

ROOSEVELT WATER CONSERVATION DISTRICT

William C. Petty
Associate General Manager
PO Box 100
Higley, AZ 85236



(480) 988-9581
(480) 707-0930
(480) 988-9589 (FAX)
rwcd30@earthlink.net

April 4, 2013

Honorable Commissioners of
the Arizona Power Authority
1810 W. Adams St.
Phoenix, AZ 85007

Re: April 5, 2013 Water and Power Presentations

Gentlemen:

This letter responds to your request for additional water and power information about the Roosevelt Water Conservation District ("RWCD") as requested in your March 22, 2013 Notice.

Item 1.: Current and projected water sources.

RWCD's long-term source of water is groundwater pumped using its allocations of Hoover and CRSP resources. Our water resources are comprised of Groundwater; SRP Salt/Verde Surface Water and Spill Water; SRP San Tan Generating Station Industrial Effluent; and In-Lieu Water that allows the District to avoid groundwater pumping. It is important to remember that In-Lieu Water is only available on a temporary year to year basis to RWCD; and, that there is no guarantee of the price and amount of In-Lieu Water available to RWCD from year to year.

A summary of RWCD's annual water sources for calendar year 2012 (actual); calendar year 2013 (budgeted); and, a long-term projection is shown below.

<u>RWCD</u> <u>Water Sources</u>	<u>Actual</u> <u>CY2012</u> <u>(AF)</u>	<u>Budgeted</u> <u>CY2013</u> <u>(AF)</u>	<u>Long-Term</u> <u>Projection</u> <u>(AF)</u>
RWCD Groundwater	11,400.31	9,970	54,850
SRP Surface Water	894.64	2,000	7,380
SRP Spill Water	-	-	-
SRP San Tan Effluent	3,775.50	4,000	4,000
CAP In-Lieu Water	45,609.71	50,260	-
NCS In-Lieu Water	4,765.12	-	-
Total	66,445.28	66,230	66,230

RWCD Groundwater Resources

RWCD has 35 irrigation wells that have the capacity to pump up to 168 cfs or 6,725 MI; and up to 85,000 AF each year based on irrigation demands. The groundwater produced from our irrigation wells is discharged into our Main Canal or Extension Canal for delivery to customers by gravity flow. Our current use of groundwater is substantially less than the amount of groundwater that we will pump when CAP In-Lieu Water becomes unavailable to us.

SRP Salt/Verde Surface Water and Spill Water

During the 1930's, RWCD paid the costs to concrete line about 31 miles of SRP's major canals in the East Valley, which were dirt canals. During the 1980's, RWCD paid the costs to reline the 31 miles of SRP canals.

As a result of paying for the costs to concrete line and maintain the approximate 31 miles of SRP's canals, RWCD receives 5.6% of the Salt River and Verde River surface water that SRP diverts at the Granite Reef Diversion Dam. Such water represents surface water that would otherwise have been lost to seepage from the dirt canals if RWCD had not paid to concrete line portions of SRP's canals.

The amounts of Salt/Verde surface water that is made available to RWCD varies significantly from year to year based on SRP's operation of their reservoir system, which is impacted by the annual rainfall and snowpack on the watershed.

The annual amount of Salt/Verde surface water is reduced by the amounts of such water that were used to settle water rights claims against the District's landowners by five Indian Tribes.

The City of Chandler and the Town of Gilbert have domestic water service agreements with RWCD. In accordance with the agreements, Chandler and Gilbert purchase Salt/Verde surface water from us that is delivered to them via the SRP conveyance system. They treat the surface water to drinking water standards and deliver the potable water back to their customers located within the RWCD service area.

As a result of weather patterns, SRP operation of the reservoir system, Indian water right settlements obligations, and domestic water deliveries to Chandler and Gilbert, RWCD has a limited annual supply of Salt/Verde surface water for its use. For 2013, we project to only have about 2,000 AF of such surface water available to help meet our irrigation demands.

SRP Spill Water is flood waters that are released from Roosevelt Dam when the lake level reaches a certain level. These flood waters only occur sporadically during "wet" cycles. The timing, duration, and volume of such flood waters are not predictable or dependable. We believe that the amount of Spill Water that RWCD has received should also be "normalized."

SRP San Tan Generating Station Industrial Effluent

The treated cooling water from the San Tan Generating Station, which is located in the Town of Gilbert, is the Industrial Effluent that is discharged into our Main Canal. The amount of Effluent received each day depends on the level of SRP's cooling water retention ponds, which are based upon the operating level of the San Tan Generating Station. Generally, we receive much more Effluent during the summer peak period when the San Tan Generating Station is operating to help meet SRP's peak demands. We normally receive approximately 3,000 AF to 4,000 AF of Effluent annually. This Industrial Effluent is not In-Lieu Water; and, we anticipate receiving this Effluent during the remaining life of the power plant.

CAP and NCS In-Lieu Water

During the early-1990's, RWCD worked with the Arizona Legislature to enact laws that resulted in the indirect recharging of excess CAP water ("In-Lieu Water"). RWCD was one of the first irrigation districts to indirectly recharge excess CAP water.

The use of excess CAP water by Arizona irrigation districts benefited the State of Arizona by storing excess CAP water that would otherwise have been left in the Colorado River for use by other states.

We have also indirectly recharged City of Chandler New Conservation Space ("NCS") surface water; and, City of Mesa Municipal Effluent. Both categories of water are designated as In-Lieu Water by the Arizona Department of Water Resources. Both Mesa Municipal Effluent and Chandler NCS water supplies are no longer available to RWCD.

In order to receive In-Lieu Water, RWCD must reduce its groundwater pumping on a gallon-for-gallon basis for each gallon of In-Lieu Water received. Our use of In-Lieu Water on an annual basis is a principal feature of our Integrated Resource Plan.

Our use of temporary In-Lieu Water has dramatically reduced our annual groundwater pumping, which would have been much higher if we had not used the In-Lieu Water supplies. The District can and will pump groundwater with Hoover Power when In-Lieu Water is not available.

We do not want to be effectively penalized for using renewable In-Lieu Water by receiving a lower allocation of Hoover Power than we would otherwise have received had we pumped groundwater. We have previously proposed a simple, yet accurate, method to "normalize" our historical load data to demonstrate what our electrical loads would have been if we had not used In-Lieu Water.

Item 2.-3.: Amount and percentage of water used or distributed for agricultural, municipal and/or related purposes.

Approximately 80% of our irrigation water sales are made to agricultural water users. All landowners in RWCD pay the same acreage assessment rate. Except for two users that receive specialized water delivery service (non-agricultural users), all agricultural users, subdivision users, golf courses, city parks, and public schools pay the same irrigation water rate.

A summary of RWCD's actual CY2012 water deliveries and production is shown below.

RWCD Sales Categories and Total Water Production	Actual CY2012 Production (AF)	Percentage Sales to Deliveries (%)
Agricultural Irrigation Sales	46,706.14	80.70%
Subdivision Irrigation Sales	10,395.35	18.00%
Golf Courses	452.57	0.80%
City Parks & Public Schools	292.42	0.50%
Total Native Irrigation Deliveries	57,846.48	100.00%
Conveyance System Losses	8,598.80	
Total Native Water Production	66,445.28	

Item 4. How water utilization is and will be affected by power source and cost.

We understand the concept of the price elasticity of demand; and, we know that our agricultural irrigation water sales would decrease sharply and permanently if we were to lose a significant portion of our Hoover Power allocation during the Post-2017 time frame. These sales losses would predominately result from decreased farming activity caused by a spike in our irrigation water rates. As noted above, all agricultural and other irrigation users, with two minor exceptions, pay the same water rate.

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The impact on agricultural users would be further magnified if Post-2017 Hoover Power is allocated on any basis that principally recognizes the amount of agricultural sales or number of agricultural customers. If such an allocation method is used, then RWCD would likely receive a smaller allocation of Hoover Power; and, our power costs would significantly increase because the cost of SRP supplemental power is so high compared to Hoover Power. RWCD does not assign the cost savings of using Hoover Power to just the agricultural sales category. We spread the cost savings of using Hoover Power to all of our customers so that the whole community benefits from RWCD's Hoover Power allocation. Consequently, an allocation of Hoover Power on the basis of agricultural sales or customers, with the presumption that more Hoover Power would go to agricultural users, would in fact increase the water costs of all of our agricultural users. We remain convinced that an allocation on "normalized" annual system peak coincident demands is the appropriate allocation method for Post-2017 Hoover Power.

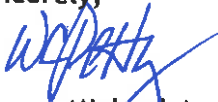
Item 5. The party's long-term plans regarding projected water availability, usage, and costs of acquisition, distribution, and/or processing for its intended use.

RWCD is an irrigation district that is predominately dependent on groundwater pumping using Hoover and CRSP resources. RWCD is aggressively seeking out supplies of CAP In-Lieu Water on an annual basis. However, RWCD cannot depend on the availability of In-Lieu Water for the next 30 to 50 years of the possible Hoover contract term. RWCD is prepared to pump groundwater over the course of the Post-2017 Hoover contract term when In-Lieu Water is not available. RWCD intends to do everything possible to ensure the continuation of its Hoover and CRSP allocations. The loss of part or all of either resource would cause our power and water distribution costs to increase dramatically. While a source of supplemental power is available to RWCD from SRP under contract, the cost of such supplemental power is much higher than the cost of Hoover and CRSP Power.

Summary

We believe that the Commission's Special meeting on April 5, 2013 to hear presentations on customers' water and power matters is both worthwhile and appropriate; and, the presentations should be beneficial to the Commissioners when evaluating potential Hoover Power applications. I apologize for not attending the April 5th Special Commission meeting to present this information but I have a conflicting commitment. However, please feel free to contact me at (480) 988-9586 or at rwcd30@earthlink.net if you have any questions.

Sincerely,



c: Michael A. Gazda
Shane M. Leonard