

Action Brief

BOARD OF DIRECTORS



Agenda Number 6.

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DATE: October 28, 2010

AGENDA ITEM: Consideration of Action to Approve Revisions to the Ag Pool Program

RECOMMENDATION:

Staff recommends that the Board approve changing the Ag Pool allocations for irrigation and drainage districts in the Pinal AMA from 1.3 acre-feet per acre to 1.0 acre-feet per acre.

FINANCIAL IMPLICATIONS:

Impact on Budget: No impact on budget.

Additional spending authority requested: \$0

Impact on Reserves:

Perhaps some increase if any Ag Pool water is not used and the water is subsequently sold as full cost Excess Water.

Impact on Rates:

No change.

Impact on Revenue:

Perhaps some increase in fixed OM&R revenues.

RELEVANT POLICY, STATUTE OR GUIDING PRINCIPLE:

Supplemental Policy for Marketing of Excess Water for Non-Indian Agricultural Use – 2004 through 2030 (Attachment 1).

PREVIOUS BOARD ACTION/ACTIVITY:

April 22, 2010 Finance, Audit & Power Committee
June 3, 2010 CAWCD Board Meeting
October 7, 2010 CAWCD Board Meeting

ISSUE SUMMARY/DESCRIPTION:

During the water rate setting process for 2011/2012, staff was requested to work with the ag user customers and Arizona Department of Water Resources (ADWR) to identify alternatives to help reduce the rising cost of CAP water to our ag customers. CAP staff met with ADWR and ag user representatives to mutually develop a proposal to adjust the ag pool allocation for the Pinal County irrigation districts. Those districts are the most significantly impacted by the rising cost of CAP water. Staff prepared a Discussion Paper (Attachment 2) that describes the issues and the proposal and shared that paper with a cross section of the ag and M&I user community. No negative comments have been received. Several positive responses have been offered by ag and M&I users.

At the October 7, 2010, Board meeting, some requests were made for information about the current allocation and use of Ag Pool water and for a specific example of the allocation with the proposed updates. I have attached that information. Attachment 3 is the actual use of Ag Pool water in 2009. Attachment 4 shows the initial allocation of the Ag Pool when 2009 schedules were originally submitted and the subsequent reallocations that took place during the year. Attachment 5 is the allocation of the Ag Pool in 2011 with the proposed reductions of the initial allocation for the Pinal AMA irrigation and drainage districts (IDDs). In this example, it is presumed that those IDD's will request the additional water in the redistribution process.

The action to be considered by the Board at its November 4, 2010, meeting does not require any change to the actual Policy. The only change will be to the application of the table entitled, "Ag Pool Allocation (Initial Offer – 2004)." The acre-feet per acre for the Pinal AMA would be changed from 1.3 acre-feet per acre to 1.0 acre-feet per acre. This Action Brief and the Discussion Paper will be added to the Board policy manual to document that change, if adopted.

SUGGESTED MOTION:

I move that the Ag Pool Allocation for the four irrigation and drainage districts in the Pinal AMA be reduced from 1.3 acre-feet per acre to 1.0 acre-feet per acre. As is consistent with the current Policy (adopted December 5, 2002), the unallocated water resulting from this change will first be offered to the irrigation and drainage districts in the Pinal AMA before being offered to the other Ag Pool participants.

**Discussion Paper
November 4, 2010**

**An Alternative to the Current Ag Pool Allocation Procedure, Impact on the
Blended Cost of Ag Water, and Effect on Continued Ag Water Use**

Background

The Arizona Water Settlements Act establishes a pool of first priority Excess Water to be allocated to the CAP agricultural water customers at the incremental cost of pumping. This allocation was a part of the overall agreement for the ag users to relinquish their long-term CAP subcontract allocations so that water supply could be used for Indian water settlement. At that time, it was projected that power rates related to the Navajo Generating Station would rise slowly and the Ag Pool water would remain affordable. In reality, power rates have risen much more rapidly and the Ag Pool water has become the most expensive component of the ag water user's water supply.

Use of CAP water by the agricultural community is an important component of CAP. The Ag Pool is about 25 percent of the CAP supply (400 kaf) and direct use by agriculture through the Groundwater Savings Facility (GSF) program adds another 15 percent (220 kaf). In total, agriculture uses about 40 percent of the CAP supply. If that use were to drop off dramatically, we do not have the facilities or the funds to store all of that water in Underground Storage Facilities. Ultimately, some Arizona water would be left on the Colorado River for use by others.

The CAP has added to its water rate programs an opportunity for ag users to earn delivery incentives for participation in certain activities beneficial to CAP. These activities include 1) use of the allocated Ag Pool, 2) serving as a GSF for storage by the AWBA or CAGR, and 3) participating in stored water recovery programs. While not all ag users' qualify for all programs, the incentives for 2010 range from \$6 to \$10 per acre-foot (af) for the Ag Pool allocation and will be \$8 to \$12 per af in 2011.

At the time the 2011 rates were established, the CAWCD Board directed staff to work with the ag users and Arizona Department of Water Resources (ADWR) to identify other alternatives that would help keep the overall cost of CAP water affordable for ag use.

Issue Discussion

The ag users have three types of water available: 1) their groundwater right, 2) CAP Ag Pool, and 3) cost-shared CAP water stored in a GSF. Any CAP water replaces a use of their groundwater right. The lowest cost water is that portion of their groundwater that can be pumped with lower cost federal power. The second lowest is the cost shared GSF water in which the storing partner will "buy down" the cost of CAP water so that it is a lower cost than the next level of groundwater pumping. The CAP Ag Pool allocation is usually the most costly except for some "peak" groundwater pumping.

The ADWR requires that before an ag user can serve as a GSF for CAP water, that user must use the CAP water "reasonably" available. Reasonably available includes physically deliverable and economically affordable. The CAP Ag Pool allocation was deemed to be reasonably available.

The CAP Ag Pool was established as a specific pool of 400,000 af declining to 300,000 af, then to 225,000 af over the period from 2004 to 2030. The allocation of that pool was done as a subset of a CAP policy. The allocation was based on "CAP eligible acres" in each irrigation district (ID). In the Phoenix AMA (and the Harquahala INA), those IDs with a history of use pursuant to a CAP subcontract were allocated 1 af per ac. Other ag users in the Phoenix AMA were allocated .5 af/ac. In the Pinal AMA, the IDs were allocated 1.3 af/ac. Those users sought a higher allocation because they had less opportunity to find GSF partners because their service areas were not close to large municipal users. In the Tucson AMA, there was little historic use of ag water. Those users were allocated .5 af/ac.

More recently, opportunities for GSF partners have increased in the Pinal AMA due to the desire to store water for future use by mining companies, energy companies, and the Gila River Indian Community. The requirement to use the larger, more costly CAP Ag Pool allocation before receiving GSF water causes the total costs for CAP water to be higher than in other areas. If the requirement to use all of the Ag Pool water was removed or the allocation was lowered, those IDs in the Pinal AMA would be able to seek more GSF partners and lower the overall cost of CAP water.

The ADWR did not feel it was appropriate to eliminate the requirement regarding the full use of the CAP Ag Pool allocation before receiving GSF water.

A suggested solution was for CAP to adjust the Pinal AMA IDs allocation to 1.0 af/ac, the same as similar IDs in the Phoenix AMA. This has no effect on the current ADWR process. The proposal was acceptable to ADWR and the ag representatives who attended the initial meeting. The unallocated Ag Pool water arising from this revised allocation would be available first to any ID in the Pinal AMA before being offered in other AMAs just as any water allocated but not requested is handled under current procedures.

One possible outcome is any unused Ag Pool water would become Excess Water available to be sold to GSF partners. In that case, CAP would receive full price for that water and would not be subsidizing the Ag Pool rate or the Ag incentives.

Another possibility would result in all of the Ag Pool water being used, just in a different AMA or in the Harquahala INA. The GRIC community would order more contract water for GSF use in the Pinal AMA. There would be increased competition for a somewhat smaller Excess Water Pool thereby helping ensure all of Arizona's Colorado River water is used.

CY 2011 AG Settlement Pool Allocations

Revised: October 18, 2010

	(A)	(B)	(C)	(E)	(F)	(G)	(H)	(I)	(J)	(M)
	Eligible Acres	AF/per Acre	Initial Volume	Allocation Scheduled	% of AMA	Redistributed Pinal AMA (*)	Redistributed Phoenix AMA	Redistributed Tucson AMA	Bring to 400k Maximum	Total CY 2011 Annual Allotment
<u>Pinal AMA</u>										
Central Arizona IDD	85,438	1.0	85,438	85,438	38%	25,632	0	0	0	85,438
Hohokam IDD	27,614	1.0	27,614	27,614	12%	8,284	0	0	0	27,614
Maricopa Stanfield IDD	83,986	1.0	83,986	83,986	38%	25,196	0	0	0	83,986
San Carlos IDD	25,884	1.0	25,884	25,884	12%	7,765	0	0	0	25,884
Subtotal			222,922	222,922	100%	66,877	0	0	0	222,922
<u>Phoenix AMA</u>										
Chandler Heights CID *	542	1.0	542	495	1%	0	47	0	0	495
MWD	8,000	0.5	4,000	4,000	7%	0	0	0	0	4,000
New Magma IDD	27,325	1.0	27,325	27,325	47%	0	0	0	0	27,325
Queen Creek ID	12,000	1.0	12,000	12,000	21%	0	0	0	0	12,000
Roosevelt WCD	10,000	0.5	5,000	5,000	9%	0	0	0	0	5,000
SRP	7,600	0.5	3,800	0	0%	0	3,800	0	0	0
San Tan ID	1,400	1.0	1,400	0	0%	0	1,400	0	0	0
Tonopah ID	3,460	1.0	3,460	3,460	6%	0	0	0	0	3,460
Subtotal			57,527	52,280	100%	0	5,247	0	0	52,280
<u>Tucson AMA</u>										
BKW Farms	3,270	0.5	1,635	1,635	11%	0	0	0	0	1,635
Cortaro-Marana ID	11,500	0.5	5,750	0	0%	0	0	5,750	0	0
FICO (?)	6,194	0.5	3,097	0	0%	0	0	3,097	0	0
Kai Farms/Marana	4,200	0.5	2,100	0	0%	0	0	2,100	0	0
Kai Farms/Red Rock	2,000	0.5	1,000	1,000	7%	0	0	0	0	1,000
Subtotal			13,582	2,635	100%	0	0	10,947	0	2,635
<u>Outside AMA</u>										
Harquahala Valley ID	32,537	1.0	32,537	32,537	100%	0	0	0	0	32,537
Total	352,950		326,568	310,374	100%	66,877	5,247	10,947	6,555	400,000

(*) Redistributed volume reflects 0.3 AF/per acre allocation reduction.

(?) May submit a CY 2011 water schedule.