

# ARIZONA WATER BANKING AUTHORITY

## Final Meeting Summary

September 13, 2023  
Arizona Department of Water Resources  
(Hybrid Meeting)



**AUTHORITY MEMBERS**  
Thomas Buschatzke, Chair  
Mark Clark, Vice-Chair  
Eric Braun, Secretary  
Mark Taylor  
Joseph Olsen

**EX OFFICIO MEMBERS**  
The Honorable Sine Kerr  
The Honorable Austin Smith

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### I. Welcome

Chair Tom Buschatzke and Commission members Joseph Olsen, Eric Braun, and Mark Taylor attended in person. Commissioner Clark, Senator Sine Kerr and Representative Smith were not in attendance.

The meeting was called to order at 10:00 a.m.

### II. Approval of Meeting Minutes

Chair Buschatzke asked for a motion. Commissioner Olsen moved to approve the September 29, 2023 AWBA Regular Meeting minutes with any needed corrections. Commissioner Taylor provided the second to the motion. The minutes were unanimously approved.

### III. Water Banking staff activities

**Staffing update.** Chair Buschatzke congratulated Rebecca Bernat for being promoted to Manager of the AWBA. Dr. Bernat thanked former AWBA Director Virginia O'Connell for her valuable training and mentorship. Dr. Bernat announced that Sara Konrad left the AWBA and joined ADEQ. Staff wishes her well in her new endeavors. A Water Resources Specialist 2 position to assist the AWBA manager was posted on [azstatejob.gov](http://azstatejob.gov). Commissioner Olsen asked if the AWBA should have two or three full staff members. Dr. Bernat said there is enough workload for two employees.

**Quarterly report on AWBA credit purchases for calendar year 2023.** There were no purchases to report for this quarter.

**Status report on Colorado River conditions.** Kristen Johnson, manager of ADWR's Colorado River Management Section, gave the Colorado River Basin update. She started with a storage overview of the Upper Basin. Lake Powell is 38% full at an elevation of 3,574.31 feet. Total Upper Basin live storage is 11.38 maf. The upper reservoirs are doing well. Current DROA recovery operations are happening. As for the Lower Basin, Lake Mead is 34% full at an elevation of 1,066.23 feet. The total Lower Basin system storage is 44% full, which is more than last year (34% full).

The Upper Basin had an exceptionally wet year in 2023, which helped reservoir levels. Reclamation's most probable prediction, although still early, for Lake Powell's unregulated inflow for Water year 2024 is 10 maf.

The Lake Powell 24-Month Study plots indicate the most probable elevation at the end of calendar year 2023 is 3,573.68 feet. For 2024 it is 3589.09 feet. Ms. Johnson noted that there is a wide range of variability in the Upper Basin. The Lake Mead 24-Month Study plots indicate the most probable elevation at the end of calendar year 2023 is 1065.27, which means the Lower Basin will be in a Tier 1 operating condition in 2024. As for the most probable elevation at the end of calendar year 2024, Lake Mead's level is projected to be at 1057.43 feet, which would also trigger a Tier 1 operating condition in 2025. The band of variability narrows dramatically, as Lake Mead is largely dependent on releases from Lake Powell.

Being in a Tier 1 next year will be an improvement compared to this year's Tier 2a. Arizona would be taking a total reduction of 512 Kaf in 2024. Nevada and Mexico will contribute too, but California will not be taking reductions.

Reclamation continues to work on the updated draft SEIS. Its purpose is to provide coverage for any additional actions that may be required before 2026. Reclamation is modeling the Lower Basin proposal. For the post-2026 NEPA process, Arizona wrote a letter with the principals from the six other states, and ADWR sent a letter on its own. A full scoping report from Reclamation is expected in October.

Eric Braun asked a clarification regarding the "417 process" Ms. Johnson mentioned in her presentation. Ms. Johnson explained this refers to the 43 CFR 417 reconsultation process with section 5 contractors initiated by Reclamation on an annual basis to advise on operational conditions and water orders. Recently, there has been an emphasis from stakeholders to use that process to drive water users and contractors into a more efficient use of water (determinations about the definition of beneficial use can be made under that process). Chair Buschatske added that last September in Santa Fe, the DOI Secretary announced it would be pursuing this 417 beneficial use efficiency process. In its letter, ADWR wanted to remind Reclamation of the importance of this process, and that everyone uses water efficiently. Commissioner Taylor asked if there were mentions of water losses in the letter. Ms. Johnson confirmed that losses were a consistent theme in the letters from the Upper Basin, Tribes, and the NGO community. Chair Buschatske emphasized the importance of closing the supply and demand imbalance.

Chair Buschatske asked if a 7.48 maf release from Lake Powell to Mead for 2024 has been modeled in the 24 month-study. Ms. Johnson confirmed. Chair Buschatske added that from April to August 2023 the runoff was affected by a dry climate, and went down by 700 kaf; while there was a great snowpack, water was lost because of dry Spring and Summer. Also, the Lower Basin lost 100kaf of balancing water movement from Lake Powell to Mead. Also, Reclamation has created a group that includes all 30 tribal sovereignties, and seven government representatives to have a forum for the states and the tribes to discuss Colorado River issues post-2026. The next meeting is Oct 3. Because Arizona has 22 of the 30 tribes, this group will be an excellent and welcomed opportunity for Director Buschatske to interact with them.

**Report from the Central Arizona Water Conservation District.** Marcus Shapiro, CAWCD Water system supervisor explained that under a Tier 1 in 2024, there will be 75% of mitigation for NIA contractors and subcontractors. The estimated normal Colorado River supply for delivery are 1,664,675 af. These will be reduced by 320 kaf (due to 2007 guidelines), another 192 kaf (due to DCP contribution), and another 75,000 af (due to losses). CAWCD will provide 50 kaf of supply from Lake Pleasant. As a result, pre-mitigation delivery supply will be 1,127,675 af. To this number

will be added mitigation supplies made available to water users: 76,415 af (5000 af from Lake Pleasant, 10,000 af from an exchange CAP has with SRP, a release of over 30,000 af of CAWCD ICS, a firming obligation from AWBA for the Gila River Indian Community (Community) of 6,153 af, Reclamation obligation for the Tohono O'odham Nation of 11,568 af, plus an agreement as part of DCP for compensated mitigation for the Community for 13,534 af). Under Reclamation's multi-year conservation program, CAWCD is anticipating 266,330 af of system conservation, which will reduce delivery supplies. Also, 1,983 af will be wheeled through the system for the town of Queen Creek. Therefore, the final CAP delivery supply estimated for 2024 is 908,485 af. Mr. Shapiro stressed the fact that these numbers are preliminary because CAWCD has not received all orders for CAP water.

Chair Buschatzke thanked the Arizona entities that stepped up to do system conversation to contribute to the 3 maf Arizona included in the proposal to be modeled in the draft SEIS. He also thanked the CAWCD Board of Directors for making funds available with funds ADWR had available to pay entities for keeping water in Lake Mead. Everybody is putting a lot of resources on the table in creative ways to ensure Arizona can do its part to protect Lake Mead and the Colorado River system.

Chair Buschatzke asked Commission members if there were questions. There were none.

**Report on Recovery Planning Activities.** Dr. Bernat began with a review of the projected Tier 1 shortage in 2024 and the fact that no CAP municipal and industrial (M&I) firming would occur in 2024. Because of this, the AWBA and subcontractors do not need to finalize their firming proposals in 2024. Then, as was directed by the Commission, AWBA staff reached out to stakeholders who commented during the stakeholder process to better understand their concerns. Dr. Bernat summarized the conversation from nine individual meetings with stakeholders. One of the stakeholder concerns addressed regarding an alternative firming method requiring CAP M&I demand reduction was the challenge for systems regulated by the Arizona Corporation Commission. For private water providers, submitting a rate case requires a lot of resources that they might not always have. Several stakeholders suggested establishing different criteria for every class of water provider. For CAGR, a similar policy alternative would be unachievable because CAGR is not a water provider. They, too, suggested dividing CAP M&I subcontractors into different categories and establishing different criteria for each category. Other stakeholders explained that an alternative method requiring conservation would be too complex because large water providers are regulated under different conservation programs. As for the loss of LTSC value over time, one stakeholder explained that the value is the opportunity cost, the certainty that LTSCs would be distributed when the availability of Colorado is uncertain; another stakeholder had concerns over the availability of LTSCs and groundwater after multiple years of shortages impacting the CAP M&I pool.

Commissioner Taylor asked for clarification on how LTSCs could be reduced in value. Commissioner Braun said that there is a concern that paper credits might be available but the physical water may be gone. A subcontractor that can wait longer to start pumping might be concerned that other subcontractors that cannot wait will pump all of the physical water until it is time for that first entity to pump water. Dr. Bernat explained that the findings presented will be archived, as well as the discussions and comments from stakeholder meetings until we know more about the Post 2026 guidelines.

Commissioner Braun asked if there were any suggestions as to how to divide water providers into different categories such as size, or the type of customers utilities serve. Dr. Bernat explained that categories have not been further discussed, as the firming methods presented were only suggestions. Commissioner Olsen thanked Dr. Bernat for her efforts.

Chair Buschatzke asked Commission members if there were any additional questions or comments. There were none.

#### **IV. Future Potential Long-Term Storage Credit Purchases**

**Discussion of long-term storage credit pricing.** Dr. Bernat explained that AWBA has always used the same pricing method to decide how much it was willing to spend on LTSCs. Unfortunately, this pricing method does not represent today's market. The AWBA price is viewed as too low by selling entities and that prevents the AWBA from acquiring supplies. Dr. Bernat showed the volume of LTSCs the AWBA purchased from 2015 to 2022 from different sellers, based on the cost to deliver and store CAP water every year. She noted AWBA neither has purchase agreements for 2023 nor 2024.

Dr. Bernat completed her presentation with a slide that was presented to the CAWCD Board of Directors Meeting on June 1, 2023, showing Phoenix AMA LTSCs prices. CAGR, like the AWBA used to base its price on the cost of creating LTSCs. However, CAGR has started to spend more per acre-foot when purchasing LTSCs. Since this presentation last June, the CAWCD Board of Directors approved two LTSC purchases in the Phoenix AMA for \$400/af. In the current market, the AWBA pricing method is obsolete. Commissioner Taylor asked if the price currently used in the Preliminary plan of Operation (\$360/af) could be changed to reflect market prices. Dr. Bernat said AWBA can adjust its prices during 2024. Furthermore, the Plan of Operation only provides estimates. Counsel Vohra added that statutes require AWBA to discuss the cost of acquiring and storing water and historically the AWBA has used that to determine the cost of purchasing LTSCs but the AWBA does not need to use that cost. Commissioner Olsen asked how the \$360/af cost is determined. Dr. Bernat replied that it is based on CAP rates for 2024.

Commissioner Braun wanted to make sure the AWBA has the appropriate level of resources dedicated to finding a good market price. Commissioner Taylor asked if the AWBA has used WestWater Research and whether or not it would be worth hiring a consultant. Dr. Bernat said that such a consultant was never hired and that the market right now is uncertain, that it would be hard to anticipate costs for next year. Mark Taylor expressed its support for using market prices. He is however concerned with the large volume of LTSCs that are anticipated to be purchased according to the Preliminary Plan of Operation. Dr. Bernat explained the numbers in the Plan are only estimates, assuming LTSCs are available and the owners would be willing to sell them.

Chair Buschatzke asked AWBA staff to check what formal relationship (such as an IGA), the AWBA has with CAWCD about buying LTSCs.

Commissioner Braun wanted to make sure LTSCs would be purchased at a reasonable market rate and would feel comfortable hiring a consultant to do market research. Commissioner Olsen agreed with Commissioner Braun that resources should not be wasted, but added that it is important to use AWBA funds to develop LTSCs to meet firming goals.

Chair Buschatzke asked Commission members if there were any questions. There were none.

**Discussion and possible direction to staff on the AWBA ability to purchase long-term storage credits accrued through effluent storage.** Dr. Bernat said that in the past, the AWBA never purchased LTSCs because CAP was available. She believes that purchasing effluent credits could increase AWBA purchase opportunities. Dr. Bernat compared the market for effluent to the market for CAP LTSCs from 1994 to 2023. Results show that a market for effluent credit has developed, and represents 13% of LTSC transactions in the Phoenix AMA, and 30% of transactions in the Tucson AMA. AWBA staff is looking for the Commission's view on purchasing effluent credits and potential direction.

Commissioner Olsen asked how effluent LTSC prices compare to CAP LTSC prices. Dr. Bernat explained that when LTSCs are traded between entities the price does not have to be disclosed to ADWR. Pricing data is limited. Nevertheless, Dr. Bernat said that the large transaction for effluent LTSCs in the Tucson AMA in 2015 was completed for \$180/af. That same year, purchasing CAP LTSCs cost \$209/af. Commissioner Taylor asked if this is a new realm and if municipalities care whether they get effluent or CAP credits. Dr. Bernat explained that there are always opportunities to innovate, like when the AWBA had its statutes changed to allow for LTSC purchases. Then she explained she had not discussed the possibility of purchasing effluent credit with subcontractors. She added that according to the data collected, municipalities have been purchasing effluent LTSCs themselves.

The commission gave direction to staff to flesh this out some more and maybe potentially add LTSCs created with effluent to the AWBA portfolio, while also determining if effluent LTSCs can be recovered and not assigned to an end user who needs to consider how that plays into the use of the CAP canal to transport these credits, and whether the recovery of credits into CAP canal is done inside or outside the area of hydrologic impact.

## **V. Preliminary AWBA 2024 Plan of Operation**

**Discussion of AWBA Preliminary 2024 Plan of Operation.** Dr. Rebecca Bernat reviewed the draft Preliminary 2024 Plan of Operation (2024 Plan). With no excess CAP water available in 2024, the AWBA can use alternate methods to continue making progress on credit development. The total projected cost of the 2024 Plan is approximately \$13.6 million and is anticipated to result in the development of almost 39,000 af of credits. The Plan proposes using \$1.7 million in Phoenix AMA withdrawal fee revenues to develop 5,638 acre-feet of ICS firming credits from the Community, \$764,006 in Tucson AMA withdrawal fee revenues to purchase approximately 2,120 acre-feet of LTSCs, and \$3.3 million and \$7.8 million in Maricopa and Pima County water storage tax monies to purchase 9,260 and 21,740 acre-feet of LTSCs, respectively. The 2024 Plan assumes the cost of one LTSC is \$359 in the Phoenix AMA, and \$360 in the Tucson AMA based on equivalent CAP water storage and delivery costs.

Commissioner Taylor asked for information regarding the 2019 IGA with the Community. Dr. Bernat explained that AWBA agreed to purchase 50,000 af (and to actually develop 45,000 ICS after a 10% deduction) from the Community for water they left in Lake Mead. She said that so far the AWBA has developed 33,790 ICS firming credits. Chair Buschatzke added this agreement was made during DCP, and that the Community committed to keep ICS in Lake Mead until the

end of 2026.

In addition, the AWBA will have a 6,153-acre-foot firming obligation to the Community. The AWBA plans to satisfy this obligation by extinguishing an equal volume of firming credits developed on-Reservation. Firming is neither expected for on-River contractors nor CAP M&I subcontractors.

Commissioner Taylor asked when Nevada is planning on requesting Intentionally Created Unued Apportionment. Dr. Bernat the AWBA anticipates creating ICUA for Nevada in 2026 should Nevada give formal notice in 2023, and is currently working on accommodating Nevada to receive water as soon as 2025.

**Direction to staff on public presentation of the AWBA Preliminary 2024 Plan of Operation in conjunction with the Groundwater Users Advisory Council (GUAC) meetings in the Phoenix, Pinal and Tucson Active Management Areas.** Dr. Bernat explained that, according to statutes, the AWBA must present the Preliminary Plan of Operation at the GUAC in the Phoenix, Pinal, and Tucson AMAs. The Commission directed staff to schedule and hold public meetings on the 2024 Plan in conjunction with the GUAC in the Phoenix, Pinal and Tucson AMAs to allow the public to comment on the 2024 Plan at the meetings.

Chair Buschatzke asked for comments from the public. There were no comments.

## **VII. Call to the Public**

Chair Buschatzke called for public comments. There were no comments.

The meeting adjourned at 11:37 a.m.

## **Future Meeting Dates:**

Wednesday, December 6, 2023