

Summary of Emerging Consensus for Project ADD Water

GOVERNANCE MANAGEMENT STRUCTURE

Q1 - What is the role of participants in overseeing and managing the ADD Water Program?	Q2 - What is the governance structure?
<p>1. Potential ADD water contractors should have the option to be involved in developing operational plans and budgets for ADD water through a formalized process. [Policy Paper #4, summary of emerging consensus 6.]</p> <p>2. Through a formalized process, potential ADD Water contractors should have the opportunity to be involved in the drafting of standard form contracts and necessary enabling legislation for the ADD Water Program. [Adopted at 02.12.10 SWG meeting.]</p> <ul style="list-style-type: none"> • This issue was not fully considered by the Stakeholder Working Group or the Hammer-It-Out Group and will require additional work by stakeholders in the future. 	<ul style="list-style-type: none"> • This issue was not fully considered by the Stakeholder Working Group or the Hammer-It-Out Group and will require additional work by stakeholders in the future.

COLOR KEY:

- "Deal Point" to be incorporated into the ADD Water Contracts
- "Deal Point" to be reflected in CAWCD policy, legislation, the ADD Water Contracts, or some combination of these approaches.
- Issue that ultimately will need to be resolved by the BIG Group or that relates to the wheeling agreement with BOR, environmental compliance, or the acquisition and planning process.
- Issue to be addressed in the Just Water process.

**PREPARED BY CONTRACTS TASK TEAM
AUGUST 19, 2010**

Summary of Emerging Consensus for Project ADD Water

PARTICIPATION ELIGIBILITY

Q3 - Who is eligible to obtain a contract to use the supply?	Q4 - What are different classes of ADD water contracts?
<p>1. Any municipal, industrial, agricultural and Indian water user within CAWCD's "service area" is eligible to obtain a water service contract for ADD water ("ADD water contract"). Municipal and industrial water user includes the CAGR¹ and landowners. "Service area" means the three counties (Maricopa, Pinal and Pima) that comprise CAWCD. [Policy Paper #1, summary of emerging consensus 1; amended at 02.12.10 SWG meeting.]</p> <p>2. AWBA would not be eligible to enter into a long-term water contract for ADD water. [Policy Paper #1, summary of emerging consensus 5.]</p> <p>3. "Remarketers" inside or outside the three county service area are not eligible to participate in ADD water (i.e. cannot obtain a long-term ADD water contract). A re-marketer is an entity whose primary business purpose is to purchase or store water for future resale. This restriction does not include water stored by an ADD water contractor to meet its future needs. This restriction is not meant to preclude private financing alternatives. Private financing alternatives are addressed under clarifying questions 17 & 18 related to paying capital costs. [Policy Paper #1, summary of emerging consensus 6.]</p> <p>4. The limited exceptions under which ADD water may be used outside the CAP service area are described under clarifying question 11 related to what conditions are placed on the use of the supply. [Policy Paper #11, summary of emerging consensus last sentence of background paragraph.]</p>	<p>1. There would be four classes of ADD water contracts: [Policy Paper #3, summary of emerging consensus 1.]</p> <ul style="list-style-type: none"> - long-term water service - short-term water service - interruptible water service - spot-market water service <p>Long-term contracts would be for permanent service and are intended to meet assured water supply requirements.</p> <p>Short-term contracts would be for water delivered on a set schedule for a set period of time.</p> <p>Interruptible water contracts would be for ADD water that would be available on a flexible delivery schedule for uses that do not require a set delivery schedule (i.e. recharge). These contracts may be for permanent service or for a defined term.</p> <p>Spot-market contracts would be annual contracts for unscheduled ADD water. The availability of this type of water would be determined on an annual basis based on delivery schedules under other ADD water contracts. Spot-market water could not be counted for assured water supply purposes.</p>

¹ CAGR¹ does not have the legal right at present to enter into ADD water contracts as an entity separate from CAWCD. The Stakeholders' intention is that CAWCD will acquire and hold ADD Water for replenishment purposes, with CAGR¹ members paying CAWCD for ADD water, CAWCD, acting as CAGR¹, will have the same privileges, obligations and rights as other ADD water contractors.

Summary of Emerging Consensus for Project ADD Water

PARTICIPATION ELIGIBILITY

Q5 - How can entities opt-in to the supply option?	Q6 - How can entities opt-out of the supply option ² ?
<p>1. To secure an ADD water contract (i.e. to opt-in to the ADD Water Program), an eligible party, or water user, must sign an ADD water contract and comply with all financial requirements either described in the contract or otherwise due at the time the contract is signed. The contract will include, at a minimum, the volume of water under contract, when the water will be available and the applicable costs. [Combined Policy Paper #1, summary of emerging consensus 2 and Policy Paper #4, summary of emerging consensus 1.]</p>	<p>1. An ADD water contractor may not independently assign its ADD water contract to another entity. [Policy Paper #5, summary of emerging consensus 1.]</p> <p>2. An ADD water contractor may assign all or part of its ADD water contract according to procedures prepared by CAP. This procedure will help ensure: [Policy Paper #5, summary of emerging consensus 2.]</p> <ul style="list-style-type: none"> - No adverse impacts on existing CAP customers - No adverse impacts on ADD water customers - No adverse impacts on CAP operations including operation of the CAGR <p>3. Adverse impacts would be defined as part of the procedure developed by CAP. [Policy Paper #5, summary of emerging consensus 2.]</p> <p>4. Priorities (in order) for assuming ADD water contracts held by those other than CAGR: [Policy Paper #5, summary of emerging consensus 3.]</p> <ul style="list-style-type: none"> - An entity assuming or that has responsibility to deliver water within the assigning contractor's service area or development area - CAGR, if it must replenish excess groundwater delivered within the assigning contractor's service area or development area - Any other ADD water contractor - Any non-ADD water contractor that wants to enter into a new ADD water contract <p>5. Priorities (in order) for assuming ADD water contracts held by CAGR: [Policy Paper #5, summary of emerging consensus 4.]³</p> <ul style="list-style-type: none"> - Water providers serving CAGR member lands and member service areas, if the assigned water will be substituted for excess ground water pumping and will reduce CAGR's replenishment obligations - Any other ADD water contractor - Any non-ADD water contractor that wants to enter into a new ADD water contract <p>6. Other guidance for assigning ADD water contracts will be developed when CAP prepares procedures for assignment of ADD water contracts. [Policy Paper #5, summary of emerging consensus 5.]</p>

² The last paragraph of Policy Paper #3, summary of consensus 1 contained the initial discussion for opting out. Policy Paper #5 represents a later discussion of the HIOG.

³ This point is further addressed on page 13 of 16 under clarifying question 26, summary of emerging consensus 9.

Summary of Emerging Consensus for Project ADD Water

PARTICIPATION ELIGIBILITY

Q7 - How to accommodate future participants in terms of sharing water?

Q8 - How to financially accommodate future participants?

1. **Future ADD water contractors can join at any time subject to water availability. Costs are determined at the time of contracting.** [Policy Paper #4, summary of emerging consensus 3.]
2. **The initial target size of the ADD Water Program for long-term and short-term contracts would be 300,000 acre-feet⁴. Before any ADD water contracts are offered, CAP would identify available water supplies and determine the cost of acquisition and development. Once the cost of acquiring the ADD Water Program supply is known, CAP would open the ADD Water Program to potential contractors.** [Policy Paper #16, summary of emerging consensus 1.]
3. **If ADD water is available, a future eligible party⁵ can secure a volume of ADD water by signing an ADD water contract or an existing contractor can increase its contract amount by amending its contract and, in either case, by complying with all financial requirements either described in the contract or otherwise due at the time the contract is signed.** [Policy Paper #16, summary of emerging consensus 2.]

1. **Future ADD water contractors should be required to mitigate any adverse financial effects on existing participants. How future ADD water contractors will mitigate financial effects on existing participants is addressed under clarifying questions 19 & 20 related to capital costs.** [Policy Paper #4, summary of emerging consensus 4.]

⁴ This initial target volume does not include the volume for interruptible contracts that would use CAP canal capacity between long-term CAP contracts and long-term and short-term ADD Water contracts.

⁵ See Policy Paper #1, emerging consensus item #1 for definition of eligible party.

Summary of Emerging Consensus for Project ADD Water

NEED DETERMINATION

Q9 - How does "need" play a role in sharing the supply?

Q10 - Who determines the need?

1. **If the volume of ADD water available exceeds the collective needs of participants, then need does not play a role in sharing the supply.** [Policy Paper #16, summary of emerging consensus 4.]
2. **Until requests for ADD water exceed the volume of ADD water available, no final decision will be made about how to share the supply unless and until it is clear that there is an issue. In such an event, CAP would consult with potential ADD water contractors to develop an equitable method of apportioning the available supply.** [Policy Paper #16, summary of emerging consensus 5.]
3. **Until requests for Just water and ADD water exceed the volume of water available, no final decision will be made about how to share the supply unless and until it is clear that there is an issue.** [Policy Paper #16, summary of emerging consensus 6.]

1. **ADD water contractors determine their own needs.** [Policy Paper #16, summary of emerging consensus 3.]

Summary of Emerging Consensus for Project ADD Water

PRIORITIES/CONDITIONS

Q11 - What conditions are placed on the use of the supply?

1. **The ADD water supply can be used for any legal purposes under applicable state and federal law, including underground storage and recovery. The supply may be used within the service area and, subject to certain conditions, in areas located outside the service area.** [Policy Paper #1, summary of emerging consensus 3.]
2. **Supplies that do not use the CAP canal system for delivery may be used for ADD water on a case by case basis.** [Policy Paper #2, summary of emerging consensus 7.]
3. **In general, long-term storage credits generated through the storage of ADD water may not be sold at a profit unless such profit is returned to the ADD Water Program. Profit needs to be defined.** [Policy Paper #1, summary of emerging consensus 7.]
4. **As envisioned by the CAWCD 2006 Strategic Plan, the ADD Water Program was intended to determine how any new water supplies acquired by CAWCD would be shared within the CAP three-county service area ("CAP service area"). The primary mechanism to make ADD water available is the CAP system operated by the CAWCD. The federal government constructed the CAP system and the reimbursable costs of construction are being repaid by water users in the CAP service area and through a property tax assessed by CAWCD against lands within the CAP service area. Additionally, CAWCD's governing body is composed of directors elected by residents of the CAP service area. For all of these reasons, the emerging consensus is that, with limited exceptions, ADD water may be used only within the CAP service area. The limited exceptions under which ADD water may be used outside the CAP service area will be defined by contract or statute and must meet the following conditions:** [Policy Paper #11, summary of emerging background paragraph.]
 - A. **If the ADD water contractor is a municipal provider⁶:** [Policy Paper #11, summary of emerging consensus 1.]
 - a. **100% of the municipal provider's service area⁷ was located within the CAP service area as of January 1, 2009;**
 - b. **The area the municipal provider proposes to serve with ADD water that is outside the CAP service area is contiguous to the CAP service area and the municipal provider's service area located within the CAP service area and does not exceed 10% of the municipal provider's service area that is within the CAP service area; and**
 - c. **The municipal provider will take delivery of the ADD water within the CAP service area.**
 - B. **If the ADD water contractor is not a municipal provider:** [Policy Paper #11, summary of emerging consensus 2.]
 - a. **And the ADD water contractor is an electrical energy service provider that will use the ADD water for electrical generation:**
 - i. **As of January 1, 2009, one or more partners of the electrical energy service provider served Arizona customers within the CAP service area;**
 - ii. **The electrical energy that will be generated from the use of ADD water will be used in whole or in part within the CAP service area; and**
 - iii. **The ADD water contractor will take delivery of the ADD water within Arizona from the CAP canal or other ADD water infrastructure.**
 - b. **And the ADD water contractor is a mining company that will use the ADD water for mineral extraction and metallurgical processing:**
 - i. **The ore body is located wholly or partially within the CAP service area;**

⁶ Municipal provider means a city, town or private water company.

⁷ The municipal provider's service area is the area of land actually being served water by the municipal provider and any additions to that area containing an operating distribution system owned by the municipal provider.

Summary of Emerging Consensus for Project ADD Water

PRIORITIES/CONDITIONS

Q11 - What conditions are placed on the use of the supply?

- ii. The use of ADD water will be in lieu of groundwater that could otherwise be pumped by the mining company within the CAP service area; and
 - iii. The ADD water contractor will take delivery of the ADD water within the CAP service area.
 - C. Any other proposed use of ADD water outside the CAP service area will be considered on a case-by-case basis and must be consistent with the following principles: [Policy Paper #11, summary of emerging consensus 3.]
 - a. The proposed use of the ADD water will significantly contribute to the economy of the CAP service area or the operation of the CAP Project; and
 - b. The ADD water contractor will take delivery of the ADD water within the CAP service area.
 - D. ADD water used outside of the CAP service area will be subject to the same financial requirements, rates and charges as ADD water used inside the CAP service area plus an additional fee to the extent the CAP project works are used. Revenues from the additional fee will be used for CAP Project purposes as determined by the Board. [Policy Paper #11, summary of emerging consensus 4.]
- 4. During an outage event, ADD water contractors, to the degree operationally possible, will be treated the same as CAP customers. After consultation with ADD water contractors, CAP could temporarily discontinue or reduce the quantity of water to be furnished to ADD water contractors for the purposes of investigation, inspection, maintenance, repair, or replacement of any facilities (CAP or ADD water related) or any part thereof necessary for the furnishing of water. So far as feasible, CAP should coordinate any such discontinuance or reduction with ADD water contracts and give due notice in advance of such temporary discontinuance or reduction, except in case of emergency, in which case no notice need be given. Neither CAP, its officers, agents and employees, shall be liable for damages when, for any reason whatsoever, any such temporary discontinuance or reduction in delivery of water occurs. If any such discontinuance or temporary reduction results in deliveries to the ADD water contractor of less water than what has been paid for in advance, the contractor shall be entitled to be reimbursed for the appropriate proportion of such advance payments prior to the date of the contractor's next payment of water service charges or the contractor may be given credit toward the next payment of water charges if the contractor should so desire. Short-term contracts would have the same priority as long-term term contracts during shortage as the term of the contract does not relate to the service reliability required by the water user. For example, a power plant requires high reliability but not necessarily an indefinite contract. Short-term contracts would be combined with long-term contracts and treated the same during a shortage. [Policy Paper #12, summary of emerging consensus 1 and 2.]

Summary of Emerging Consensus for Project ADD Water

PRIORITIES/CONDITIONS

Q12 - What are the priorities during shortages⁸?

- A fundamental concept underlying the ADD Water Project is that a portfolio of supplies will be pooled into a single supply that we would call ADD water. These supplies will have varying degrees of reliability and vulnerability. These supplies will also hold differing terms of duration. The diversity of the portfolio will provide the first line of defense for shortage protection. ADD water is also expected to use supplies from the Colorado River that hold higher priority than CAP (i.e. CAP would have to be completely dry for Colorado River rights used by ADD water to be affected). Assuming a diverse portfolio is insufficient to thwart a temporary reduction in available water, CAP would implement the following shortage delivery strategy:** [Policy Paper #12, summary of emerging consensus 3.]

 - **CAP would not sell any water under spot-market ADD water contracts.**
 - **CAP would discontinue service to all interruptible ADD water contracts.**
 - **All other ADD water contracts would share the same priority and would be subject to the following:**
 - **ADD water contractors would submit schedules that incorporate voluntary reductions.**
 - **If requests still cannot be met, CAP would consult with all ADD water contractors to determine best way to fulfill all delivery requests to greatest extent possible.**
 - **If supplies acquired need firming, CAP would develop a program that could involve acquiring additional water supplies or storing unscheduled ADD water to either offset shortages or to firm long-term ADD water supplies.**

⁸ Policy Paper #3, summary of consensus 2 contained the initial discussion for managing priorities during a shortage. Policy Paper #12, summary of emerging consensus 3, represents a later discussion of the HIOG.

Summary of Emerging Consensus for Project ADD Water

OWNERSHIP INTEREST		
Q13 - Who owns the water right?	Q14 - What does end user hold?	Q15 - Who owns the infrastructure?
<p>1. CAWCD will own, for the benefit of ADD water contractors, the water rights, water leases, contracts and any other mechanisms used to create the ADD water supply. [Policy Paper #2, summary of emerging consensus 2.]</p>	<p>1. Entities that want to use ADD water would hold a contract with CAWCD that entitles it to delivery of a specified amount of water for a specified period of time, but not to a specified source of supply. [Policy Paper #2, summary of emerging consensus 3.]</p> <p>2. ADD Water contracts would not be linked to a specific water supply, canal capacity or power source operationally, but rather entitle the contractor to delivery of a specified volume of water from the ADD Water supply. How this operational policy affects contractors financially is discussed in clarifying questions 17 & 18 related to supply costs. [Policy Paper #4, summary of emerging consensus 5.]</p>	<p>1. Title to the main CAP facilities remains with the United States. [Policy Paper #2, summary of emerging consensus 1.]</p> <p>2. As necessary, a wheeling agreement will be negotiated with the United States to use the CAP system to delivery water. [Policy Paper #2, summary of emerging consensus 6.]</p> <p>3. Ancillary facilities constructed to develop ADD water supplies and transport those supplies to the CAP canal, or to an ADD water delivery point, would be owned by CAWCD. [Policy Paper #2, summary of emerging consensus 4.]</p> <p>4. Ancillary facilities for the delivery of ADD water beyond the ADD water delivery point are the responsibility of the end user and would be owned by the end user. [Policy Paper #2, summary of emerging consensus 5.]</p> <p>5. An ADD water delivery point can be any existing or new turn-out along the CAP. Any new turn-outs constructed for this purpose must be consistent with CAP's standards for construction. For supplies that do not use the CAP canal system for delivery, CAP would define the delivery point on a case by case basis. [Policy Paper #2, summary of emerging consensus 8.]</p>

Summary of Emerging Consensus for Project ADD Water

USE OF UNSCHEDULED SUPPLY

Q16 - How are unused supplies shared?

1. **Unused ADD water would be made available through annual spot-market contracts. The availability of this type of water would be determined on an annual basis based on the difference between ADD water contract amounts and delivery schedules.** [Policy Paper #9, summary of emerging consensus 1.]
2. **If an ADD water contractor does not use its entire scheduled amount, the contractor should not be able to market the unused supply to others.** [Policy Paper #3, summary of emerging consensus 3 and Policy Paper #9, summary of emerging consensus 2.]
3. **ADD water contractors, including the CAGR, would have the first right of refusal to unused ADD water supplies.** [Policy Paper #3, summary of emerging consensus 4 and Policy Paper #9, summary of emerging consensus 3.]
4. **Revenues from the sale of unused ADD water should be used to offset costs of the ADD Water Program⁹.** [Policy Paper #9, summary of emerging consensus 4.]
5. **Groundwater supplies not used to meet scheduled ADD water deliveries in any year may be left in place for future use.** [Policy Paper #3, summary of emerging consensus 6 and Policy Paper #9, summary of emerging consensus 5.]
6. **Surface water supplies not used to meet scheduled ADD water deliveries in any year may be stored underground for future use.** [Policy Paper #3, summary of emerging consensus 7 and Policy Paper #9, summary of emerging consensus 6.]
7. **ADD water contractors that are fully using their ADD water contract amounts would have first priority to access unused ADD water supplies. If demand by ADD water contractors exceeds the available unused supply, ADD water contractors will be offered unused ADD water in proportion to their ADD water contract amount. If unused ADD water exceeds the demand of ADD water contractors, CAP may offer the remaining unused supplies to any eligible entity¹⁰ or may, if appropriate or desirable, store remaining unused supplies underground to ensure the reliability of future ADD water deliveries to ADD water contractors.** [Policy Paper #9, summary of emerging consensus 7.]

⁹ Policy Paper #3, summary of emerging consensus 5 contained part of the initial discussion on sharing unscheduled supplies. Policy Paper #9, summary of emerging consensus 4, represents a later discussion of the HIOG.

¹⁰ See Policy Paper #1, emerging consensus item #1 for definition of eligible entity.

Summary of Emerging Consensus for Project ADD Water

CAPITAL COSTS – SUPPLY

Q17 - How is up-front capital funding generated?

Q18 - How are capital costs associated with acquiring the supply repaid?

1. **The initial target size of the ADD Water Program for long-term and short-term contracts would be 300,000 acre-feet¹¹. Before any ADD water contracts are offered, CAP would identify available water supplies and determine the cost of acquisition and development. Once the cost of acquiring the ADD Water Program supply is known, CAP would open the ADD Water Program to potential contractors.** [Policy Paper #10, summary of emerging consensus 1.]
2. **Costs associated with acquiring ADD water supplies must be kept separate.** [Policy Paper #10, summary of emerging consensus 2.]
3. **The costs of acquisition and development of the water supplies that CAP has identified and made available for contract would be shared proportionately and on a net present value basis among all ADD water contractors who contract for those supplies. Where costs exceed the projected net present value, future contractors will assume the additional costs. Where costs are lower, existing contractors will receive a refund¹².** [Policy Paper #10, summary of emerging consensus 3.]
4. **At least part of the costs associated with acquiring supplies should be paid up-front.** [Policy Paper #10, summary of emerging consensus 4.]
5. **CAP needs to have funds available to acquire new water supplies.** [Policy Paper #10, summary of emerging consensus 5.]
6. **ADD water contractors may pay less than 100% of the capital costs of acquiring their supply at the time of contracting, with the balance being paid over time.** [Policy Paper #10, summary of emerging consensus 6.]
7. **In addition to up-front capital payments, CAP would create a funding mechanism to allow ADD water contractors to pay for water supplies over time. CAP could use a combination of financial options. The specific method of repayment will depend on the financing mechanism used to fund the acquisition.** [Policy Paper #10, summary of emerging consensus 7.]
8. **Funding mechanisms used may not adversely impact costs to CAP contractors and subcontractors.** [Policy Paper #10, summary of emerging consensus 9.]
9. **Funding mechanisms used may not significantly increase cost uncertainties for ADD water contractors.** [Policy Paper #10, summary of emerging consensus 10.]
10. **Non-payment of amounts due under the ADD water contract would be grounds for default. If the default is not cured timely, the contract would be terminated and the ADD water entitlement transferred to another entity consistent with the opting out procedures described in clarifying question #6 on page 2 of 16. CAP will need to develop a specific enforcement mechanism when transfer is not feasible.** [Policy Paper #10, summary of emerging consensus 11.]
11. **CAWCD will not lend or otherwise use funds from its current reserve accounts to finance the acquisition of ADD water supplies.** [Policy Paper #10, summary of emerging consensus 12.]
12. **Water users signing ADD water contracts need lead time to obtain funding to comply with all financial requirements. CAP needs lead time to make the water supply available for delivery.** [Policy Paper #4, summary of emerging consensus 2.]
13. **No financial relief would be considered for the entity wishing to opt out of a contract until the contract is assigned to others and the new contractors have met all financial requirements.** [Policy Paper #5, summary of emerging consensus 6.]
14. **Some costs paid by the assigning contractor will be reimbursable. The costs paid should take into account when and how much the assignor paid for its ADD water contract and the benefit it received while the contract was held. How the assigning ADD water contractor is reimbursed would be determined as part of the procedure developed by CAP.** [Policy Paper #5, summary of emerging consensus 7.]

¹¹ This initial target volume does not include the volume for interruptible contracts that would use CAP canal capacity between long-term CAP contracts and long-term and short-term ADD Water contracts.

¹² Policy Paper #6, summary of emerging consensus 5 contained the initial discussion on paying capital costs specifically related to holding costs. Policy Paper #10, summary of emerging consensus 3, represents a later discussion of the HIOG.

Summary of Emerging Consensus for Project ADD Water

CAPITAL COSTS – INFRASTRUCTURE

Q19 - How is up-front capital funding generated?	Q20 - How are capital costs associated with infrastructure repaid?	Q21 - How is peaking handled in terms of costs?
<ol style="list-style-type: none"> 1. Common infrastructure for the ADD Water Program means improvement to the CAP canal system that will increase the existing capacity above 1.8 million acre-feet. [Policy Paper #17, summary of emerging consensus 1.] 2. Costs of ADD water infrastructure should be shared proportionately among all ADD water contractors without early contracts subsidizing later contractors and vice versa. [Policy Paper #17, summary of emerging consensus 2.] 3. After determining costs of common infrastructure needed to implement ADD water bring that cost back to present value. [Policy Paper #17, summary of emerging consensus 3.] 4. At least part of the costs associated with common infrastructure should be paid at the time of contracting with the balance being paid over time. [Policy Paper #17, summary of emerging consensus 4.] 5. ADD water contractors can obtain their own financing to pay any up-front costs due at the time of contracting. [Policy Paper #17, summary of emerging consensus 5.] 6. CAP needs to have funds available to improve common infrastructure. [Policy Paper #17, summary of emerging consensus 6.] 7. Common infrastructure capital costs would be converted to net present value and allocated across a specified volume expected to pay for the common infrastructure to arrive at a dollar per acre-foot common infrastructure charge. This charge would then be applied to the ADD water contract volume and paid based on a schedule specified in the contract. CAP would then make improvements on a schedule that considers when improvements are necessary and when funds have been collected to pay for the improvements¹³. [Policy Paper #17, summary of emerging consensus 7.] 8. In the 2008 Hayden-Rhodes Aqueduct Capacity Study, CAP concluded that existing canal capacity could be increased from 1.8 million acre-feet to 2.1 million acre-feet at a cost of \$94 million. To increase the canal capacity another 100,000 acre-feet would increase the cost by \$150 million for a total of \$243 million. At a minimum, the canal capacity should be increased from 1.8 million acre-feet to 2.1 million acre-feet at a cost of \$94 million. Additional expansion above this level should be considered in the event requests for ADD water exceed the target volume of 300,000 acre-feet. [Policy Paper #17, summary of emerging consensus 8.] 9. No financial relief would be considered for the entity wishing to opt out of a contract until the contract is assigned to others and the new contractors have met all financial requirements. [Policy Paper #5, summary of emerging consensus 6.] 10. Some costs paid by the assigning contractor will be reimbursable. The costs paid should take into account when and how much the assignor paid for its ADD water contract and the benefit it received while the contract was held. How the assigning ADD water contractor is reimbursed would be determined as part of the procedure developed by CAP. [Policy Paper #5, summary of emerging consensus 7.] 	<ol style="list-style-type: none"> 1. Rate adjustments for peaking may be considered as part of ADD water rate setting. [Policy Paper #8, summary of emerging consensus 1.] 	

¹³ Policy Paper #6, summary of emerging consensus 5 contained the initial discussion on paying capital costs specifically related to holding costs. Policy Paper #17, summary of emerging consensus 7, represents a later discussion of the HIOG.

Summary of Emerging Consensus for Project ADD Water

OPERATION MAINTENANCE AND REPAIR (OM&R)		
Q22 - How are fixed costs associated with OM&R paid?	Q23 - How are variable costs paid?	Q24 - How are costs associated with replacement paid?
<p>1. ADD water contractors will pay two fixed postage stamp OM&R rates: [Policy Paper #6, summary of emerging consensus 1.]</p> <ul style="list-style-type: none"> - ADD water contractors will pay an ADD water fixed OM&R rate designed to cover OM&R costs tied to clearly separable and identifiable ADD water assets. - ADD water contractors will also pay their share of the existing CAP fixed OM&R rate. Any fixed OM&R costs that are not based on clearly separable and identifiable ADD water assets will be incorporated into the existing CAP fixed OM&R rate and paid by both existing CAP customers and ADD water contractors. <p>2. ADD water contractors would be required to pay fixed OM&R costs for water scheduled for delivery whether taken or not. The contractor would be relieved of this obligation only to the extent that CAP, or the contractor, is able to find another customer for any unused water. [Policy Paper #6, summary of emerging consensus 3.]</p> <p>3. The annual reconciliation for ADD water contractors would involve no additional billing or refunds. CAP would incorporate an acceptable annual rate stabilization mechanism. This would not change in any way the annual reconciliations performed under existing contracts. [Policy Paper #6, summary of emerging consensus 4.]</p>	<p>1. Energy costs for existing CAP customers and ADD water contractors will be kept completely separate. ADD water contractors will pay a pumping energy rate designed to cover the energy costs for ADD water. [Policy Paper #6, summary of emerging consensus 2.]</p> <p>2. Power supplies used to deliver ADD water would be pooled and ADD water contractors would pay a single postage stamp rate for energy, but the rate could be "hedged" or protected against disproportionate increases in the cost of those power supplies in relation to overall operation and maintenance costs. How the rate would be "hedged" against disproportionate increases in energy costs will require additional work by stakeholders in the future. [Policy Paper #6, summary of emerging consensus 6.]</p>	<p>1. Costs associated with replacing infrastructure should be incorporated into a "Big R" component of fixed OM&R. [Policy Paper #7, summary of emerging consensus 1.]</p> <p>2. Establish and maintain an ADD water reserve fund (similar to existing CAP reserves) by including an additional rate component for environmental, replacement and other costs. [Policy Paper #7, summary of emerging consensus 2.]</p>

Summary of Emerging Consensus for Project ADD Water

ASSURED WATER SUPPLY

Q25 - How does participation in the ADD Water Program qualify for an assured water supply?

- This issue was not fully considered by the Stakeholder Working Group or the Hammer-It-Out Group and will require additional work by stakeholders in the future.

ASSURED WATER SUPPLY

Q26 - How does ADD water work with CAGR¹⁴?

1. **CAGR¹⁴ is eligible to obtain a water service contract for ADD water that entitles it to delivery of a specified amount of water for a specified period of time, but not a specified source of supply.** [Policy Paper #15, summary of emerging consensus 1.]
2. **CAGR¹⁴ is eligible for any class of ADD water contract including: long-term or short-term service, interruptible or spot market.** [Policy Paper #15, summary of emerging consensus 2.]
3. **CAGR¹⁴ can use ADD water under its contract for legal purposes under applicable state and federal law, including underground storage and recovery and replenishment.** [Policy Paper #15, summary of emerging consensus 3.]
4. **To opt-in to the ADD Water program, CAGR¹⁴ must sign an ADD water contract and comply with all financial requirements either described in the contract or otherwise due at the time the contract is signed.** [Policy Paper #15, summary of emerging consensus 4.]
5. **CAGR¹⁴ members can take advantage of the same financial mechanisms¹⁵ used by other ADD water contractors. How those costs will be paid by members of the CAGR¹⁴ will depend on how the CAGR¹⁴ finances its ADD water contract.** [Policy Paper #10, summary of emerging consensus 8.]
6. **CAGR¹⁴ must use its ADD water inside the CAP's three county service area.** [Policy Paper #15, summary of emerging consensus 5.]
7. **If the CAGR¹⁴ does not use its entire contract amount, it should not be able to market the unused supply to others.** [Policy Paper #15, summary of emerging consensus 6.]
8. **CAGR¹⁴ may not independently assign any part of its ADD water contract to another entity.** [Policy Paper #15, summary of emerging consensus 7.]
9. **If CAGR¹⁴ decides to opt-out of a portion of its ADD water contract, then a water provider serving member lands or a member service area will hold the first priority for receiving the assigned contract if the assigned water will be substituted for excess groundwater pumping and will reduce the CAGR¹⁴'s replenishment obligation¹⁶.** [Policy Paper #15, summary of emerging consensus 8.]

¹⁴ The summary of emerging consensus in Policy Paper #15 is intended to take into account all other policy papers. There is at least one exception to this, summary of emerging consensus 8 in Policy Paper #10. This point of emerging consensus is included here as item 5. Discussions regarding the relationship between ADD Water and the CAGR¹⁴ were not fully completed by the Stakeholder Working Group or the Hammer-It-Out Group and will require additional work by stakeholders in the future.

¹⁵ See summary of emerging consensus 7 under clarifying questions 17 and 18 above for more detail on the financial mechanisms.

Summary of Emerging Consensus for Project ADD Water

ASSURED WATER SUPPLY

Q26 - How does ADD water work with CAGR¹⁴?

10. **If an ADD water contractor decides to opt-out of its contract and CAGR¹⁴ is required to replenish excess groundwater delivered within the assigning contractor's service (or development) area, then CAGR¹⁴ holds a priority to the assigned water that is second only to an entity assuming or that has responsibility to deliver the water within the assigning contractor's service (or development) area.** [Policy Paper #15, summary of emerging consensus 9.]
11. **CAGR¹⁴ is not restricted to obtaining ADD water contracts only. CAGR¹⁴ may secure water supplies independently (e.g. contracts for effluent)¹⁷.** [Policy Paper #15, summary of emerging consensus 10.]
12. **Like other ADD water contractors, CAGR¹⁴ would have the first right of refusal to unused ADD water supplies.** [Policy Paper #15, summary of emerging consensus 11.]
13. **During a shortage, CAP would not deliver water to the CAGR¹⁴ for any spot-market or interruptible ADD water contracts.** [Policy Paper #15, summary of emerging consensus 12.]
14. **CAGR¹⁴ will pay two fixed postage stamp OM&R rates** [Policy Paper #15, summary of emerging consensus 13.]:
 - **ADD water contractors will pay an ADD water fixed OM&R rate designed to cover OM&R costs tied to clearly separable and identifiable ADD water assets. Any fixed OM&R costs that are not based on clearly separable and identifiable ADD water assets will be incorporated into the existing CAP fixed OM&R rate and paid by both existing CAP customers and ADD water contractors.**
 - **ADD water contractors will also pay their share of the existing CAP fixed OM&R rate.**
15. **CAGR¹⁴ would be required to pay fixed OM&R costs for water scheduled for delivery whether taken or not. CAGR¹⁴ would be relieved of this obligation only to the extent that CAP, or the CAGR¹⁴, is able to find another customer for any unused water.** [Policy Paper #15, summary of emerging consensus 14.]
16. **As a result of Project Wheel, the CAP Board approved an interim set-aside of CAP aqueduct capacity for CAGR¹⁴ totaling 105,000 AF/year. This volume was based on CAGR¹⁴'s projected annual replenishment obligation for members enrolled through 2015, the majority of which are already enrolled (therefore limiting the amount of "up-front funding" that can be generated from those members). Under this proposal, CAGR¹⁴ would maintain its right to use up to an average of 105,000 AF per year of CAP aqueduct capacity for the transportation of Interruptible ADD Water. Transportation of this Interruptible ADD Water must be accomplished without harm to CAP contractors and subcontractors and may be transported through the additional capacity developed under the ADD Water program only if that capacity is not needed to meet Long-Term and Short-Term ADD Water contract demands. In other words, CAGR¹⁴'s Interim Set-Aside capacity will be replaced with a commitment for use of the space "in between" CAP deliveries and ADD Water Long and Short-Term contract deliveries. Thus, the availability of capacity under CAGR¹⁴'s set-aside is subject to reduction from year-to-year (possibly to zero) due to (1) surplus declarations on the Colorado River, or (2) canal outages required for repair or maintenance. Rights granted under this set-aside do not limit CAGR¹⁴'s ability to contract for Long and Short-Term ADD Water service under the same terms as other ADD Water contractors.**

¹⁶ Policy paper #5, summary of emerging consensus 4, contained the initial discussion on priorities for assuming CAGR¹⁴ ADD water contracts. Policy Paper #15, summary of emerging consensus 8, represents a later discussion of the HIOG.

¹⁷ Policy paper #1, summary of emerging consensus 4 contained the initial discussion on CAGR¹⁴ securing other water rights. Policy Paper #15, summary of emerging consensus 10, represents a later discussion of the HIOG.

Summary of Emerging Consensus for Project ADD Water

ASSURED WATER SUPPLY

Q26 - How does ADD water work with CAGR¹⁴?

- **This issue was not fully considered by the Stakeholder Working Group or the Hammer-It-Out Group and will require additional work by stakeholders in the future. See Policy Paper #15 for more details.**

Summary of Emerging Consensus for Project ADD Water

ADDITIONAL ISSUES OUTSIDE THE FRAMEWORK STRUCTURE	
NQ1 - ADD Water use of CAP canal capacity	NQ2 - Acquisition of water for entities outside the CAP service area (Just Water)
<ol style="list-style-type: none"> 1. Conditions for taking delivery of ADD water will be incorporated into contracts or statutes as appropriate. [Policy Paper #14, summary of emerging consensus 1.] 2. ADD Water contractors may be subject to monthly delivery limitations (e.g. 11% of annual entitlement). [Policy Paper #14, summary of emerging consensus 2.] 3. Deliveries of CAP Project Water, including CAP Excess Water, shall have priority to use of CAP system capacity over deliveries of ADD Water, which is non-Project Water. CAWCD will acquire new water supplies for all ADD Water. CAWCD will divert and deliver all water available from the Colorado River up to the full capacity of the CAP system, including improvements to that system. CAWCD will begin improvements to expand canal capacity at the start of the ADD Water Program. Deliveries of ADD Water will have priority to use the increased canal capacity paid for by ADD Water contractors. [Policy Paper #14, summary of emerging consensus 3.] 4. Any long-term, short-term or interruptible ADD Water contractor may also enter into a special CAP Excess Water (ADD Replacement) contract that will be applicable only in a year in which the availability of surplus¹⁸ Colorado River water prevents CAP from delivering some or all of the contractor's ADD Water entitlement—i.e., when the ADD Water has been displaced in the system by surplus Colorado River water. In a surplus year, CAWCD would offer the contractor holding an ADD Replacement Contract an amount of CAP Excess water up to the contractor's ADD Water contract amount that could not be delivered because it was displaced by surplus Colorado River water, after first providing for: [Policy Paper #14, summary of emerging consensus 4.] <ol style="list-style-type: none"> a. Rights to CAP water, including CAP Excess Water, as required by the Arizona Water Settlements Act and the Revised 	<ol style="list-style-type: none"> 1. The initial target volume for the Just Water pool is 50,000 acre-feet. [Policy Paper #13, summary of emerging consensus 1.] 2. Eligible entities¹⁹ within the CAP service area may obtain new water supplies by participating in the ADD Water program. Municipal, industrial, agricultural and Indian water users within Arizona and outside CAP's service area would be able to participate with CAP in acquiring a new water supply instead of having to compete for supplies independently. Those outside would need to: [Policy Paper #13, summary of emerging consensus 2.] <ol style="list-style-type: none"> a. Sign a standard agreement to acquire a water supply in cooperation with CAWCD (CAP customers and ADD water customers would have input on the terms of the standard agreement); b. Comply with all financial requirements either described in the contract or otherwise due at the time the contract is signed; c. Finance and pay their own costs; and d. Develop their own program for water users within their service areas to share and pay for the new water supplies developed in cooperation with CAWCD. 3. CAWCD would not be the delivery agent and the CAP system would not be used to deliver water outside the three-county area. [Policy Paper #13, summary of emerging consensus 3.] 4. Just Water supplies held by those outside the three-county area may be used for legal purposes under applicable state and federal laws. [Policy Paper #13, summary of emerging consensus 4.] 5. ADD water contractors that are fully using their ADD water contract amounts would have first priority to access unused ADD water

¹⁸ A surplus year occurs when the Secretary of the Interior declares a surplus and Arizona is entitled to more than 2.8 million acre feet of Colorado River Water.

¹⁹ See Policy Paper #1, emerging consensus item #1 for definition of eligible entity.

Summary of Emerging Consensus for Project ADD Water

ADDITIONAL ISSUES OUTSIDE THE FRAMEWORK STRUCTURE

NQ1 - ADD Water use of CAP canal capacity	NQ2 - Acquisition of water for entities outside the CAP service area (Just Water)
<p>Stipulation.</p> <p>b. The ability of CAP M&I subcontractors under their CAP subcontracts receive greater than 11% of their maximum entitlement in any month if such increased delivery is compatible with the overall delivery of Project water to other subcontractors.</p> <p>c. As specified by the Revised Stipulation, ADD Replacement contracts would not give rise to a right in any subsequent year to receive CAP Excess Water.</p> <p>5. ADD water contractors would pay the regular ADD water delivery rate for all water delivered under the CAP excess water (ADD Replacement) contract. [Policy Paper #14, summary of emerging consensus 5.]</p>	<p>supplies. If demand by ADD water contractors exceeds the available unused supply, ADD water contractors will be offered unused ADD water in proportion to their ADD water contract amount. If unused ADD water exceeds the demand of ADD water contractors, CAP may offer the remaining unused supplies to any eligible entity or may, if appropriate or desirable, store or allow others to store remaining unused supplies underground to ensure the reliability of future ADD water deliveries to ADD water contractors.</p> <p>If, after applying the guidelines above, there is still unused ADD Water in any year that results in CAP leaving water on the Colorado River, that water would be available for use by other entities in Arizona under either a Priority 5 (unused Arizona apportionment) or Priority 6 (surplus) contract with the Secretary of the Interior. CAP does not have control over any water that might remain on the Colorado River after CAP has met the demands of its three-county service area and cannot direct such water to any specific user. [Policy Paper #13, summary of emerging consensus 5.]</p>