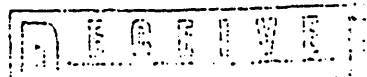


ARIZONA DEPARTMENT OF WATER RESOURCES

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June 23, 1993



JUN 25 1993

FIFE SYMINGTON
Governor

RITA P. PEARSON
Director

Robert J. Towles
Regional Director,
Lower Colorado Region
U.S. Bureau of Reclamation
P.O. Box 61470
Boulder City, Nevada 89006-2470

Tom Clark
General Manager
Central Arizona Water Conservation District
23636 North 7th Street
Phoenix, Arizona 85024

Dear Messrs. Towles and Clark:

This letter is to convey to the U.S. Bureau of Reclamation and Central Arizona Water Conservation District the State's policy on marketing of CAP M&I priority water. This policy was developed after a process which involved the Department of Water Resources distributing proposed criteria, holding a meeting among interested parties to discuss the proposed criteria, and receiving written comments from concerned entities. For the purpose of this discussion, "marketing" refers to a sale, lease or any other transaction involving the receipt of consideration for the relinquishment of a CAP subcontract entitlement.

The Department of Water Resources (Department) has the responsibility to formulate plans and develop programs for the development, management, conservation and use of surface water and groundwater in Arizona. The Department is also authorized to consult, advise and cooperate with the Secretary of the Interior in the exercise of his authority on a wide range of contracting issues relative to the water of the Colorado River.

Based on the Department's duties and authority, the Secretary of the Interior has, since authorization of CAP, turned to the State to recommend the allocation of Arizona's remaining entitlement to Colorado River water among non-Indian users. Marketing of subcontracts is a process of further redistribution of the supply. Therefore, the State has an interest in assuring that sales and exchanges of CAP water are consistent with the objectives of the original recommendation and the water management policies of the State. The Department believes its perspective is a valuable one, not otherwise represented by the contracting parties.

After a careful review of the written and oral comments on the proposed criteria, the Department has decided at this time to limit the scope of the policy to exchanges involving subcontractors with service areas outside of the three county CAWCD service area which appear to have no opportunity to use CAP water directly. Marketing by subcontractors inside of CAWCD's service area is expected to be requested in the future. However, because of the current uncertainty of future CAP water cost, it would be premature to develop a marketing policy applicable to these subcontractors. After Project repayment begins and subcontract restructuring, if any, is in place, the matter will be revisited by the Department.

As a general principle, the Department supports marketing of CAP subcontract entitlements. Any marketing of CAP subcontracts should be structured to provide incentives for voluntary relinquishment of underutilized CAP water supplies to generate revenues for CAP repayment and promote the use of water resources consistent with the State's water management goals and management plans. The transaction should, to the extent practical, also minimize any negative environmental, social and economic impacts.

The Department recommends that the policies listed below serve as guidelines for USBR and CAWCD in approving transactions involving CAP subcontracts outside of CAWCD's service area:

1. Any marketing of CAP supplies should advance the State's policies of reducing the use of groundwater in the AMAs and of promoting the early use of CAP water.
2. The purpose of the CAP allocation was to provide a dependable supply of water for the subcontractors. Therefore, the use of funds obtained in return for release of a CAP subcontract should be dedicated to water supply development. The appropriateness of the proposed water development program should be evaluated on a case-by-case basis. In general, any expenditure to improve the reliability of a water supply to the marketing entity would be acceptable.
3. A request for approval of a marketing proposal should be accompanied by an explanation by the marketing entity of why marketing of the CAP entitlement is preferable to the use of CAP water directly or through a direct exchange.

4. The Department of Water Resources and other interested parties should be notified by the subcontractor at least 60 days in advance of application for CAWCD or USBR approval of any marketing arrangement to allow sufficient time for Departmental and public review or comment.

Your consideration of this general policy will aid in the State's effort to distribute this important natural resource in a manner consistent with its water management objectives and state laws.

Sincerely,



for
Rita P. Pearson
Director

RPP/gw

cc: Interested Parties