases, there are differences between the various proposals being offered, but the differences are not significant and should be resolvable.

While we have several remaining concerns, we remain hopeful that these issues can be worked out with CAP staff and stakeholders. (In the interests of time, we have not engaged in a detailed editing of the proposal itself but are sharing our general concerns.) Those concerns are:

First, due to the large volumes of water needed by individual mining projects, we anticipate having difficulty obtaining the water we need under the phased approach. Therefore, we had proposed that water supplies (other than 100-year Colorado River water) would be made available to industry outside of phases. In other words, we had proposed a separate pool for non-assured water supply purposes. We need to discuss in more detail with CAP staff and municipal interests a process where the acquisition of short term water supplies can be completed in a streamlined and flexible manner that meets industrial users' timetables and needs. We are hopeful that a compromise can be reached on this point and look forward to discussing this matter further with other parties.

A second critical issue is use of ADD Water outside of the three-county CAP service area. As a compromise, we proposed to allow this use for a mining company, so long as the company has mining property (including property for production of process water) within the three-county area. Tethering the exception to the presence of mining properties within the three county area means that exception will be narrowly available and only to entities which have paid property taxes towards the support of CAP. We believe this approach is consistent with the proposals set forth and accepted by the CAP staff and other parties related to use of supplies for power generation needs.

Finally, we continue to believe that the ADD Water program clearly support exchanges of ADD Water in a manner consistent with state law. Although exchanges are not prohibited under the July 14<sup>th</sup> Proposal, this issue is important and should be made explicit.

Although these and other issues need continued work, the July 14<sup>th</sup> Proposal is a promising step in the ADD Water process. We believe that, with the good faith participation by all stakeholders, an ADD Water program can be put into place that will be acceptable to all.

Sincerely,



Francis McAllister  
Chairman  
Arizona Mining Association

cc: CAP Board members

*The AMA is a non-profit business league comprised of entities engaged in metal mining, beneficiation and mineral processing activities in Arizona. Its members include (but are not limited to): ASARCO LLC, BHP Copper Inc, Freeport-McMoRan Copper & Gold, Inc., Carlota Copper Company, Mineral Park Inc., Rosemont Copper Company, Resolution Copper Company, and Peabody Energy. In 2010, AMA member companies produced approximately 63% of the nation's newly-mined copper, along with significant amounts of associated valuable co-products (e.g. gold, silver, selenium, tellurium and molybdenum). In 2010, the Arizona copper industry employed approximately 10,400 people and had an estimated direct and indirect impact on the Arizona economy of nearly \$12.1 billion. In addition, other AMA members are engaged in the mining of coal, uranium and other materials, and make significant contributions to the Arizona economy as a result of those activities. The AMA acquires and disseminates scientific and business information essential to the development of sound public policies affecting the mining industry in Arizona and, where appropriate, AMA participates in the development of legislation and regulations affecting mining in Arizona.*