



ARIZONA DEPARTMENT OF WATER RESOURCES

Colorado River Management
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Phoenix, Arizona 85012-2105

Non-Indian Agricultural Priority Central Arizona Project Water Reallocation Proposed Process and Evaluation Criteria October 2012

Introduction and Goals

1. The Arizona Department of Water Resources (Department) is beginning the reallocation of the 96,295 acre-feet (af) of Non-Indian Agricultural Priority CAP water (NIA Priority water) as required by the Arizona Water Settlements Act and Agreement. Section 104(a)(2)(A) of the Arizona Water Settlement (AWS) Act of 2004 states that the Secretary of the Interior (Secretary) shall reallocate up to 96,295 acre-feet of agricultural priority water made available pursuant to the master agreement to the Arizona Department of Water Resources, to be held under contract in trust for further allocation under subparagraph (C). Subparagraph (C) states that before the water may be further allocated, the Director (of the Department) shall submit to the Secretary, and the Secretary shall receive, a recommendation for reallocation.

Since no NIA Priority water was retained by agricultural subcontractors per paragraph 6 of the AWS Agreement, the remaining NIA Priority water available under paragraph 5 for reallocation to non-Indian municipal and industrial uses is 96,295 af as identified in paragraph 9.3.1. The proposed process and selection criteria described here are provided to reallocate this water per paragraph 9.3.4.

2. As the agency responsible for making recommendations to the Secretary for this reallocation, the Department has identified that the goals for this reallocation are to reduce groundwater overdraft, to provide an additional source of water to areas with limited physical availability of groundwater, and to meet current and future water demands. This water supply will be allocated to meet the near-term demands for existing municipal providers (not including irrigation districts that serve non-irrigation uses) and industrial users of groundwater or Excess Central Arizona Project (CAP) water that have permanent demands.
3. The Department has received letters of interest for this reallocation water in volumes that exceed the amount available for reallocation and it is expected that a greater volume will be requested through the application process. Therefore, it is anticipated that requested volumes may not be fully met for all applicants in this process.
4. This reallocation is for NIA Priority water which has a lower priority than Indian and Municipal and Industrial (M&I) Priority CAP water. This water is expected to have reduced availability, especially during times when Arizona is affected by shortage operations on the Colorado River. The Department's analysis of the average availability of this 96,295 af of NIA Priority water shows that an average of about 64,000 af will be available over the next 100 years, assuming a moderate development schedule on the mainstem of the Colorado River. This availability is expected to reduce

to an average of about 58,000 af after 2030 due to projected increases in use for all Colorado River water users. Average availability over the next 100 years means that in some years this NIA water supply will be fully available, in some years it will be partially available, and in some years it will not be available at all. Recipients of this reallocation will need alternate water supplies and the necessary infrastructure to use those alternate water supplies in order to meet future firm demands in years of reduced or no availability of this NIA Priority water.

Structure of the Reallocation Process

The reallocation will be structured so that volumes of water will be available at periodic intervals as follows:

1. The overall plan is to offer the 96,295 acre-feet of CAP NIA Priority entitlement to existing non-Indian M&I water providers and industrial water users in a tiered process with phases starting in 2012, 2021 and, if needed, in 2030. The timing will coincide with necessary actions required to meet requirements of the AWS Agreement, as well as other considerations.

Many different types of water users are eligible for this reallocation. Several different 'pools' have been created within this reallocation process to acknowledge these different types of water users and to allow applicants to compete more fairly within their own category.

2. First, the reallocation is divided between potential applicants within the CAP service area, including the CAGR, and potential applicants outside the CAP service area. The Department has received inquiries and requests for this reallocation water from both areas. The AWS Agreement specifies that the Department shall make this Trust Water available for reallocation to non-Indian M&I water users within the State of Arizona. The full reallocation volume of 96,295 af has been divided into these two pools. Population projections for 2020 indicate that approximately 18% of the state's population will be outside of the CAP service area and 82% will be within the CAP service area. Therefore, the full reallocation volume was divided by that same percentage to make 78,962 af available within the CAP service area and 17,333 af available for outside of the CAP service area.
3. The AWS Agreement provides that M&I water providers serving two defined areas in the Pinal AMA, the Central Arizona Irrigation and Drainage District (CAIDD) area and the Maricopa Stanfield Irrigation and Drainage District (MSIDD) area as defined in Exhibits 9.3.4.3 and 9.3.4.4 in the AWS Agreement, have a right of first refusal to 7.8% of the water for each area in each reallocation, up to a total of 7,500 af for each area. A total of 15,000 af has been reserved for water providers in the CAIDD area and the MSIDD area, with 5,910 af reserved for each area for the 2012 phase of the reallocation. This total 15,000 af is within the CAP service area and is considered a separate pool of water within the CAP service area reallocation amount of 78,962 af.
4. Industrial water users typically have water demands that are smaller in scale than M&I water demands and a pool of 12,000 af has been identified for these water users within the CAP service area. This volume was determined by applying an average percentage of industrial water demands to municipal water demands to the available pool of water for reallocation within the CAP service area. This pool of water will be made available for the 2012 phase of the reallocation. This pool is part of the CAP service area reallocation amount of 78,962 af.
5. A pool of 51,962 af has been identified for M&I water providers within the CAP service area and the Central Arizona Groundwater Replenishment District (CAGR). CAGR member service areas and water providers that serve member lands can compete in the process, as well as the CAGR itself. This pool of water will be made available for the 2012 phase of the reallocation. This pool is part of the CAP service area reallocation amount of 78,962 af.
6. The amount identified for outside of the CAP service area (17,333 af) will be offered in the 2021 phase of the reallocation. Anticipated applicants in this category have indicated that this timing will allow for the additional planning and financing that may be required to utilize this water supply.

Whether the resulting acquisition of the entitlement is diverted from the Colorado River or utilized in an exchange for other locally available surface water supplies with an entity that has a right to that water, the acquired entitlement can be used to augment existing M&I water supplies to address near-term water needs. The Department has not yet developed selection criteria for this pool.

7. The AWS Agreement provides that beginning in 2021, the remaining amount of the 15,000 af total that has been reserved for water providers in the CAIDD area and the MSIDD area (3,180 af), plus any of the 5,910 af that had been previously offered to the CAIDD and MSIDD areas separately that has not been contracted, will be offered to any water provider within either of those two areas.
8. If water other than the 15,000 af held for first refusal by the CAIDD or MSIDD areas is not contracted during the 2012 and 2021 phases, a second phase of the 2021 reallocation will be initiated. The remaining water, other than the 15,000 af held for first refusal by the CAIDD or MSIDD areas, will be offered to any municipal water provider or industrial water user either inside or outside of the CAP service area. The Department will develop selection criteria and process details closer to the initiation of this phase of the process.
9. The AWS Agreement further provides that beginning in 2030, any water that has been held for first refusal by water providers within the CAIDD and MSIDD areas that has not yet been contracted will be offered to the Pinal County Water Augmentation Authority as their right of second refusal.

Selection Criteria for 2012 CAP Service Area Reallocation

The following criteria will be used to evaluate all applicants for the 2012 CAP service area reallocation phase of the NIA Priority Reallocation, unless otherwise specified.

1. Qualified applicants can include existing municipal providers (not including irrigation districts that serve non-irrigation uses) located within the CAP service area, industrial water users located within the CAP service area, and the CAGR. D.
2. Qualified applicants must be able to demonstrate that the costs associated with acquiring and utilizing this supply have been analyzed and that there exists the ability and intention to meet these financial requirements.
3. Qualified applicants will need to demonstrate how they plan to utilize this water supply by 2020 and how they will manage the future shortage impacts associated with this water supply. Applicants must show their long-term need for this water, describe the alternate water supplies that will be available during shortages, and describe the necessary infrastructure to allow the use of this NIA Priority water supply as well as an alternate water supply.
4. Qualified applicants must demonstrate the ability to directly use this NIA Priority water or the ability to store and recover or replenish this water in a manner consistent with the water management goals for the AMA.
5. The Department will consider each applicant's Demand and Supply Imbalance as projected for 2020 when recommending allocations. Demand and Supply Imbalance will be calculated by subtracting available renewable water supplies for 2020 from projected demands for 2020. Renewable supplies will include all water supplies except groundwater. Applicants will be asked to submit their Demand and Supply Imbalance projections and the Department will substantiate the submittals using previously submitted data and other available data typically used in Department planning studies.

If an applicant's Requested Volume exceeds the Demand and Supply Imbalance for 2020, the Requested Volume will be reduced accordingly. For each pool of water identified for this phase of the reallocation, if the sum of all Requested Volumes for reallocation exceeds the available amount, the annual reallocation recommendation for each applicant will be a percentage of the available reallocation amount based on the percentage of the applicant's Requested Volume relative to the sum of all Requested Volumes of the qualified applicants in that pool, or a pro rata distribution.

6. For the CAIDD and MSIDD Pools (5,910 af each):
 - a. CAGR D is not eligible to compete for this pool of the reallocation.
 - b. Municipal providers serving the CAIDD area or the MSIDD area will be evaluated for an annual reallocation recommendation based on all of the criteria described in this document, including their Demand and Supply Imbalances for 2020.
 - c. If the Requested Volumes for these pools of water exceed the available amounts, the remaining Requested Volumes for each applicant will be included for evaluation under the Municipal Pool.

7. For the Industrial Pool (12,000 af):
 - a. Qualified industrial applicants must demonstrate a Demand and Supply Imbalance for 2020 greater than 400 acre-feet per year.

8. For the Municipal Pool (51,962 af):
 - a. Municipal providers, both public and private, and the CAGR D will be evaluated in the same pool.
 - b. Municipal providers with AWS designations that expire in 2021 and later will be required to relinquish Groundwater Allowance credits equal to 100 years times their annual NIA Priority reallocation times the availability component of 0.70 that coincides with the average projected availability of this NIA Priority water.
 - c. The Demand and Supply Imbalance for the CAGR D will be calculated based on its projected actual 2020 replenishment obligation (not necessarily the Plan of Operation projection) not including its replenishment reserve requirements.
 - d. If a member service area or water provider serving a member land specifies that an allocation of this NIA Priority water will be used to reduce its reported Excess Groundwater use to the CAGR D and is recommended to receive part of this NIA Priority water, CAGR D's Demand and Supply Imbalance will be reduced accordingly.

Comment Period and Final Policy Timeline

The Department will accept public comment on the process, criteria and pricing policy at the public meeting scheduled for Tuesday, October 2, 2012 to discuss these concepts. Written comments may also be submitted through Friday, October 19, 2012.

Responses to the received comments will be made available on Wednesday, November 21, 2012 and the Department will make the final adopted reallocation policy and application information available on Monday, December 17, 2012. The Department proposes a 60-day timeframe for applicants to prepare application submittals with an application submittal deadline of Monday, February 18, 2013.

All further information will be available on the Department's website at www.azwater.gov . Questions may be directed to Michelle Moreno at 602-771-8530 or mamoreno@azwater.gov .