

Arizona Water Banking Authority
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EX OFFICIO MEMBERS
The Honorable Steve Yarbrough
The Honorable J.D. Mesnard

March 15, 2017

Mr. John Entsminger
General Manager
Southern Nevada Water Authority
1001 South Valley View Boulevard
Las Vegas, NV 89153

Ms. Jayne Harkins
Executive Director
Colorado River Commission of Nevada
555 E Washington Avenue, #3100
Las Vegas, NV 89101

RE: Recovery Funding Agreement for Arizona Water Company Underground Storage Facility

Dear Mr. Entsminger and Ms. Harkins:

In the Recovery Agreement among the Arizona Water Banking Authority ("AWBA"), Central Arizona Water Conservation District ("CAWCD"), Southern Nevada Water Authority ("SNWA") and Colorado River Commission of Nevada ("CRCN") (collectively known as the "Parties") executed on June 9, 2010 (the "Recovery Agreement"), the Parties agreed that they would meet annually to discuss the options available to meet the recovery needs of SNWA.

Among those options is for CAWCD to recover long-term storage credits and exchange those recovered long-term storage credits with a Central Arizona Project ("CAP") customer that has scheduled CAP water for delivery at an underground storage facility ("USF") for annual storage and recovery purposes for an equivalent acre-foot volume reduction in the CAP customer's CAP water delivery order. Any CAP water that is not delivered pursuant to such a recovery option could remain in Lake Mead for development by SNWA as Intentionally Created Unused Apportionment ("ICUA").

While it is possible that some credit exchange opportunities used for interstate recovery purposes may utilize existing infrastructure, other opportunities for credit exchange will require new infrastructure. Presently, one opportunity exists whereby SNWA will transfer \$1,000,000 to CAWCD for CAWCD to use to assist the Arizona Water Company ("AWC") to design, permit, construct, and operate an underground storage facility located in the Pinal AMA. In exchange for the \$1,000,000 payment, AWC would grant to CAWCD the right to 2,500 acre-feet of annual

recovery capacity at the AWC USF from January 1, 2025, until December 31, 2050. CAWCD would in turn grant SNWA a first right to this 2,500 acre-feet of annual recovery capacity at no additional cost to SNWA.

Subsection 3.3.3 of the Third Amended and Restated Agreement for Interstate Water Banking among the Arizona Water Banking Authority, the Southern Nevada Water Authority, and the Colorado River Commission of Nevada executed on May 20, 2013 (“Interstate Water Banking Agreement”) states that, in a given year, “[t]he choice of facilities utilized to recover the Long-term Storage Credits used to develop the ICUA during any year shall be at the discretion of [the Arizona Water Banking Authority].”

In order to comply with subsection 3.3.3 of the Interstate Water Banking Agreement and preserve SNWA’s first right to the 2,500 acre-feet of annual recovery capacity at the AWC USF at no additional cost to SNWA, the AWBA and CAWCD are sending this letter to confirm that, from January 1, 2025, until December 31, 2050, the first 2,500 acre-feet of interstate recovery requested by SNWA shall be from the AWC USF at no additional cost to SNWA. SNWA’s right to the first 2,500 acre-feet at the AWC USF is contingent on the AWC USF remaining available and operational, and SNWA’s right to receive reimbursement of all or a portion of the \$1,000,000 if the facility becomes non-operational shall be consistent with the terms of the Agreement for Funding the Recovery of Long-Term Storage Credits Stored on Behalf of Southern Nevada Water Authority executed on _____, 2017 between CAWCD and SNWA (Agreement). In addition, any water recovered pursuant the aforementioned Agreement shall not count against the 50,000 acre-feet of long-term storage credits for which recovery has been pre-paid as described in the Third Amended and Restated Agreement for Interstate Water Banking dated May 20, 2013. Furthermore, this Agreement creates capacity only and SNWA’s Interstate Account balance will not be reduced if SNWA chooses not to recover any or all of SNWA’s Long Term Storage Credits made available pursuant to this Agreement. And finally, SNWA shall not be precluded from concurrently recovering additional Long Term Storage Credits through other arrangements.

Should you have any questions on this letter, please contact either David Johnson, CAWCD Senior Attorney at djohnson@cap-az.com or Virginia O’Connell, AWBA Manager at voconnell@azwater.gov. Thank you,

Sincerely:

Thomas Buschatzke
Chairman
Arizona Water Banking Authority

Ted Cooke
General Manager
Central Arizona Water Conservation District

By signing below, I agree to the understanding regarding recovery capacity outlined above.

John Entsminger
General Manager
Southern Nevada Water Authority

Jayne Harkins
Executive Director
Colorado River Commission of Nevada

cc: AWBA Commission Members
Mr. David Johnson, CAWCD
Ms. Virginia O'Connell, AWBA