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Attachment 2

**Non-Indian Agricultural Priority Central Arizona Project Water Reallocation
Application Evaluation Criteria and Assumptions
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The primary goals established by the Arizona Department of Water Resources (ADWR) for reallocation of 46,629 acre-feet (AF) of Non-Indian Agricultural Priority Central Arizona Project water (NIA Priority CAP water) were to meet near-term water demands and to replace or prevent the use of groundwater. ADWR received 17 applications for the municipal pool and six applications for the industrial pool with a total requested volume of 135,127 AF.

The numerical criterion ultimately used to recommend reallocation was the Demand and Supply Imbalance (DSI), which is the difference between projected water demands and available renewable water supplies for each applicant in 2020. Applicants were required to provide information for projected supplies and demands. ADWR evaluated the submitted information, in addition to other information sources, to develop ADWR-verified DSIs. The ADWR-verified DSI for each applicant served as the basis upon which reallocation recommendations were developed. More specific detail and discussion regarding ADWR evaluation of applications is provided below.

Water Supplies Considered

Effluent

All treated effluent capacity physically and legally available to an applicant was counted as an available supply. This means that if the infrastructure is in place to allow the production and use of treated effluent, the volume of treated effluent that could be produced was counted as a supply even if the applicant was not currently utilizing it, or projecting use of the treated effluent. If the treated effluent is contractually obligated to other entities, that effluent capacity was not counted as a supply for the applicant.

Long-term Storage Credits

Long-term Storage Credits (LTSC) that had been credited to an applicant's Long-Term Storage Account (LTSA) were included as an available supply. The LTSC number used in the calculation was the applicant's total recoverable LTSA balance as of December 31, 2011, divided by 100 years to calculate an annual available supply number. If an applicant's LTSA was not current through December 31, 2011, because of failure to file or amend by the applicant, ADWR calculated credits through that date in a manner that yielded the maximum potential number of LTSC. In cases where the applicant indicated

anticipated use of LTSC different than the 100 year average supply, the 100 year average was still utilized to ensure consistency in evaluation of applications.

Surface Water

Other long-term renewable water supplies, such as Salt River Project (SRP) surface water and CAP subcontracts, were counted as available water supplies for this process. SRP surface water was considered a supply when the applicant included demands for lands that could legally receive SRP supplies, i.e. for use on on-Project lands.

Excess CAP water was not included as this water supply was not considered by ADWR to be a long-term renewable water supply.

Additionally, some lease and exchange water held by certain applicants is prohibited from consideration as an available water supply pursuant to provisions in Indian water right settlements for the Salt River Pima Maricopa Indian Community, the Gila River Indian Community, and the White Mountain Apache Tribe.

Annual leases pursuant to Indian water rights settlements were also not included as ADWR did not consider this water supply to be a long-term renewable supply due to the uncertainty associated with annual contracts.

Additional Supply Considerations

ADWR's evaluation process also incorporated the following:

- Groundwater use from within an AMA that is consistent with the management goal under the Assured Water Supply rules was not counted as an available water supply
- Any factor the applicant used to reduce a supply to account for the lack of reliability of the NIA Priority CAP water was not permitted by ADWR. For example, if an applicant proposed to reserve a portion of supply to be utilized when NIA Priority CAP water was not available, ADWR required that supply to be included in the DSI calculation.

Evaluation of Projected Water Demands

Applicants were required to submit projected demands for 2020. ADWR then evaluated submitted demands and compared them with other water resource planning documents, such as: applicable Designations and Certificates of Assured Water Supply; Annual Water Withdrawal and Use Reports; and Community Water System Annual Reports and System Water Plans. If the application demands appeared reasonable when compared to other information reviewed, the application demands were accepted. If not, ADWR contacted the applicant requesting clarification. ADWR reviewed the applicants' clarifying information for reasonableness and consistency with other available information. ADWR did not consider any adjustments offered by an applicant to increase projected demands due to lack of reliability of NIA Priority CAP water.

Assumption Regarding Necessary Permits

In some instances, applicants will not take direct delivery of NIA Priority CAP water but, rather, will utilize water through recharge and recovery. ADWR's evaluation assumed that any Underground Storage Facility or Water Storage Permits needed to put NIA Priority CAP water to beneficial use would be obtained by the applicant in a timely manner.

Financial Demonstration

ADWR recognizes that funding arrangements are unique for each applying entity. Therefore, financial capability was evaluated solely based on whether or not NIA Priority CAP water acquisition costs were identified with a plan for funding the total amount of NIA Priority CAP water requested. Water Infrastructure Finance Authority loans and Arizona Corporation Commission (ACC) approval of rate increases to cover the acquisition costs associated with this reallocation were assumed to be approved. The ACC generally favors the use of renewable resources and ADWR assumed that this use of funds by ACC-regulated water utilities would be approved.

Reduction of Central Arizona Groundwater Replenishment District (CAGRD) Demand

The Central Arizona Groundwater Replenishment District (CAGRD) was one of the applicants for NIA Priority CAP water. The water demands covered by its application overlapped with those of other applicants. ADWR assumed that if an applicant was a CAGRD member service area or a water provider serving CAGRD member lands, the allocation of NIA Priority CAP water to that applicant would result in a decrease to the CAGRD's obligation to replenish on their behalf. This resulted in ADWR making a downward adjustment to the total CAGRD demand. ADWR reduced the CAGRD's demand by an amount equivalent to the amount of water recommended for reallocation to the other applicants generating a replenishment obligation for the CAGRD.

There were 12 applications that overlapped the CAGRD application. The reduction in CAGRD DSI based on the 12 applications was approximately 16,400 AF.

Final Calculation of Reallocation Recommendation

To complete the calculations to determine the final reallocation recommendation, ADWR summarized the following for each applicant:

- Projected demand, adjusted by ADWR if applicable
 - CAGRD's demands were reduced as described above
- Projected supplies, adjusted by ADWR as applicable
- Calculation of ADWR-verified DSI (Projected demand minus projected supplies)

From this, ADWR identified the applicants with a negative DSI based on the evaluation criteria and removed them from further evaluation. ADWR also identified applicants that had a DSI less than or equal to 400 AF per year. Those applicants were determined to be *de minimis* in nature and received a reallocation recommendation equal to their full request. ADWR determined that fulfilling the full *de minimis* requests best achieved the water management goals set up by ADWR for the NIA reallocation. There were five applicants total that met the *de minimis* threshold, with three applicants in the Municipal Pool and two in the Industrial Pool. The total reallocation recommendation for these *de minimis* applicants is 1,597 AF, or about 3% of the total volume of NIA Priority CAP water being reallocated.

Next, a pro rata division of the remaining reallocation pool was made for the remaining applicants based on their ADWR-verified DSI. If this pro rata calculation for the reallocation recommendation yielded an amount greater than the applicant's request, ADWR determined that the reallocation recommendation would be capped at the applicant's requested amount. There were two applicants in the Municipal Pool

that the initial calculation resulted in a recommendation greater than their request. For those two applicants, the initial recommendation totaled approximately 3,600 AF; however, ADWR’s reallocation recommendation is for 2,000 AF total. This step to cap the recommendation to the requested amount was not required for any applicant in the Industrial Pool.

For the remaining applications, the remaining allocation volume was then redistributed on a pro rata basis. In the Municipal Pool, the remaining applicants had a combined ADWR-verified DSI of 91,652 AF and an available volume of NIA Priority CAP water of 31,832 AF. The ADWR recommendation is at a ratio of 34.73% of their ADWR-verified DSI. In the Industrial pool, the remaining applicants had a combined ADWR-verified DSI of 45,566 AF and an available volume of NIA Priority CAP water of 11,200 AF. The ADWR recommendation is at a ratio of 24.58% of their ADWR-verified DSI. A summary of the applicant request, the ADWR-verified DSI and the reallocation recommendation volume is found in Table 1.

Table 1. Summary

	Applicant	Applicant Request (AF)	ADWR-verified DSI (AF)	Allocation Recommendation (AF)
Municipal Pool	City of Tempe	1,500	-7,243	0
	City of Goodyear	2,000	-3,202	0
	City of Surprise	10,000	-2,894	0
	City of Peoria	3,800	0	0
	Carefree Water Company	118	112	112
	Metropolitan Domestic Water Improvement District	299	299	299
	Town of Cave Creek	1,100	386	386
	EPCOR – Sun City West	1,000	4,155	1,000
	H ₂ O Water Company	1,000	6,724	1,000
	Town of Marana	2,211	1,483	515
	Apache Junction WUCFD	1,270	2,354	817
	City of El Mirage	4,326	3,795	1,318
	Town of Gilbert	2,854	5,274	1,832
	Town (now City) of Buckeye	8,022	8,022	2,786
	Town of Queen Creek	5,000	9,103	3,162
	Johnson Utilities	14,750	9,262	3,217
	CAGR D	34,629	52,359	18,185
	TOTAL	93,879		34,629
Industrial Pool	New Harquahala Generating Company	400	400	400
	Viewpoint RV and Golf Resort	400	400	400
	Rosemont Copper Co.	5,000	4,574	1,124
	Salt River Project	6,000	8,788	2,160
	Resolution Copper Mining	6,350	9,106	2,238
	Freeport-McMoRan-Sierrita Inc.	23,098	23,098	5,678
		TOTAL	41,248	