

MEETING SUMMARY

Wheeling Stakeholder Meeting #1 "Serve As You Come" March 12, 2014 9:00 AM – 12:00 PM

The Wheeling Stakeholder Meeting #1 was called to order by Kenneth Seasholes, Manager, Resource, Planning & Analysis, at 9:05 a.m. The meeting was held at Arizona Department of Water Resources, 3550 N. Central Avenue, Phoenix, Arizona.

Mr. Seasholes welcomed the stakeholders and introduced himself. He also introduced, among others, Suzanne Ticknor, Patrick Dent, Tom McCann, Ted Cooke, Terri Boxley, Sheila Stratford and Cheryl Visconti. Frank Fairbanks will be acting as the Board Member Liaison (not present).

Mr. Seasholes explained that the purpose of the stakeholder process is to refine and improve the CAP Staff Proposal. The staff proposal is comprised of white papers, a standard form of wheeling agreement, revisions to the Operating Agreement and a wheeling model. The stakeholder process is intended to solicit and incorporate feedback in a manner that is workable and focused.

The goal of the process is to have a set of framework documents that can be approved by the CAWCD Board and Reclamation, and to move forward with a standard form of wheeling agreement. Mr. Seasholes explained that CAP and Reclamation are in sync in terms of the authorization and negotiation process.

Approach

Mr. Seasholes reported that the general approach in this process is to consider the major concepts in the staff proposal over a set of four meetings.

- **Serve As You Come** – a core concept for issuance of wheeling contracts, which is different from the allocation approach considered in the past.
- **Operations** – this will include scheduling, priority, losses, energy and some of the mechanics of wheeling that are significant to stakeholders.
- **Cost & Capacity** – discussion of possible system improvements and how the associated costs might be collected.
- **Remainders & Closure** – this will bring all of the elements together for comprehensive consideration by stakeholders.

Format

Mr. Seasholes discussed the meeting format for the stakeholder process and indicated that there are no formal representatives, and that everyone's ideas and views are welcome. He said that CAP is seeking a broad spectrum of all of the stakeholders' issues. Everyone is aware of time constraints so timekeeping and process control will be enforced as needed. The presentations and materials, including audio recordings, meeting summaries and document revisions will be posted on CAP's website at www.cap-az.com.

Today's meeting

The goal of Meeting #1 is to provide background and perspective on "Serve As You Come" and to identify some of the underlying issues. The approach is to provide an overview of the concept, then review and discuss its three major elements: "Tied to a specific supply"; "All regulatory approvals have been completed"; and "Tied to a specific user."

Activity Update

On February 4th CAP held a Stakeholder Workshop to review the staff proposal, and the associated modeling. On February 6th the CAWCD Board of Directors was given an update on activities, and a preview of the proposed Stakeholder process. On March 7th, CAP and Reclamation staff gave a joint presentation at the ITCA Tribal Leader's Water Policy Council Meeting. Reclamation gave an overview of their process, including Tribal Consultation, and indicated they want to bring in all Tribes to address concerns about the potential impacts from wheeling. CAP then gave an overview of the staff proposal and the modeling. The meeting included technical information about the relationship between CAP's proposed wheeling under Article 8.18 of the Master Repayment Contract and the rights of the United States under Article 8.17, with an emphasis on how the 8.17 rights are protected, and how concerns raised by some of the Tribes' are addressed.

Serve As You Come

Mr. Seasholes explained that the core concept is that the wheeling contract must be tied to a specific supply, with a specific volume and duration, and to a specific user. This is an alternative to the conventional approach in which wheeling was framed in terms of allocating capacity among users. It is a different view of what the nature of the problem is, and some potential solutions to that problem.

Mr. Seasholes indicated that this re-framing depended in part on what the future supply and demand conditions really look like, and how large of a "bridge" needs to be built to these new wheeled supplies. He suggested that part of the underlying anxiety among users is the fear that scarcity and competition could result in the need to ration supplies or capacity.

Mr. Seasholes acknowledged that Arizona has greatly benefitted by looking long-term for what we need, and that CAP and the Colorado River dams are good examples of this. But he also showed charts that suggested that some assumptions about future growth and demand were overstated, and that the relationships between supply and demand in the CAP service area was more complicated than is sometimes portrayed. Mr. Seasholes expressed the view that the demand for wheeled supplies in the next few decades was likely much more modest than many have previously assumed.

Mr. Seasholes expanded on the "bridge" analogy and noted that the cost of the bridge will be paid exclusively by those needing it. He also acknowledged that CAWCD, in its CAGR role, would likely be among the first to use it, but he asserted that it was in CAGR's best interest to

ensure the bridge remained open and available to all, including Member Service Areas that wish to reduce their reliance on the CAGRD.

Questions and discussions ensued. In response to a question about intermittent use of supplies for firming, Mr. Seasholes expressed a view that there was a substantial difference between actions that might be undertaken to firm CAP long-term contracts (i.e., M&I, Indian and NIA-priority contracts & subcontracts), versus those to firm other supplies (e.g., SRP surface water). Mr. Seasholes indicated a belief that the former can be addressed within CAP's and Reclamation's existing authorities, outside the scope of Articles 8.18 or 8.17, while the latter would require a wheeling contract.

Tied to a Supply

Mr. Seasholes explained that a wheeling contract is for transportation of water, not capacity, but that an equivalent volume must be deducted from the Reclamation-approved Certified Additional Annual System Delivery Capacity. He suggested that issuing a contract based on a specific supply ensures that capacity has been properly accounted for, without establishing a right to the capacity itself.

Questions were posed about the capacity available in the existing system and the volume of the supply. There was also some discussion about the timetable for system improvements, as well as ADWR's regulatory process governing the supply. Stakeholders posed several hypothetical scenarios, with an emphasis on what might constitute "speculation." CAP staff conveyed their general view that the potential wheelers must demonstrate that they can obtain and use the supply over a reasonable amount of time.

Ms. Ticknor explained that when a related topic was discussed in the ADD Water process, one of the consensus points was that long-term storage credits could not be sold for a profit. That was an alternative approach to make sure the water stays with parties that are actually going to use it rather than those who just want to earn future credits or reserve water.

All regulatory approvals have been completed

The staff proposal asserts that everything must be completed on the regulatory process before approaching CAP. Mr. Seasholes acknowledged that there are practical considerations that would make that unworkable, and that the underlying intent is simply to use the regulatory review process as a gatekeeping function to restrict speculative activity.

Ms. Ticknor briefly explained the regulatory process for transfers of Colorado River Entitlements, and noted there is no parallel regulatory process for transportation of groundwater beyond what is outlined in statute.

A variety of supply scenarios were discussed and a number of views were expressed that suggested the combination of cost and regulatory complexity would likely be sufficient to avoid purely speculative activity. The NEPA requirements were raised by several stakeholders. CAP staff reiterated the general view that the regulatory process can be used to define what is appropriate, and that the intent is to piggyback on it rather than create a whole new review. Mr.

Seasholes expressed receptiveness to further identifying concepts and strategies that would maintain overall intent, while providing potential wheeling parties greater assurance that if they did make it through the regulatory review, a wheeling contract would be issued.

Tied to a specific user

The wheeling contract will be a three-party contract and must be approved by both CAP and Reclamation. Because it will be issued to a specific user, changing the user could potentially alter the substantive terms of the contract.

Ms. Ticknor suggested that there were some instances in which a change in ownership would be straightforward, such as a successor-in-interest, while others would raise more complex and hypothetical concerns. Part of the question is how many of those hypotheticals need to be contemplated ahead of time.

A number of the stakeholders stressed the desirability of flexibility both in terms of transferring contracts/supplies, and in terms of allowing multiple parties to be involved. The interplay with the regulatory approvals was also a prominent part of the discussion.

Wrap-Up & Next Meeting

Mr. Seasholes indicated that CAP staff would take the input from today's meeting and go back and take a renewed look at the elements of the staff proposal.

Mr. Dent responded to questions about what material will be available regarding system improvement projects for the May meeting. He indicated that the intent is to have enough information to have an informed discussion, but the numbers will still be quite preliminary. There was also a clarification regarding the difference between the absolute capacity required upstream of Lake Pleasant, and the need to address peaking capacity in the central and southern part of the system.

Two questions were raised about the relationship between the wheeling proposal and the CAGRDR, and the impression that some had that CAP was unfairly preferencing itself. Mr. Seasholes refuted those assertions and cited the pilot fallowing program with the Yuma Mesa Irrigation and Drainage District as an example of the CAGRDR bearing the extra costs associated with determining how a mainstem fallowing program could work in Arizona. He further expressed that supplies requiring wheeling would constitute only a portion of the CAGRDR's future supply portfolio, but that the CAGRDR had a responsibility to determine how those kinds of supplies could be made available. Finally, Mr. Seasholes reiterated the view that the intent of CAP staff is to develop a wheeling framework that can benefit all of those in the service area that may require it.

The meeting was adjourned at 11:45 AM.