

**PROJECT ADD WATER
REPORT OF THE STAKEHOLDER WORKING GROUP
AND HAMMER-IT-OUT GROUP**

**SUMMARY OF EMERGING CONSENSUS
AND REMAINING ISSUES**

**Prepared by the HIOG December 15, 2009
Revised by the SWG January 5, 2010**

This report was prepared by the following CAP staff:

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Carol Munoz, Team Administrator
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While there is much more to be done, CAP, and specifically the Support Team for Project ADD Water, would like to thank the many people who have given their time and resources to the task of bringing all of us—closer than we've ever been before—to making this critical decision about the future of water in Arizona.

*Our deepest and most heart felt appreciation to all of you
...where ever you may be.*

Roster for Stakeholder Working Group

ID	Last Name	First Name	Organization	Role
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2	Anderson	Rob	Fennemore Craig	HIOG Alternate
3	Avery	Chris	Tucson Water	HIOG Member
4	Bailey	Matt	Snell & Wilmer	Participant
5	Bain	Robin	City of Peoria	HIOG Alternate
6	Baron	Jason	AMWUA	Participant
7	Barrett	Robert	CAP	Participant
8	Basefsky	Mitch	CAP	Participant
9	Bennon	Brian	Gila River Indian Community	HIOG Member
10	Betcher	Brian	Maricopa Standfield Irrigation and Drainage District	HIOG Member
11	Bodenchuk	John	ADWR	Participant
12	Bradford	Shawn	Bradford Consultants LLC	Participant
13	Bray	Tim	CAP Board	HIOG Alternate
14	Brennemann	Sheila	CAP	Support Team
15	Burman	Brenda	The Nature Conservancy	Participant
16	Burns	Gayle	CAP Board	Participant
17	Buschatzke	Tom	City of Phoenix	HIOG Member
18	Bushner	Greg	Vidler Water Company	Participant
19	Callahan	Jim	City of Phoenix	Participant
20	Carpenter	Guy	HDR	Participant
21	Cauthen	Cliff	Hohokam	HIOG Member
22	Chavez	Kathy	Pima County Regional Wastewater Reclamation	Participant
23	Cohen	Ted	CAP	Support Team
24	Commandeur	Leo	Global Water Resources	Participant
25	Cooke	Ted	CAP	Participant
26	Cronin	Michael	El Dorado Holdings	Participant
27	Culp	Peter	Squire, Sanders and Dempsey	HIOG Member
28	Danos	Val	Arizona Municipal Water Users Association	Participant
29	Day	Henry	APS	HIOG Member
30	Dent	Patrick	CAP	Participant
31	DeWeaver	Norm	Inter Tribal Council of Arizona, Inc. Tribal Council of Arizona	HIOG Alternate
32	Doba	Ron	Northern Arizona Municipal Water Users Association	HIOG Alternate
33	Dozier	Larry	CAP	Participant
34	Draper	Brian	City of Mesa	Participant
35	Dulaney	Alan	City of Peoria	HIOG Member
36	Erwin	Carol	Bureau of Reclamation	Participant

ID	Last Name	First Name	Organization	Role
37	Esmeier	Marsha	CAP	Support Team
38	Ferris	Kathleen	Private Attorney for AMWUA	HIOG Member
39	Fleck	Jonn	ABQ Journal	Participant
40	Fortnam	Philip	CAP	Support Team
41	Fuerst	Dee	CAP	Participant
42	Gallogly	Maggie	Fennemore Craig	HIOG Member
43	Gibbon	Jocelyn	Squire, Sanders and Dempsey	HIOG Alternate
44	Given	Gary	CAP	Participant
45	Green	Larry	CAP	Support Team
46	Harbour	Tom	CAP	Participant
47	Hartdegen	Jim	Maricopa Standfield Irrigation and Drainage District	HIOG Alternate
48	Haws	Mitchell	Bureau of Reclamation	Participant
49	Hendricks	Paul	CAP Board	HIOG Member
50	Henley	Tim	AWBA	Participant
51	Hill	Brad	City of Flagstaff	HIOG Member
52	Hunter-Patel	Shilpa	Fennemore Craig	Participant
53	Iwanski	Dave	City of Goodyear	Participant
54	Jones	Ray	Aricor Water Solutions	HIOG Member
55	Jones	Thomas	Paragon Partners	Participant
56	Kacerek	Tim	CAP	Participant
57	Kimball	Heidi	Sunbelt Holdings, Inc.	Participant
58	Kupel	Douglas	City of Phoenix	HIOG Alternate
59	Kyyitan	Lucius	Gila River Indian Community	Participant
60	Labar	James	Salt River Project	HIOG Alternate
61	Lacy	London	City of Surprise	HIOG Alternate
62	Lenderking	Jake	Arizona American Water Co.	HIOG Member
63	Leonard	Shane	Roosevelt Water Conservation District	Participant
64	Little	Tom	APS	HIOG Alternate
65	Lotts	Robert	APS	Participant
66	Mardam	Tony	HDR	Participant
67	Marlow	Jessica	Town of Cave Creek	Participant
68	Marra	Ralph	City of Tucson	HIOG Alternate
69	Marsh	Floyd	Lockwood, Andrews & Newman	Participant
70	McCann	Tom	CAP	HIOG Member
71	McCullough	Jamie	City of El Mirage	Participant
72	McGrew	Debra	McBride Engineering Solutions, Inc	Participant
73	McMullen	Patrick	Inter Tribal Council of Arizona, Inc.	HIOG Member
74	Meaders	Ann	Town of Marana	HIOG Alternate
75	Miller	Beth	City of Scottsdale	Participant
76	Miller	Scott	ADWR	Participant
77	Mitchell	Kim	AWBA	Participant

ID	Last Name	First Name	Organization	Role
78	Moore	Colette	City of Mesa	Participant
79	Munderloh	John	Town of Prescott Valley	Participant
80	Munoz	Carol	CAP	Support Team
81	Nally	Karen	Karen Nally	Participant
82	Neal	Cliff	CAP	HIOG Member
83	Nunez	Christine	City of Surprise	HIOG Member
84	O'Brien	Dorothy	Town of Marana	HIOG Member
85	Olsen	Leslie	CAP	Support Team
86	Olson	Steve	Arizona Municipal Water Users Association	HIOG Member
87	Oyler	Marilyn	Partners in Participation	Support Team
88	Patterson	Greg	WUAA	Participant
89	Pena	Jennifer	City of Litchfield Park	Participant
90	Pratt	Sue	Coconino Cty Community Development	Participant
91	Qualls	Teri	Town of Buckeye	Participant
92	Rall	Kathy	Town of Gilbert	HIOG Member
93	Riggs	Wahlean	Gila River Indian Community	Participant
94	Ross	Brad	Resolution Copper Company	HIOG Member
95	Rossi	Terri Sue	CAP	HIOG Member
96	Rot	Stephen	City of Glendale	HIOG Member
97	Rozelle	Marty	Rozelle Group	Support Team
98	Rule	Dennis	CAP	Participant
99	Saletta	Philip	Town of Oro Valley	HIOG Member
100	Shahan	Dale	Las Quintas Serenas Water Company	Participant
101	Siegel	Richard	Salt River Project	HIOG Member
102	Snow	Riley	Ballard Spahr LLP	Participant
103	Stefanovic	Cynthia	Arizona State Land Department	Participant
104	Stinnett	Robin	City of Avondale	Participant
105	Sweeney	Sheryl	Ryley Carlock & Applewhite	HIOG Member
106	Teller	Dennis	City of El Mirage	Participant
107	Tenney	Warren	Metro Water	Participant
108	Ticknor	Suzanne	CAP	HIOG Alternate
109	Townsend	Brian	Arizona legislation	Participant
110	Toy	Doug	City of Chandler	HIOG Member
111	Van Quathem	Michele	Ryley Carlock & Applewhite	Participant
112	Walden	Richard	FICO	Participant
113	Wallace	Greg	Montgomery & Associates	Participant
114	Ward	Chris	Avra Water Co-op, Inc.	HIOG Alternate
115	Wheeler	Bill	Private Individual	Participant
116	Whitler	Ron	Town of Buckeye	HIOG Member
117	Whitmer	Thomas	Arizona Water	Participant
118	Zeblicky	Philip	Pivotal Group Inc.	Participant

Table of Contents

Executive Summary	9
I. Background	11
II. Stakeholder Participation Process	13
<i>Step 1 – Problem Statement and Information Needs.</i>	13
<i>Step 2 – Determine, Define and Prioritize Criteria.</i>	14
<i>Step 3 – Generate Program Alternatives.</i>	14
<i>Step 4 – Evaluate Alternatives Against Criteria.</i>	15
<i>Step 5 – Present Results of Evaluation.</i>	16
III. Framework for an ADD Water Program	17
IV. Narrowing the Alternatives	18
V. Issues Falling Outside the Clarifying Questions	20
A. <i>ADD Water as Non-Project Water</i>	20
B. <i>ADD Water Use of CAP Canal Capacity</i>	22
C. <i>ADD Water and CAGRD</i>	24
D. <i>ADD Water and Users Outside CAP’s Three-County Service Area</i> ...26	
VI. Areas Requiring Further Discussion.....	28
A. <i>ADD Water and CAGRD</i>	29
<i>Next Plan of Operation.</i>	29
<i>Conversion from Replenishment to Direct Delivery.</i>	30
B. <i>ADD Water Administration</i>	31
VII. Next Steps.....	32

Listing of Attachments

	Name of Attachment	Brief Description	Page of Report
A	HIOG Summary of Emerging Consensus	Summary of the emerging consensus points found in the policy paper prepared by the HIOG.	35
B	Evaluation Criteria	The peach criteria relates to designing a mechanism to pay for new water supplies. The lavender criteria relates to sharing water and providing access to new supplies by all participants in the three-county area.	53
C	Policy Paper #15 ADD Water and CAGR D	Policy paper prepared for the HIOG on ADD Water and CAGR D	57
D	Policy Paper #18 Administration of ADD Water	Policy paper prepared for the HIOG on Administration of ADD Water	63
E	Administration of ADD Water	Policy paper prepared by the Arizona Municipal Water Users on Administration of ADD Water.	69
F	Administration of ADD Water: Strawman Proposal Draft December 29, 2009	Proposal prepared by the Arizona Municipal Water Users, City of Tucson, potential water supply sellers, Resolution Copper, APS and SRP on Administration of ADD Water.	75

Listing of Links in Order of Appearance in Report

Name of Document Linked	Brief Description	Page of Report
Policy Paper #15 ADD Water and CAGR D	Policy paper prepared by HIOG on how the ADD Water Program specifically works with CAGR D.	9
ADD Water website	Home page of Project ADD Water website.	10
Project Wheel	Background information on Project Wheel	12
Stakeholder Participation Plan	Stakeholder Participation Plan used to manage the ADD Water stakeholder participation process.	13
Step 1 Stakeholder	Results of stakeholder responses to	14

Name of Document Linked	Brief Description	Page of Report
Results	four questions asked at the Step 1 workshop.	
Summary of Responses by Interest, Concern Expectation	Summary of the stakeholder responses made at the Step1 workshop prepared by the Project Team	14
Step 1 Data Requests	Listing of all data requests made in Step 1 and applicable responses.	14
Step 2 Criteria	Two sets of criteria identified, defined and weighted by stakeholders at the Step 2 workshop series one related to sharing water supplies and another related to paying for the water supplies.	14
Ten Alternatives	Eight alternatives for the ADD Water Program prepared by eight diverse Stakeholder Teams, one alternative prepared by Fennemore Craig and one alternative prepared by the Arizona Municipal Water Users Association generated in Step 3.	15
Arizona Water Institute Case Study Report	Report prepared by the Arizona Water Institute describing 13 case studies of other regional water entities acquiring water supplies.	17
Stakeholder Team Alternatives	Same as the description under Ten Alternatives above.	17
Summary of Stakeholder Team Alternatives	Summary of the ten alternatives prepared in Step 3, prepared by Terri Sue Rossi, Kathy Ferris and Sheryl Sweeney	17
Summary of Stakeholder Team Agreements and Areas of Further Discussion	Results of the Stakeholder Working Group meeting held September 10 and 11 of 2009.	18
HIOG Policy Papers	Nearly 20 policy papers prepared by the HIOG during its eight week intensive period.	19
Policy Paper #14	Policy prepared by the HIOG on ADD Water Use of CAP Canal Capacity	20,22
Policy Paper #13	Policy prepared by the HIOG on Just Water	26
Policy Paper #15	Policy prepared by the HIOG on ADD Water and CAGR D	29
ADD Water Policy Briefing Paper #15 Revised	Policy prepared by the Arizona Municipal Water Users Association and	29

Name of Document Linked	Brief Description	Page of Report
November 20, 2009 AMWUA and City of Tucson Comments December 31, 2009	the City of Tucson regarding ADD Water Policy Briefing Paper #15	
Policy Paper #18	Policy prepared by the HIOG on the Administration of ADD Water	31
Administration of ADD Water	Policy prepared by the Arizona Municipal Water Users Association on the Administration of ADD Water	31
Administration of ADD Water: Strawman Proposal Draft December 29, 2009	Proposal prepared by the Arizona Municipal Water Users, City of Tucson, potential water supply sellers, Resolution Copper, APS and SRP on Administration of ADD Water.	31

Executive Summary

In September of 2009, the Stakeholder Working Group of Project ADD Water identified common agreements and areas of further discussion found in ten alternatives prepared by ADD Water stakeholders. The goal of the September meeting was to reach an agreement level of 60% which was largely met.

At that meeting, the Stakeholder Working Group also created a Hammer-It-Out Group¹, referred to as the HIOG, to resolve the more difficult issues in order to reach an agreement level of 85%. This goal was also met. There were really only two components on which the HIOG could not develop an emerging consensus: (1) how the ADD Water Program will work with CAGR D on three specific issues² and (2) administration of the ADD Water Program.

On January 5, 2010, the Stakeholder Working Group met to respond to the existing points of emerging consensus developed by the HIOG and to address those areas still requiring further discussion. The goal of that Stakeholder Working Group meeting was to increase the level of agreement above the 90% level, which was also met, before going to the Board on January 21, 2010.

This report is primarily a compilation of the work conducted by the Hammer-It-Out Group between October 2 and November 20, 2009. This report also includes additional work conducted by the Stakeholder Working Group at its

¹ The roster for the HIOG is found on page 2 of this report. The list includes members, alternates and observers. Over 60 stakeholders attended and/or tracked the HIOG process.

² There were 14 points of emerging consensus the HIOG did reach related to the CAGR D. See [Policy Paper #15 CAGR D and ADD Water](#) where additional information is provided.

January 5, 2010 meeting. The alternative presented here is an emerging consensus of roughly 75 diverse stakeholders.

This report will be used during a Board study session to be held on January 21, 2010. To this end, and for stakeholders who have not participated in the Hammer-It-Out Group or the Stakeholder Working Group, this report also includes some background information. For even more information about Project ADD Water, please see our website at <http://www.projectaddwater.com/>.

The detail of the HIOG's and Stakeholder Working Group's recommendation is presented in the Summary of Emerging Consensus located in Appendix A.

**PROJECT ADD WATER
REPORT TO THE STAKEHOLDER WORKING GROUP
FROM THE HAMMER-IT-OUT GROUP**

**SUMMARY OF EMERGING CONSENSUS
AND REMAINING ISSUES**

Prepared December 15, 2009

I. Background

Long term water demands in CAP's three-county service area will eventually exceed the water supplies that are currently available. When that day will come is a matter of debate and will depend on many variables, including population growth, demands and use of reclaimed water. But whether current supplies will last twenty more years or fifty, it makes sense now to develop a comprehensive strategy for the acquisition and delivery of water to meet future demands. That is the goal of "Project ADD Water". ADD water stands for the Acquisition, Development and Delivery of Water.

Project ADD Water, a stakeholder participation process, was created in response to the Strategic Plan adopted by the CAP Board of Directors in 2006. The Strategic Plan directed CAP staff to establish a collaborative process to address the issue of developing new water supplies for central Arizona—one that encourages fair competition and eliminates perceptions of unfair advantage. The Plan presumed that the most efficient and cost effective way to develop new water supplies would be for CAP to be the single point of acquisition.

CAP's role in transporting additional water into central Arizona has been a frequent topic of discussion over the years. In 2002, it was at the heart of Project Wheel, another stakeholder participation process.

In Project Wheel, stakeholders were asked to consider a continuum along which CAP's role ranged from a "delivery agent" for water acquired by others to a "water provider" that developed its own supply for delivery to water users in its three-county service area. Project Wheel³ ultimately adopted a hybrid approach that called for "interim set asides" to transport water supplies already acquired by a few water providers and recommended further exploration of the water provider model, including a public process to address how to allocate any new water supply acquired by CAP.

With the exception of CAP and SRP water, water providers have historically worked independently, or in small groups of providers with similar interests, to acquire and develop their own water supplies (e.g. groundwater ranches, Indian leases, Cliff Dam replacement water, gate water and additional active conservation space behind Roosevelt Dam). But after Project Wheel, AMWUA cities, Tucson and others met with CAP Board members to discuss a broad framework and public process for developing a wholesale water supply program. That emerging view was reflected in the 2006 CAP Strategic Plan.

In keeping with the CAP Strategic Plan, Project ADD Water focused on the following question:

³ For more information, please see the reports from [Project Wheel](#).

Assuming CAP is to be the primary entity that acquires, develops and delivers new water supplies for its three county service area, how should the water be shared and paid for?

II. Stakeholder Participation Process

In August of 2007, CAP began planning a stakeholder participation process for Project ADD Water. An internal team was created and in January of 2008, the internal team presented its proposed stakeholder participation plan to the CAP Board. At that meeting, several CAP customers requested a more prominent role in the stakeholder participation process than just being participants. As a result of this request, the CAP Board expanded the internal team to create a Project Team that included the original internal team, three Board members and nine outside stakeholders.

The purpose of the Project Team was to refine and implement the stakeholder participation plan prepared by the internal team and to accurately report the results of the stakeholder meetings to constituents, stakeholders and the CAP Board. The [Stakeholder Participation Plan](#) adopted for Project ADD Water included five steps⁴.

Step 1 – Problem Statement and Information Needs. The purpose of this step was first to verify the problem statement and the focus questions for the Stakeholder Participation Plan. Step 1 included one meeting held on May 21, 2008. The stakeholders responded to four questions:

⁴ The decision making model used for Project ADD Water followed the public participation model recommended by the International Association of Public Participation.

- Why did you come to this meeting?
- What do you want to get out of this process?
- Why do you need more water?
- What are you most worried about?

Based on the [responses to these questions](#), the Project Team then prepared a [Summary of Responses by Interest, Concern and Expectation](#). The second purpose was for stakeholders to request any information they might need to complete the work in the remaining steps. Stakeholders made nearly [90 data requests](#).

Step 2 – Determine, Define and Prioritize Criteria. The purpose of this step was first to determine appropriate criteria, second to define those criteria and finally to prioritize them. Four meetings were held to accomplish this task: September 26, October 1 and 17, and November 3, 2008. The stakeholders identified and defined [two sets of criteria](#) that reflect stakeholder values. The first set includes eight criteria and addresses sharing a new water supply. The second set also includes eight criteria and addresses paying for a new water supply. The stakeholders also evaluated the relative importance of the criteria within each set. The criteria, related definitions and importance are also located in Attachment B.

Step 3 – Generate Program Alternatives. The purpose of this step was to develop alternatives for stakeholders to consider. CAP created a Stakeholder Working Group and invited all interested parties to participate. The Stakeholder

Working Group met seven times in 2009, on March 26, April 25, May 20, June 12 and 15, and September 10 and 11. Eight diverse Stakeholder Teams were created to develop team alternatives. Those Stakeholder Teams met on self-established schedules between April and June. Most Teams met for roughly 25 hours. The Stakeholder Teams developed eight alternatives. There were two additional alternatives created by stakeholders outside the Teams for a total of [ten alternatives](#).

Step 4 – Evaluate Alternatives Against Criteria. The purpose of this step was to evaluate alternatives against the criteria developed in Step 2. In September of 2009, the Stakeholder Working Group identified areas of agreement and areas of further discussion based on the ten alternatives prepared in Step 3. The Stakeholder Working Group created a smaller group called the Hammer-It-Out Group or HIOG to work on the areas requiring further discussion. The HIOG met every Friday from October 2 through November 20, 2009. The work of the HIOG is discussed in more detail in section IV (Narrowing the Alternatives) below. On January 5, 2010, the Stakeholder Working Group evaluated the HIOG's emerging consensus against the criteria developed in Step 2 and considered the areas left unresolved by the HIOG. The Stakeholder Working Group agreed to adopt the HIOG's recommendation regarding the interim set aside for the CAGR, described on page 14 of 16 (clarifying question 26, point 16) of the Summary of Emerging Consensus located in Appendix A. The Stakeholder Working Group also raised several other points to consider:

- Lots of good progress has occurred and momentum must be maintained
- Board should authorize CAP to continue with the ADD Water Program
- Celebrate success of the emerging consensus
- Administration of the ADD Water Program can be developed during the contracting process
- Negotiate a wheeling agreement with the Bureau of Reclamation
- Additional planning is required to move forward and may require specialized stakeholder groups to work concurrently on administration, contract language and planning functions
- More work is needed on how to finance water supply acquisition costs
- More discussion is needed on delivering ADD water outside the three-county service area
- CAWCD should fund and undertake the data collection and planning process required to prepare for project implementation
- Resolve the connection between the ADD Water Program and the CAGR Plan of Operation
- Adopt proposal for converting replenishment to direct delivery (specifically issue #3 in Policy Paper #15)
- Adopt proposal to prevent ADD water from driving growth to the CAGR (specifically issue #2 in Policy Paper #15)
- Make conforming changes to the Just Water proposal to resolve inconsistencies in what happens when demands for ADD and Just Water exceed supply available
- Review summary of emerging consensus 3, under clarifying questions 17 and 18, regarding using net present value to establish acquisition costs for the ADD water supply

Step 5 – Present Results of Evaluation. The purpose of this step is to recommend an ADD Water Program to the CAP Board for possible action. A final Stakeholder Working Group meeting is expected to be held in mid-February to finalize a recommendation to the Board. At this meeting, stakeholders will have another opportunity to address existing points of emerging consensus and consider additional improvements to the summary of emerging consensus.

Consistent with this schedule, the CAP Board will consider the stakeholder's recommendation as early as March 2010.

III. Framework for an ADD Water Program

In June of 2008, in response to multiple data requests from Step 1, CAP contracted with the Arizona Water Institute to conduct case studies of 13 regional water organizations to learn how those entities acquire, share and pay for new water supplies. These case studies served as a starting point for ideas about how the same could be done in central Arizona. The [results of this study](#) also informed the Project Team in deciding what key questions needed to be answered in order to develop a program for central Arizona.

Based on this research and discussions, the Project Team identified approximately two dozen clarifying questions that needed to be answered in order to form a complete alternative. The Project Team organized these questions into nine "components" of a complete alternative, then populated the framework with responses for the 13 case studies. The Project Team referred to these potential answers as "elements".

Stakeholder Teams then populated the framework, creating ten [Stakeholder Team alternatives](#) to consider. In June of 2009, the eight Stakeholder Teams and two other entities, presented their alternatives to the entire Stakeholder Working Group. At the end of August, the [Summary of Stakeholder Team Alternatives](#) was prepared to help the Stakeholder Working Group identify commonalities and areas requiring further discussion.

IV. Narrowing the Alternatives

In September of 2009, the Stakeholder Working Group met for two days to review the Summary of Stakeholder Team Alternatives and to find those common agreements that could be readily reached. The Stakeholder Working Group also identified those areas where common understanding could not be easily reached and further discussion was required. The results of these meetings are found in the [Summary of Stakeholder Agreements and Areas of Further Discussion](#).

The Stakeholder Working Group was divided into five small groups. Three of the five groups analyzed the capital cost water supply component and two of the groups analyzed the capital cost infrastructure component. The results of those small group discussions were presented to the Stakeholder Working Group, but no attempt was made at that time to harmonize the results. The five small groups analyzed the remaining components reflected in the Summary of Stakeholder Team Alternatives and developed recommendations for agreements and areas of further discussion for each. Each group then presented its recommendation to the entire Stakeholder Working Group for further consideration. The goal was to reach a 60% agreement level during the Stakeholder Working Group meeting. Governance was not addressed as it was assumed to be an area requiring further discussion.

The Stakeholder Working Group found many areas of common understanding including the following:

- Participation eligibility for water users inside CAP's three county area
- Classes of water
- Participants determining their own need
- Conditions for use of the ADD water supply

- Priorities during shortages
- Use of unscheduled ADD water
- Ownership of water rights and infrastructure related to the ADD Water Project
- Paying fixed OM&R costs

The Stakeholder Working Group also found many areas where further discussion was required including:

- Capital costs for supply acquisition
- Capital costs for infrastructure
- Exemptions to using ADD water outside the three county service area
- Acquiring supplies for those outside the three county service area
- Sharing supplies when demands for ADD water exceed supplies available

The Stakeholder Working Group also created the "Hammer-It-Out Group" or HIOG to deal with the areas requiring further discussion. The goal of the HIOG was to reach an 85% agreement level. During the eight weeks the HIOG met, it produced nearly [20 policy papers](#) that included over 75 points of emerging consensus. In November of 2009, the HIOG completed its work. The HIOG came to a summary of emerging consensus on most issues assigned to it. The [Summary of Emerging Consensus](#) as revised by the Stakeholder Working Group is located in Appendix A. At the January Stakeholder Working Group meeting, stakeholders continued to add points of emerging consensus bringing the overall level of agreement to over 90%.

V. Issues Falling Outside the Clarifying Questions

As the Stakeholder Working Group contemplated the framework questions and began developing alternatives, other questions and issues arose that did not fit precisely into the framework created by the Project Team:

- Will ADD Water supplies be considered Project Water or Non-Project Water? If Non-Project Water, will a wheeling agreement with the Bureau of Reclamation be required?
- How will ADD Water customers and CAP water users share the CAP canal capacity?
- How will the CAGR D operate in the context of ADD water?
- Will the ADD Water program be limited to CAP's three county service area?

These questions were discussed at various times throughout the ADD Water process—particularly during the HIOG meetings—and stakeholders were able to develop an emerging consensus in a number of areas. A discussion of each follows.

A. *ADD Water as Non-Project Water*⁵

“Project Water” is defined in the CAP Repayment Stipulation. It includes whatever remains of Arizona’s 2.8 million acre-feet (MAF) Colorado River entitlement after satisfaction of all higher priority Arizona uses and all equal priority on-river uses. It also includes certain Agua Fria River water developed at New Waddell Dam, as well as certain higher priority Colorado River rights secured in connection with Indian water rights settlements—namely, former Yuma-Mesa Irrigation District water obtained in the Ak-Chin Indian Community

⁵ This issue was addressed in [Policy Paper #14 ADD Water Use of CAP Canal Capacity](#) where additional information is provided.

settlement and former Wellton-Mohawk Irrigation and Drainage District water acquired in the Salt River Pima Maricopa Indian Community settlement.

If CAP were simply to purchase and fallow lands irrigated with higher priority Colorado River water, thereby reducing their annual consumptive use, that water would automatically become available for delivery as Project Water under the CAP Repayment Stipulation and master repayment contract. As such, it would be available for delivery to CAP contractors, including Indian contractors and M&I subcontractors. If not used by those contractors, it would become available for delivery as Excess CAP Water. Under the CAP Repayment Stipulation and the Arizona Water Settlements Act, long-term CAP contracts are limited to 1.415 MAF, so no new long-term CAP contracts could be issued for the additional Colorado River water acquired in this manner.

For CAP to acquire Colorado River water and convey it to a specific ADD Water contractor, the water will have to be treated as Non-Project Water. As such, it would maintain its original priority on the river and would not be eligible to use CAP project power. Transportation of Non-Project Water through the CAP will require a wheeling agreement approved by the Bureau of Reclamation. CAP anticipates negotiating a single wheeling agreement with Reclamation that will cover CAP's transportation of all ADD Water supplies.

B. ADD Water Use of CAP Canal Capacity⁶

The CAP was designed to transport approximately 3000 cubic feet per second (cfs) through the Phoenix metropolitan area.⁷ (Beginning at the Salt-Gila Pumping Plant east of Mesa, the capacity of the CAP gradually reduces, as less water is conveyed beyond that point.) Assuming a reasonable maintenance schedule, this 3000 cfs design capacity will allow CAP to deliver about 1.8 MAF annually. Clearly, then, there is sufficient capacity in the CAP to deliver all long-term CAP contract entitlements (limited by law to 1.415 MAF) as well as 300,000 AF or more of ADD Water.

However, stakeholders felt strongly that all Project Water deliveries, including Excess CAP water, should have priority to use CAP canal capacity over all Non-Project Water deliveries, including ADD Water. Specifically, stakeholders expressed the view that all Project Water available to CAP in any year must be made available to CAP long-term contractors and Excess CAP Water contractors before any Non-Project Water is delivered to ADD Water contractors, at least up to the 1.8 MAF current nominal capacity of the CAP. Stakeholders recognized that if ADD Water contractors paid to expand the current capacity, then those contractors would have priority to use the expanded capacity ahead of Project Water deliveries.

⁶ This issue was addressed in [Policy Paper #14 ADD Water Use of CAP Canal Capacity](#) where additional information is provided.

⁷ Approximately 2500 cfs is needed to deliver the 1.415 MAF of long-term CAP entitlements. The Colorado River Basin Project Act of 1968 authorized an additional 500 cfs of CAP capacity, provided Arizona interests agreed to pay the incremental cost of the additional capacity. Under its master repayment contract and the CAP cost allocation process, CAWCD is repaying 100% of the cost of the additional 500 cfs capacity in the Hayden-Rhodes aqueduct.

As noted above, Project Water includes all Colorado River water available to CAP under its master repayment contract. In recent years, CAP has often been able to divert 1.6 MAF or more from the Colorado River because on-river contractors have not been using their full entitlements. If the Secretary of the Interior were to declare a surplus on the Colorado River—allowing Arizona to use more than 2.8 MAF in that year—even more water would be available to CAP for delivery as Project Water. In that event, there may not be sufficient CAP capacity to deliver both Project Water and ADD Water, which would reduce the volume of ADD Water that CAP could deliver in that year.

To address the situation in which ADD Water supplies cannot be delivered due to an abundance of Project Water, long-term, short-term and interruptible ADD Water contractors will be allowed to enter into a special type of Excess CAP Water contract—an “ADD Replacement Contract”—that will be applicable only in a year in which the availability of surplus 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 CAP system by surplus Colorado River water).

In a surplus year, CAP would offer the contractor holding an ADD Replacement Contract an amount of Excess CAP Water up to the amount of the contractor's ADD Water that could not be delivered because it was displaced by surplus Colorado River water. ADD Water contractors would pay the regular ADD Water delivery rate for all water delivered under ADD Replacement Contracts. ADD Replacement Contracts must comply with the CAP Repayment

Stipulation and would not give rise to a right in any subsequent year to receive Excess CAP Water. ADD Replacement Contracts would have a lower priority to Excess CAP Water than the non-Indian agricultural settlement pool established in connection with the Arizona Water Rights Settlement. ADD Replacement Contracts must not affect the ability of CAP M&I subcontractors to receive more than 11% of their maximum entitlement in any month if such increased delivery is compatible with the overall delivery of Project Water to other CAP long-term contractors.

Stakeholders also indicated that Excess CAP Water should not be used to satisfy ADD Water contract demands, particularly those intended to meet assured water supply requirements. Thus, CAP will acquire new water supplies for all ADD Water contracts. CAP will also divert and deliver all water available from the Colorado River up to the full capacity of the CAP system, including improvements to that system. CAP will begin improvements to expand canal capacity at the start of the ADD Water program.

Specific conditions for taking delivery of ADD Water will be incorporated into ADD Water contracts or statutes as appropriate. It is anticipated that ADD Water contracts will have some type of monthly delivery limitation—e.g., no more than 11% of the annual entitlement in any given month.

C. ADD Water and CAGR

In 1993, the Arizona State Legislature gave CAWCD the authority to provide replenishment services for Member Lands and Member Service Areas

within its three-County service area. This replenishment authority is referred to as the Central Arizona Groundwater Replenishment District (CAGRDR). Under this authority, CAWCD is required to secure renewable water supplies to replenish excess groundwater used by its members.

CAWCD is required to prepare a Plan of Operation for the CAGRDR at least every ten years. Among other things, this Plan must provide a projection of CAGRDR replenishment obligations for current members as well as those subdivisions and service areas that are projected to enroll as members of the CAGRDR during the 10-year plan period. The current Plan of Operation projects CAGRDR's annual replenishment obligation will be 227,000 acre-feet by 2035, reflecting projected membership through 2015. The next CAGRDR Plan of Operation must be completed by January 1, 2015, and will likely project a CAGRDR replenishment obligation that significantly exceeds 227,000 acre-feet.

Stakeholders agreed that CAGRDR should be eligible to obtain a water service contract for any class of ADD Water for the purposes of meeting its replenishment obligations. Further, CAGRDR should be treated the same as any other ADD Water contractor with respect to how it obtains, uses and pays for an ADD Water contract.

While, in general, CAGRDR is to be treated the same as any other ADD Water contractor, stakeholders identified two instances that require "special treatment." These instances relate to the transfer of ADD Water contracts and are described as follows:

- If an ADD Water contractor decides to opt-out of its contract and CAGRDR is required to replenish excess groundwater delivered within the assigning contractor's service (or development) area, then CAGRDR holds a priority to the assigned water that is second only to an entity assuming responsibility to deliver the water within the assigning contractor's service (or development) area;
- If CAGRDR 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 CAGRDR's replenishment obligation.

D. ADD Water and Users Outside CAP's Three-County Service Area⁸

ADD Water was conceived as a program to provide additional water supplies for CAP's three-county service area. But representatives from areas outside the CAP service area participated throughout the ADD Water process and asked whether there was a way in which other parts of the State might also benefit from the program.

Because the focus of ADD Water is on how water supplies will be shared and paid for by users within the CAP service area, the specific elements of the ADD Water program do not apply to other areas. But it was agreed that Arizona municipal, industrial, agricultural and Indian water users located outside CAP's service area would be able to participate with CAP in acquiring new water supplies, rather than having to compete for supplies independently. CAP would acquire water supplies for ADD Water contractors as well as water users outside its service area. The program applicable to users outside the CAP service area

⁸ This issue was addressed in [Policy Paper #13 Just Water](#) where additional information detail is provided.

is referred to herein as “Just Water.” The initial target volume for the Just Water pool is 50,000 acre-feet.

To participate in Just Water, an entity would enter into a standard agreement to acquire a water supply in cooperation with CAP. CAP customers and ADD water customers would have input on the terms of that standard agreement. The Just Water contractor must also comply with all financial requirements either described in the contract or otherwise due at the time the contract is signed. They would be responsible for financing and paying the cost of the water supply acquisition and would develop their own program for water users within their service areas to share and pay for the new water supplies developed in cooperation with CAP. Just Water supplies may be used for legal purposes under applicable state and federal laws. CAP will not be the delivery agent for Just Water contractors, and the CAP system will not be used to deliver water outside the three-county area.

The question was raised as to whether Just Water contractors might have access to unused ADD Water supplies, but CAP explained that it does not control 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. If there is unused ADD Water in any year that results in CAP leaving water on the Colorado River, that water would then be under the control of the Secretary of the Interior. It would be available for use by other entities in Arizona under either a Priority 5 (i.e. unused Arizona apportionment) or Priority 6 (i.e. surplus) contract with the Secretary.

VI. Areas Requiring Further Discussion

As the HIOG worked through the many issues identified by the Stakeholder Working Group, there were a number of details that the HIOG either did not have time to address or felt it did not need to be resolved at that time.

The issues include:

- Definition of profit
- Conditions for interrupting interruptible supplies
- Financial effects of specific water supply sources not being linked to specific contracts
- How to hedge energy rates against disproportionate increases in energy costs
- Annual rate stabilization mechanisms
- Relationship between the CAGR Plan of Operation, ADD water plans of operation and the Assured Water Supply program

Two issues were discussed at great length during the HIOG, but in both cases, the HIOG made a decision to defer these decisions until it was clear that demands for ADD water would exceed the supplies available. These issues were:

- Phasing of ADD water
- Sharing supplies when requests for ADD water exceed available supply

All of these issues are noted in the applicable policy papers.

There were two policy papers where the HIOG did not realize an emerging consensus. The first paper focused on how ADD water works with the CAGR. The second paper focused on the administration of the ADD water program.

A. **ADD Water and CAGR⁹**.

In Policy Paper #15 (see Attachment C), there were three issues raised in the HIOG that required further discussion:

- CAGR⁹'s interim set aside¹⁰
- Driving Growth to CAGR
- Conversion from replenishment to direct delivery

The HIOG appeared to be in agreement on the first and last of these items, the second item did not appear to hold widespread agreement. At its January meeting, the Stakeholder Working Group adopted the point of emerging consensus for the CAGR's interim set aside. While the Stakeholder Working Group considered the other points, neither was adopted. These remaining issues, described below, may still be considered for emerging consensus at the Stakeholder Working Group meeting expected to be held in February.

Prevent ADD Water from Driving Growth to CAGR. Under a proposal discussed by the HIOG, all post-ADD Water enrollment in the CAGR would be required to pay to CAGR the costs of CAGR acquiring an ADD Water contract to cover the member's projected annual replenishment obligation at build-out. Alternatively, the prospective member could acquire its own ADD Water contract and transfer it to the CAGR in lieu of cash payment. The payment or contract transfer for a member may occur incrementally, but would need to ensure that CAGR would have access to ADD Water prior to incurring a replenishment obligation.

⁹ This issue was addressed in [Policy Paper #15 CAGR and ADD Water](#) where additional information is provided.

¹⁰The Arizona Municipal Water Users Association prepared a [policy paper](#) to address Policy Paper #15.

While there was not direct disagreement about this requirement, several stakeholders expressed the position that to agree to this provision, and to ADD Water in general, those stakeholders relying on the CAGR D would need assurances that a next Plan of Operation will be approved and will allow continued membership enrollment in the CAGR D.

Conversion from Replenishment to Direct Delivery. Under this proposal, for member lands and member service areas that paid the up-front costs associated with ADD Water, CAGR D would agree to allow for the transfer of a corresponding portion of its ADD Water contract amount to a water provider that commits to reduce the volume of excess groundwater delivered to the member, subject to ADWR's agreement that excess groundwater will be considered reduced.

If the member land or member service did not pay ADD Water costs up-front, then CAGR D would agree to allow for the transfer of only that portion of its ADD Water contract associated with water acquisition revenues collected on behalf of that member for the area the water provider was committing to serve, again subject to ADWR's agreement that excess groundwater deliveries will be considered reduced. If the water provider needs additional ADD water or if the ADD water transferred to the water provider is based on an interruptible contract, then the water provider would need to work directly with CAP to convert the interruptible contract to a long-term ADD Water contract or to opt-in to a new contract. Again, while no formal agreement was reached by the HIOG on this proposal, discussions were promising.

B. ADD Water Administration

The only issue that failed to gain significant traction during the HIOG was the administration of ADD Water. This was partly because of limited time, but mostly because there is true disagreement between stakeholders on this point. The Support Team prepared a policy paper¹¹ that addressed related issues that surfaced during the HIOG meetings. The Arizona Municipal Water Users Association prepared a second paper¹² that addressed the issue generally. Subsequent to the HIOG, the Arizona Municipal Water Users Association and other stakeholders¹³ prepared a proposal for the Stakeholder Working Group to consider at its January meeting. These three policy papers are found in Appendix D, E and F respectively.

The primary point of disagreement focuses around the roles the CAP Board, the CAP staff, future contractors and other stakeholders in administering the ADD Water Program; in particular definition of the responsibilities and authorities that rest with each party. While the Stakeholder Working Group made significant progress on this issues at its January meeting, the issues was still unresolved and is not expected to be discussed at the Board study session in January.

At the January Stakeholder Working Group meeting, stakeholders expressed a desire to move forward with the ADD Water program and to resolve

¹¹ This issue was addressed in [Policy Paper #18 ADD Water Administration](#) where additional information is provided.

¹² This issue was addressed in a paper prepared by AMWUA called [Administration of ADD Water](#) where additional information is provided.

¹³ Other stakeholders include City of Tucson, potential water supply sellers, Resolution Copper, APS and SRP. The proposal, called [Administration of ADD Water: Strawman Proposal Draft](#) is located in Appendix F.

the issue of administration within the context of planning, contractual and legislative functions.

VII. Next Steps

The revised Summary of Emerging Consensus will be taken to the CAP Board for a study session on January 21, 2010. At the study session, CAP staff will solicit feedback from the Board on the emerging consensus of the stakeholders and ask if there is any additional information the Board needs before it can make a decision. In mid-February, a final Stakeholder Working Group meeting is expected to be held to finalize the stakeholder's recommendation to the CAP Board. As early as March, based on the recommendation provided by stakeholders, CAP staff expects to ask its Board to consider moving forward with an ADD Water Program. If the Board decides not to move forward, then CAP will discontinue any additional work and wait until and if the issue is ripe for resolution. If the Board decides to move forward, then CAP will begin implementation. Assuming a positive decision, CAP will no longer be considering if it will create a new water supply for Arizona, but rather how this will be done.

ATTACHMENTS

ATTACHMENT A

HIOG Summary of Emerging Consensus

Summary of the emerging consensus points found in the policy paper prepared
by the HIOG.

Summary of Emerging Consensus

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> <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.

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 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 CAGR. "Service area" means the three-county (Maricopa, Pinal and Pima) that comprise CAWCD. [Policy Paper #1, summary of emerging consensus 1.]</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 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 the clarifying question 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 service - short-term water service - interruptible water service - spot-market water service <p><u>Long-term contracts</u> would be for permanent service and are intended to meet assured water supply requirements.</p> <p><u>Short-term contracts</u> would be for water delivered on a set schedule for a set period of time.</p> <p><u>Interruptible</u> 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><u>Spot-market contracts</u> 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>

Summary of Emerging Consensus

PARTICIPATION ELIGIBILITY

Q5 - How can entities opt-in to the supply option?	Q6 - How can entities opt-out of the supply option ¹ ?
<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 D <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 D [Policy Paper #5, summary of emerging consensus 3.]:</p> <ul style="list-style-type: none"> - An entity assuming responsibility to deliver water within the assigning contractor's service area or development area² - CAGR D, if it must replenish excess groundwater delivered within the assigning contractor's service 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 D [Policy Paper #5, summary of emerging consensus 4.]:³</p> <ul style="list-style-type: none"> - Water providers serving CAGR D member lands and member service areas, if the assigned water will be substituted for excess ground water pumping and will reduce CAGR D'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 procedure for assignment of ADD water contracts. [Policy Paper #5, summary of emerging consensus 5.]</p>

¹ 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.

² "Development area" means an area not necessarily served by the water provider at the time an ADD water contract is secured by the entity developing the area.

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

Summary of Emerging Consensus

PARTICIPATION ELIGIBILITY

Q7 - How to accommodate future participants in terms of sharing water?	Q8 - How to financially accommodate future participants?
<ol style="list-style-type: none"> 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.] 	<ol style="list-style-type: none"> 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 will be addressed under clarifying questions 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

NEED DETERMINATION

Q9 - How does "need" play a role in sharing the supply?	Q10 - Who determines the need?
<ol style="list-style-type: none"> 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.] 	<ol style="list-style-type: none"> 1. ADD water contractors determine their own needs. [Policy Paper #16, summary of emerging consensus 3.]

Summary of Emerging Consensus

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, an emerging consensus within the HIOG 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;
 - 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.

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

PRIORITIES/CONDITIONS

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

- 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 projects 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

PRIORITIES/CONDITIONS

Q12 - What are the priorities during shortages⁸?

1. 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

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 will be discussed on clarifying questions related to cost. [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

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

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 including bonding authority, public-private partnerships and perhaps property taxes specifically authorized for this purpose to support the funding mechanism. 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

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. No capital costs for infrastructure would be paid at the time of contracting. Instead, 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

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 be further discussed by the HIOG. [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

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 direct 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

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 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.
- 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.

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

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 Stipulation. b. The ability of CAP M&I subcontractors under their CAP 	<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 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 supplies. If demand by ADD water contractors exceeds the available unused supply, ADD water contractors will be offered unused ADD water in proportion to

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

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>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>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>

ATTACHMENT B

Evaluation Criteria

Peach criteria: design a mechanism to pay for new water supplies

Lavender criteria: share water and provide access to new supplies by all participants in the three-county area

INTEREST: To design a mechanism to pay for new water supplies						
<i>Bad</i>	<i>Poor</i>	<i>Acceptable (can live with)</i>	<i>Good</i>	<i>Excellent</i>	% of Decision *	Arena
Unreliable, inadequate funding	Funding to operate on limited basis	Most funding available, flexible and authority to supplement	Fully funded by multiple sources	Funding surplus up-front	18%	Financial sustainability of program
						To what extent does the program have sufficient financial tools and sources of revenue, for both CAP and participants, to ensure its long-term sustainability?
Cost allocations decided by an outside agency are arbitrary, not based on cost of service or agreed to; with non-ADD revenues subsidizing ADD	CAP decides cost allocation with minimal user input	Negotiated allocation of costs by users with sufficient understanding and justification based on cost of service	Some negotiated allocations, but most are fully understood, agreed to by participants and reflecting cost of service	Cost allocations are fully understood, justified by facts, agreed to and reflect cost of service	18%	Equitable cost allocation
						To what extent are the full costs of the ADD Water Program (water acquisition, infrastructure, delivery) allocated to ADD Water customers equitably based on the cost of providing that service?
Unpredictable costs and rigid payment requirements	Predictable short-term costs; unpredictable long-term; limited payment alternatives	Predictable long-term costs; limited payment alternatives	Predictable long-term costs; adequate payment alternatives	Predictable long-term costs; flexible payment alternatives	16%	Cost/payment predictability for participants
						To what extent does the ADD Water Program provide a predictable mechanism for determining participants costs and provide participants with flexible payment alternatives?
Single source funding (all on CAP; all on users)	Limited funding alternatives available	Funding available to those who need it	Multiple funding sources available to all users	Multiple funding sources available to all users with money available up-front	15%	Flexible funding source
						To what extent does the mechanism allow for flexible funding arrangements for users?
...for few users and uses	...for some users and uses	...for many users and uses	...for most users and uses	...for all users and uses	11%	Affordability
						To what extent is the program affordable?
Increased cost with no benefit to users; growth stops; no regulatory benefits	Disproportionate distribution of benefits/cost; regulatory constraint on growth	Benefits/costs related; regulatory goals supported	Benefits/costs proportionate; regulatory goals fully met	Benefits exceed costs; sustainability and maximum utility	10%	Value
						To what extent does the ADD Water process provide value over the existing water acquisition, allocation and delivery framework?
Structure is unpredictable, ineffective, complicated; inefficient; high overhead	Inefficient structure that impairs program	Somewhat efficient and effective structure that does not impair program	Mostly efficient structure that works for most participants	Low overhead; effective, highly efficient structure that works well for all participants	6%	Administration
						To what extent can the agreed upon program be efficiently and effectively run?
ACC approval of any cost recovery unlikely	ACC likely to allow deferral of costs for possible future recovery	ACC likely to allow recovery of some costs in normal rate case process and implement mechanism to fully recover deferred costs	ACC likely to allow full recovery of costs in normal rate case process	ACC likely to allow adjuster mechanism to insure full recovery of costs in current rates and fees	5%	Private water provider cost recovery
						To what extent is the cost of participation to the private water provider recoverable in private water provider rates or fees?

* Percent of decision is based on pair-wise comparison results averaged at the stakeholder group level. Percents may not add to 100% due to rounding.

INTEREST: To share water and to provide access to new supplies by all participants in the three county area						
<i>Bad</i>	<i>Poor</i>	<i>Acceptable (can live with)</i>	<i>Good</i>	<i>Excellent</i>	% of Decision *	Clarifying Question and Arena Name
Some get part of their needs met and others get none	Everyone gets some of what they need but too many misgivings to be acceptable	Everyone gets some of what they need with some misgivings	Everyone gets what they need	Everyone gets what they want and need	19%	Sharing of new supply
						To what extent does the ADD Water program meet the current and future demands of water users in the three county area?
Confusing, rigid, dictatorial, unpredictable contentious process	Vague, general disagreement on process and outcome; limited flexibility	Generally acceptable process and outcome with clear standards and some flexibility	Structured process that has flexibility	Process is: fully understandable, adaptable, long term, predictable, not complex and easily implemented	18%	ADD water sharing process structure (apportioning)
						To what extent is the process for apportioning ADD Water supplies fully understandable, adaptable, long term, predictable, not complex and easily implemented?
What is planned for highly uncertain and/or unreliable	Most of what you plan for is delivered	What is planned is delivered annually	What is planned is delivered annually and surplus is available on limited basis	Surplus is available	18%	Planning certainty
						To what extent does the ADD Water program provide planning certainty for future water supplies?
Third party (including CAP) decides need based on their criteria without stakeholder agreement	Third party decides with limited stakeholder input	Participants determine own need with mutually agreed upon criteria	Participants determine own need with minimal mutually agreed upon criteria	Participants determine their own needs	17%	Determination of need
						To what extent will the ADD Water process establish criteria to determine need?
Eligibility is limited to very few	A minority of interested parties are eligible to purchase	Majority have eligibility to purchase	Everyone has some eligibility to purchase	Everyone has equal eligibility to purchase	11%	Who can buy ADD water (eligibility)
						To what extent is any interested party eligible to purchase new water supplies through the ADD Water process?
Cannot meet state and local regulations including assured water supply for those who want it	Will only meet current state and local regulations including assured water supply for those who want it with user enhancement	Meets current state and local regulations including assured water supply for those who want it	Exceeds current state and local regulations including assured water supply for those who want it	Exceeds current state and local regulations including assured water supply for those who want it and solves existing water management problem	10%	Water Management
						To what extent does the program help users meet regulations and solve water management problems?
CAP abdicates control of its system to multiple "special interests" agreements	Some "special interest" agreements limit CAP's operational flexibility hindering optimizing	CAP uses ADD water supplies according to defined policies and practices maximizing system operation to meet obligations	CAP uses existing and ADD water supplies according to defined policies and practices optimizing the system to meet obligations	CAP free to use existing and ADD water supplies as it sees fit to fully optimize system operation to meet obligations	7%	Operational Flexibility for CAP facilities to meet customer obligations
						To what extent will the ADD Water process provide operational flexibility for CAP to meet customer obligations?
All existing water rights and contracts are protected	All existing water rights and contracts are protected	All existing water rights and contracts are protected	All existing water rights and contracts are protected	All existing water rights and contracts are protected	Not Weighted	Protection of Existing water rights and contracts
* Percent of decision is based on pair-wise comparison results averaged at the stakeholder group level.						

ATTACHMENT C

Policy Paper #15 ADD Water and CAGR

Policy Prepared for the HIOG on ADD Water and CAGR.

ADD Water Policy Briefing Paper #15
Revised November 20, 2009

TOPIC AREA: CAGR D and ADD water

This policy paper addresses all of the clarifying questions and specifically addresses:

Q26 – How does ADD water work with CAGR D?

Background information can be found in the Summary of Stakeholder Team Alternatives and the Summary of Stakeholder Agreements and Areas of Further Discussion. Points of emerging consensus related to the CAGR D can be found in all the policy papers produced to date. The summary of emerging consensus below restates those agreements relative to how they are applied to the CAGR D.

Summary of emerging consensus:

1. CAGR D 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.
2. CAGR D is eligible for any class of ADD water contract including: long-term or short-term service, interruptible or spot market.
3. CAGR D can use ADD water under its contract for legal purposes under applicable state and federal law, including underground storage and recovery and replenishment.
4. To opt-in to the ADD Water program, CAGR D 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.
5. CAGR D must use its ADD water inside the CAP's three county service area.
6. If the CAGR D does not use its entire contract amount, it should not be able to market the unused supply to others.
7. CAGR D may not independently assign any part of its ADD water contract to another entity.
8. If CAGR D 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 CAGR D's replenishment obligation.
9. If an ADD Water contractor decides to opt-out of its contract and CAGR D is required to replenish excess groundwater delivered within the assigning contractor's service (or development) area, then CAGR D holds a priority to

the assigned water that is second only to an entity assuming responsibility to deliver the water within the assigning contractor's service (or development) area.

10. CAGRDR is not restricted to obtaining ADD water contracts only. CAGRDR may secure water supplies independently (e.g. contracts for effluent).
11. Like other ADD water contractors, CAGRDR would have the first right of refusal to unused ADD water supplies.
12. During a shortage, CAP would not deliver water to the CAGRDR for any spot-market or interruptible ADD water contracts.
13. CAGRDR will pay two fixed postage stamp OM&R rates:
 - 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.
14. CAGRDR would be required to pay fixed OM&R costs for water scheduled for delivery whether taken or not. CAGRDR would be relieved of this obligation only to the extent that CAP, or the CAGRDR, is able to find another customer for any unused water.

Issues to Hammer-Out:

These issues will be discussed in the Hammer-It-Out Group:

1. Interim set aside for existing plan of operation.
2. How can we make sure that the cost of ADD Water contracts does not drive all new growth to the CAGRDR?
3. How do CAGRDR members recover money they've paid to CAGRDR if they want to contract for ADD Water themselves at a later date?
4. Relationship between the CAGRDR Plan of Operation, ADD water plans of operation and the Assured Water Supply program. (*no strawman developed*)

Issue #1: CAGRDR's Interim Set-Aside

Strawman Proposal: As a result of Project Wheel, the CAP Board approved an interim set-aside of CAP aqueduct capacity for CAGRDR totaling 105,000 AF/year. This volume was based on CAGRDR'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, CAGRDR 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, CAGRD'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 CAGRD'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 CAGRD's ability to contract for Long and Short-Term ADD Water service under the same terms as other ADD Water contractors.

Issue #2: Prevent ADD Water from Driving Growth to the CAGRD

Strawman Proposal: All CAGRD membership enrollments occurring after the implementation of ADD Water must be conditioned on the payment to CAGRD of an amount sufficient to cover CAGRD's costs of acquiring an ADD Water contract that is large enough to meet the member's projected annual replenishment obligation at build-out. Alternatively, the prospective member may acquire its own ADD Water contract and transfer it to the CAGRD in lieu of cash payment. The payment or contract transfer for a member may occur incrementally, but must ensure that CAGRD has access to ADD Water prior to incurring a replenishment obligation. [Note: this proposal will likely necessitate different assessment rates for members that enrolled before ADD Water vs. those that enroll after ADD Water is implemented]

Issue #3: Conversion from Replenishment to Direct Delivery of ADD Water

Strawman Proposal:

- A. For members that paid ADD Water costs up-front, CAGRD will agree to transfer that portion of its ADD Water contract that was acquired in conjunction with that member's enrollment to the water provider that commits to serve the member, thereby reducing the volume of excess groundwater delivered to the member. This will require formal acknowledgement by ADWR that CAGRD's replenishment obligation is reduced.
- B. For members that did not pay ADD Water costs up-front, CAGRD will keep track of the total amount of fee and rate revenues generated on behalf of the member for water supply acquisition. CAGRD will agree to transfer that portion of its Interruptible Add Water contract that was acquired in support of that member's enrollment, up to the total value associated with water acquisition revenues collected, to the water provider that commits to serve the member ("recipient"), thereby reducing the volume of excess groundwater

delivered to the member. This will require formal acknowledgement by ADWR that CAGR's replenishment obligation is reduced. To the extent the recipient wishes to convert the Interruptible ADD Water contract into a Long-Term ADD Water contract, CAWCD will allow the conversion only if (1) all other opt-out/opt-in conditions are satisfied, and (2) the recipient agrees to pay to CAWCD the difference in cost between an Interruptible ADD Water contract and a Long-Term ADD Water contract.

ATTACHMENT D

Policy Paper #18 Administration of ADD Water

Policy Prepared for the HIOG on Administration of ADD Water.

ADD Water Policy Briefing Paper #18
Revised November 20, 2009

TOPIC AREA: Administration of ADD Water

This policy paper addresses the following clarifying questions:

Q1 – What is the role of participants in overseeing and managing the ADD Water Program?

Q2 – What is the governance structure?

Background information can be found on page 1 and 2 of the Summary of Stakeholder Team Alternatives.

Summary of Emerging Consensus:

No emerging consensus was reached.

Issues to Hammer-Out

These issues remain to be addressed by the Hammer-It-Out Group:

1. General points
2. Scope and elements of plans and budgets
3. Development process for plans and budgets
4. Approval process for plans and budgets

Issue #1: General points for consideration

- A decision to implement ADD Water must be made by the CAWCD Board of Directors.
- CAP will begin developing plans and budgets for ADD Water upon approval and direction to proceed from the CAWCD Board of Directors.
- CAP will administer the ADD Water Program.
- Prior to signing ADD Water contracts, CAP will need to prepare plans and budgets to guide implementation.
- ADD water contractors, potential ADD water contractors and other stakeholders should have the option to be involved in developing operational plans and budgets for ADD water through a formalized process.

Issue #2: What is the scope and what are the elements of the plans and budgets needed to implement ADD Water?

Strawman: Every 10 years or sooner if desirable, CAWCD will prepare a plan of operation for the ADD Water Program. The first plan will be prepared by July 1, 2012. The purpose of the plan of operation is to describe the action CAWCD will take during the 100 calendar years following submittal of the plan to provide a continuously available water supply for its three county service area. The plan would include the following information:

- ADD water deliveries:
 - Contract volume, type of contract and name of contract holder for each ADD water contract signed previous to the submittal of the plan.
 - Volume of new ADD water contracts projected to be executed during the ten years following submission of the plan.
- ADD water supplies:
 - Description of water supplies acquired to satisfy ADD water contracts.
 - Description of the water resources CAP plans to acquire to satisfy ADD water contracts.
 - Description of actions CAP plans to take to meet ADD water deliveries during shortages and surpluses.
- ADD water infrastructure:
 - Description of infrastructure improvements made to deliver ADD water in the ten years preceding submittal of the plan.
 - Description of facilities and projects CAP plans to use to meet ADD water deliveries during the twenty calendar years following submission of the plan.
- ADD water costs and rates:
 - Description of charges and rates for ADD water in the ten years preceding submittal of the plan.
 - Description of potential charges and rates for ADD water during the twenty calendar years following submission of the plan.
- Additional information:
 - Any other information required by ADWR to ensure ADD water contracts can be pledged for assured water supply purposes by ADD water contractors.
 - Any other information CAWCD deems necessary to implement the ADD Water Program.

To accompany the Plan of Operation, CAWCD will prepare all budgets consistent with its budgeting procedures.

Issue #3: How will the ADD Water plan of operation and associated budgets be developed?

Strawman: CAP will convene an advisory group to participate in the development of the ADD Water Plan of Operation. For the initial Plan of Operation, any potential ADD water contractor or other stakeholder can participate in the development of the ADD Water Plan of Operation. The process used to develop the plan will be similar to the processes used for the ADD Water Process and the CAGR D Plan of Operation process. CAP will pay for the cost of developing the plan and supporting the advisory group. Those costs will be tracked and incorporated into the start-up costs for ADD Water. Once ADD water contracts are signed, CAP will convene an on-going advisory group made up of ADD water contractors to advise CAP on implementation issues.

After the plan is developed, CAP will prepare all budgets consistent with its budgeting procedures but will also include an opportunity for the advisory group to have input into the budget related to ADD Water.

Issue #4: What is the approval process for the ADD Water plan of operation and associated budgets?

Strawman: The CAP Board will approve the ADD Water plan of operation and associated budgets. Prior to approval, the CAP will conduct a formal review process for the plan. The budget will be approved through CAP's standard budgeting procedure.

CAP will also submit the ADD Water plan of operation to the Arizona Department of Water Resources (ADWR) for review and approval as it pertains the Assured Water Supply Program. This review will follow the same procedure used by ADWR to determine the CAGR D's Plan of Operation is consistent with the goals of the Assured Water Supply Program.

ATTACHMENT E

Administration of ADD Water

Policy paper prepared by the
Arizona Municipal Water Users on Administration of ADD Water.

ADMINISTRATION OF ADD WATER

Alternative Ideas to ADD Water Policy Briefing Paper #18 November 19, 2009

Introduction

The CAWCD was established by the legislature to levy an ad valorem tax in order to assist in repayment of the CAP, to contract with the Secretary of the Interior for the repayment and delivery of CAP Water, and to subcontract for the use of CAP Water. A.R.S. § 48-3703. The legislature later expanded the duties of the CAWCD to add the responsibility to replenish excess groundwater pumped for member lands and member service areas. At that time, the legislature authorized CAWCD to:

"Acquire, transport, hold, exchange, own, lease, store or replenish, water, except groundwater withdrawn from an active management area, subject to the provisions of title 45, *for the benefit of member lands and member service areas.*

Acquire hold, exchange, own, lease, retire or dispose of water rights *for the benefit of member lands and member service areas.*"

A.R.S. § 48-3772.B (emphasis added).

The ADD Water Program will be a new area of responsibility for CAWCD that will likely require additional enabling legislation. Because of this, the respective roles of the CAWCD and ADD Water contractors will need to be defined. Existing models of administration for CAP Water or the replenishment of excess groundwater may not be suitable for the ADD Water Program for many reasons, including:

- At least part of the costs of acquiring ADD Water will be paid up-front and some
- ADD Water contractors may self-finance these costs. (see Policy Briefing Paper #10)
- Any water rights acquired by CAWCD for ADD Water will be held for the benefit of the ADD Water contractors. (see Policy Briefing Paper #2)
- ADD Water long-term service contracts will be for permanent service. (see Policy Briefing Paper #3)

Additionally, a different model of administration for the ADD Water Program may help to avoid conflicts between this program and CAWCD's existing responsibilities.

CAWCD, as the operator of the CAP canal and other facilities used to transport ADD Water and the entity that will acquire ADD Water supplies for the benefit of the ADD Water contractors, has a significant role to play in the administration of an ADD Water Program. ADD Water contractors, who will ultimately pay either up-front or over time and who require certainty and clarity to allow informed decisions, should also have a significant role in certain aspects of the administration of an ADD Water program. In some cases, CAWCD should have sole decision-making authority. In other cases, CAWCD should consult with the ADD Water contractors before arriving at a decision. In certain cases, CAWCD should not proceed without the consent of the ADD Water contractors.

Following are some ideas on sharing the administration of the ADD Water Program. The organizational structure for implementing these ideas needs further exploration and is not addressed here.

Ideas

CAWCD Sole Decision-Making Responsibilities

Examples include:

1. All existing responsibilities as authorized by state and federal law, i.e., duties related to the CAP Project and the replenishment of excess groundwater.
2. Day-to-day operation of the ADD Water Program.

CAWCD Decision-Making Responsibilities in Consultation with ADD Water Contractors

Examples include:

1. Scheduling of ADD Water.
2. Development of an ADD Water reserve fund policy.
3. Procedure and guidance for assigning ADD Water contracts.
4. Any program for storing unused ADD Water supplies underground to ensure the reliability of future ADD Water deliveries to ADD Water contractors, as well as recovery of that stored water.

CAWCD Decision-Making Responsibilities Requiring Consent of ADD Water Contractors

Examples include:

1. Types of water sources that will be pursued for ADD Water, e.g., present perfected rights to Colorado River water, groundwater, desalinated water.

2. Phases of ADD Water supply acquisition and infrastructure construction.
3. Upper limits on the costs of ADD Water acquisition and infrastructure construction, including environmental compliance.
4. Funding mechanisms for capital costs of ADD Water supplies and infrastructure.
5. Case-by-case determination of using ADD Water outside the CAP Service Area (i.e., those uses not specifically authorized by Policy Briefing Paper #11).
6. Form of the standard ADD Water contract.
7. Enabling legislation.

ATTACHMENT F

Administration of ADD Water: Strawman Proposal Draft

December 29, 2009

Policy paper prepared by the

Policy paper prepared by the Arizona Municipal Water Users, City of Tucson,
potential water supply sellers, Resolution Copper, APS and SRP on
Administration of ADD Water.

ADMINISTRATION OF ADD WATER

Strawman Proposal¹ Draft December 29, 2009

The CAWCD Board of Directors has many existing responsibilities that are prescribed by law. An ADD Water program should not diminish any of the current authority of the CAWCD Board. However, because the ADD Water Program will be a new area of responsibility for CAWCD, a clear definition of the respective roles of CAWCD and the ADD Water contractors is necessary. CAWCD, as the operator of the CAP canal and other facilities that will be used to transport ADD Water and the entity that will acquire ADD Water supplies for the benefit of the ADD Water contractors, has the primary responsibility for the administration of an ADD Water Program. ADD Water contractors, who will finance the ADD Water Program and will rely on ADD Water to provide a sustainable water supply, also need a role in order to ensure the certainty and clarity that will enable them to make informed decisions.

Many responsibilities of an ADD Water Program are within the sole purview of CAWCD. For example, CAWCD will be responsible for the day-to-day operation of the ADD Water Program.

Other responsibilities should be carried out by CAWCD only after receiving advice from stakeholders. An example is the development of a standard form of contract for ADD Water.

Some aspects of an ADD Water Program are best implemented by CAWCD after it consults with those who have signed an ADD Water Contract. Examples include:

1. Scheduling of ADD Water.
2. Development of an ADD Water reserve fund policy.
3. Procedure and guidance for assigning ADD Water contracts.
4. Any program for storing unused ADD Water supplies underground to ensure the reliability of future ADD Water deliveries to ADD Water contractors, as well as recovery of that stored water.
5. Case-by-case determination of using ADD Water outside the CAP Service Area (i.e., those uses not specifically authorized by Policy Briefing Paper #11).

¹ Developed by representatives of AMWUA, the City of Tucson, potential water supply sellers, Resolution Copper, APS and SRP.

Finally, certain responsibilities of an ADD Water Program are best administered pursuant to a standard form contract between the CAWCD and the ADD Water contractor. A contractual relationship has many benefits, including providing the confidentiality CAWCD will need to effectively negotiate the acquisition of ADD Water supplies and the certainty ADD Water contractors will require to invest in the ADD Water Program. Examples of these responsibilities include:

1. Types or classes of water sources that will constitute the water supply for each type/class of ADD Water, e.g., present perfected rights to Colorado River water, groundwater, desalinated water, etc.
2. Timing of ADD Water supply acquisition and infrastructure construction for the block of water and infrastructure identified for the current ADD Water contracts.
3. Upper limits on the costs of ADD Water acquisition and infrastructure construction, including environmental compliance.
4. Financing mechanisms for capital costs of ADD Water supplies and infrastructure.

General Process for Implementing the Strawman Proposal

CAWCD will convene (or continue) a stakeholders process to develop a standard form of contract for ADD Water. The process will include the establishment of a legal subcommittee for the purpose of drafting (for ultimate approval by the CAWCD Board of Directors) the standard form of ADD Water contract, which will define the roles and responsibilities of the contracting parties as outlined above. The process will also include the development of necessary enabling legislation for an ADD Water Program.

The standard form of contract for ADD Water will include the terms and conditions previously developed during the ADD Water stakeholders process and a time-limited feasibility phase. During the feasibility phase, CAWCD will, among other things:

- Identify specific water sources that will be pursued for ADD Water, up to the initial target amount of 300,000 acre-feet.
- Determine the timing of ADD Water supply acquisition and infrastructure construction.
- Estimate costs of ADD Water acquisition and infrastructure construction, including environmental compliance.
- Secure options or other legal assurances for the acquisition of identified water supplies.
- Develop necessary financing.

Any ADD Water contractor who does not agree with the findings of the feasibility phase may opt out of the contract and will incur no further financial responsibility for the ADD Water Program. Additionally, other stakeholders may opt-in to the ADD Water Program during the feasibility phase or before the implementation phase begins by signing an ADD Water contract.

Once the feasibility phase is complete, the water supplies and infrastructure referenced in the ADD Water contracts will be developed during an implementation phase. (The implementation phase may include financial provisions that spread the costs of infrastructure construction.) Expansion of the ADD Water Program beyond the existing contracts will be accomplished by initiating a new feasibility phase and a new set of contracts, which will not interfere with the contractual rights of existing contractors.