

Public Meeting:

Discussion Regarding the Distribution of AWBA Long-term Storage Credits for Firming CAP Municipal and Industrial (M&I) Priority Subcontract Supplies



Phoenix AZ, 85007
April 11, 2023

Meeting Agenda

1. Welcome
2. Changing Colorado River Conditions
3. Use of Long-term Storage Credits (LTSCs) for CAP M&I Priority Firming
 - a. Background
 - b. Firming Policy Considerations
 - c. Alternative Firming Methods
4. Call to the Public
5. Next Steps



This meeting is only to discuss distribution of credits for CAP M&I. There will be no discussion regarding the firming of MCWA or any other entities. Additionally, Tribal firming is subject to agreement terms.

04/11/2023

Changing Colorado River Conditions

- AWBA policy for firming CAP M&I Priority subcontractors adopted on March 4, 2019, as part of the Arizona's implementation of the Drought Contingency Plan (DCP Firming Policy)
- Ensures sufficient resources for DCP mitigation by fully firming reductions to M&I Priority subcontractor orders regardless of how the LTSCs are used
- Recognizes previous considerations to reduce LTSCs distributed for firming purposes but opted to wait and use experience gained during the Interim Period to inform future policies

Policy:

During the Interim Period (through 2026), the AWBA will distribute LTSCs pursuant to A.R.S. 45-2457(B)(7) to meet all reductions to scheduled CAP M&I Priority Water due to a Shortage Condition or required DCP Contributions

Changing Colorado River Conditions

- Unpredictable outlook of Colorado River conditions
- Potential additional supply reductions
- Current DCP Firming Policy implications:
 - Did not contemplate supply reductions beyond a Tier 3 shortage condition
 - Must fully firm even when DCP mitigation supplies are not made available (Tier 3 and 2026)
 - Could result in rapid depletion of finite supply of water storage tax LTSCs available for M&I Priority firming
- Need to re-evaluate DCP Firming Policy and discuss options to prolong AWBA's intended goal of providing long-term shortage protection

Background

- 2.33 million acre-feet (maf) of water storage tax LTSCs for M&I firming accrued through 2022:
 - Phoenix AMA – 1.58 maf
 - Pinal AMA – 235 kaf
 - Tucson AMA – 512 kaf
- Ability to accrue or purchase additional LTSCs is diminishing given the unavailability of excess supplies in foreseeable future and LTSC market competition
- CAP M&I Priority supply reductions likely to exceed Tier 3 shortage conditions
- AWBA Commission directed staff to gather stakeholder input on the distribution of LTSCs for firming

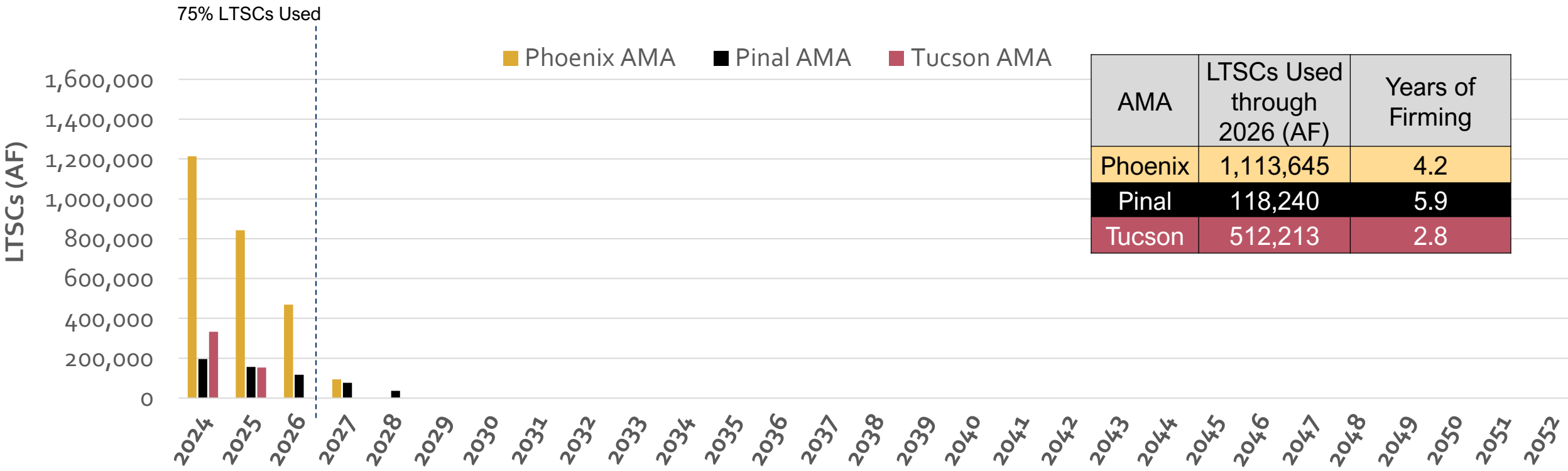
Background

In response to Commission direction, AWBA staff estimated LTSC use through 2026 and beyond using different firming scenarios:

- Firming reductions to projected CAP M&I supply orders up to 100%
- Firming reductions to projected CAP M&I supply orders up to 20%

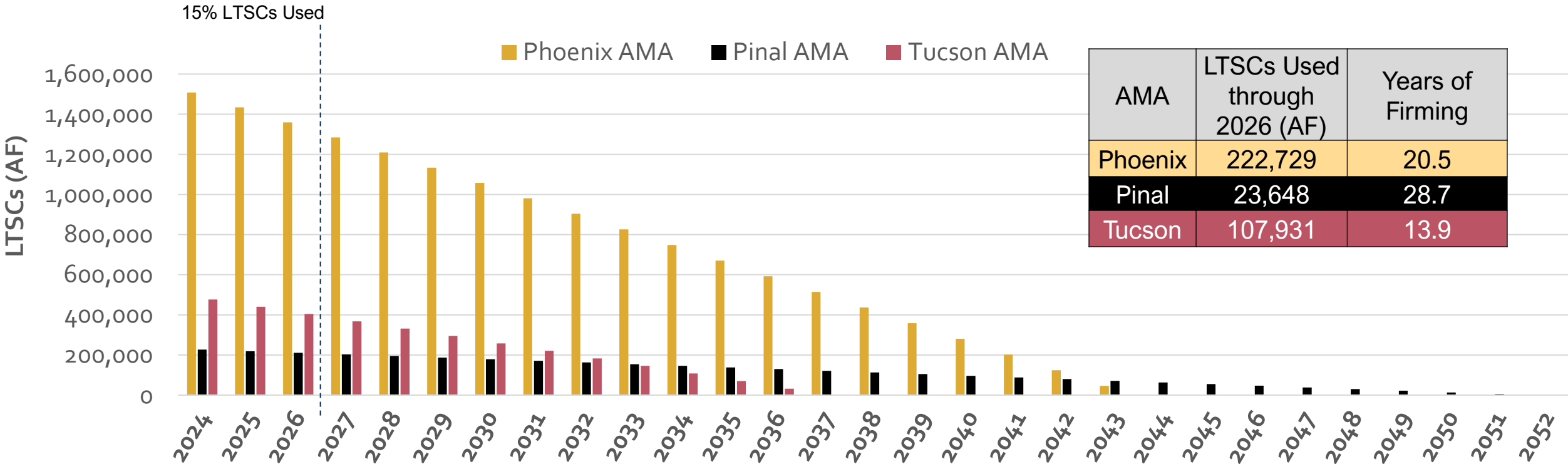
Firming 100% of Projected Demand (No CAP Water Available)

Long-Term Storage Credits Remaining Annually
(Full build-out in 2035)



Firming 20% of Projected Demand

Long-Term Storage Credits Remaining Annually
(Full build-out in 2035)



Summary of Background Scenarios

- Scenarios indicate AWBA may use 15% to 75% of LTSCs through 2026 depending on supply reduction volumes
- LTSCs in the Tucson AMA may only last an estimated 13.9 years if AWBA firms up to 20% of potential reductions and a mere 2.8 years if AWBA firms up to 100%
- Inability for the AWBA to provide long-term firming benefits
- Firming does not distinguish how supplies are used, creating mixed signals and public perception issues if not used responsibly
- May not have sufficient recovery capacity available to firm all supply reductions

Firming Policy Considerations

- Should reflect responsible water management under current circumstances
- AWBA is one tool available to mitigate shortages and was not anticipated to provide 100% firming
- Subcontractors should utilize all available tools to conserve water including:
 - Comprehensive distribution system water loss control, including annual audits and system improvements;
 - Limiting non-essential water use for public buildings and other public areas;
 - Placing restrictions on non-essential water use;
 - Implementing measures to significantly reduce residential and commercial, institutional, and industrial water use (i.e., ordinances to restrict non-functional turf, turf buyback, water budgets, retrofit programs/requirements, etc.); and/or
 - Implementing an enhanced rate structure to further disincentivize water use.
- Goal should be to provide a bridge for water users to adapt to today's new normal, as well as post 2026, while still preserving LTSCs for future generations
- Practicality of implementation

Alternative Firming Method 1: Phased Approach

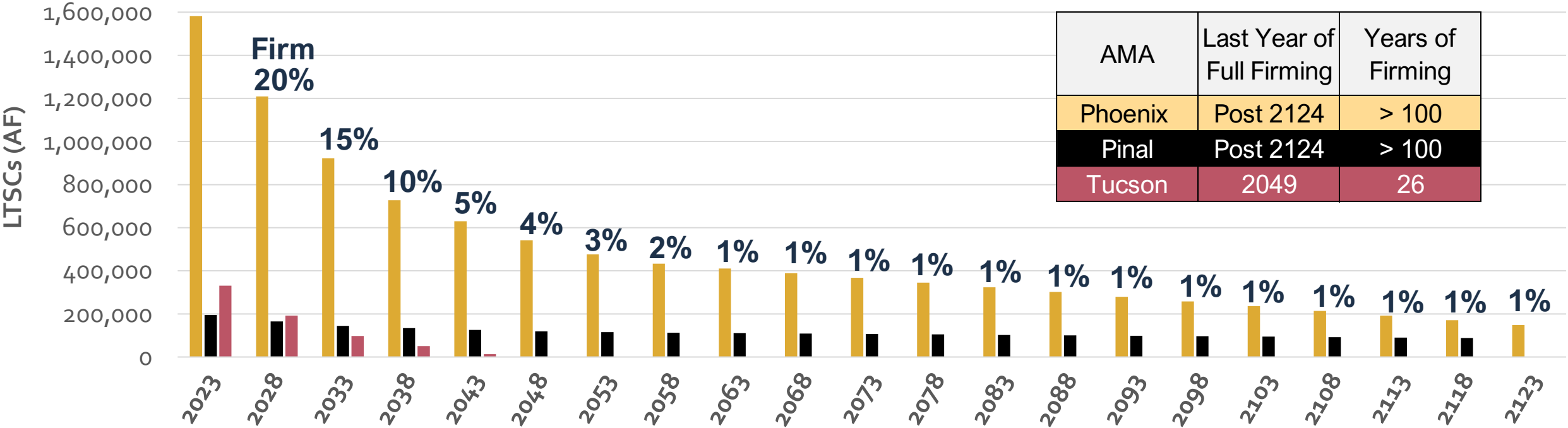
- Incremental reduction of firming percentages over time
- Assists subcontractors in meeting demand while preserving LTSCs for future generations
- Allows time to implement demand management measures that go well beyond increasing awareness and education
- Three scenarios:

Scenario 1A	Scenario 1B	Scenario 1C
Firming decreases by 5% every 5 years, from 20% to 5 %, with 1% decreases every 5 years thereafter	Firming decreases by 5% every 5 years, from 20% to 5%, and is maintained at 5% thereafter	Firming decreases by 5% every 10 years, from 20% to 5%, and is maintained at 5% thereafter

Scenario 1A

Long-Term Storage Credits Remaining Annually

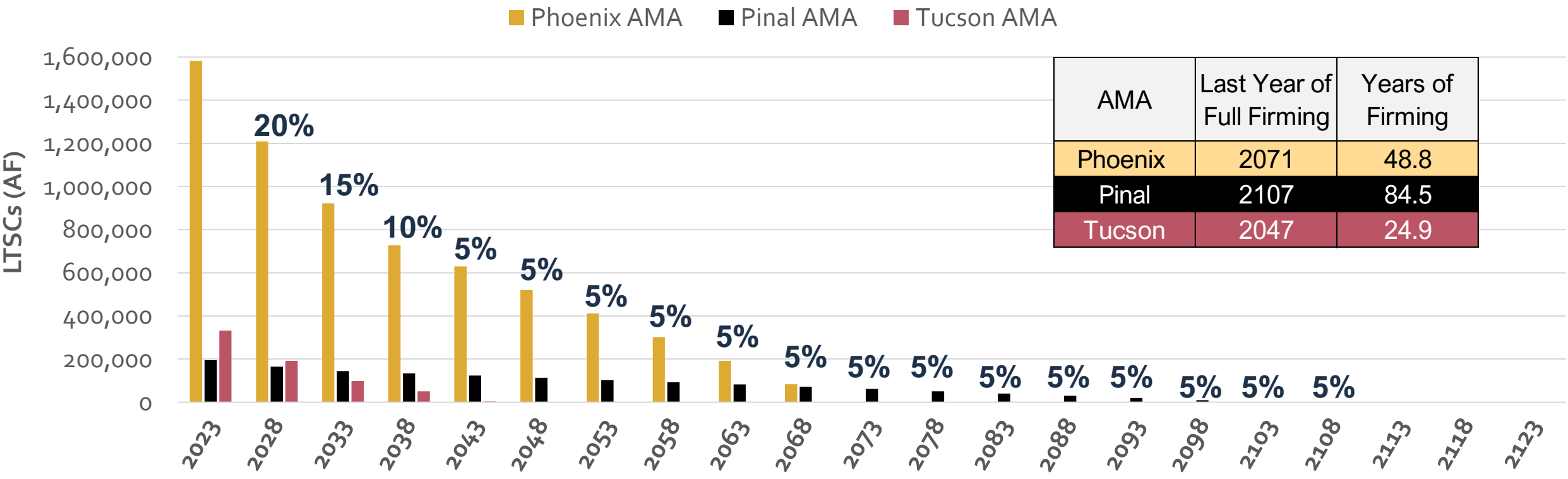
■ Phoenix AMA ■ Pinal AMA ■ Tucson AMA



AMA	Last Year of Full Firming	Years of Firming
Phoenix	Post 2124	> 100
Pinal	Post 2124	> 100
Tucson	2049	26

Scenario 1B

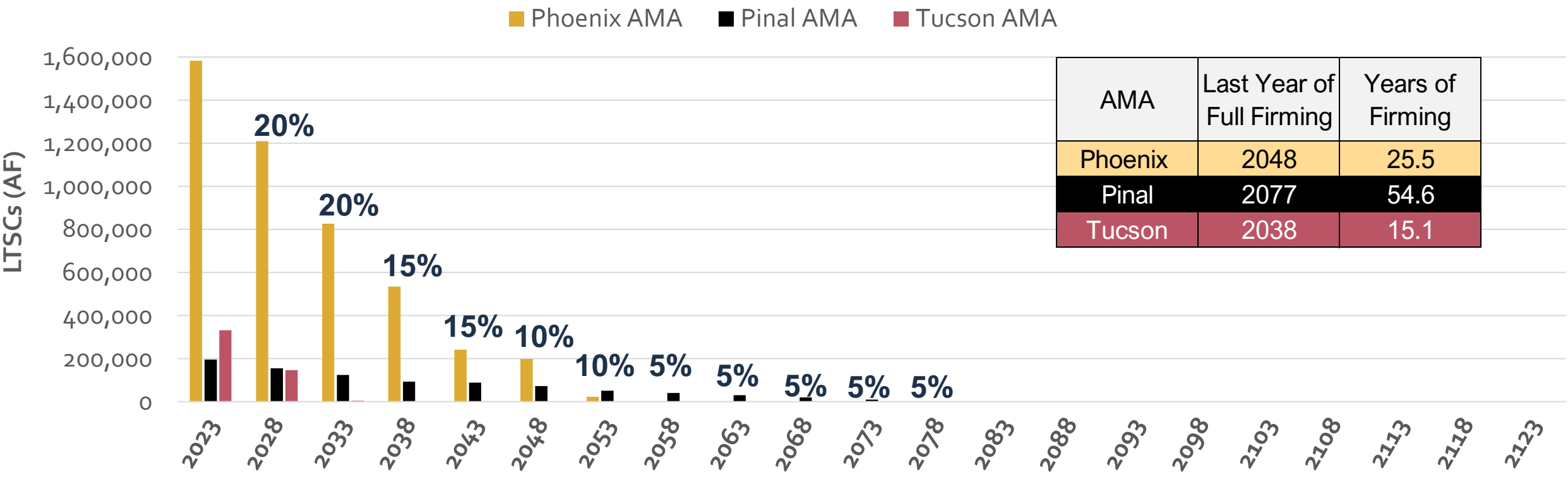
Long-Term Storage Credits Remaining Annually



AMA	Last Year of Full Firming	Years of Firming
Phoenix	2071	48.8
Pinal	2107	84.5
Tucson	2047	24.9

Scenario 1C

Long-Term Storage Credits Remaining Annually



Alternative Firming Method 2 (Incentive-based)

- Incremental increase of firming percentages based on additive demand reduction measures
- Reinforces Arizona's strong history of good water management
- Allows for a minimum firming volume (5%) across the board
- Could provide firming for up to 20% of demand based on substantial actions (applied to subcontractors individually)

Alternative Firming Method 2 (Incentive-based)

Level	Measure Implementation*	CAP M&I Firming Demand
Level 1		5%
Level 2	A	10%
Level 3	A and; B or C	15%
Level 4	A, B, and C	20%

*Criteria to achieve each level TBD

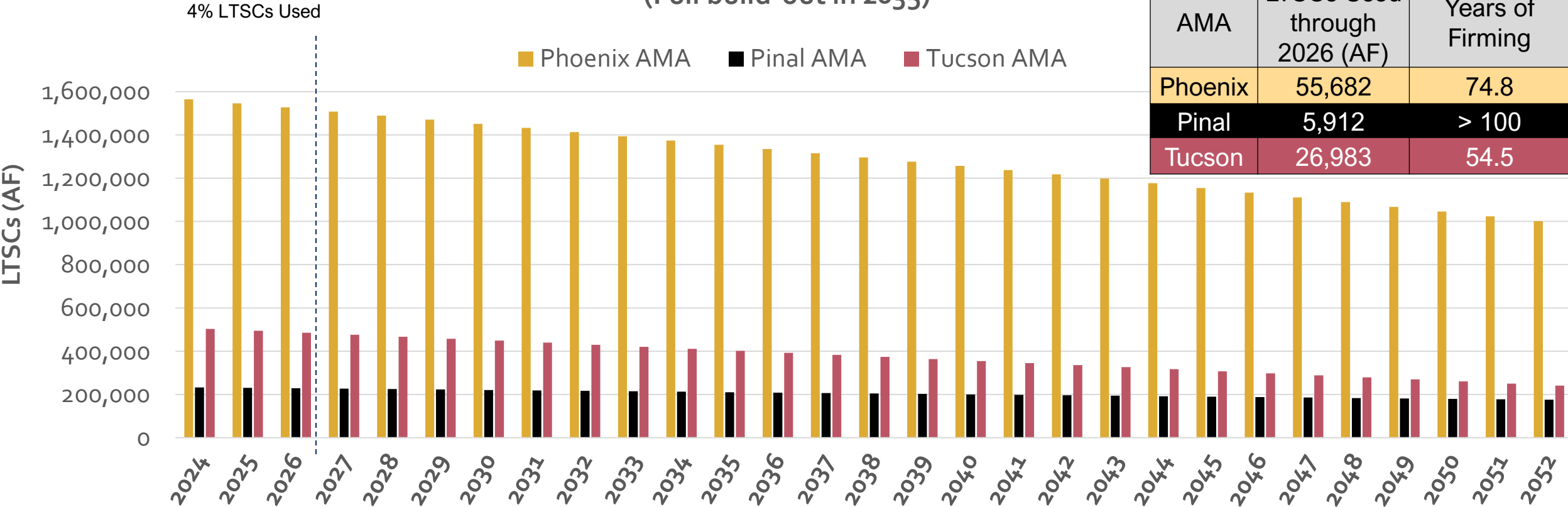
A. Eliminating the accrual of LTSCs

B. Implementing measures to require the elimination of non-essential water use through municipal ordinance or through ACC-approved tariff (i.e., restrict outdoor water use)

C. Implementation of other measures to significantly reduce residential, commercial, institutional and industrial water use (e.g., turf removal, enhanced rate structure to reduce water demand, etc.)

Firming 5% of Projected Demand

Long-Term Storage Credits Remaining Annually
(Full build-out in 2035)



AMA	LTSCs Used through 2026 (AF)	Years of Firming
Phoenix	55,682	74.8
Pinal	5,912	> 100
Tucson	26,983	54.5

Firming Range: 5% vs. 20% of CAP M&I Demand

Firming 5% of Projected Demand

AMA	LTSCs Used through 2026 (AF)	Years of Firming
Phoenix	55,682	74.8
Pinal	5,912	> 100
Tucson	26,983	54.5

Firming 20% of Projected Demand

AMA	LTSCs Used through 2026 (AF)	Years of Firming
Phoenix	222,729	20.5
Pinal	23,648	28.7
Tucson	107,931	13.9

Initial Feedback

- We have reserved time for comments from the audience, both in person and online.
- For those attending in person, please raise your hand.
- For those joining us online, please raise your hand or post your comment in the chat box.



Next Steps

- Next public meeting scheduled for May 2, 2023
- Comments/alternatives may be sent through our [google form](#) or to Rebecca Bernat rbernat@azwater.gov by April 18
- Today's PowerPoint will be posted to AWBA website

