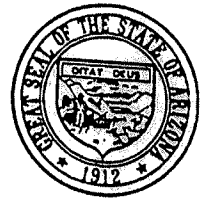


ARIZONA DEPARTMENT OF WATER RESOURCES

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JANE DEE HULL
Governor

RITA P. PEARSON
Director

December 2, 1999

The Honorable Bruce Babbitt
Secretary of the Interior
1849 C. Street NW, #1615
Washington, D.C. 20240

**RE: Final Recommendation of 65,647 acre-feet of Central Arizona Project
Municipal and Industrial Use Water**

Dear Secretary Babbitt:

The Arizona Department of Water Resources (Department) is prepared to recommend the reallocation of 65,647 acre-feet (af) of Central Arizona Project (CAP) water for municipal and industrial (M&I) purposes. This volume of water is part of the 638,823 af that was originally allocated in 1983 by the Secretary of the Interior (Secretary) but was not subcontracted. By this letter, I am transmitting to you the recommendations of the State of Arizona (State) for the reallocation of this portion of the CAP M&I water supply.

In May 1993, the U.S. Bureau of Reclamation (Bureau) asked the Department to initiate a process to develop a recommended reallocation of this water. In 1994, a process was initiated and preliminary allocations of CAP water were determined for 26 applicants. However, the process was never completed due to an intervening lawsuit between the Bureau and the Central Arizona Water Conservation District (CAWCD) regarding the CAWCD's repayment obligation for the CAP.

With the recent announcement in the Federal Register that the environmental assessment was to be initiated for the reallocation of CAP water, the Department is again prepared to submit to you recommendations for reallocating the 65,647 af of CAP M&I water.

As you are aware, under State law, the Department is responsible for formulating plans and programs for the development, management, conservation and use of surface water and groundwater within Arizona. With respect to Colorado River water in particular, the Department is authorized to consult, advise and cooperate with the Secretary on a variety of contract and subcontract issues. Over the years, the Department of the Interior and the Department have developed an excellent history of cooperatively evaluating and determining requests for allocations of Colorado River water for use within Arizona. The Department respects the authority granted the Secretary concerning these issues and, likewise, the Secretary has consistently given careful consideration to the recommendations of the Department.

As a former Governor of this State, I am sure you are aware of the critical need for M&I CAP water among our municipal providers. Many cities within our population corridors remain overly

dependent on finite groundwater supplies for their municipal service. State based programs, such as our Assured Water Supply Program and our effluent incentive programs within our Management Plans have made great strides this decade in reducing long-term reliance on groundwater. If the State is to achieve its goal of safe-yield, however, we need access to additional renewable supplies such as the CAP. The CAP water set aside for M&I priority is an important component of that supply and we are very pleased to be able to describe to you today the method by which we have proposed apportionment of the small remaining amount of this valuable resource against a large and ever-growing demand.

Background

In February 1983, Secretary James Watt released his decision regarding the final allocation of CAP water. Under that decision, 638,823 af of the annual water supply was allocated to M&I users. Subsequently, subcontracts were offered for the total available CAP water supply. By March 1, 1993 the subcontracting process was essentially completed. However, some entities that were allocated M&I water declined to enter into a subcontract, leaving a total of 80,312 af of the M&I supply available for reallocation. Of this amount, 14,665 af had initially been allocated to the Phelps-Dodge Corporation and was later assigned to the San Carlos Apache Indian Tribe by the United States as part of the San Carlos Apache Indian Tribe Water Rights Settlement Act of 1992. This resulted in 65,647 af of water being available for reallocation to CAP M&I water users. This was not an unanticipated result. Both the Department and Secretary Watt expected a marginal refusal rate in the contracting process. The reallocation of uncontracted M&I water was expressly acknowledged in the 1983 Record of Decision. 48 Fed. Reg. 12,447. The understanding was that any water declined would be reallocated to municipal providers based on demonstrated need.

1994 Reallocation Process

In February 1994, after the CAP was finally completed, the Department initiated a process to develop a recommended reallocation for the 65,647 af of uncontracted M&I CAP water. The Department developed and distributed a discussion paper that presented potential alternatives and issues. From the public comments received, the Department determined that the recommended approach should take into account the following considerations: 1) consistency with the criteria in the original allocation process; 2) availability of renewable supplies relative to demand; 3) the need to encourage early utilization of CAP water; 4) expectations regarding the ability to actually pay for and use the CAP water; and, 5) the need for a reliable (high priority) water supply.

In April 1994, the Department solicited applications for the reallocation. A total of 53 entities applied, requesting more than 350,000 af of water. Based on the comments received from the interested parties and applicants, the Department evaluated three reallocation methodologies to apportion the available water across this demand: 1) apportion the water to provide a full, dependable supply for contractors assuming a uniform 180 gallons per capita per day (GPCD) rate for all applicants; 2) apportion the water based upon the projected year 2040 population at a uniform 180 GPCD rate for all applicants; and, 3) apportion the water to provide a dependable water supply using a demand rate which reflects the maximum use rates set by the Second Management Plan (SMP) in the Active Management Areas.

Twenty-seven of the applicants were excluded from consideration. These applicants either: 1) did not identify the purpose and amount of use; 2) proposed a use which was not considered an M&I

use; 3) were located within an existing subcontract service area; 4) requested the water for proposed development that had no approved subdivision plats; 5) had access to alternative water supplies; 6) could use lower priority or interim water supplies; 7) indicated that they could not afford CAP water; or, 8) were located where direct use of CAP water was not feasible.

The 26 remaining applicants were apportioned water based on the third alternative. Using the SMP GPCD requirements, all applicants were allocated a portion of the 65,647 af of CAP water to meet their net demand (demand minus dependable water supplies) through the year 2023.

1999 CAP M&I Reallocation Process

In February 1999, the Department reinitiated the reallocation process for the 65,647 af of M&I CAP water. The 27 applicants that were excluded in 1994 were excluded again on the same criteria, but the Department reevaluated the methodology used to determine the apportionment of water to the remaining 26 applicants.

The Department prepared a reallocation recommendation for each of the remaining applicants using the same basic methodology that was used to generate the 1994 allocations. Service area populations were projected using the latest official projections prepared by the Arizona Department of Economic Security. To allocate the water more equitably to all applicants, including those that are projected to experience significant growth after 2020, it was determined that the allocations would be based on a proportionate share of the 65,647 af relative to the population projections and water demand for the year 2040.

In brief, the water demand for each applicant was projected for the year 2040 by multiplying the projected service area population by the lesser of a use rate of 180 GPCD or the use rate equivalent to the first requirement of the Third Management Plan - 2000. Because lands in the Phoenix area that are located within the Salt River Project (SRP) are presumed to have adequate water supplies, the population was projected only for those areas located outside of SRP. The resulting annual demand was converted to acre-feet.

To determine each applicant's need for additional water, other dependable water supplies were subtracted from the projected demand. Other dependable water supplies used in the methodology include:

1. CAP water currently under subcontract to an applicant.
2. CAP water that will be transferred to an applicant by the Arizona State Land Department (ASLD) per ASLD subcontract.
3. CAP water allocations that have already been transferred to an applicant.
4. CAP water transfers that are pending approval by CAWCD and the Bureau.
5. "Gate Credit" water rights for the Verde River held by the City of Phoenix.
6. Conversion of irrigation water rights to municipal use within the Roosevelt Water Conservation District and the Maricopa Municipal Water Conservation District #1.
7. M&I priority CAP water that was obtained from the agreement with the Hohokam Irrigation and Drainage District as part of the Cliff Dam Replacement supply.

Projected demand minus dependable water supplies determined the projected water need for each applicant. The 65,647 af water supply was distributed between applicants on a pro rata basis based

on the projected need. However, because the total projected need of the applicants were considerably greater than the supply, the total amount of water that could be allocated to any applicant was limited to 8,206 af or 12.5% of the total supply of 65,647 af.

In March 1999, the Department informed the applicants of its intent to recommend to the Secretary that 65,647 af of CAP water be reallocated for M&I use. In the letter, the Department presented the revised recommended allocation for each of the applicants.

The applicants were asked to review the information and respond to the Department indicating whether they were willing to subcontract for the additional CAP water and whether they were committed to pay the past capital repayment obligation for that water. Of the original 26 applicants considered in the reallocation process, the Town of Buckeye and Litchfield Park Service Company have elected to not participate in the 1999 reallocation process. The Department also received comments from some of the applicants regarding corrections to the assumed dependable water supplies and water use rates. Where appropriate, corrections were made to the analysis. From this process, we are able to make a reallocation recommendation that allocates the available water fairly, based on need, and which provides reasonable certainty that all water so allocated will be immediately accepted for contract.

The final recommendation regarding the reallocation of the 65,647 af of M&I CAP water is shown in Table 1.

Table 1. 1999: Recommended Reallocation of 65,647 af

Applicant	Amount (Acre-Feet)	Applicant	Amount (Acre-Feet)
Town of Superior*	285	AVRA Cooperative	808
Cave Creek Water Co.	806	City of Chandler	4,986
Chaparral Water Co.	1,931	Del Lago (Vail) Water Co.	1,071
Town of El Mirage	508	City of Glendale	3,053
City of Goodyear	7,211	Community Water Co. of Green Valley	1,521
H2O Water Co.	147	Metropolitan Domestic Water Improvement District	4,602
City of Mesa	7,115	Town of Oro Valley	3,557
City of Peoria	5,527	City of Phoenix	8,206
City of Scottsdale	2,981	City of Surprise	2,876
Tucson Water	8,206	Valley Utilities Water Co.	250
Total			65,647

* If the allocation is not accepted, then the 285 af will be recommended for the Arizona Water Company for use in its Superior or Apache Junction system.

In the unlikely event that a subcontract for this reallocation of CAP M&I water is refused, the Department recommends that the allocation be immediately transferred to another municipal water provider pursuant to the State's policy of August 23, 1996 regarding the transfer of CAP M&I subcontracts. This will ensure that the CAP water will be quickly and equitably allocated to the water provider(s) with the most need.

Thank you for your consideration of this recommendation.

Sincerely,

A handwritten signature in black ink that reads "Rita P. Pearson". The signature is written in a cursive style with a large initial "R".

Rita P. Pearson
Director

RPP:tgk:kd